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HD **Arrium top brass snap up shares**

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Arrium directors Peter Nankervis and Graham Smorgon have joined their incoming chairman Jerry Maycock in snapping up Arrium stock after a mass selloff sparked by the steel and **mining** group's $754 **million equity** raising.

Executives buying shares always sends a signal to investors that those in the know think the shares are cheap.

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That's a message that Arrium and investment bank UBS, which is handling and underwriting the deal, will desperately want the market to hear.

The response from investors and analysts when Arrium announced the mammoth **equity** injection last week was overwhelmingly negative.

Just 79 per cent of institutional investors opted to take up their share rights and UBS had to scramble to place the shortfall in a book-build at the underwritten price of 48¢ a share.

Arrium shares plunged below the 56.5¢ theoretical ex-rights price (TERP) to a record low of 37.5¢ on Friday. TERP is the theoretical value of the stock adjusting for the impact of the raising.

Mr Maycock, who will take over as chairman following Peter Smedley's departure in November, pounced on the share price plunge to buy $95,000 worth of stock.

According to filings lodged on Monday, Mr Nankervis and Mr Smorgon also bought into the selloff, snaring $86,625 and $40,000 worth of stock respectively.

The $289 **million** retail part of the raising opened on Monday. With Arrium shares still trading well below the offer price of 48¢, UBS and its sub-underwriters will be on the hook to buy the stock if it does not recover.

It makes no sense for retail investors to take the offer at 48¢ a share if the stock is cheaper on market.

Arrium's plummeting value fuelled rumours that UBS may be forced to write a sizeable cheque, leaving it with a potential loss.

Banks dislike underwriting a retail component of a rights issue and pass on the risk to sub-underwriters, typically hedge funds or long-only institutions.

These investors in turn charge a fee of about 1 per cent to 2 per cent on the trade. Often the sub-underwriters then short the stock. However, it's understood that UBS has sub-underwritten the full retail component, with at least two long-only institutions shouldering shares.

Asian hedge funds are also believed to have participated.

The retail offer will remain open until October 8, which means there is time, after which a clearing book-build will take place.

However, if **iron ore** prices remain near five-year lows and the stock continues to flag, investors will steer clear and the outcome for sub-underwriters is likely to be unpleasant.

But the weakness in **iron ore** prices and the falling dollar has prompted some bankers to draw up potential pitches to the likes of POSCO, the South Korean steel giant which teamed up with **Hong Kong** commodities trader Noble Group and two pension funds in 2012 for an unsuccessful tilt at Arrium.

Those familiar with those negotiations point out the board's determination to avoid any engagement provoked exasperation among the takeover consortium, Steelmakers Australia.

Pengana portfolio manager Tim Schroeders said that launching a massive **equity** raising and an earnings downgrade just weeks after the full-year result reflects poorly on Arrium's management.

"People are already speculating the fall in the share price will bring bidders back again but there is a plethora of very cheap **iron ore** stocks on the market. Why would they go after Arrium?" Mr Schroeders said.

"If you want the steel business what price are you going to be able to dispose of the **iron ore** assets for?"

According to one resources expert, the tough conditions may soon prompt Arrium to shed assets.

Arrium shares rebounded 4 per cent to 39¢ on Monday

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