

Capital distributions take preference

...as it limits STC exposure

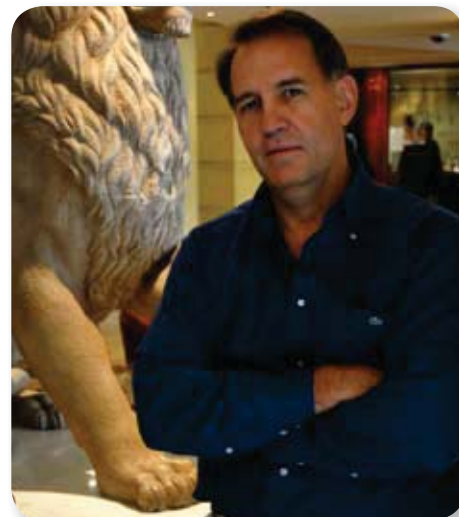
TELEMASTERS HAS JOINED the ranks of many JSE-listed companies that have changed their dividend policy to limit their exposure to secondary tax on companies (STC), rather preserving cash reserves or paying them out to shareholders. Such companies reduce their share premium entries on their respective balance sheets to R0, via capital distributions. Such distributions aren't liable for 10% STC, as the Income Tax Act currently stands.

TeleMasters has declared an interim capital distribution of 4c/share rather than a cash distribution for the period ended March 2009, which will wipe out its R5,5m share premium. A first quarter cash dividend was paid in January. It says there will be another

two dividends paid in the last two quarters of this year. It's a stated dividend policy of 40% of total profits for the year. Those dividend payments may be paid out of its profits or its share capital.

Capital distributions usually occur on liquidation or deregistration of a company but can also occur when a company returns a portion of its contributed share capital or share premium account to its shareholders. A company's share premium account is the capital a company raises when issuing shares in excess of the par value of the shares. For example, a company may »

Protecting cash base.
Mario Pretorius



23 issue shares of a par value of R1 each at a subscription price of R5. The R4 difference will go to its share premium account.

Capital distributions from a share premium seem to be a predominant trend among listed companies of late. Not only to preserve cash in tough economic times but to do so before the new dividend withholding tax replaces STC next year. The new rules are applicable to all forms of distributions – cash or otherwise – and any form of dividend will be taxable in the hand of the shareholder at a rate of 10%. However, some exceptions do apply.

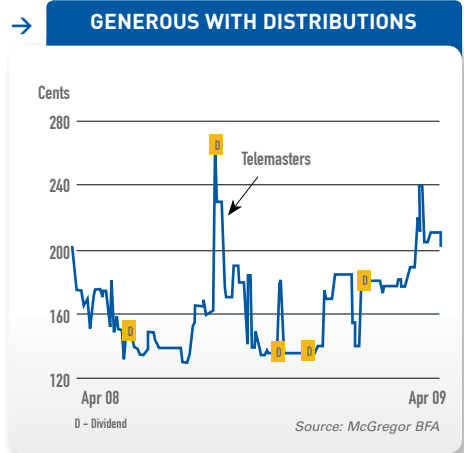
“The move is in line with our focus to ensure we’re in a healthy cash position and are operationally lean and able to keep on growing, even in the context of the global downturn,” says outgoing chairman Mario Pretorius, who is being replaced by Stephen van der Merwe as non-executive chairman. Pretorius will now only occupy the CEO’s seat.

Other companies that have adopted such a strategy in 2009 include Nampak, Clicks and Netcare (see table).

In addition, the new Companies Bill will introduce simplicity in the design of companies by scrapping par value shares and the share premium. Only no-par value shares will exist once it becomes law. It seems the companies mentioned already have a head start in applying the new rules.

Although TeleMasters’ quarterly dividend payouts are certainly attractive to prospective shareholders, only a small minority of the general public can enjoy the proceeds and the benefit of it being a capital distribution is limited to a privileged few.

Pretorius and his family hold 85% of TeleMasters’ shares in issue through the Maison d’Obsession Trust. The remaining directors hold 3%, while the public and staff hold 12%.



“Pretorius is a dominant shareholder, which doesn’t leave much for the minority shareholder,” says Vestact analyst Sasha Naryshkine. “He needs to put more liquidity into the market. He can still control the company by only owning 60% of the shares – otherwise why is he even listed?”

But Pretorius says when the market is so volatile and unpredictable, it’s necessary to have a tight grip on shares. “In the foreseeable future I’m not intending to trade my shares. There’s no reason for me to do so right now but when the market shifts I might reassess my decision,” he says.

At the time of writing TeleMasters was

trading at R2/share. “The group seems like a decent company with high operating margins, a good return on equity and a strong balance sheet. The share seems very cheap, trading on a historic earnings multiple of four times and offering a high dividend yield. However, we’d only recommend the share as a buy to speculative investors at this stage,” say analysts at PSG Online.

That’s if investors are able to find any shares on the open market. Maybe investors should stick to more liquid shares veering towards STC-free capital distributions.

