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REUTERS

Cooper-Apollo spat forces investors to pick lanes

14 October 2013

Investors in Cooper Tire & Rubber are being forced to pick lanes. Legal wrangles have put Apollo Tyres' agreed $2.5 billion offer for its U.S. rival in doubt, and tensions at its China joint venture have undermined Cooper's value. But a negotiated price reduction still looks possible. Cooper shares may be pricing in too much bad news.

Cooper shareholders must choose between four broad outcomes. The least likely is that the deal goes ahead on the agreed terms of $35 per share. Apollo has made it clear that it would like a lower price. Its lenders are also getting cold feet.

If the deal falls apart, Cooper shares might be expected to fall back to their pre-bid price of $24.50. But the wrangle with Apollo has exposed the U.S. company's less-than-firm grip on its Chinese joint venture, which contributes around a quarter of its parent's revenue and earnings. Assume the subsidiary's value is reduced by 25 percent, and Cooper's standalone value drops by $100 million, equivalent to $23 a share.

There is room for negotiation between these two extremes. One possibility is that Apollo adjusts Cooper's value to reflect the reduced value of the Chinese business and then applies the same 40 percent premium as before. In that case, Cooper shareholders would receive around $32 a share.

Apollo might, however, seek to pay a lower premium. Say it offers just 20 percent more than Cooper's reduced standalone value. Shareholders would then be presented with an offer worth just $28 a share.

Investors are taking a dim view. Take Cooper's closing share price of $25.81 on Oct. 11. One way of interpreting that number is that investors think there is zero chance of the deal going ahead at the original price, a 60 percent probability of failure, and just a 20 percent possibility of either renegotiation scenario proving correct, according to a Breakingviews calculator.

Context News

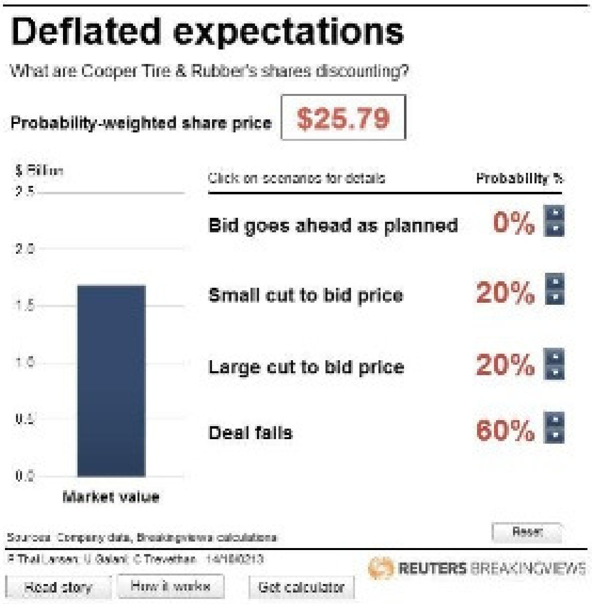
Cooper Tire & Rubber has won a fast-track handling of its complaint against India's Apollo Tyres, paving the way for the case to be heard in early November.

The U.S. company filed a complaint against Apollo in a Delaware court on Oct. 4 seeking to compel the Indian buyer to complete its agreed $35-per-share acquisition.

The $2.5 billion transaction faces grievances from U.S. steelworkers and employees at Cooper's joint venture in China.

Apollo is seeking a reduction in the acquisition price by around $3 per share, according to a person familiar with the company.

Cooper shares closed at $25.81 on Oct. 11.



Source: P Thal Larsen, U Galani, C Trevethan 14/10/2013

Deflated expectations: What are Cooper Tire &Rubber's shares discounting?

The longer the dispute drags on, the greater the damage to Cooper's value. But that also makes it more likely that the U.S. company renegotiates with Apollo – or finds another bidder. Cooper shareholders aren't attaching much probability to that lane providing an exit from the current mess.

