PSG sees opportunities in personnel sector

By Marc Hasenfuss

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Stellenbosch-based investment house PSG is making a strong play for a slice of the much-maligned human resources sector by backing newly formed CSG.

PSG GROUP LIMITED

This follows confirmation of a R195m scrip-funded merger between listed M&S Holdings and BDM.

PSG - which holds a 38% stake in M&S - will be diluting its stake in the enlarged entity to 16% after scrip is issued to the BDM vendors.

But PSG Private Equity's chief executive Nico de Waal emphasised that PSG intended to remain an anchor shareholder in CSG, and would look for opportunities to increase its shareholding. PSG could increase its stake by buying shares on the open market, or by subscribing for new shares, should vendors of companies that are acquired in future prefer a cash settlement.

Ironically, PSG is going back to its roots. In 1995, the company - headed by former stockbroker Jannie Mouton - reverse listed through PAG, a personnel placement specialist, which PSG later sold for a sizeable profit.

Worforce management under pressure

De Waal conceded the workforce management sector was under pressure after recent regulatory changes, but believed the strong and larger firms would become more competitive and profitable as the sector underwent an inevitable consolidation. "We will be hoping to pick up companies on modest earnings multiples, using a combination of scrip and cash," he said.

"Three years ago there were over 3,000 labour brokers. A thousand of those have since disappeared. There will be plenty of opportunity for consolidation for us," he said

De Waal said the decision to pursue a merger with BDM was driven by the need to snag a strong management team and to diversify M&S's skills placement niche in the petrochemical and mining sector.

BDM, aside from personnel placement, offers contract services such as cleaning and maintenance. BDM's chief executive Pieter Dry said the association with PSG was a critical factor in the scrip-settled deal.

"The wider PSG Group (which spans Pioneer Foods, various agribusiness, Capitec and private education) opens up new opportunities in areas outside our core markets in mining and construction," he said.

De Waal intimated that CSG could be a compelling alternative to human resources sector leader Adcorp. He said that the enlarged business would generate about R60m in after-tax profits. "The beauty of this business is that it's highly cash-generative. We think it will be able to chase down sizeable acquisitions," De Waal said.

Dry said bringing BDM into a listed vehicle was a critical consideration with regard to future acquisitions. "We've done a lot of acquisitions in the past few years, and it was all done with our own funds. There are some more deals we'd like to do, including large acquisitions," he said.

With a marked increase in shares in issue after the scrip settlement to vendors the new CSG listing will - judging by the ruling share price - carry a market capitalisation of more than R575m.