

Group Five spikes on Greenbay offer

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Group Five's share price surged as much as 42% on Monday, 16 October, after it received an unsolicited firm-intention cash offer for its European assets and businesses from Greenbay Properties for R1.6bn.



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One market commentator welcomed the news, saying it indicated how much value was potentially locked up in the group. But the listed construction and engineering company was less enthusiastic, describing the offer as undervalued.

It comes after an exodus of executives and board members from Group Five in the past nine months, amid confusion over the company's strategy and painful losses, mostly as a result of its South African engineering and construction cluster.

The assets comprise concession stakes in central and eastern Europe, including its Bulgarian assets and Intertoll Europe operations and maintenance contracts that provide significant annuity income.

The share price shot up as much as 42% during the day and was almost 25% higher at R11.50 by the close. This gives Group Five a market capitalisation of about R1.291bn.

Group Five has plunged in value since the global financial crisis struck in late 2008. The stock was nearly R70 a share at the time but has languished amid years of appalling South African construction markets.

Greenbay is a real estate and infrastructure investments group listed on the JSE and in Mauritius. Group Five said it had not had an opportunity to fully consider the offer, or the opinion of an independent expert, as it was received after close of business on Friday.

"We believe this offer substantially undervalues the target assets in relation to other expressions of interest received," said Nonyameko Mandindi, the chairwoman of the independent board.

"In line with its fiduciary duties, the independent board will consider the merits of the offer and respond to Greenbay once [it] has determined what course of action is in the best interests of Group Five's shareholders," Mandindi said. "We will also appoint an independent expert to provide a fair and reasonable opinion in relation to the offer."

Greenbay CEO Stephen Delport said on Monday the company was already invested in toll roads and airport businesses across the world.

"That's part of our strategy," he said. "We have a lot of capital to expand [Intertoll's] business."

Group Five said last week that CEO Themba Mosai, supported by his executive team, had formulated a revised strategy and optimal structure for the group, which the board had approved in principle.

The European investments and concessions cluster has been the standout performer for Group Five in recent years. "We view the announcement in a positive light as it illustrates how much value there is in Group Five's operations, both locally and abroad, and the possible value uptick for investors willing to stick around for the turnaround to occur," Dexter Mahachi, an analyst at Momentum Securities, said on Monday.

"However, management has previously indicated that they are not about to sell off the crown jewels, so I am not entirely certain the deal will go through at these pricing levels," Mahachi said.

The firm offer follows Group Five's recent indication that it had received a number of expressions of interest for different businesses in the group. It remains open for acceptance by Group Five until 20 October.

"Group Five could definitely benefit from this deal as the amount offered is above the current fair value of the concession assets in my opinion. It will, however, reduce the derisking benefit that the concessions assets provide " given their profitability and the low operational risk," Garth Arenz, research analyst at Avior Capital Markets, said on Monday.

Source: Business Day

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