

Distell positioned for acquisitions

By [Ann Crotty](#)

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The pending collapse of the Distell control structure should help the drinks company to enjoy the sort of rating analysts and shareholders say has eluded it in recent years. "Collapsing the structure will be highly beneficial as it allows them to use their paper for acquisitions," said Chris Logan of Opportune Investments.



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The recently released shareholder circular tags the listing of the restructured Distell Group for 8 February 2018, assuming shareholders support the proposal at October's meeting.

Remgro will dominate the new shareholder structure with 56% voting rights (its economic interest will be a slimmer 31.4%), the Public Investment Corporation (PIC) will have 20.1% voting rights (and 31.4% economic rights), CapeVin minority shareholders will have 11.6% voting rights (and 18.1% economic ones) and the general public will have 12.3% voting rights and 19.2% economic ones.

Logan believes lack of scale has hampered the group's growth and rating.

As the consolidation in the beer industry demonstrated in the decade leading up to the acquisition of SABMiller by Anheuser-Busch InBev (AB InBev), size is everything. "If you don't become a scale player, the scale players will attack you

on your home turf," said Logan.

There are already troubling signs of this. Recent results from AB InBev revealed SAB's local cider brand Redd's notched up 20% volume growth off a low base. This represents a major challenge to Distell, which for the past two decades has enjoyed profitable domination of the local sector with Hunter's and Savanna. It is the world's second-largest cider producer.



Distell sells venerable wine farms and brands

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Distell CEO Richard Rushton describes cider as "the mainstay of our business". He acknowledges the impact of SAB's aggressive mainstream pricing in the first half of the year and says Distell came back harder in the second half and was able to achieve good overall growth for Savanna. Plans are in place to invest another R30m to R40m in the group's major cider production facility in Springs.

With this additional capacity in place, Distell could supply all its cider from Gauteng. Over the years, management has been slated for Western Cape roots that seem so deep the group appeared incapable of much agility. This lack of agility has been compounded by a control structure designed to protect the interests of Remgro, CapeVin and SABMiller.

AB InBev's 2016 acquisition of SABMiller, which necessitated the removal of the beer giant from Distell, prompted a surge in the share price to a high of R172 as investors looked to a less dysfunctional structure.

It was assumed Remgro would exercise its pre-emptive rights and buy SABMiller's 26.4% stake. The thinking was that with control firmly in the Remgro camp, Distell could use its paper to fund international acquisitions that would nudge the base further out of the Western Cape. When the PIC emerged as the buyer, the share price went into a decline. But the current restructuring proposals should help to reverse that.

Source: Business Day

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