THE AUSTRALIAN

SE Business

HD **Companies wary of global concerns as M&As slow**

BY EXCLUSIVE: MICHAEL BENNET

WC 643 words

PD 24 September 2014

SN The Australian

SC AUSTLN

ED Australian

PG 17

LA English

LP

Firms wary as M&As slow INCREASED global uncertainties and fears of a major correction in asset prices may force companies to pause takeover plans, stalling the economic uplift from more aggressive “animal spirits”.

Mergers and acquisitions announced in the third quarter slowed to $US16 billion ($18bn), down 69 per cent on the prior three months and 23 per cent on the same period last year, according to Thomson Reuters’ quarterly data exclusive to The Australian.

TD

Initial public offerings also fell 23 per cent to $US3.2bn on the prior quarter as the reporting season stole investors’ attention and equity markets sold off.

The slowdown in corporate activity is in contrast to the roaring first half of the year, which saw 20 takeovers worth more than $1bn led by infrastructure and utilities deals like Queensland Motorways and Envestra.

While confident the recent lull is only temporary, dealmakers and fund managers said the uncertainties roiling markets were being closely monitored, including China’s easing growth and looming interest rate rises in the US. The ructions have pushed iron ore below $US80 a tonne, wiped out the stockmarket’s gains for the year and sunk the dollar to below US90c.

Christian Johnston, head of investment banking at Goldman Sachs, said boards and management teams were still willing to consider strategic opportunities, but “some of this activity may roll into 2015”.

“The macro headwinds have a dampening effect on this appetite, but in many cases these are outweighed by the strategic rationale,” Mr Johnston said.

Given the limited time before Christmas, Perennial Value managing director John Murray is also more bullish on deal flow next year as companies potentially “become tired of giving money back to shareholders and shrinking”.

Mr Johnston said confidence was still only “gradually improving”, but there were reasons for optimism, such as companies’ increased focus on growth, strong balance sheets and relatively cheap funding. The comments come after Reserve Bank governor Glenn Stevens lamented business’s lack of “animal spirits”, vital to private sector growth.

Roger Feletto, co-country head of US independent investment bank Greenhill, said companies were “rightfully watchful” of economic growth headwinds and the potential impact of “international tensions and conflicts”.

But he said companies understood there was “rarely a perfect time” to do deals and M&A provided growth when organic opportunities were muted. Mr Feletto added the “risks around the long-term economic outlook for Australia” was leading companies to “increasingly” ponder international expansion.

“I would expect a recovery in M&A over the balance of the year,” Mr Feletto said.

Despite the recent slowdown, the total announced M&As of $US86.5bn this year is on track to beat the $US100bn of deals last year. The value of M&As that have closed — important to investment banks’ success fees — is at $US94bn, well up on last year’s $US66bn.

Goldman has worked on the most deals by value, ahead of Macquarie, UBS and Citi. At the big end of town, takeover bids from foreign companies have dominated, including KKR’s move on TreasuryWine.

Morgan Stanley head of investment banking Richard Wagner said the declining dollar and commodity prices would inspire more inbound M&A over the next year. “China will pounce on the buying opportunity when the time is right, and it’s nearing that point in the cycle,” he said.

He said there would be a “deluge” of large privatisations next year after state elections in Victoria, NSW and Queensland.Perennial’s Mr Murray agreed the softening dollar would attract more foreign buyers, but said firms would be cautious doing M&A deals overseas. Hostile all-cash bidding wars for large stocks would eventually rise and “undoubtedly light a fire under the market”.

CO envest : Envestra Ltd.

IN i1 : Energy | i13 : Crude Oil/Natural Gas

NS ccat : Corporate/Industrial News

RE austr : Australia | apacz : Asia Pacific | ausnz : Australia/Oceania

PUB News Ltd.

AN Document AUSTLN0020140923ea9o0006k

