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Power to the workers

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South Africa's largest black empowerment deal

South Africa's largest black empowerment deal to date has received a broad welcome. The Sasol transaction has set a new benchmark for future arrangements.

South Africa's biggest ever Black Economic Empowerment (BEE) transaction, involving the transfer of R25.9bn (US\$3.2bn) of assets by synthetic fuel maker Sasol, is set to start in May and be completed by the end of June. Under the deal, dubbed "Inzalo" (new beginning), Sasol plans to allocate 63m shares—10% of issued capital—in four portions: 4% to workers, 3% to ordinary black South Africans, 1.5% to Sasol's black business partners and 1.5% to the Sasol Inzalo Foundation, which is being set up to boost education and skills. The shares are valued at R366 (US\$46.5) each, representing a 10% discount on the recent market rate. When originally unveiled last year the transaction was valued at R18bn, but has since risen by nearly R8bn thanks to the improvement in Sasol's share price. All told, the transaction will result in black ownership of 8.3%, and an effective black ownership of 19.7% of Sasol's South African business.

Sasol's 27,000-strong workforce will gain the most: this includes the firm's 10,000 white employees, although their portion will not earn Sasol any empowerment credits. The 3% share allotted to black South Africans will take the form of a public offering (managed by the state-run National Empowerment Fund). Some shares will be subsidised by Sasol, while others will be sold at the full cash price; in both cases, investors will be locked-in for two to three years before the shares can be re-sold, while a new black-based trading system is subsequently planned to try to keep the shares in black ownership for as long as possible. Bids for small volumes will be given priority if the offer is oversubscribed. The 1.5% allocated to Sasol's black partners will be spread among numerous entities and individuals, including suppliers and customers, and broad-based BEE groups that focus on skills development. Notably, Sasol will fund approximately 80% of the entire deal, with most of the remainder coming from the public share offering.

Not the usual suspects

Apart from being the most valuable BEE deal to date, the Sasol transaction is notable for being very broad-based—the firm envisages 1m potential beneficiaries—while the high-profile BEE "personalities" that have played a dominant role in past deals (leading to accusations that BEE has benefited only a select few) are largely absent in this case. As a result, the deal has won widespread support, from the public as well as the government and trade unions. The Sasol transaction confirms the trend towards greater use of both employee share ownership plans (which are seen as boosting productivity) and targeted public share offerings in BEE packages, and this is likely to be reflected in coming deals by other firms: Sasol has set a new benchmark. The costs to Sasol's existing shareholders are relatively high and they could still block the deal, but there is a perception the price is worth paying to ensure the company's future.