FINANCIAL REVIEW

SE Companies and Markets

HD **Thai billionaire trumps Steinert**

BY Tony Boyd
WC 1,331 words
PD 5 June 2014
SN The Australian Financial Review
SC AFNR
ED First
PG 52
LA English

LP

Chanticleer

The $2.6 billion cash takeover proposal for Australand by Singapore-based Frasers Centrepoint marks the end game of one of the strangest and most drawn-out changes in control ever seen in the local property market. Frasers, which is controlled by Thailand's richest man, Charoen Sirivadhanabhakdi, has plumped down a huge price for Australand a year after Singapore-based CapitaLand put its 60 per cent stake up for sale.

TD

It is easier to understand why Sirivadhanabhakdi is late to the Australand takeover game, but much harder to figure out why Mark Steinert at Stockland will end up being the loser. Mind you, Steinert will walk away from the deal with $80 million in profit and about $14.5 million in upcoming distributions. That should soothe his wounded pride, but it still doesn't explain why he missed a fantastic growth opportunity.

One explanation for Steinert's misstep in the Australand battle is that he was lumbered with so much baggage from the past when he took control of Stockland in January last year.

Under previous management, Stockland had taken stakes in rival property groups and then done nothing. It appeared to miss out on doing the necessary strategic planning before splashing out shareholders' funds. That less-than-stellar history helps to explain why Steinert has repeatedly told investors in Stockland that he would be "disciplined" when undertaking corporate expansion.

It took him some time to get the Stockland house in order after getting his feet under the CEO's desk. That could explain why he was not an early buyer of the CapitaLand shareholding in Australand.

The Singaporeans were sellers because they took the view that Australian property offered less attractive growth prospects compared to opportunities in Asia. It regarded Australand as a sub-optimal real estate play with little opportunity to achieve the sort of growth in China and Singapore.

The board of CapitaLand, which includes former ANZ Banking Group chairman John Morschel, started a process in January last year to get out of Australand. News of that move saw the stock price spike from about $3 to $3.50.

Nevertheless, it was possible that an early and enthusiastic buyer of the CapitaLandstake in Australand could have secured the holding for a price that included a relatively small premium for control.

But CapitaLand struggled to find a buyer and it was not until late in 2013 that 20 per cent of the company was moved into the hands of Citi. That was later sold to Stockland as a cornestone investor, underpinning the sale of the remaining 40 per cent across the market.

What is strange is that Stockland did not take the opportunity presented by the CapitaLandsale to secure control of the company. Steinert sat on his 20 per cent stake for several months before bidding with a cash and scrip offer.

He presented compelling arguments in favour of buying Australand. It was complementary to his existing portfolio of assets and provided a medium- to long-term growth path.

The story resonated well with Stockland's investors, but they were careful to ensure there would not be a repeat of previous overambitious expansion strategies in the real estate investment trust sector.

Steinert's mantra about discipline in bidding was shown when he decided to bid against himself to gain a board recommendation. He offered a minimal increase in his cash component and a slight tweak to the share swap ratio.

Having failed to gain a recommendation and being outbid comprehensively by Frasers Centrepoint, Steinert will be pressured by his shareholders to accept the offer and walk away with his capital gain.

This has not been a losing exercise for him, but he has missed a good growth opportunity. Then again, he may pick up some assets from Frasers Centrepoint, given that it is taking a pretty big bite. Frasers Centrepoint has a market cap of about $4.8 billion, just on double the size of the takeover offer for Australand of $2.6 billion.

The financial power of Sirivadhanabhakdi was shown last year when he took control of Fraser & Neave with a bid that including $US10.7 billion in equity.

Frasers Centrepoint's excuse for not pouncing on Australand earlier in the piece is a pretty strong one. The company did not exist until January. It was spun out of Fraser & Neave as a demerger.

That in itself explains why the property arm of Sirivadhanabhakdi is only now stepping up its expansion in Australia.

The takeover of Australand will be in keeping with the Asia-Pacific expansion strategy for a group that is no stranger to Australia. It has already invested about $1 billion in the residential market and last month it purchased the Wentworth Sofitel Hotel for $202 million.

Frasers Centrepoint is in a much better strategic position than Stockland should Steinert decide not to walk away.

A cash offer is certain and does not change with the vagaries of the market, as can occur with a cash and scrip offer. Also, in several weeks' time Stockland will go ex-dividend, which will suppress the value of Steinert's offer.

The entry of Sirivadhanabhakdi into the Australian property market in a big way is a ringing endorsement for the residential property market, which is likely to be well-supported by record low interest rates until at least the end of the year, despite the strong first-quarter GDP growth.

There was a gap in Wednesday's coverage of the interview with JPMorgan Chase chairman and chief executive Jamie Dimon in relation to wealth management.

It has to be said that JPMorgan is one of several big integrated United States financial institutions which have missed the boat in Australia's booming wealth management market. Australia has the fourth-largest private savings pool in the world, but local banks and industry super funds dominate, closely followed by self-managed super funds.

When asked about the relatively underdeveloped wealth management business in Australia, Dimon said: "When I travel around and we see that we say, 'what happened here, how can we be more ambitious?' "Now, it's hard to break in sometimes, you get good competition. So you can't just go to a country and say, 'I want to do this'.

"But local management have been tasked with figuring out a way to do it. That tells me that over time, maybe in 10 years, we will have a very healthy asset management business here."

Rob Priestley, who is JPMorgan's chief executive ASEAN, Australia and New Zealand, said that having gained a licence 18 months ago to offer funds management, the company was well-placed to grow.

"We originally focused on selling our offshore product into the local institutions here," he said.

"And we've just recently launched a retail funds business with two JPMorgan funds that are emerging markets opportunities fund, and a global strategic bond fund.

"We will continue to grow it, but again it's a competitive market. We need to be smarter about how we do that and do it in the right way, and grow something that's sustainable over the longer term."

Dimon says there is one thing about his global strategy that has not changed through thick and thin, and that is a commitment to customers.

"We're not making a short-term bet, we're not a fair-weather friend, we're in Australia forever."

The retirement of Helen Nugent and Peter Kirby from the **board** of Macquarie **Group** marks the end of two stellar careers in Australian banking.

Nugent and Kirby have been right at the **coal** face during the global expansion of Australia's most successful international financial services **company**.

Nugent was the second longest-serving director after chairman Kevin McCann. She joined the **board** in June 1999. Kirby joined in 2003.

tony.boyd@afr.com.au Twitter @TonyBoydAFR

Tony Boyd

CO	dbsl : CapitaLand Limited | ahlaus : Australand Property Group
IN	i85 : Real Estate Transactions | i8500031 : Residential Property Dealing/Owning | icre : Real Estate/Construction | ireest : Real Estate | irreal : Residential Real Estate
NS	ccat : Corporate/Industrial News
RE	austr : Australia | apacz : Asia Pacific | ausnz : Australia/Oceania
PUB	Fairfax Media Management Pty Limited
AN	Document AFNR000020140604ea650002a

