Sweet and Sour at Tongaat Hulett

Perspectives: November 23rd, 2021

JSE listed Tongaat Hulett's annual results presentation for the financial year ended 31 March 2021 opens with '*#GROWING A SWEET FUTURE*'

Slide twenty-seven of this publicly available document clearly states that an equity capital raise of R2bn will be required by end December 2021. This equity raise is the result of a condition in a key debt refinancing agreement with their lenders. Furthermore, if they cannot raise the full R2bn from issuing new shares to shareholders, they will have to conduct a 'strategic asset sale of non-SA sugar businesses'. If they fail on both counts, they are in debt default.

All this information was provided to market participants and the public on July 13th, 2021, when its share price was at R7. Inexplicably, the share price rallied strongly to a peak of R10 on November 12th, 2021.

A sobering reality check arrived on November 17th, when the company announced a rights issue of 'up to R4bn'. This was even preceded by a public announcement on November 10th that *'The Company is in discussions regarding various initiatives directed at the reduction of debt...'*

Consider the **materiality** here - for a company with a market cap of just R1.35bn (calculated at a share price of R10), raising an amount of R2bn or R4bn implies a large issue of new shares, which is dilutive for shareholders unwilling or unable to partake fully therein.

The Tongaat Hulett share price has been in freefall since November 17th, closing at below R6 today for a market cap of R810mn. The trouble now with this setup is that the lower the share price goes the more new shares they will have to issue to raise the 'up to R4bn' they need. It is also typical in such situations that the potential discount on new shares offered to the traded market price *widens* when investors become less confident. An example of something that *might* cause reduced confidence is when a company says on July 13th that it needs R2bn, and then discloses just 4 months later that it needs 'up to R4bn', without any forewarning.

Highlighting the obvious, that is a *material* difference.

Source: Google Finance

Sweet and Sour, indeed.

Our work continues...

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