Thai mogul emerges on top in supermarket swap

16 October 2013

Thailand's richest man has emerged on top in a Chinese supermarket swap. Dhanin Chearavanont, whose conglomerate picked up a stake in insurer Ping An and acquired cash-and-carry group Siam Makro earlier this year, is offloading the bulk of his loss-making retail operations in China in return for shares in local rival Wumart Stores. Both sides benefit from the deal worth HK2.9 billion ($373 million) but Dhanin is ahead by an aisle.

After his previous debt-funded deals, Dhanin has gone for a change of pace. Hong-Kong listed CP Lotus, a unit of Dhanin's CP Group, will sell 36 stores across Beijing, Shanghai and other provinces to Wumart along with a 10 percent stake in its remaining business. Wumart will pay for its acquisition with 13.8 percent of its own equity. The cross shareholdings will be subject to an 18 month lock-up period.

Both sides can claim a decent price. The deal looks cheap at 0.3 times last year's sales, compared to trading multiples of around 0.6 times for global supermarket operators like Walmart and Tesco. The latter agreed in August to fold its own China operations into a joint venture with China Resources Enterprise. Among China peers, though, it looks more generous. Electrical retailer Gome, for example, trades on less than 0.2 times.

It's a good fit for Wumart which fancies itself as a consolidator in a highly fragmented industry. The Chinese supermarket operator has cherry-picked CP Lotus assets in a similar geography and sales quality to its own. The stores Wumart is acquiring generated around 23,000 yuan of revenue per square meter in 2012, a little bit more than its existing operations - and more than twice the sales density of the clutch of south China stores the Thai group will keep hold of.

Dhanin, though, has the best deal at the checkout. The deal values two-thirds of his stores at the equivalent of the whole company's value before the deal - even including a spike in the share price immediately before the swap was announced. The south China stores could provide synergies if CP Group wins the race for ParknShop, the supermarket chain put up for sale by Li Ka-shing's Hutchison Whampoa. Dhanin's supermarket sweep may just be a smart prelude to the next acquisition.

Context News

Wumart Stores said on Oct.15 that it had agreed to buy the bulk of the Chinese retail operations of Hong-Kong listed CP Lotus, a unit of Thailand's CP Group, through a two-way share swap that values the transaction at HK$2.9 billion ($373 million).

After the transaction, Chinese supermarket operator Wumart will own a 9.9 percent of CP Lotus, and CP Lotus will own 13.8 percent of Wumart.

Wumart will acquire 36 stores comprising of CP Lotus' retail operations in Beijing, Shanghai and other provinces. The stores generated 7.1 billion yuan ($1.2 billion) in 2012, compared with the group total of 10.7 billion yuan. CP Lotus will retain and focus on building out its operations in Guangdong and Hunan Provinces.

The share subscriptions and acquisition are conditional on each other and will be subject to an 18 month lock-up period. CP Lotus and Wumart will each appoint a representative to the board of the other. Wumart will also issue new shares to raise HK$232 million from private equity firm Ascendant Capital.

CP Lotus is 69 percent owned by CP Group. The parent is controlled by Thai billionaire Dhanin Chearavanont, who bought a stake in insurer Ping An in February, and cash-carry wholesaler Siam Makro in April.

CP Lotus shares rose 27 percent to HK$0.38 on Oct. 16, following the announcement. Wumart rose 2.6 percent to HK$15.14. J.P. Morgan advised Wumart.

Ziggo's best defence against Malone is the market

16 October 2013

Ziggo's best defence against John Malone is the market. Shares in the $8 billion Dutch group leapt after it rebuffed an "inadequate" approach from the U.S. cable tycoon's Liberty Global. Malone has already opportunistically bagged 28.5 percent of the company, and could enjoy synergies to boot. That rules out the "white knight" defence, then: there is almost certainly no second suitor who will pay more. So the company needs to outline the case for a fuller valuation. Investors bidding the stock up are doing their bit.

Neither side is saying exactly where the offer was pitched. Ziggo shares leapt about 7.75 percent by mid-afternoon on Oct. 16, to 31.5 euros. At that level, the company has an enterprise value of about 9.3 billion euros, Breakingviews calculations show. That is about 10.2 times the 909 million euros of EBITDA which analysts polled by Starmine expect the group to make next year.

