

# FINANCIAL REVIEW

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HD **Asciano in talks for ports business sale**  
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Ports operator Asciano is set to slash net debt if talks with **Chinese** state-owned corporation **China** Merchants to sell minority **stake** in Patrick ports for more than \$1 **billion lead** to a deal.

Asciano's shares rose 22¢, or 3.8 per cent to close at \$5.96, the highest level since October, after the **company** confirmed media reports that it was holding "preliminary" talks over the **sale** of a non-controlling **stake** in Patrick.

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Asciano chief executive John Mullen has previously signalled that he is prepared to consider a **sale** of all of Patrick if the **company** received a high enough price.

Although Asciano is unlikely to sell 100 per cent of Patrick, it could end up ceding majority control if **China** Merchants pays a high enough price, according to people close to the **company**.

Patrick has a total enterprise value of between \$2.1 **billion** and \$2.5 **billion** if it is valued at 9 to 11 times earnings before interest taxation depreciation and amortisation, according to UBS .

This is in line with the valuation for rival ports operator DP World's Australian business, when 75 per cent was sold to Citi Infrastructure Investors for \$1.8 **billion** in late 2010.

UBS estimates Asciano's gearing would drop to about 2.3 times in fiscal 2015 from 2.8 times if the group sold a **stake** for between \$1.5 **billion** and \$1.7 **billion** and used half the proceeds to pay off part of its \$3.3 **billion** in net debt.

**China** Merchants, which teamed up with Hastings Funds Management to buy the Port of Newcastle for \$1.75 **billion** in April, is believed to be the only serious potential buyer of a **stake** in Patrick at this stage. Keen to add to international network

It is keen to add Australia to its international network so that it can benefit from the transportation of container goods between Australia and **China**. **China**'s external trade with Asia by sea has risen 65 per cent since June 2008, according to the International Transport Forum.

The **Chinese** group – which is headquartered in **Hong Kong** – counts infrastructure and transportation (including ports) as one of its three core businesses along with financial investments and property. It previously held talks with Asciano about six months ago but the two groups were unable to strike a deal, according to people in the ports industry. **China** Merchants operates a national network of container ports in **China** and has been expanding internationally, taking stakes in ports in Africa and Asia, often through joint ventures.

It acquired a 49 per cent **stake** in France's CMA CGM 's Terminal Link business last year, giving it access to 15 container terminals in eight countries, including Belgium, France and the US.

The potential **sale** comes as competition increases in the Australian container ports industry, with **Hong Kong**'s Hutchison Port Holdings now operating terminals in Sydney and Brisbane alongside Patrick and DP World.

Philippines-based International Container Terminal Services will start operating a third terminal in Melbourne at the end of 2016.

Industry participants say the biggest challenge for **China** Merchants moving into Patrick, particularly if it takes a majority **stake**, would be understanding the cultural challenges of operating in Australia.

Key points Asciano's shares rose 22¢, or 3.8 per cent to close at \$5.96 at confirmation of talks. **China** Merchants, believed to be the only serious bidder, operates a network of container ports in **China**.

**CO** ascian : Asciano Ltd. | lclaus : Patrick Corp | kfmilf : Qube Holdings Limited

**IN** i763 : Port/Harbor Operations | iship : Water Transport/Shipping | itsp : Transportation/Logistics

**NS** ceffic : Corporate Restructuring | c181 : Acquisitions/Mergers/Shareholdings | ccat : Corporate/Industrial News | c11 : Plans/Strategy | c18 : Ownership Changes | cactio : Corporate Actions | ncat : Content Types | nfact : Factiva Filters | nfcpin : C&E Industry News Filter

**RE** china : China | austr : Australia | apacz : Asia Pacific | asiaz : Asia | ausnz : Australia/Oceania | bric : BRICS Countries | chinaz : Greater China | devgcoz : Emerging Market Countries | dvpcoz : Developing Economies | easiaz : Eastern Asia

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