

Metropolitan extends successful strategic empowerment partnership with KTI

Metropolitan, one of the frontrunners among South Africa's major financial institutions in terms of its commitment to empowerment, including the black ownership component, is continuing to lead the way by extending its successful strategic partnership beyond the original transaction. The success lies in the fact that the partnership has substantially benefited both parties and is one of the few transactions of this nature not significantly affected by the adverse economic conditions.

The first five-year phase of Metropolitan's mutually advantageous partnership with Kagiso Trust Investments (KTI) ends on 30 September 2009. It began in 2004 when KTI acquired a 10% stake in Metropolitan through the purchase of five-year convertible redeemable preference shares in the group. This purchase was funded independently by a consortium of local banks.

In December 2005, Metropolitan and KTI entered into the second phase of the partnership when KTI purchased additional convertible redeemable preference shares that increased their equity holding to 17%. Once again, the funds were raised independently. At this juncture, the Metropolitan Empowerment Trust was established and Metropolitan management acquired 25% of the KTI stake.

On several occasions – in 2005 and again in 2006/7 - KTI increased their shareholding through the acquisition of ordinary Metropolitan shares in the open market.

By December 2008, KTI and the trust had a combined, direct and indirect, beneficial shareholding of approximately 24% in Metropolitan.

At its 2008 financial year-end (31 December), Metropolitan was awarded maximum points for ownership in terms of the Financial Sector Charter. A score of 16 points out of a possible 12 was achieved, which included being awarded the maximum number of bonus points. When assessed on the basis of the department of trade and industry's codes of good practice, the group scored 22 out of 20 for ownership, being awarded 2 out of the maximum of 3 bonus points. Both scorecards were rated by NERA, an accredited ratings agency.

Given that transformation is an ongoing imperative for Metropolitan, the group has always been adamant that its aim is not just legislative compliance. To quote group chief executive, Wilhelm van Zyl, “Empowerment in all its many forms, including black ownership, is an integral part of who we are striving to be and the way we aspire to do business. While this includes achieving prescribed targets, it goes far beyond merely adhering to the letter of the law.”

In the firm conviction that both partners have benefited substantially from the partnership, Metropolitan and KTI decided to explore ways of refinancing the transaction using the value inherent in the structure.

“We are delighted to be able to report that financing has been secured (once again involving a consortium of local banks) which has enabled us to extend the term of the majority of the preference shares to 2012, the third phase of the partnership,” reports Van Zyl. “Almost 23 million shares will, however, be converted by KTI. At the same time, the dividend rate payable on these shares has been fixed at 85% of prime, which gives us greater control over our cost of capital while still providing KTI with substantial value-add.

“Although a great deal has already been achieved from an economic empowerment perspective, we are confident that both KTI and ourselves will continue to gain significantly once phase three is implemented.”

Andile Sangqu, executive director of the Kagiso group, of which KTI forms part, remarks, “Not only has Metropolitan succeeded in retaining a meaningful proportion of black shareholders, amongst the highest in the sector, but KTI will also continue to derive tangible financial benefits, both in the short and the long term, as was our intention when we decided upon this investment some five years ago.

“The relationship with Metropolitan has served us well in many ways. We have been able to live out our core values by being an active investment partner, assisting Metropolitan in the pursuit and achievement of its strategic goals and objectives while at the same time generating sustainable economic value to our mutual advantage.”

