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HD Investors flex muscles in energy M&A tussles
BY Drilling down Angela Macdonald-Smith
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In a few brief weeks, Australia's energy sector has suddenly come alive on the M&A front, and it is providing the opportunity for some shareholders to toss their weight around.

Hong Kong's Cheung Kong Infrastructure (CKI), never a fan of APA Group's \$2.1 billion scrip play for control of Envestra, certainly acted on its convictions. CKI surprised the market on Thursday with a \$2.37 billion conditional cash offer for the gas distributor. After losing out on several infrastructure assets in Australia over the past months, CKI looks determined to get its way on this one, which it knows well as a 17.6 per cent shareholder.

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Whether it would win over rival APA is another matter, given the gas pipeline owner's 33 per cent stake and clear motivation for a takeover.

But CKI's still conditional bid would be conditional on just 51 per cent acceptance, enhancing its chance of success and leaving the way open for APA to remain on board.

CKI's two representatives on the Envestra board had been clear about their dissatisfaction over the offer.

They thought APA was being mean in the premium offered for securing control, and didn't much like the increased risk profile of the merged company. CKI, despite having been courted by banks and hedge funds for its stake in Envestra, had held on to its shares, so Thursday's move isn't entirely out of the blue.

With the Hong Kong player owning enough of Envestra to vote down the scheme of arrangement housing APA's scrip offer, it was an unusual situation.

The deal was left hanging in the air with the market in the dark whether CKI would act on its beliefs and vote against the scheme – to the embarrassment of the Envestra board – or opt for abstaining, having made its point.

Over in the oil and gas space, Roc Oil chairman Mike Harding is facing his own embarrassment, with Roc's largest shareholder, Allan Gray, being very public of its dismay of the agreed \$800 million zero-premium scrip merger with Horizon Oil.

Allan Gray, with about 20 per cent of Roc, is incensed that Roc shareholders, despite contributing most of the assets and cash, don't get a vote on the merger, in contrast to Horizon investors.

Harding stands behind the Australian Securities Exchange's listing rules, which mean Roc has indeed no obligation to offer that opportunity to investors. The ASX rules, in what proxy adviser Ownership Matters describes as a "loophole", allow one company to buy another with scrip without getting approval from its own shareholders.

It is of no comfort to Allan Gray's outspoken portfolio manager, Simon Marais, who reckons if Roc was so confident about the deal, it would at least do shareholders the courtesy of offering that. Marais is sceptical about the figures being presented by Roc and Horizon of the scale-up benefits of the merger, in terms of market valuation.

For his part, Harding claims Allan Gray is on its own among institutional shareholders opposing the tie-up, which he is portraying as a once in a lifetime opportunity to pick up assets such as Horizon's undervalued Papua New Guinea acreage that it could never afford to buy. Whether Marais forces the issue and calls an extraordinary general meeting to try to force a vote remains to be seen.

But Roc boss Alan Linn was adamant on Thursday that even if a vote were held, it wouldn't be binding under the merger implementation deed agreed with Horizon.

He cites figures that 31 companies in Australia have pursued this structure for a takeover in the past 15 years.

In this instance, it looks as if Allan Gray will be left frustrated at its lack of influence, despite its dominant shareholding.

Further down the food chain, Nexus **Energy** shareholders are similarly left with little to relish from Seven Group's 2¢ a share offer, which Seven declared yesterday would not be increased unless a higher rival one emerges.

It's a sad story for shareholders that once dreamed of rich returns from Nexus's attractive Timor Sea interests.

amacdonald-smith@afr.com.au Twitter: @angelamacd

CO austpi : APA Group | chkinf : Cheung Kong Infrastructure Holdings Ltd | envest : Envestra Ltd. | hutwam : Hutchison Whampoa Limited

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