

Walmart offers to buy remaining stake in Massmart

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US retail giant Walmart Inc, which owns a 53% majority stake in Massmart, has proposed to acquire the rest of its shares in the company in a deal valued at R6.4bn, the South African retail group has announced.



Source: Supplied

Walmart has offered R62 for each outstanding Massmart share.

"This represents a premium of 53% to the closing share price and a 62% premium to the 90-day volume weighted average share price calculated at close of market on 26 August 2022. In addition, the potential offer presents an opportunity for minority shareholders to realise immediate value in an environment where there are no near-term catalysts for a Massmart re-rating," Massmart said in a statement.

Financial support to sustain turnaround

Walmart had initially acquired majority control of Massmart through a 51% stake in 2010. Over the past decade, Walmart has had to provide increasing levels of support across Massmart's businesses as they continued to underperform due to various reasons including consumers holding back from purchasing electronics and home goods.

To fix this, Massmart's management launched a turnaround plan in 2019 that involved selling off non-core assets, removing

fresh food from its Game stores and cutting costs across the group.

But the turnaround plan has faced many headwinds, primarily the Covid-19 pandemic and the civil unrest in 2021, which resulted in loss of operations and disruptions to the supply chain on certain key inventory lines, flooding as well as weak consumer demand for general merchandise, Massmart said.



Jonathan Molapo to succeed Mitch Slake as Massmart CEO

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"The potential offer, if finalised, will provide Massmart with needed access to ongoing financial and operational support from Walmart to sustain the group's turnaround, which has been impeded by external factors such as Covid-19-related trading restrictions, civil unrest in KwaZulu-Natal, and a challenging economic environment. These factors have exacerbated liquidity risk at Massmart, which Walmart's financial support has helped to mitigate," Massmart stated.

It added, "With an expected inflow of foreign direct investment estimated at R6.4bn, this potential offer, if finalised, represents a positive vote of confidence in South Africa by the world's leading retailer. As a credible and high visibility international enterprise, with a 12- year operational history in South Africa, Walmart's potential offer could stimulate investor interest and confidence in the face of depressed local and international investor sentiment, thereby assisting in the economic recovery of the country."

Delisting

If the deal is implemented, it would result in the delisting of Massmart, the group said.

The retailer, with 403 retail and wholesale stores in 13 African countries, said the headline loss for continuing operations in the 26 weeks ended 26 June widened to R903.5m, from a loss of R358.5m in the year-ago period.

ABOUT THE AUTHOR

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