The Canberra Times
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HD **Wilmar will need to sweeten deal**

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WC 783 words

PD 29 April 2014

SN Canberra Times

SC CANBTZ

PG B012

LA English

LP

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Twitter: @eknightofficial

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T here are a few hurdles to overcome for the Asian consortium of Wilmar and First Pacific in its quest to buy one of Australia's oldest food manufacturers, Goodman Fielder, starting with price. Goodman owns brands including Meadow Lea, Praise and White Wings and has been a chronic underperformer for many years, well before many other food companies hit troubles associated with high costs, low margins and the stubbornly high dollar. Plenty of shareholders would welcome the opportunity to be taken out of Goodman at a reasonable price but many consumers will not like the local company falling into foreign hands. Any public relations backlash might be enough for Treasurer Joe Hockey to take a more forensic look at the deal on public interest grounds. While plenty of Australian agribusiness and food processing groups have been acquired by overseas interests - including Wilmar's $2.3 billion purchase of CSR's sugar assets - the government's rejection of Archer Daniels Midland's bid for GrainCorp sets a more recent precedent. At the time the bid was blocked Hockey talked about competition concerns but only last week revealed ADM's not being of good character was behind the decision. He suggested more would come out over time. It's worth noting that ADM is a 16per cent shareholder in Wilmar - a company that has extensive agribusiness interests around the world. Whether this has any influence on Foreign Investment

Review Board approvals remains to be seen. Although it shouldn't. Having sold its "open-for- business" credentials and just completed a round of free trade negotiations in Asia, it would appear strange to block a foreign takeover of Goodman Fielder, which has no vital infrastructure assets. But, even if there are no regulatory roadblocks, the Singapore-based Wilmar and Hong Kong-domiciled First Pacific will first need to reconsider their offer price which, while pitched at 27 per cent above Goodman Fielder's average-weighted trading price

since April 2, is clearly capitalising on the negative sentiment over a profit downgrade on that day. It represents an 18 per cent premium to last Thursday's closing price, which appears to have been boosted by 9.6 per cent on larger than usual volume. Let's hope the corporate regulator is taking a look at that one. ASIC said on Monday: "We would consider any price movement ahead of corporate news as part of our regular market monitoring activities." While the suitors may increase the $1.8 billion cash bid, the price is not wildly shy of the mark. Not

surprisingly, the Goodman Fielderboard immediately branded it opportunistic. Interestingly it failed to respond to the First Pacific- Wilmar request for due diligence and exclusivity. But those in the know suggest Goodman won't be lifting its skirts unless the offer is improved. Because the cash offer is structured as a scheme of arrangement, the bidders will move into shareholder lobby mode. Wilmar already owns 10 per cent of Goodman Fielder but will need its largest shareholders, Perpetual and James Packer's former investment

vehicle, Ellerston, on board. Both will probably push for a higher price but be keen to ensure the bidders don't walk away from the negotiating table. The bigger question is what First Pacific (part of the Salim group that owns the big Indonesian Indofood) and Wilmar want with Goodman Fielder. The answer appears to be its New Zealand dairy operations. In a letter to Goodman chairman Steven Gregg on

Sunday, Wilmar and First Pacific said the deal would "create a leading Asia Pacific agricultural and consumer staples joint venture with strong financial resources and Asian understanding." Citi analyst Gino Rossi has a slightly different take. He noted that synergies with Wilmar and First Pacific are minimal following the **sale** of Goodman Fielder's edible oils, fats and grains and the **company**'s small presence in Indonesia. "However, plans to fast-track Goodman Fielder's expansion into Indonesia and leverage IndoFood's distribution reach are attractive to First Pacific." For its part Goodman Fielder takes the view that the timing of this offer is particularly interesting. The structure of its NZ **dairy business** is under review and is likely to **lead** to enlisting a joint venture partner to finance much-needed capital expenditure. This **business** had a particularly bad year after a spike in farm gate **milk** prices. Incidentally, Australian wheat prices also played havoc with this year's earnings. While these had a potentially one- off impact on Goodman Fielder's earnings they are not the **company**'s only weak spots.

RF 56253879

CO fdgl : Goodman Fielder Ltd

IN i41 : Food/Beverages/Tobacco | icnp : Consumer Goods

NS c182 : Asset Transactions | c18 : Ownership Changes | cactio : Corporate Actions | ccat : Corporate/Industrial News | ncat : Content Types | nfact : Factiva Filters | nfcpin : FC&E Industry News Filter

RE austr : Australia | apacz : Asia Pacific | ausnz : Australia/Oceania

PUB Federal Capital Press of Australia Pty Ltd

AN Document CANBTZ0020140428ea4t0000o