That already feels pretty full. A takeout multiple of nine to 10 times forward EBITDA seems reasonable for the sector at the moment. Some notable recent deals have come in lower. Liberty's big takeover of Virgin Media in Britain equated to about eight times forward EBITDA.

Still, Ziggo's team would be remiss if they did not push for more. Liberty could presumably reap significant savings by combining Ziggo with its existing UPC business, and with Telenet in neighbouring Belgium, in which it also holds a majority stake. A higher multiple could still create value for the buyer. There's scarcity value too, with few cable assets left to buy in Northern Europe, and Ziggo an obvious missing piece in Malone's jigsaw.

With Telenet, Malone has shown he is willing to maintain price discipline, and settle for a lower holding, rather than pay up. He's also had a tactical advantage since March, when he grabbed 13 percent of Ziggo after a failed block trade overseen by Barclays. Alas for Ziggo, its arguments may fall on deaf ears. Still, it has a duty to defend its value.

Context News

Shares in Ziggo rose more than 7 percent on Oct. 16 after the Dutch cable company said its top shareholder, U.S.-listed Liberty Global, had made an "inadequate" takeover offer. Liberty, controlled by cable tycoon John Malone, already owns 28.5 percent of Ziggo.

Manager Magazin, the German weekly, had earlier reported that Liberty Global was planning a complete takeover of Ziggo. Liberty aims to merge the group with its existing Dutch unit UPC, and majority-controlled Belgian group Telenet, the magazine said.

Sum worth more than parts in U.S. auto parts deal

16 October 2013

The sum is worth more than the parts – auto parts, that is. Advance Auto's $2 billion takeover of rival General Parts International resulted in the acquirer gaining $1 billion in market cap. That's bang in line with the net present value of promised cost savings. Nobel Prize winner Eugene Fama's efficient markets hypothesis may be flawed, but when it comes to the nitty-gritty of corporate finance, it often seems to work just fine.

The theory developed by Fama - who won the prestigious award on Monday - essentially states that asset prices contain all known information and therefore are priced correctly. Put colloquially, there are no dollar bills lying on the sidewalk.

The "strong version" of the hypothesis goes so far as to make the silly claim that even non-public knowledge is reflected in asset prices, making it impossible for anyone – even those with inside information – to beat the market.

The fact that courts regularly force insiders to disgorge illicit trading profits poked holes in this version of Fama's argument. The financial crisis did greater damage by showing irrationality can overcome efficiency, as asset prices were mispriced at both peak and trough.

But the theory does work in limited circumstances. Advance Auto thinks it can wring $160 million of annual savings from combining with its rival. The current value of these savings, when taxed and capitalized, should be worth around $1 billion. The market tacked a nearly identical amount on Advance Auto's value.

Put simply, $1 billion of dollar bills fell on the sidewalk, and investors snatched them up. The market, in this case, is indeed behaving efficiently.

Context News

On Oct. 16, Advance Auto Parts announced it had agreed to buy privately held General Parts International in a cash deal valued at $2.04 billion. Advance Auto Parts expects the transaction to generate annual synergies of $160 million within three years.

SoftBank joins challenging multiplayer game

16 October 2013

SoftBank is betting Supercell can outlast Zynga's brief heyday. The Japanese tech giant is paying $1.5 billion, helped by subsidiary GungHo Online Entertainment, for just over half the Helsinki-based mobile game producer. The acquisition will pay off only if Supercell can develop more hits. Zynga's success, though, barely outlasted its initial public offering in late 2011. The games market is easy to enter, so hot Scandinavian mobile entertainment could quickly cool.

The Finnish firm hit the big time with "Clash of Clans" and "Hay Day," two games that have headed Apple's list of top-grossing apps in dozens of countries. It's one of several Nordic gaming powerhouses, a group that includes "Angry Birds" producer Rovio and "Minecraft" developer Mojang.

Part of SoftBank's plan is to cross-fertilize the Western success of Supercell and GungHo's position in Japan, where its "Puzzle and Dragons" has been downloaded 19 million times against just 1 million in North America. Supercell is also solidly profitable, generating 30 million euros in net income last year on sales of 78 million euros, according to SoftBank – more than 500 times its revenue the year before.

