Edcon debt plan gets nod from lenders

By Colleen Goko

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Edcon CEO Bernie Brookes says he is confident about the group's future after the retailer secured support from its bondholders and bank lenders to obtain R1.5bn in bridge financing.

Bernie Brookes.

Picture: BDlive

As part of efforts to improve its financial performance and maximise its liquidity position, Edcon is undertaking a comprehensive reform of its entire capital structure. The apparel group expects the streamlining of its business to culminate in a significant reduction of its debt.

Boston-based Bain Capital bought Edcon for R25bn in a leveraged buyout in 2007. The global economic crisis, which began soon after the deal was finalised, hit the group hard. Since then the group has grappled with increasing debt.

Brookes said the bridge financing had been devised with the support of Bain as well as key lenders. "The consent provided by our lenders not only assures the group’s liquidity, but also facilitates the next step of debt restructuring. Along with a comprehensive set of operating initiatives and renewed focus on delivering value to our customers, reducing our debt obligations will allow us to reclaim our former leading position in the market."

In November 2015, Edcon reached agreement with its bank lenders to extend the due dates on loans worth about R7.9bn. The group also secured commitments for a new R1.85bn facility. The transactions amounted to a R4.5bn debt reduction. In April, it received consent to defer interest payments of about R1.6bn on bonds maturing in 2018.

Edcon’s bridge finance has been approved by the Reserve Bank and is denominated in dollars and euros. It will be made available in two tranches of up to R750m each.

Brookes said the restructuring of Edcon's capital framework was expected to be finalised in the near to medium term, during which the new financing would be used to ensure the retailer's liquidity needs were met fully.

While Edcon would normally issue its annual results during June, the company said this year's audited results would be released following finalisation of its debt restructuring.

Analysts have said options for Edcon, SA's largest nonfood retailer include selling some of its noncore assets or relisting on the JSE. The group trades under three divisions: Edgars, which serves middle-and upper-income markets; Jet and Jet Mart, which serve middle-to lower-income markets; and the speciality division, made up of brands such as Red Square, Boardmans and Legit. It trades in SA, Botswana, Mozambique, Namibia, Swaziland, Lesotho, Zambia, Ghana and Zimbabwe.

Ratings agency Standard & Poor's said in a report released in February that Edcon's capital structure was "unsustainable in the long term" due to high debt and interest expenses, the refinancing risk on debt maturities concentrated in December 2017 and March 2018, and the unhedged exposure to foreign currency risk-of-debt.

According to Bloomberg, SA's biggest banks including Standard Bank, Barclays Africa and a unit of FirstRand, have loans and investments at risk through exposure to Edcon.

Source: Business Day