

Steinhoff's European Standoff

Back at the beginning of March, Steinhoff looked like a dealmaker on a mission.

The previously low-profile South African retailer -- whose biggest shareholder is Christo Wiese, the country's richest man -- had within weeks charged into two agreed bids: Sainsbury's offer for Argos in the U.K. and Fnac's acquisition of Darty, owner of a French electrical goods chain.

Less than two months on, and the predator is fighting to prove it still has teeth. It's already given up on Home Retail. And now it's battling with France's Fnac for control of Darty. The past two days have seen a quick-fire round of bids and counter bids from the two sides.

Whatever happens, Darty shareholders win. Fnac's all-share offer back in September valued the electrical goods chain at 101 pence. The board has wrung out 50 percent more (in cash) whoever emerges victorious. Not bad for a company whose share price was languishing at 65.5 pence before Fnac's interest.

The Darty board can afford to sit back and watch the action unfold, though it may have to face competition scrutiny.

For Steinhoff, leading the auction with its latest 160 pence bid, the stakes are far higher. It has shown it's prepared to try to break up deals, even those agreed by trade buyers offering more compelling synergies. Those close to the company have talked up its desire to be a force in European shopping.

Steinhoff chanced its arm on Argos by proposing an all-cash offer, but had to admit in the end that it couldn't make the numbers work. With Darty, even its advantage as a cash buyer has been neutralized. Fnac has made two cash offers, the last at 153p.

Fnac backed its latest deal calculation by raising its synergy estimate to 130 million euros (\$147 million) from 85 millions euros. It also sold a 15 per cent stake in itself to Vivendi, increasing its firepower.

Analysts at Exane BNP Paribas reckon Steinhoff, by contrast, should be able to find about 110 million euros of synergies by merging Darty with its Conforama furniture chain. With similar costs to achieve the savings, that supports a bid of up to 160p per share. So, if it wants to maintain financial discipline, its current bid is probably as far as it should go.

It will be hoping it's landed the killer blow. But Darty's shares are trading above the offer price. If Fnac counterbids, Steinhoff will face a quandary.

If the auction becomes even more heated, Steinhoff might be tempted to go further to prove that it's not all bark and no bite. There's a fine line between financial discipline and being seen as flaky by targets and rival bidders.

Still, it's hard to argue that Steinhoff should overpay just to prove a point in Europe. If Fnac bids up again, Steinhoff should just accept the embarrassment of losing out on two deals in succession. That will leave it in a stronger position on future bids. Who knows, it may even spot an undervalued target first.

This column does not necessarily reflect the opinion of Bloomberg LP and its owners.

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