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→ CAPITAL DISTRIBUTIONS FROM RESERVES FROM APR 07*

NAME	AMOUNT (CPS)	PAYMENT DATE	TYPE	NAME	AMOUNT (CPS)	PAYMENT DATE	TYPE
IMPERIAL	160	Apr 2, 2007	Interim	BIDVEST	248.4	Sep 25, 2007	Final
CONSOL	1950	Apr 2, 2007	Special	ASPEN	70	Sep 25, 2007	Final
ILIAD	40	Apr 5, 2007	Special	KAP	3	Oct 1, 2007	Final
MVELA GRP	6	Apr 5, 2007	Special	IMPERIAL	280	Oct 1, 2007	Final
CADIZ	17	Apr 5, 2007	Special	SPURCORP	29	Oct 8, 2007	Final
ILIAD	52	Apr 7, 2007	Final	GRINDROD	34	Oct 8, 2007	Interim
ILIAD	40	Apr 10, 2007	Final	MVELA GRP	16	Oct 22, 2007	Final
MVELA GRP	6	Apr 10, 2007	Interim	ARCMITTAL	404	Oct 29, 2007	Interim
CADIZ	17	Apr 10, 2007	Final	AMAPS	12	Nov 5, 2007	Final
PEERMONT	1308	Apr 20, 2007	Special	A VI	75	Nov 19, 2007	Interim
ADVTECH	8	Apr 20, 2007	Special	PINNACLE	10	Nov 19, 2007	Final
ADVTECH	8	Apr 23, 2007	Final	STEINHOFF	50	Nov 19, 2007	Final
PHUMELELA	6	Apr 26, 2007	Special	FAMBRANDS	33	Nov 26, 2007	Interim
KAP	14	Apr 26, 2007	Special	MR PRICE	13.5	Dec 10, 2007	Interim
PHUMELELA	6	Apr 30, 2007	Interim	ELERINE	117.3	Dec 10, 2007	Final
KAP	14	Apr 30, 2007	Final	NUCLICKS	29.6	Dec 18, 2007	Final
EDCON 6%P	200	May 4, 2007	Special	NUWORLD	125.3	Dec 18, 2007	Final
EDCON	46000	May 4, 2007	Special	TIAUTO	49	Dec 18, 2007	Final
EDCON	4600	May 14, 2007	Special	DECILLION	1607	Dec 24, 2007	Final
BARPLAT	70	May 28, 2007	Special	NAMPAK	82.3	Jan 14, 2008	Final
ASTRAPAK	50	Jun 4, 2007	Final	TIGBRANDS	290	Jan 14, 2008	Final
ASTRAPAK	50	Jun 4, 2007	Special	DAWN	25	Jan 14, 2008	Final
METMAR	13.5	Jun 25, 2007	Final	NETCARE	18	Jan 21, 2008	Final
METMAR	13.5	Jun 25, 2007	Special	PARACON	5	Mar 17, 2008	Final
NUCLICKS	11.6	Jun 25, 2007	Interim	SPURCORP	28	Mar 25, 2008	Interim
NUCLICKS	11.6	Jun 25, 2007	Special	LIBERTY	266	Mar 31, 2008	Final
BARWORLD	111	Jul 2, 2007	Interim	MVELA GRP	6	Apr 7, 2008	Interim
BARWORLD	111	Jul 2, 2007	Special	ADVTECH	11	Apr 21, 2008	Final
SILVERB	12.5	Jul 2, 2007	Final	NUCLICKS	15.1	Jun 23, 2008	Interim
SILVERB	12.5	Jul 2, 2007	Special	CADIZ	13	Jun 30, 2008	Final
MR PRICE	70.6	Jul 2, 2007	Final	METMAR	18	Jun 30, 2008	Final
MR PRICE	70.6	Jul 2, 2007	Special	DELTA	229	Jul 14, 2008	Final
DATATEC	70	Jul 9, 2007	Final	NAMPAK	28	Jul 14, 2008	Interim
DATATEC	70	Jul 9, 2007	Special	DATATEC	90	Jul 14, 2008	Final
ISA	3.9	Jul 16, 2007	Final	NETCARE	14	Jul 21, 2008	Interim
ISA	3.9	Jul 16, 2007	Special	SILVERB	14.6	Aug 11, 2008	Final
FAMBRANDS	30	Jul 16, 2007	Final	ISA	3.1	Aug 18, 2008	Final
FAMBRANDS	30	Jul 16, 2007	Special	ADVTECH	7	Sep 22, 2008	Interim
ISA	3.9	Jul 16, 2007	Special	SPURCORP	11.6	Oct 6, 2008	Final
NAMPAK	33	Jul 16, 2007	Interim	BIDVEST	275	Oct 6, 2008	Final
NAMPAK	33	Jul 16, 2007	Special	STEINHOFF	60	Oct 8, 2008	Final
TIGBRANDS	213	Jul 16, 2007	Interim	NUWORLD	59.3	Dec 15, 2008	Final
TIGBRANDS	213	Jul 16, 2007	Special	NUCLICKS	38.6	Dec 15, 2008	Final
NETCARE	13	Jul 16, 2007	Interim	NAMPAK	72	Jan 19, 2009	Final
NETCARE	13	Jul 16, 2007	Special	NETCARE	18	Jan 26, 2009	Final
SOVFOOD	61.5	Jul 23, 2007	Final	ADVTECH	13	Apr 20, 2009	Final
SOVFOOD	61.5	Jul 23, 2007	Special	TELEMASTR	4	May 4, 2009	Interim
ARCMITTAL	1021	Sep 3, 2007	Interim	UNIVERSAL	3	May 25, 2009	Final
STANBANK	100	Sep 17, 2007	Interim				
LIBERTY	144	Sep 17, 2007	Interim				
ADVTECH	5	Sep 25, 2007	Interim				
COMPCLEAR	12	Sep 25, 2007	Final				

* 251 similar transactions took place between Aug'94 and Mar'07

Source: McGregor BFA