

SE Business - Trading Room
HD **Envestra backing for Cheung Hong takeover stymies APA**

BY Angela Macdonald-Smith

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Energy

Pipeline owner APA Group is expected to concede defeat in the takeover battle for Envestra after the gas distributor struck a \$2.37-**billion** deal for a takeover by its second-biggest shareholder, Cheung Kong Group.

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The **Hong Kong** group's \$1.32 a share cash bid, announced earlier in May, has won the recommendation of Envestra's independent directors, who had previously backed the mostly scrip bid from APA, the target's largest shareholder.

APA, led by managing director Mick McCormack, has a reputation for going aggressively after takeovers. However Cheung Kong's all-cash offer is regarded as a full price and one difficult to beat by the local **company**. Envestra shareholders will also be entitled to a final dividend of up to 3.5¢ per security.

Mr McCormack wasn't available for comment on Friday, but analysts said he suggested on a field trip earlier this week that the Cheung Kong offer was high.

They have already started calculating APA's capacity for a capital return to shareholders, as few expect APA will remain a shareholder of Envestra under Cheung Kong's control, seeing it opting to sell its **stake** into the offer.

"Selling into the bid would generate significant cash for APA, giving it more capacity to fund growth and/or undertake capital management initiatives," said Morgans analyst Nathan **Lead**.

RBC Capital Markets calculates that should APA sell its **stake** to Cheung Kong, the \$790 **million** of proceeds would open the door to a potential buyback at \$7 a share. It said that could lift its valuation of APA by 4 per cent to \$7.47 a share and lift free cash flow.

RBC said APA would need to raise its offer by 15 per cent to 20 per cent to be clearly superior to Cheung Kong's bid, and already doubts whether its existing offer would add value.

APA shares added 10¢ or 1.5 per cent to \$6.99 as investors, many of whom are unconvinced about the merits of an Envestra takeover, appeared to welcome the possibility APA would walk away.

Envestra securities also climbed, up 1.5¢ to \$1.36.

The **acquisition** of Envestra will add to Cheung Kong's existing regulated assets in Australia, including 51 per cent stakes in SA Power Networks in South Australia, CitiPower and Powercor in Victoria.

"Given that 80 per cent of Envestra's gas coverage is in South Australia and Victoria, the **acquisition** would enable us to further share our expertise and to explore opportunities for synergy," Cheung Kong

managing director H.L. Kam said. Cheung Kong's offer is subject to only 50 per cent acceptances from Envestra shareholders.

CO envest : Envestra Ltd.

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