Steinhoff faces off with Sainsbury's

By Zeenat Moorad

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Steinhoff CEO Markus Jooste met questions late on Monday over the group's bid for Home Retail Group (HRG) with polite parry, saying only that the UK company's Argos chain was an attractive business for Steinhoff to add to its portfolio.

The South African household goods player sparked a bidding war last week with rival grocer Sainsbury’s £1.3bn offer for Home Retail Group, the owner of catalogue retailer Argos.

"We have approached Home Retail … the process is very regulated in London … we cannot discuss the details of the transaction or the plans we have, (but) Argos has a huge amount of stores and it’s a business with huge turnover," he said in a conference call with reporters.

Steinhoff reported on Monday a 67% rise in first-half profit to €802m, boosted by the discount market in its key regions of Europe and Africa. In the six months ended-December, diluted earnings per share rose 1% to 16.1c. Sales rose 47% to €6.7bn.

Steinhoff, which listed in Frankfurt in December to attract a wider investor base, said revenue in its household goods segment had increased by 8% to €4.2bn. The group plans to cut about 4,000 jobs at its furniture retail unit, JD Group. Operating profit in its general merchandise segment, which includes Pepkor, rose 25% to €197m, while revenue in its automotive business segment remained flat.

Steinhoff's retail brands in the UK include Harveys, Bensons for Beds, and Cargo. Steinhoff emerged with a £1.4bn bid just days before Sainsbury's had to make a firm offer. The UK grocer has since extended its deadline. It has until March 18 (the same deadline as Steinhoff) to make a firm bid or abandon its pursuit of Home Retail Group.

"Home Retail Group will more likely use Steinhoff's manufacturing and sourcing, which will result in scale benefits. Furthermore, Home Retail Group will, in all likelihood, use Steinhoff's UK logistics services and Steinhoff UK will benefit from HRG's 'better' established online offering," Qaqambile Dwayi, investment analyst at Kagiso Asset Management, said.

Sainsbury's is keen to expand its nonfood offering and future-proof its business in a rapidly developing digital retail environment, where it trails rivals John Lewis and Marks & Spencer.

Richard Hyman, an independent retail analyst based in London, said Steinhoff was a group with "serious financial muscle" and an "excellent track record" in hard goods retailing.

"My concern is that Sainsbury's buying Argos would divert management, add problematic complexity and scale, and significantly expose the company to unexciting and already overcrowded nonfood markets in which it does not have a great expertise to add. The emergence of Steinhoff is, I hope, an opportunity for management to think again."

Sainsbury's is under pressure as German discounters Aldi and Lidl steal market share.

"Argos … has kept the catalogue showroom format alive for decades longer than any other country, notably the US where it was invented. However, it is a very limited model and adding some digital bells and whistles does not change this. Its trading record over the past five years says as much," Hyman said.

Steinhoff had a better chance of beefing up the proposition to underpin its trading, he said.

"I suspect that this latest development has much more to do with the prospects of the South African economy and the defensive attractions of the UK and pound sterling than it does about the suddenly discovered charms of Argos," he added.

Source: Business Day