Yet there's a cautionary lesson in Zynga's trajectory. The San Francisco-based company, heavily reliant on "FarmVille" and Facebook, went public at $10 a share and now trades for less than $4. Along the way, it bought OMGPOP, developer of the once-popular "Draw Something" app, for nearly $200 million only to shut it down barely more than a year later. In a hit-driven industry with few barriers to entry, the flavor of the month can rotate fast.

The result is that six-year-old Zynga, once worth north of $10 billion, fetches a value lower than three-year-old Supercell's new mark. The Finnish firm's worth is now pegged at nearly four times the $770 million figure at which Institutional Venture Partners invested just six months ago.

Along with outgoing investors like IVP and Accel Partners, others will try to capitalize on the excitement. British "Candy Crush Saga" producer King.com, for example, has filed to go public on a U.S. exchange. But the next addictive smartphone plaything could come from just about anywhere. SoftBank boss Masayoshi Son may find that multiplayer games prove as challenging off-screen as on.

Context News

Japanese tech and telecoms group SoftBank said on Oct. 15 that it is paying 150 billion yen ($1.53 billion) for a 51 percent stake in the Finnish Supercell, valuing the maker of hit games "Clash of Clans" and "Hay Day" at $3 billion.

SoftBank's bid to claim a leading role in the fast-growing mobile games market makes three-year-old Supercell, with about 100 employees and just two free-to-play games, more valuable than San Francisco-based Zynga, the $2.9 billion company behind former hits such as "FarmVille."

Carlos Slim dented, not defeated, in KPN tussle

16 October 2013

Carlos Slim is dented, not defeated, in the Netherlands. The Mexican billionaire has dropped his planned 7.2 billion euro buyout of KPN. Slim has been clumsy, and his existing 30 percent stake in the Dutch telecoms group is deep underwater. But the withdrawal shows financial discipline, and does not stop Slim returning later. Meanwhile, he frees up funds to spend elsewhere.

When KPN's stakeholder foundation activated its poison pill defence against Slim in August, his 2.40 euros-a-share takeover proposal as it stood was dead. That left two options. He could have suggested paying more. That might have won round KPN's two boards and the foundation. Instead, the America Movil group Slim controls took the other possible approach: it tried to negotiate on everything other than price – strategy, jobs, national security, you name it. But it got nowhere. Now, having just received formal bid approval from the market regulator, the predator is retreating.

The episode dents Slim's reputation somewhat. He would like to reduce his dependence on Mexico, and KPN is one of two forays into Europe. If he wants to buy more, he cannot keep antagonizing powerful stakeholders.

Financially, though, things look better. Slim showed the Europeans he's a take-it-or-leave-it negotiator on price. And his approach scared Spanish rival Telefonica into raising its offer for KPN's German arm, fearing Slim might succeed in his assault and veto that transaction.

Moreover, Slim can probably revisit a deal for KPN, perhaps more cheaply. Shorn of bid support, and with KPN still under pressure in its home market, the shares are likely to languish. Investor lawsuits could in time neutralise the foundation's poison pill. Hedge funds who bet on a successful deal might prove helpful allies.

For now, though, KPN looks bid-proof. The group's bosses, who were right to hold out for more, get some breathing space to focus on running the company. They will need it.

For Slim there is another immediate benefit. Swallowing KPN could have exhausted most of America Movil's financial firepower. Now, the group has spare capacity. That is very useful because Telecom Italia's travails have effectively put TIM Brasil, one of Brazil's top mobile operators, in play. The natural outcome is a three-way carve-up that would strengthen America Movil's local arm and its two biggest rivals. A tactical retreat in Europe could fuel an advance in Latin America.

Context News

America Movil on Oct. 16 dropped plans to bid for the 70 percent of European peer KPN that it did not already own. The Mexican group said its 7.2 billion euro bid was "not viable" after the KPN Foundation, an independent body charged with protecting the Dutch company's "continuity, independence and identity", exercised a poison pill. The pill, exercised on Aug. 30, gives the foundation a near 50 percent voting interest in KPN, allowing it to block a takeover.

