

ABF sweetens its offer to buy out Illovo shareholders

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CAPE TOWN: Shareholders in sugar group Illovo have managed to draw a more palatable buyout offer from majority shareholder Associated British Foods (ABF), one of the largest consumer businesses listed on the London Stock Exchange.



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A higher offer price was always on the cards after Illovo's shares traded higher than ABF's initial nonbinding offer of R20 per share in early February.

ABF already holds 51% of Illovo, which means there is little chance a rival bidder will emerge for the iconic South African sugar business. ABF's revised offer of R25 looks likely to woo Illovo shareholders, as key institutional shareholders - Allan Gray, Investec Asset Management and Kagiso Asset Management - have already agreed to vote in favour of the transaction. These three shareholders represent 54% of the offer shares.

Illovo's shares jumped more than 15% to R23.71 on Friday.

The offer represents a 36% premium to Illovo's last traded share price before ABF's intentions were confirmed. On a longer-term basis, the R25 per share offer represents a 45% premium to Illovo's volume weighted average price.

Illovo's independent board members and executive team support the bid. ABF has retained RMB to determine the fairness of the bid.

Although Illovo's shares hit a low of R12.75 in June last year, market watchers pointed out that Illovo's share had traded as high as R38 in mid-2013.

A well-timed offer

Opportune Investments CEO Chris Logan said the buyout offer seemed well-timed. "It looks like a good offer for a good company in a bad time for the sugar industry."

Working in ABF's favour is the weak Rand exchange rate, the structural challenges facing the local sugar sector with the pending removal of sugar quotas by the European Union, and low global raw sugar prices.

Illovo is Africa's largest sugar producer, harvesting 6.3-million tonnes of sugar cane on its estates, and producing 1.8-million tonnes of raw and refined sugar in the year ending March 31 2015. The company has ventured into value-added downstream products (furfural, ethyl alcohol and lactulose) and produces its own electricity.

ABF CEO John Bason said the R5.6bn Illovo investment was a powerful endorsement of SA. "Illovo is an important business for us, and new investment in the company will come."

ABF is a major player in world sugar markets and, despite the weak market, has indicated that Africa remained a growth market, driven by larger populations and rising incomes. Bason believes that ABF can position Illovo as an African sugar champion.

It remains possible that smaller shareholders - confident in Illovo's longer-term prospects - may resist the ABF offer. But the offer makes provision for shareholders declining the buy-out offer. They will be allowed to remain onboard an unlisted subsidiary of ABF.

Source: Business Day

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