

FINANCIAL REVIEW

SE Market Wrap - Street Talk
HD **Hedge funds steer clear of Treasury Wines**

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WC 362 words

PD 27 August 2014

SN The Australian Financial Review

SC AFNR

ED First

PG 16

LA English

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Treasury **Wine** Estates may have lured in some of the world's biggest private **equity** funds but its appeal to hedge funds is decidedly luke warm

So far, the opportunists that typically presage a takeover transaction are yet to show up in significant numbers on the **wine** producer's register.

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It is of course early days in the bidding race, even though KKR has hovered over the ailing **company** since April, with both suitors advancing highly conditional offers of \$3.8 **billion** or \$5.20 per share.

But the thin trading volumes from the opportunists underscore the risk that the takeover negotiations will unravel. Treasury's lacklustre earnings, blamed on adverse currency swings, underline how much of the stock's upward momentum stems from excitement about a buyout.

The persistent challenges in the US market combined with sluggish conditions in **China** and Australasia even have some in the market fretting the suitors will revise down their bids after completing due diligence.

While others discount such a scenario given the invidious position it would leave Treasury's **board**, it's clear both KKR and its partner Rhone Capital, as well as rival bidder, TPG, will have little difficulty untangling themselves from the current discussions.

Understandably then, hedge funds are giving the stock a wide berth.

A lofty valuation combined with a high degree of risk around deal completion represents a deterrent for hedge funds and opportunists who typically mine the arbitrage gap ahead of a takeover as evidenced on both Australand and Envestra.

In both those instances, an acquisitive shareholder controlled substantial stakes, underpinning the likelihood of a deal.

On Treasury however, the opportunists are exposed to a massive valuation slippage. One hedge fund source pointed out that even if a deal at \$5.20 looked certain, the entry price would need to be cheaper than \$5.15.

If the stock weakens, then the arbitrage hunters may flock in but a slump to under \$5 may also be read as a sign the suitors have walked. Either way, Treasury remains a risky play.

CO trzwn : Treasury Wine Estates Ltd

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