Resilient's fight with short seller set to intensify

By Ann Crotty

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The battle between property group Resilient and a previously anonymous short seller, identified as 36One Asset Management, looks set to heat up considerably this week as the JSE announced it was investigating recent trading of the shares in the Resilient stable.

The JSE announcement follows the release of a damning anonymous 50-page report into Resilient and its related property firms, Fortress REIT, NEPI Rockcastle and Greenbay Properties. The report was circulating widely in the investor community on Friday, 9 February, with one investor describing it as an "apparently well-researched report that could have potentially devastating consequences".

The report's primary conclusion is that the premium valuation of each of the companies in the Resilient stable "did not arise from normal market activity, but from deliberate and frequently concealed actions by some of the influential owners and key management of the group".

At the market close on Friday Resilient issued a stock exchange announcement referring to the report and noting it had been published and disseminated anonymously.

"But authorship of it has been confirmed by 36One Asset Management, who are said to have a large short position on companies identified in the report," Resilient said.

It added the report and its dissemination followed a campaign of "rumour and innuendo" undertaken against the Resilient companies since early January when short selling of the company's shares became evident.

"36One did not seek the company's response to any of the content of the report," said Resilient, adding that the publication of the report provided the first opportunity to respond to written allegations as opposed to rumour and innuendo.

Resilient will make a further announcement on Monday and meanwhile advises shareholders to exercise caution.

The property group has been battling against a significant change in market sentiment since early January 2018 with widespread speculation it was set to be the target of a Viceroy report and accompanying shortselling activities.

Despite directors buying substantial volumes of shares in recent weeks, bringing forward the release of interim results and regularly refuting market-based allegations, the share prices have remained under pressure.

On Friday, Resilient closed 2.2% weaker at R108. It had reached a record high of R151.16 as recently as 29 December 2017, following its inclusion in the JSE Top 40 index.

Analysts have previously attributed the share price premium to the underlying book value of the four firms and to the quality of the underlying assets and the deal-making and management skills of the executive team headed by Des de Beer. But the 36One report contends the premium valuation is considerably steeper than the market assumes.

It makes the damning claim that the exceptionally high valuation of the shares "arose from insider-directed and insider-related transactions in group companies' shares to deliberately inflate share prices and volumes traded. Once this was achieved, third-party investors quickly became enticed by the attractive dividend growth rates on offer and became vested in the continuation of the cycle themselves."

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Source: Business Day