In a statement, America Movil said the foundation's move was to the "detriment of KPN shareholders" who planned to sell their stock. The company, controlled by Mexican billionaire Carlos Slim, said it had proposed undertakings on strategy, jobs, national security and social plans, but KPN's representatives made any further talks contingent on an increased offer price.

M&A could help Nestle tackle sales slowdown

17 October 2013

It is easy to see why Nestle might want to do deals. The Swiss food group is finding it hard to deliver on sales growth targets. And it can afford to buy itself out of trouble.

True, the picture is far from being universally bad. In the Americas, Asia and Africa, organic sales grew at more than 5 percent in the first nine months of this year. The challenging market is Europe, which dragged down overall organic growth to just 4.4 percent at the nine-month mark - against Nestle's long-held target of growing at least 5-6 percent.

A sensible deal could pep things up - either by buying faster growing sales, or by providing an opportunity for cost cuts. Ferrero, the family-owned maker of Nutella chocolate spread, swiftly denied a report on Oct. 17 that Nestle had made an approach which could have valued the Italian company at 10 billion euros or more.

It may seem odd that Nestle would even consider buying in its most challenging geographical region. But a sizeable European acquisition could yield savings and synergies in, say, innovation. And while Nestle sometimes appears to be in too many businesses, Ferrero is in Nestle's traditional chocolatey sweet spot.

Nestle has a strong balance sheet. Net debt, which is about equivalent to annual EBITDA, is modest. If it sold down its chunky stake in cosmetics group L'Oreal, its M&A budget could quickly swell to double-digit euro billions. Abbott Nutrition has been tipped as a suitable target by analysts at Societe Generale.

So Nestle's growth is mixed as things stand and the group is in a strong position as an acquirer. Ferrero may be off limits for now, but Nestle's advantages as a buyer will not count for much unless it puts them to use.

Context News

Italian confectionery group Ferrero denied having received any offer from Nestle after a newspaper report said the Swiss food giant had made a takeover approach.

“Ferrero is not for sale in the most categorical and absolute manner,” a spokesman for the family-owned company said. “The report that offers have arrived from other groups in the sector is totally groundless and a complete fabrication.”

Italian daily la Repubblica reported on Oct. 17 that Nestle could offer more than 10 billion euros for Ferrero, which makes Nutella chocolate spread. Nestle declined to comment on the report.

An industry source told Reuters that Nestle was interested in buying Ferrero.

Nestle reported nine-month sales of 68.4 billion Swiss francs, up 4 percent. Organic growth was 1.1 percent in developed markets and 8.8 percent in emerging markets.

BBVA makes painful withdrawal from Chinese bank

17 October 2013

BBVA is learning the Chinese art of saving face. The Spanish lender has attributed its sale of a 5 percent stake in China's CITIC Bank to new Basel capital rules. Yet while the deal will add 2.4 billion euros to BBVA's capital, it hardly sugarcoats a 2.3 billion euro writedown on the value of its stake. Basel may have provided a graceful way to reduce an underwhelming investment.

Investors had long expected BBVA to sell down its stake in CITIC Bank. Forthcoming bank capital rules heavily penalise lenders who hold stakes in other financial institutions. The boost to core Tier 1 capital is equivalent to 72 basis points, which will come in useful at a time when Spanish banks face a Europe-wide asset quality review and ever mounting non-performing loans at home. BBVA says it will be "comfortably above" a 9 percent Basel III core capital by the end of 2013.

The snag is that by taking its shareholding below 10 percent, BBVA must start marking it to market. It has written down its stake by about half, though the cash loss on what it put in is smaller. BBVA will now only be able to book dividends from CITIC Bank, not its share of the lender's earnings, diluting the Spanish bank's own earnings per share by 14 percent next year, according to estimates by N+1. That could put pressure on BBVA's dividend.

