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HD **Locals read the M&A play**

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There is a growing urge to merge around the globe and local investors are being urged to read the M&A play.

The recovery in M&A activity reached Australia last month with about $5 billion worth of offers for Australand, David Jones and Goodman Fielder.

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That is just a fraction of the 54 $1 billion-plus deals announced globally this year worth more than $500 billion overall.

It is a big step up from the same period last year when there were 33 deals in the $1 billion-plus bracket totalling $142 billion.

Global equity strategists believe the time is ripe for more activity.

There are some clear drivers for more action on the M&A front, including the cheap cost of financing, the belief that it is cheaper to buy than build and the fact chief executives of bigger companies tend to get paid more.

The prospect of a spike in M&A activity has put the investment spotlight on companies such as Computershare and Macquarie Group.

It has also prompted analysts to start drawing up lists of potential targets and acquirers based on past speculation and obvious strategic benefits.

Credit Suisse is in no doubt that investment bankers are getting excited about the potential for a flurry of activity on the theory that deals beget deals.

“The last three global M&A cycles have lasted four years or more and we don’t think it takes much for CEOs to be convinced that a deal makes sense,” it said in a report released this week.

Trying to predict the next deal is notoriously risky.

Credit Suisse identified Adelaide Brighton, Echo, Incitec Pivot and Nufarm as potential targets.

“Aussie companies, armed with their cheap cost of equity, clean balance sheets and strong currency, could be acquirers as well,” it said.

This short list included Aristocrat, News Corp, Ramsay Health Care and Woolworths.

Deals that were the subject of speculation in the past might be worth a second look.

Credit Suisse suggestions include China’s Baosteel acquiring Aquila Resources, based on Baosteel’s recent move to increase its stake to 15 per cent and Aquila’s need for funds to develop its Pilbara project.

Incitec Pivot, with a market capitalisation of $4.7 **billion**, is a good fit for Wesfarmers explosives and fertiliser business while Japan's Sumitomo Chemicals might add to its 20 per cent share in Nufarm.

The privately owned Barro Group owns 32 per cent of construction materials and lime producer Adelaide Brighton.

Woolworths might target overseas assets. Macquarie Group might cast an eye over ING Direct as could Bendigo Bank and the Bank of Queensland.

There is also speculation Fletcher Building could hunt WA's privately held BGC, with the construction materials business considered a major target.

Mining analysts Sam Webb and Michael Slifirski expect consolidation among Australian **copper** companies.

And there is potential for similar consolidation among small- cap telecoms.

CO fdgl : Goodman Fielder Ltd | mcqbnk : Macquarie Group Limited

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