

HD RPT-UPDATE 2-Kingmaker Bega claims spoils in Australia 'dairy wars'

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* Bega books cash windfall on sale of Warrnambool **stake**

* Canada's Saputo primed to take control of Warrnambool

TD

* Bega considering product development, acquisitions

By Jane Wardell

SYDNEY, Jan 16 (Reuters) - Bega **Cheese** Ltd will walk off with a pile of cash and a kingmaker role in Australia's "dairy wars" after virtually handing control of the country's oldest **milk** and **cheese** producer to a Canadian suitor.

Bega agreed on Thursday to sell its 18.8 percent **stake** in takeover target Warrnambool **Cheese** and **Butter** Factory Holdings Co to Saputo Inc. That effectively ends a takeover battle Bega itself started last year but abandoned as bids spiralled.

With the dust about to settle on one Australia's most intense bidding wars in years, Bega now has a A\$70 **million** (\$62.5 **million**) windfall, wiping out debt and freeing up funds for new products or acquisitions.

Its position of strength, along with **company** statutes that would deter bidders, also means it hopes to stay independent even if international suitors call in what has become one of Asia's hottest food and drink sectors.

The intensity of the struggle for Warrnambool - nine bids or counter-bids since last September - reflects huge interest in Australia's agriculture assets amid surging demand from increasingly affluent southeast Asia for both high-tech **milk** extracts and traditional **dairy** products.

"Some might debate who actually got first prize," Bega Chairman Barry Irvin told Reuters in a telephone interview. Irvin was speaking after Bega said it would sell its shares in what has become the world's most expensive **dairy company** on a price-to-earnings basis, according to Thomson Reuters data.

"Turning a A\$30 **million** investment into A\$100 **million** of value is obviously not without its comforts," Irvin said, referring to the surge in Warrnambool's shares since Bega's first offer. With sales exceeding A\$1 **billion** last year, Bega is the largest **cheese**-cutting and packaging **company** in Australasia.

Warrnambool stock rose amid counterbids from both Saputo and fellow Australian **dairy** producer Murray Goulburn Co-operative Co Ltd. With 45.2 percent of Warrnambool already in its hands, Saputo's anticipated winning offer is likely to eventually value Warrnambool at a sizeable A\$549 **million**.

Irvin said Bega's decision to pull out of the race in late December as bid prices spiked was taken with a cool head - as was the decision to hold its **stake** until Saputo sweetened its offer.

"We remained disciplined and didn't allow ourselves to be distracted by the potential value that was being created by the bidding process," he said. The bidding has hoisted Warrnambool's stock to the

point where it now trades at 38.2 times its 12 months trailing earnings, according to Thomson Reuters data.

'RIDICULOUS PRICE'

The shares closed at A\$9.40 on Thursday, up 1.3 percent and close to the maximum Saputo has said it will pay if it receives at least 90 percent acceptance rate for its offer.

"The price that was paid, on an earnings basis, looks ridiculous," said Chris Kimber, managing director at Kimber Capital.

Mark Topy, a senior industrial analyst at Canaccord Genuity Wealth Management, said Bega had played the battle well. "The price Saputo paid for Warrnambool is very high and we wait to see how they are going to justify that price," Topy said.

With plentiful **milk** resources and the technology to make advanced health-promoting products from them, Australia's **dairy** businesses remain in demand for companies keen to serve Asia's growing appetite.

Earlier this week, **China's** Bright Food (**Group**) Co Ltd said it had agreed to **buy** Australian **cheese** and yoghurt producer Mundella Foods. The small, privately-held **company** specialises in probiotic yoghurt drinks and began exporting to Asia in 2010.

Bega is also branching out into high-tech areas. Along with cheddar and mozzarella **cheese**, Bega makes whey protein concentrate - and the same **milk** extracts called nutraceuticals that made Warrnambool a hot target. It exports to 40 countries.

"It's in that high-value area where we are seeing demand and where we are seeing opportunities," Irvin said, adding that **business** development and infrastructure rationalisation were also potential areas of investment focus.

TAKEOVER TARGET?

Named for the small rural town in which it is based in Victoria state - its **company** slogan is "Real Town. Real **Cheese**." - Bega itself could be viewed as a takeover target, Irvin acknowledged. Its stock has surged 47 percent since mid-September, closing on Thursday at A\$4.62.

Some analysts have suggested that Saputo could move to consolidate its position in Australia, or that New Zealand giant Fonterra may step in. But Bega is dealing from a position of strength: Irvin said the **company** is not for sale, stressing its corporate statutes contain hurdles to a hostile takeover.

Bega statutes currently limit any single shareholder to a maximum 10 percent **stake**. If a takeover is offered at a premium to Bega's share price, shareholders can vote to change the statutes - but the vote needs 75 percent approval to pass.

Saputo declined to comment on Bega's share sale. Murray Goulburn, which with a 17.7 percent **stake** has little hope of reaching the 50.1 percent needed to make its offer unconditional, said it would "assess the ramifications" on both its bid and its shareholding.

Japanese beverage giant Kirin Holdings Co Ltd is expected to retain its 10 percent **stake** to protect its distribution agreement with Warrnambool - particularly as Australia's "**dairy** wars" may not be over.

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