Being less exposed to CITIC Bank is no loss. The Chinese bank trades at 0.6 times next year's book value, according to Eikon estimates, the lowest of its peers. It will also need to raise capital, according to Bernstein Research. With luck, BBVA might be able to play the Basel card again to avoid putting in more money.

BBVA says it has revised its strategic agreement with CITIC Bank on a "non-exclusive" basis, potentially allowing the Spanish bank to open a branch of its own in China. It hasn't given up on China. But it's hard to avoid the conclusion that the CITIC Bank foray has been nothing short of a very expensive way to plant a Spanish flag in the Middle Kingdom.

Context News

BBVA, the Spanish bank, has sold a 5.1 percent stake in CITIC Bank to the Chinese bank's parent, state-owned CITIC, for 944 million euros. The sale takes BBVA's stake down to 9.9 percent and will generate a 2.3 billion euro loss this year for the Spanish lender.

BBVA said the reduction in its stake was driven by the forthcoming Basel III rules, which penalise investments in financial institutions. The deal will generate 2.4 billion euros of core Tier 1 capital, equivalent to 72 basis points.

Lenovo-BlackBerry bid could squish under pressure

18 October 2013

Lenovo is wading into the BlackBerry jam. The Chinese technology group has gained access to the books of the Canadian smartphone seller, which is already considering a $4.7 billion approach from shareholder Fairfax Financial Holdings. If it chose to bid, Lenovo would have to do better than the current offer of $9 per share, and overcome more obstacles.

The foundering BlackBerry has three main assets. Patents, which Lenovo might want; handsets, which it probably doesn't; and enterprise services, which it almost certainly can't have.

The patents might help Lenovo expand its smartphone division in the West, where it makes just 5 percent of its sales, according to Gartner. BlackBerry's $2 billion or so portfolio of patents, as valued by analysts, won't attract users directly, but they would protect Lenovo from costly infringement suits.

BlackBerry's handsets, which the market values at near zero, may be worth slightly more than that to Lenovo. It could co-opt the fixed keyboards for diehard users. Most sensible might be to rebadge its own decent mid-range phones with BlackBerry's brand, and push them to the Canadian group's existing vendors.

Security is the stickiest point. Lenovo isn't a state-owned company, but Blackberry's popularity among the business and political elite - including President Obama - would be unlikely to survive a Chinese takeover. Regulators may even demand that it offload BlackBerry's enterprise business, along with patents that go with it, to another buyer like Cisco, Oracle or IBM .

That ensures things won't be simple. Any proposal would have to be discounted for the fiddliness of a break-up - and for inevitable political meddling. Canada, the United States and China would all want time to deliberate. If investors felt a Lenovo offer had, say, a 75 percent probability of completion, the Chinese would need to offer $12 per share to get a hearing.

That may not stop Lenovo trying. It has around $3 billion of cash, net of its negligible borrowings, according to Eikon data. And it's no stranger to political challenges, having bought IBM's personal computer business in 2005. But a bid would be finely balanced, and like BlackBerry itself, offer little juice.

Context News

Chinese computer maker Lenovo has signed a non-disclosure deal to examine BlackBerry's books, according to a source cited by Reuters on Oct. 18. The Canadian smartphone maker has been exploring options that could include a sale, and has signed a letter of intent to consider a $9-a-share offer from its biggest shareholder, Fairfax Financial Holdings, valuing the whole company at $4.7 billion.

Lenovo is the world's biggest manufacturer of personal computers, according to Gartner. It shipped 14.2 million units in the third quarter of 2013, equivalent to 17.6 percent of the global total, compared with HP's 17.1 percent. Lenovo had a 4.7 percent share of China's smartphone market at the end of June, selling 10.6 million phones to end users in the second quarter according to Gartner, versus BlackBerry's reported global sales of 5.9 million.

BlackBerry reported a $965 million quarterly loss from continuing operations on Sept. 27, mostly attributable to writing down its inventories and cancelling some commitments to take goods from suppliers. Chief executive Thorsten Heins described himself as "very disappointed".

Blackberry shares closed at C$8.44 on Oct. 17, equivalent to $8.20. Lenovo's shares were down 2.4 percent by midday on Oct. 18, at HK$8.01.