

Delisting definitely better option

Public attention too heavy for underperforming retailer

DELISTING MIGHT RELIEVE Verimark Holdings of the arduous and time-consuming responsibilities of a listed company and will affect the company's planned turnaround strategy much more quickly. The embattled direct marketing retailer announced last week its intention to disappear from the spotlight after continued disastrous performances. It made a firm buyout offer of 50c/share to its minority shareholders and announced plans to delist from the JSE within the next three months.

The R21m offer will see the controlling shareholder – the Van Straaten Family Trust

(VSFT) – repossess 37% from minority shareholders. However, it excludes shares owned by associates of the VSFT, such as Prime Rentals CC, a black empowerment and staff equity.

CE Michael van Straaten says the 50c/share offer is “extremely generous” at a premium of 72,4% to its 30-day weighted average share price (prior to the announcement on 11 May) and a premium of 150% on its last traded price of 20c/share on 6 May. Chris Gilmour of Absa Private Client Asset Management agrees. However, Gilmour says: “While the offer is generous relative

to the recent share price, it's conceivable the price might well move significantly higher in future once the economy turns around.”

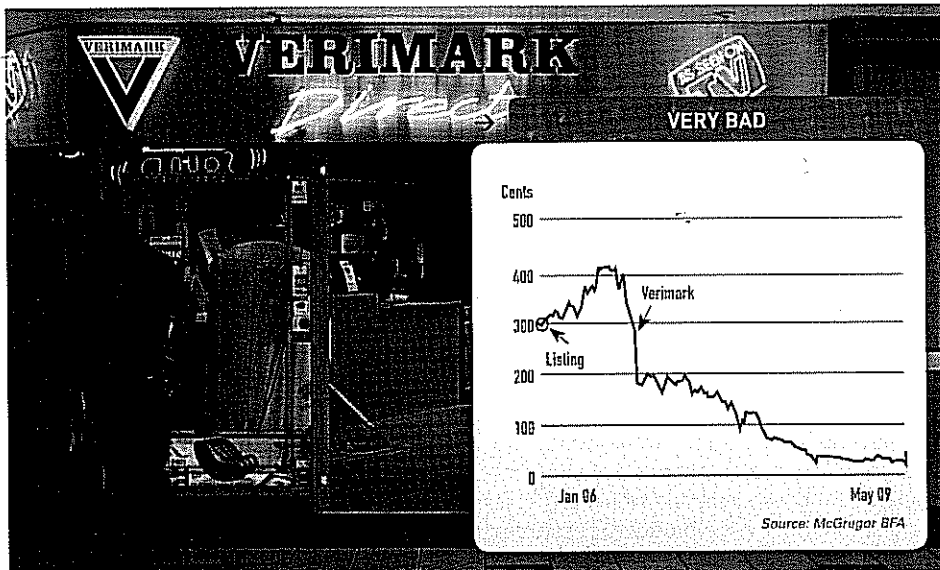
Since its 2005 listing Verimark has experienced tough times in the market – only reporting positive growth in its 2006 financial results, so far the highest ever achieved. The results raised its price from its listing price of R2,50 up to R4,10/share for its financial period ended February 2006.

However, all of that was reversed in subsequent years. In its 2008-year results Verimark's headline earnings per share dropped to 4,1c from 11,6c/share in 2007. In its latest results – for the financial year ended 28 February 2009 – HEPS decreased 3,4c/share. That resulted in it not paying a dividend.

“Despite energetic efforts by management to effect a turnaround, the overall recovery has been slow and disappointing, as is evidenced by the loss recently reported for 2009,” says Van Straaten. “It's uncertain how long it will take the company to stage a recovery and the prospects in the short to medium term don't look encouraging.”

Gilmour says Verimark trades on non-essential products that are hard to sell in current economic conditions. He agrees delisting is probably the best thing to do in this climate. “It'll take a bit of pressure off them. They'll do well when the economy recovers.”

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Yummy headline earnings

FAST FOOD REMAINS RESILIENT in an economic downturn as consumers often trade down from top-end restaurants to takeaways – which are generally regarded as cheaper. It's no wonder franchise restaurant management group Taste Holdings' revenue grew by 303% to R136,3m (2008: R33,7m) while operating profit shot up by 118% to R25,6m (2008: R11,7) in its financial year ended 28 February this year.

Headline earnings per share were up 29% to 10,2c from 7,9c and earnings per share increased 78% to 14,2c from 8c compared to the previous year. However, Taste again decided to “waive” a dividend in favour of investing in the business. It hasn't paid a dividend since listing in 2006.

Taste is a small, diversified retail investment group whose franchise brands include Scooters Pizza and Maxi's restaurants, as

well as jewellery chain NWJ Holdings, which was acquired in August 2008. Currently, the group has 260 outlets operating under its brands.

The results seem to be in defiance of currently tough economic conditions, with Statistics SA reporting a drop of 5,3% in retail sales in March 2009 year-on-year. That comes after earlier reports of a 4,5% drop in February y-o-y. However, retailers of food,