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NEDBANK

Mixed views

Nedbank is confident that its acquisition of a 20% stake in the pan-African banking group Ecobank Transnational for R5,5bn makes strategic sense.

Market watchers, on the other hand, have mixed views about the deal, announced last week.

Nedbank, under CE Mike Brown, exercised an option to convert US$285m of debt into an 11% equity stake in the Togo-headquartered bank, and bought additional shares at the market rate to make up 20%, to make it the biggest shareholder.

The stake of other major shareholders, the Public Investment Corp and Qatar National Bank, has been diluted below 20% as a result of the Nedbank deal.

Critics argue that taking a noncontrolling stake in Ecobank, which has operations in West and Central Africa, is not worth Nedbank's effort.

Greg Saffy, a banks analyst at RMB Morgan Stanley, says: "For a bank to buy a 20% stake in another bank is generally not a good idea, given lack of control, gearing and onerous capital requirements."

Brad Preston, portfolio manager at Mergence, says while the deal appears good on some levels, it also raises questions. "How much will Nedbank be able to influence Ecobank's strategy? . . . The acquisition by Qatar National Bank last month of a stake in Ecobank raises questions around how the long-term relationship between Ecobank and Nedbank will be able to develop."

However, Adrian Cloete, portfolio manager at PSG Wealth, says Nedbank paid the equivalent of only 5% of its market capitalisation on the acquisition.

Russell Roberts

Mike Brown
Exercised options

"It's not as if Nedbank is betting the farm, and it's a low-risk way to access West and Central Africa," he says.

Foreign banks are not allowed to control local banks in many African countries, Cloete says. Nedbank paid close to net asset value for a bank with a return on equity of 17% which has shown a good recovery in earnings, Cloete says. *Gillian Jones*