

Highveld's R2.8bn heist

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Zuma associate linked to pricey offer for stake

THE state-owned Industrial Development Corporation (IDC) seems set to back an empowerment company with links to President Jacob Zuma in a proposed buy-out of Russian billionaire Roman Abramovich's stake in Evraz Highveld Steel & Vanadium.

The struggling steelmaker announced last month that it had received a bid from newly registered Nemascor, whose directors include Linda Makatini, a close associate of Zuma and his son Duduzane, to buy the 85% Evraz stake at a pricey \$320-million (R2.86-billion). News of the offer on March 28 sent Highveld share prices up 80% at one stage.

The proposed deal is still cloaked in secrecy and sets off alarm bells, partly because Nemascor was only registered a few weeks ago in February, and partly because the company has refused to reveal exactly who is involved in it.

Makatini, a director of the Jacob Zuma Children's Fund and Zuma's legal adviser during his term as deputy president when his financial adviser Schabir Shaik was being prosecuted for corruption, refused to provide any details about the shareholders of Nemascor or its source of funding when contacted this week.

"We've signed a non-disclosure

Nemascor has refused to reveal exactly who is involved in it

agreement and cannot disclose any details," she said.

Abramovich owns 31% of Evraz, and was ranked by Forbes magazine as the 107th richest person in the world, with a fortune of \$10.2-billion.

The controversial businessman also owns Chelsea Football Club in London and was reported to have paid millions to get his hands on Russia's oil and aluminium assets in the post-communist scramble to divide up the country's mineral wealth.

Evraz said recently that it expected the deal with Nemascor to be done before June. Makatini told Business Times that this would depend on whether the due diligence, which is already taking place, was finished on time.

Makatini's business partners have included a number of politically well-connected people, including Fana Hlongwane, who was implicated as the "bag man" for bribes in South Africa's notorious arms deal, and Pulane Kingston, daughter of ANC stalwarts Mendi Msimang and the late Manto Tshabala-Msimang and wife of empowerment financier Martin Kingston.

Makatini is a former chair of PetroSA and the State Diamond Trader, where her purchase of \$1-million of rough diamonds from Zimbabwe's Marange diamond fields in 2011 led to an



■ **WELL-CONNECTED:** Linda Makatini of Nemascor



■ **HUGE WEALTH:** Roman Abramovich of Evraz

outrage from opposition parties in parliament. Last month, cabinet appointed her chairwoman of Mintek.

The possibility that taxpayers will, through the IDC, now finance a private-sector deal that will benefit Makatini and those close to her is likely to raise further controversy.

Abel Malinga, divisional executive of mining at the IDC, denied any IDC involvement in the transaction. But it is known that government has been keeping a close eye on Highveld, and it is likely that the IDC will be roped in to provide funding, should the transaction go ahead.

"We have not been approached and we do not know the company (Nemascor) involved," Malinga said late on Friday.

However, Garth Strachan, acting deputy director-general at the Department of Trade and Industry, said the department had been "closely monitoring the situation" in the steel industry, including the Highveld deal, and that "high-level discussions" about the transaction are taking place in government.

"It is critical that new players come into the market and competition is brought about," Strachan said. Any government-backed funding for Highveld would come with strings attached around prices, to ensure a "competitive advantage accrue to the downstream manufacturing

sector", he said.

The government has been outspoken about the need to create a new steelmaker to increase competition for ArcelorMittal SA (Amsa), so as to create "developmental steel prices" and to reduce the cost of steel that smaller manufacturing companies need.

Strachan, who declined to comment on the composition of the Nemascor board, said the government was looking at both Highveld and a new mill and was keeping "all options on the table at the moment".

The IDC has made significant steel-related investments over the past year.

It backed empowerment groups, including Cyril Ramaphosa's Shanduka, to buy Scaw Metals from Anglo American in a R3.4-billion deal in April 2012, and is part of a consortium that is buying Palabora Mining, which has significant magnetite reserves that can be used in steelmaking.

The state-owned development financier has talked for years about the need to introduce a new steelmaker to compete with Amsa, which dominates the local market, so as to lower prices.

A team from the IDC is currently in Asia to meet five potential equity partners. An announcement on a potential partner is expected at the end of April, Malinga said.

But another question that hangs over this deal is why the price seems so high — especially if taxpayers will ultimately foot the bill.

Though Makatini described Highveld as a "good business", analysts expressed scepticism over the offer price.

The bid values Highveld at nearly R3.4-billion, yet its market capitalisation on the JSE was nearly half that — R1.8-billion — on Friday (see graph, below).

And that R1.8-billion includes a 35% increase in the share price that has taken place since the deal was announced on March 28, a day after the company issued a cautionary to shareholders and two days after Bloomberg released a report about an impending transaction.

The announcement was made while the Brics summit was underway, where heads of state of Brazil, Russia, India and China joined Zuma in Durban.

"In my view, the price is at a substantial premium, and I'm not sure what the rationale is behind this deal, unless there is something going on that we don't know about," said one analyst who asked not to be named.

"It's probably a good time to buy steel as it is at the bottom of the cycle, but the price doesn't make sense. Given the challenges Highveld faces, I would expect a price at a discount to emerging-market benchmarks, not a premium."

The logic of buying into Highveld at such a significant premium also seems hazy, given the challenges that the company lists in its latest annual report. They include the fact that it has made a loss for the last three years, including a pre-tax loss of R898-million last year.

One key challenge is that Highveld's opencast Mapochs mine, which feeds the steel plant in eMalaheni, has a remaining life-of-mine of only eight years.

The other problems include rising energy costs, labour problems, environmental issues and the need to replace or fix old equipment.

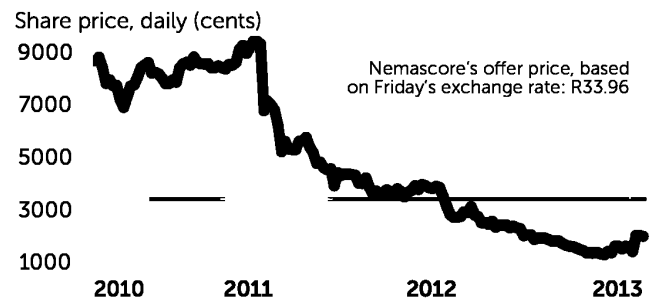
The introduction of a carbon tax in 2015 is also a risk factor.

Nku Nyembezi-Heita, CEO of Amsa, said at a briefing this week that the local steel market was expected to start recovering only towards the end of 2014. She said ArcelorMittal remained committed to South Africa and had no plans to sell its stake in its local unit.

Highveld's share price shed 53% in the 12 months before the deal was announced last month, trading at an average price of R19.77 a share over this period.

But even though Nemascor's offer price seems curiously high, Abramovich's company Evraz will still get only about half what it paid to buy Highveld four years ago — marking an unsuccessful African foray for the Russian billionaire.

EVRAZ HIGHVELD STEEL & VANADIUM



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