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Market watcher David Shapiro (Sasfin) and Jarrod Cahn (Credo Capital plc)



WW Australia eyes Pick n Pay - and are SA construction companies in danger?

ALEC HOGG: David Shapiro is back from his travels to Australia. Most of us who know how very powerful you are, Mr Shapiro, would have thought that the whole idea of Woolworths Australia's buying up of Pick n Pay emanated in the Sasfin investment banking department, and you are going to be getting big fees when it goes through.

DAVID SHAPIRO: [Laughs] I wish, I wish! I went into Woolworths a couple of times there.

ALEC HOGG: Nothing like Woolies in South Africa.

DAVID SHAPIRO: No, nowhere near.

ALEC HOGG: How come they've all got the same names? There's a Woolworths in England, a Woolworths here and a Woolworths in Australia.

DAVID SHAPIRO: I don't know. Remember, in America as well. They had Woolworths there – it's nothing. It might have come originally from the same name, but I'm not sure. Today they are all different versions.

ALEC HOGG: I heard the story, sworn to secrecy, two weeks ago – and remember we were talking on this programme and I said to you...

DAVID SHAPIRO: You said you knew it.

ALEC HOGG: I said, David, watch this space, there'll be a foreigner wanting to buy this company.

DAVID SHAPIRO: It's interesting because I didn't believe it. We looked to America, we looked to Europe for someone that would come here. Look, it's quite a healthy investment, if it is going to take place. This is not official.

ALEC HOGG: No, not at all. Let's go to London now to get a global view. Jarrod Cahn, an old friend of this programme before he went and got rich and famous over there, David, used to be on this show very often here in South Africa. He's now a director of Credo Capital in London. Jarrod, I guess from the London view, first we saw Walmart acquiring Massmart, now it looks like Woolworths is going to be getting together in some way with Pick n Pay. Why would South African retailers be appealing to the big foreign groups?

JARROD CAHN: Hi there, Alec. I guess the main reason is that what we are seeing particularly in the developed countries that they are all pretty much ex-growth and I think Australia is no different. I think they've got a fixed capacity in terms of population, 60m. The retail space has been very difficult and, if you draw on the experience of the US and the UK, they are struggling to find and to squeeze growth out of their population. So the next place to look is in emerging markets, and South Africa is very much the gateway into Africa.

The demographics and the opportunity I think for a Walmart or a Woolworths is very much opportunistic, and I think that's what's drawing all the foreigners into the South African market.

ALEC HOGG: And Woolworths Australia – do you know much about them?

JARROD CAHN: Not that much, other than to say that they are a professional outfit, they are very well thought of. And in terms of when asking someone in Australia to describe them, they are a firm of best practice. So I think if you are looking for someone of a professional nature, very well groomed and knowing what to do, this would be the kind of outfit that would come and put into practice what they would consider best practice.

ALEC HOGG: It's almost heresy to consider that Pick n Pay is up for sale, given that it's the house that Raymond Ackerman built. But has this come as a complete surprise to you sitting in London?

JARROD CAHN: Not a complete surprise. I think people in the UK and certainly some of the fund managers which I've spoken to in South Africa have banded about the fact that there've been a few international companies looking at Pick n Pay in the last few months, and certainly the last year. And another name that really comes to mind is Tesco. So I think there are a number of people knocking on the door of South African retailers. Walmart one, Tesco the other, and then you have the Australian player now. So it's not a huge surprise.

ALEC HOGG: So we could actually see a bidding war, potentially, between Tesco and Woolworths? If you own Pick n Pay shares, you certainly wouldn't be selling them right now.

JARROD CAHN: It looks very much that way, Alec.

ALEC HOGG: Jarrod Cahn. David, in line with your thinking?

DAVID SHAPIRO: A bit of a British accent there, hey?

ALEC HOGG: Of course he has. He's forgotten his Johannesburg roots! Not at all – he'll be here next week, David. Be careful! Our exports make us proud.

DAVID SHAPIRO: I like Jarrod. We deal with Credo.

ALEC HOGG: You do? And are you going to be dealing with Pick n Pay shares tomorrow?

DAVID SHAPIRO: It's interesting. I'm a big holder of them. I still hold them in portfolios more on the recovery basis – that things are going to happen there. And I think against this background of course you don't sell out. In fact, I saw they came back a little bit. But they've had quite a good run up to now.

ALEC HOGG: So maybe I wasn't the only one sworn to secrecy.

DAVID SHAPIRO: I think it might have run up ahead of time. But, even so, I think quite a few analysts believe that things are going to change for the better.

ALEC HOGG: So stick with them. How were the markets today, Dave?

DAVID SHAPIRO: OK, not too bad. There was no news today, economic or corporate news out today. So markets were really pushed up by the United States. Alec, if you look at the S&P, the main index in the United States, it's having its best quarter since 1998. It's up almost 12%. In dollar terms we are pretty flat for the year, mainly because our resource shares haven't really performed well.

But Bernanke has been talking and I think what's given the market a bit of a boost is that he still believes that the US economy needs stimulus. So more pumping in more money, more liquidity coming in. He still thinks that the job market there hasn't normalised, and that also householders are not spending enough to sustain the economy. So it still looks like it's an economy on steroids, and that's given the market a bit of a boost.

ALEC HOGG: David, here at home we've been surprised that the construction shares haven't reacted to the news in the State of the Nation address and so on. Maybe here's the reason. Today, on the sidelines of the nuclear conference in Korea, President Zuma has a courtesy visit from the Chinese president, Hu Jintao, and he said – let me just read this to you, because it is quite relevant:

"During our State of the Nation address in February this year I announced a bold infrastructure plan to be overseen by the Presidential Infrastructure Coordinating Commission that I lead. The plan includes the expansion of ports and rail lines, modernising road networks, building dams, irrigation systems" – and so on.

He says: "One of our key goals is to ensure that the infrastructure plan helps to industrialise the South African economy further, including through the creation of a market for the manufacturing in South Africa of components and inputs for infrastructure. China is an important potential partner."

Isn't that interesting? He is now telling again, in an open forum, the Chinese president that "we want you to come to South Africa to be our partner". So no wonder the construction shares in this country are a little bit dodgy with that kind of option.

DAVID SHAPIRO: Of course. They are not going to just come and bring money. They want to do the construction.

ALEC HOGG: That's what I mean. So what chance have you got if the president of the country is wooing the Chinese president to come and help us with our infrastructure?

DAVID SHAPIRO: I wonder how the markets are going to respond to that, and what the reaction is going to be here at a time when we need to be creating jobs. Generally when China comes they bring their own people, and they want you to work at that kind of ethic. They are not an altruistic nation, they don't do it for nothing. So there's got to be some industrial or reciprocal agreement. Yes, you can bring the trains or you can bring the hardware – but I think they want the software as well. So I think it's a very, very interesting statement that needs a lot more analysis as to how he sees this working, because we need their money – that we need. But is it going to be a partnership, and what are they going to get out of that partnership?

ALEC HOGG: It's a very interesting development. The new best friend of this country, China, likes its pound of flesh as well, and it also likes to tell us who to invite and not to this country. I think of the Dalai Lama.

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