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HD Takeover target list grows

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CORPORATE Australia's animal spirits have roared to life, spurring a flood of takeover deals worth more than $2 billion that could see iconic brands such as Penfolds change hands, a swath of mining assets gobbled up by China and more bumper privatisations.

The surge in activity after soft deal flow since 2012 has coincided with a flood of initial public offerings in the past eight months, with Spotless Group yesterday completing the biggest float of the year in style by handing investors a 7 per cent gain on debut.

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"It was like a switch flicked after the election last year — a convergence of a lot of factors, including the IPO market opening up, the stockmarket trading through 5000 and some big merger and acquisition deals offshore," Citi head of investment banking Tony Osmond said.

In the latest bumper deal, Treasury Wine Estates, owner of Penfolds, revealed this week that private-equity giant Kohlberg Kravis Roberts had made a $3.1bn play for the company. That move followed notable bids for Queensland Motorways, Envestra, David Jones, Goodman Fielder, Australand, Aquilla Resources, Aurora Oil and Gas and PanAust.

The run of deals spurred analysts at Macquarie, the nation's biggest investment bank, to "dust off" its potential takeover targets, finding that embattled media company Ten Network, wealth manager IOOF, casino operator Echo Entertainment and Whitehaven Coal could attract bids.

Sydney Airport, Challenger, Transfield and Qube Holdings may also be appealing, according to Macquarie. "Australasia has seen an increase in M&A activity ... we think there will be more," the analysts told clients.

The bullish call came as global ratings agency Fitch tipped that regional lenders Bendigo and Adelaide Bank and Bank of Queensland would do more deals to counter constrained organic growth and to better fight the big four retail banks.

"A number of key drivers have been in place for some time but it does seem that, despite remaining cautious on the domestic economy, shareholders are currently more supportive of M&A, giving management teams and boards increased confidence," said Nick Sims, the head of M&A at Goldman Sachs.

Continued on Page 35 Continued from Page 25 Goldman, the busiest M&A bank as judged by league tables, is advising Treasury Wine, while Citi co-led the Spotless float.

So far this year, the value of announced M&A has more than doubled compared with the same period last year to $US58bn ($62.8bn), while equity capital markets activity — such as floats — is up 45 per cent. Globally, M&A is 92 per cent higher.

Citi's Mr Osmond said the uptick was being driven by a confluence of factors, including cheap funding, companies spending previous years improving their balance sheets and shareholders demanding top-line growth.

“They’ve (companies) really done as much as they can on their cost structures so the only way they can grow earnings is through top-line growth and shareholders are looking for outperformance,” he said.

“Shareholders are now much more accepting of companies looking to grow top-line through M&A as well.

“All those things have boosted confidence around board tables, so we’re seeing a lot more serious conversations.” But Mr Osmond cautioned that M&A was not without challenges, saying that deals were taking longer and regulatory issues were harder to navigate. Morgan Stanley Australia chief Steve Harker this week also said activity would vary across sectors.

Simon Marais, managing director of fund manager Allan Gray, said the run of IPOs would probably continue, but issued a word of warning for investors punting on M&A, saying it was “dangerous” to buy stocks on the bet that they would be the subject of a takeover.

“It’s far better to stick to fundamentals — buy a company because you think it’s cheap and low and behold very often they get taken out because private equity and others see the same thing,” he said. Mr Marais, a key player in Roc Oil’s planned $800m merger with fellow energy player Horizon Oil, added that he hoped there would not be a wild bull run of M&A, arguing it rarely created value other than for investment banks through fees.

“I think M&A is just a stupid thing to do in general. Companies keep doing deals, often they get together then split up, then put it back together,” he said. “I hope we’re not in for another wave of M&A again because I think that’s not good for shareholders.”The wine comes first P32

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