Empowerment group to boost Delta's fortune

Delta Property Fund looks primed to be the star black-owned and managed listed property fund for the next few years after the introduction of a new empowerment consortium with cash to spend. This will enhance its product offering substantially.

The announcement that Delta's board has been approached by a broad-based empowerment consortium led by management of Delta who wish to subscribe for an interest of up to 51% in the fund, is the kind of watershed move that investors have been craving.

The group has come a long way since 2002, when it was called Tuffsan 89 Investment Holdings, which owned the Forum Building in Pretoria. It listed in 2012 as Delta Property Fund, with R2.1bn in assets and a market capitalisation of R1.35bn.

It now owns assets worth R11.8bn and has a market cap of R5.9bn. However, given the degree of consolidation in listed property, some critics expected Delta to grow faster or to expand its African arm Mara Delta faster. Investors want a standout empowered company to inspire more black investors to launch property funds.

But the empowerment consortium is planning to invest about R5bn in Delta to buy more offices and house more sovereign tenants, something it often does better than its competition. Delta is a popular landlord among government departments and has generated good returns. The deal should lead to Delta's market cap nearly doubling, establishing it as a midcap player with a strong competitive advantage.

DELTA PROPERTY FUND

Share price, daily close (cents)

Graphic: RUBY-GAY MARTIN Source: BLOOMBERG

Economic Development Minister Ebrahim Patel's announcement last week of a R1.5bn steel industry competitiveness fund administered by the Industrial Development Corporation (IDC) has drawn little response from industry.

Over the next three years, the IDC will get grant funding of R95m. It will use this as "leverage" to create a R1.5bn fund that will subsidise a further reduction in the nominal interest rates the IDC charges borrowers.

The fund is meant to help improve downstream competitiveness in the metals and engineering subsectors. But it looks as if this might be far too little, far too late. According to industry data, 25,000 downstream steel-sector jobs have been lost in the past year after the closure of more than 500 small- and medium-sized companies.

The R1.5bn is the same amount that AccelorMittal SA, the country's largest steel producer, has agreed to pay for acting like the monopoly it is.

The minister says the penalty has made it easier for his department to argue for funds from the Treasury to make the R95m available over the next three years. This will help companies such as valve and pump makers to modernise and expand capacity.

But what this really says is that the government has little money at hand. And despite 10% tariffs and a new 12% safeguard on various upstream steel products, it appears downstream manufacturers make products that cost more than it does to import them — and they have no tariff protection.

At a time when the Manufacturing Circle, an industry body, is driving a campaign to turn SA's premier Vaal Triangle industrial area into a special economic zone, with incentives including a 15% tax rate, Patel's announcement appears to lack substance.

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