



COMPETITION TRIBUNAL OF SOUTH AFRICA

Case No: 018705

In the matter between:

PAYCORP GROUP (PTY) LTD

Primary Acquiring Firm

And

SAICOM GROUP (PTY) LTD

Primary Target Firm

Panel : Dr. Takalani Madima (Presiding Member)
: Prof. Imraan Valodia (Tribunal Member)
: Andiswa Ndoni (Tribunal Member)

Heard on : 21 May 2014
Order Issued on : 21 May 2014
Reasons Issued on : 9 June 2014

Reasons for Decision

Approval

- [1] On 21 May 2014 the Competition Tribunal ("the Tribunal") unconditionally approved the acquisition by Paycorp Group (Pty) Ltd of Saicom Group (Pty) Ltd.
- [2] The reasons for unconditionally approving the proposed transaction follow hereunder.

Parties to the Transaction

Primary acquiring firm

- [3] The primary acquiring firm is Paycorp Group (Pty) Ltd ("Paycorp"), a private company incorporated in terms of the laws of the Republic of South Africa and wholly owned by Paycorp Holdings (Pty) Ltd ("Holdco"). Holdco is in turn controlled by Actis Columbus Limited which, further in turn, is controlled by AEM3 PCC- Cell Columbus which has its principal place of business in Port Louis, Mauritius.
- [4] Paycorp conducts its business through its three main subsidiaries/divisions, namely ATM Solutions, EFTPOS (Pty) Ltd and DrawCard (Pty) Ltd.
- [5] ATM Solutions is involved in the provision of automated teller machines (ATMs) to banks in Southern Africa while EFTPOS provides point of sale credit and debit card terminals ("POS Terminals") to retailers in South Africa. These POS Terminals provide numerous functions, including the sale of prepaid airtime and electricity, but their primary function is that they allow retailers to accept electronic payments. DrawCard is an issuer of Visa-certified prepaid value cards such as gift cards.

Primary target firm

- [6] The primary target firm is Saicom Group (Pty) Ltd ("**Saicom**"), a firm incorporated in terms of the laws of the Republic of South Africa with its shares held, roughly, as follows:
- BPESAM 1 Ltd- 36%;
 - Teim Ventures (Pty) Ltd- 22%;
 - Mr David Murray- 13%;
 - Mr Martin Wright- 20%; and
 - Regiments Telecommunications (Pty) Ltd- 9%

[7] Saicom conducts its operations through its wholly owned subsidiary, Saicom Payphones. Saicom Payphones does not control any other firm and is involved, principally, in the provision of mobile voice, prepaid vending and other payment services (further explained below). Saicom provides these services through three divisions, namely Kazang Division ("**Kazang**"), Saicom Payphones Division and the International Vending Division. For the purposes of this transaction, the relevant division is Kazang.

[8] Kazang is primarily involved in the provision of mobile vending terminals. These vending terminals stock prepaid airtime and prepaid electricity and also allow users to pay for services like DSTV and sports betting. They are situated primarily in rural areas. Kazang performs this function by situating mobile vending terminals in busy consumer environments such as

Proposed Transaction

[9] The proposed transaction is structured simply as a sale of shares agreement in terms of which Paycorp intends to acquire the entire issued share capital of Saicom. Post-merger Paycorp will hold sole control over Saicom in terms of section 12(2)(a) of the Competition Act 89 of 1998 as amended ("the Act").

Rationale

[10] Paycorp views the transaction as an opportunity to expand its service offerings into a service area in which, pre-merger, it is limited.

[11] Saicom's shareholders consider the purchase price an attractive return on their investment and in light thereof are keen to dispose of Saicom.

Relevant Market and Impact on Competition

[12] The Competition Commission ("the Commission") found that no vertical overlap exists between the merging parties' activities but did identify the existence of a minor horizontal overlap in the following markets:

1. The national market for the wholesale sale of prepaid airtime; and
2. The national market for the bulk vending of electricity.

These two markets will now be dealt with in turn below.

The market for the wholesale sale of prepaid airtime:

- [13] This market was identified as an area of horizontal overlap in the merging parties' activities in that they both distribute bulk prepaid airtime (Paycorp through EFTPOS' and Saicom through Kazang) to retailers for on-sale to end-users.
- [14] Notwithstanding this overlap, the Commission is unconcerned by the suspected impact of the proposed transaction on the prepaid airtime market because the merged entity will hold a market share of less than 1% and will remain constrained by capable competitors such as Blue Label and Smart Call who jointly hold about 60% market share and thus wield considerable constraining power.
- [15] In light of this, the Commission concludes that the proposed transaction is unlikely to alter the structure of the market or lead to a substantial prevention or lessening of competition.

The market for the bulk vending of electricity:

- [16] In this market, Paycorp operates at two levels in the supply chain- as an integrator through its POS Terminals (where it sells to retailers) and as a retailer through its ATMs (where it sells to end-users). Saicom, however, only operates as an integrator.
- [17] The Commission thus identified the existence of a horizontal overlap in the market for the bulk vending of electricity, i.e. at the integrator level. The Commission, however, does not view the proposed transaction as likely to substantially prevent or lessen competition because the merged entity will hold a small market share (roughly 3.7%), it will remain constrained by numerous viable players in the market and Eskom and the municipalities will

"continue to provide the billing and administration services to end-users".
Further, and similarly in mitigation of any competition concerns, the tariffs for the sale of electricity to end-users are regulated by the National Energy Regulator of South Africa (NERSA) and for the merged entity to engage in unilateral conduct will thus be very difficult if not impossible.

[18] Finally, both customers and competitors of the merging entities were of the opinion that the proposed transaction posed no concerns whatsoever.

[19] Accordingly, the Commission concluded that the proposed transaction was unlikely to substantially prevent or lessen competition in either of the aforementioned markets and proposed the unconditional approval of the transaction in terms of section 14A(1)(b)(i) of the Act.

Public Interest

[20] The Commission identified no public interest concerns likely to arise from the proposed transaction.

Conclusion

[21] In light of the above I conclude that the proposed transaction is unlikely to substantially prevent or lessen competition in the relevant markets. Accordingly, I approve the transaction unconditionally.



Dr Takalani Madima

9 June 2014

DATE

Prof Imraan Valodia and Andiswa Ndoni concurring

Tribunal Researcher: Shannon Quinn

For the merging parties: Shawn van der Meulen- Webber Wentzel

For the Commission: Dineo Mashego