

Denel's Venture In South East Asia Forms Part Of Global Growth Strategy

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Denel is increasingly looking at export sales -- including in the rapidly-expanding Asia-Pacific region -- in terms of its mandate to create a financially self-sustainable defence business, Mr Odwa Mhlwana, acting Group Chief Financial Officer, told the Portfolio Committee on Public Enterprises in Parliament today.

The company regards the South African National Defence Force as its primary client, Mr Mhlwana said, but is increasingly looking outside South Africa for opportunities.

Denel's decision to extend its business footprint in South East Asia through a strategic joint venture with VR Laser Asia is part and parcel of this accelerated global growth strategy.

In the current financial year export sales already account for 52% of Denel's total turnover with the primary markets in the Middle East, the Asia-Pacific, Europe and South America.

Mhlwana said joint ventures and partnerships have been part of Denel's operational model for more than a decade, but are becoming increasingly necessary as Denel expands its global footprint. As examples, he cited the fact that Denel holds a 49% stake in Turbomeca Africa, a subsidiary of the global Safran Group, and has a joint venture with Airbus Defence and Space called Airbus DS Optronics. Likewise, Tawazun Dynamics was established to manufacture precision-guided munitions in the United Arab Emirates, and Rheinmetall Denel Munitions contributes more than R2-billion to Denel's annual revenue.

Asia is also becoming an increasingly important market, he said, and defence industry experts estimate that half of future global defence sales will involve countries on the Asia Pacific.

Mhlwana said the selection of partners is largely driven by market intelligence and existing relationships of trust. VR Laser has been doing business with Denel for more than 15 years and is responsible for the fabrication of hulls for mine-protected vehicles and mechanical structures for weapon systems.

He explained to the Portfolio Committee that the decision to form Denel Asia was initiated by Denel's previous Group CEO, Mr Riaz Saloojee, who made a proposal in this regard to the current board on 10 September 2015. The board approved Saloojee's request for authorisation. Four potential partners were considered before a decision was taken to select VR Laser Asia based on the company's experience and track record of VR Laser working with Denel.

VR Laser Asia is wholly-owned by Mr Salim Essa and the company is familiar with the industrial landscape in the world's fastest growing defence market, specifically in India. Denel has been black-listed from doing business in India for more than 10 years but a thorough investigation cleared it from any wrongdoing in 2015 and it has since already spent more than R500-million to explore business opportunities.

Mhlwana said Denel submitted a pre-notification letter for the approval of Denel Asia to the Department of Public Enterprises (DPE) and National Treasury on 29 October 2015 and received approval, with conditions, from DPE the following month.

It then submitted an application in terms of the Public Finance Management Act (PFMA) to both DPE and Treasury on 11 December 2015. No response to this request has yet been received from Treasury. In terms of Section 54 (3) of the PFMA applicants may assume that approval has been granted if no response is received within 30 days. Denel proceeded with the registration of Denel Asia in Hong Kong only after 47 days, and 98 days after the first pre-notification was sent.

Mhlwana said the decision to suspend Saloojee as Group CEO as well as the Group CFO and Company Secretary relates to the funding model used for Denel's acquisition of BAE Land Systems South Africa (LSSA). The Board is of the opinion that LSSA's liquidity to service the loans were misrepresented and decided to suspend the executives to allow an unfettered investigation.

The Board has already recommended to the Minister of Public Enterprises that the former GCEO's contract of employment should not be renewed when it expires in January 2017, and is also considering claims of damages. Disciplinary processes against the two other suspended officials have already started.

Mhlwana said the Board is fully committed to good governance at Denel and is implementing a reputation management plan to restore confidence in the Denel brand. Financial partners and key clients are regularly updated about developments and employees are kept informed through roadshows.

Denel's business continues to deliver on its order book and marketing efforts have been intensified, he said.