Woolies falls to three-week low on Australian deal

Shares of high-end retail group Woolworths (WHL) fell to a three-week low on Wednesday, 9 April 2014, as investors considered its proposed acquisition of Australian-based department store David Jones, valued at abou R21bn, as "too expensive".

By Fifi Peters 10 Apr 2014

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The stock tumbled more than 4% to an intraday low of R69.10, levels last seen on 20 March, after it announced plans to further expand its presence in Australia's retail market by acquiring the country's second-largest retail chain at a purchase price of A$4 cash per share.

The total estimated value of the transaction of A$2.1bn, or R21.4bn, represents a 25.4% premium to the closing price of David Jones shares on 8 April.

"It's quite a large transaction for what appears to be an underperforming retailer," Noah Capital Markets analyst Roger Tejwani said, noting that David Jones's turnover had declined over the past five years and that it had announced it expecte earnings per share for the current year to be lower.

If approved, the transaction was expected to be funded through a combination of cash and debt, and would subsequently b followed by a proposed rights offer, which Tejwani believed would increase the company's gearing.

Woolworths did have experience in the Australian market and the acquisition would increase its scale in the southern hemisphere, he said, referring to expected synergies of at least R1.4bn a year in earnings before interest and tax within fi years. However, he warned that it was "a lot of money to be paying for what looks like a relatively tired business".

Woolworths has operated in Australia for more than 15 years through its subsidiary Country Road Group, which operates Country Road, Trenery, Witchery and Mimco brands.

At 11.50am, the stock was down 4.59% on the JSE to R70.10, valuing the retailer at about R59.323bn.