

Street Talk

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Nine sale rumours doing the rounds

Now that media ownership reforms have passed through the upper house, rumours have begun to circulate around investment markets that James Packer's Publishing & Broadcasting Ltd has put its Nine Network on the sale blocks.

In truth, talk that PBL had investment bank UBS set up a data room for interested parties in Nine has been the subject of much gossip among media insiders for at least a fortnight. But the legislative change has increased the noise level further.

Certainly, it appears that there has been some door-knocking in relation to Nine from private equity, allegedly even from the mighty Kohlberg Kravis Roberts. But that's hardly a surprise.

Some doubt whether PBL would sell Nine now rather than wait a few years for Eddie McGuire to work his magic, cut costs, improve the programming line-up and re-establish Nine as still the undisputed No. 1.

It would also be somewhat strange to have begun a sale process before the media reform package comes into effect on February 1 next year, increasing the number of bidders and also, therefore, pricing tension.

On the flipside, an investment banker may advise Packer that there's so much money sloshing around in private equity, coupled with early hype about media reform, that he should at least test the waters.

In fiscal 2006, Nine posted a depressed earnings before interest, tax, depreciation and amortisation of \$215 million. Analysts generally value the business at between \$2 billion and \$2.5 billion, but there must be upside if Eddie "Everywhere" is to turn Nine around.

The outlay required is the right size to interest the international private equity funds, although some have argued that Australian media assets trade at multiples that are beyond the reach of private equity.

PBL shares jumped from \$18 in late October to \$19.66 last Friday, but yesterday closed at \$19.25.

Suncorp price the ideal defence

The spectacular gyrations of Suncorp's share price, which soared as much as 5.4 per cent before finishing the day down after a late slump, suggest there was a fair bit of misinformation around as to the implications of the Brisbane-based banking and insurance company's \$7.8 billion takeover of Promina.

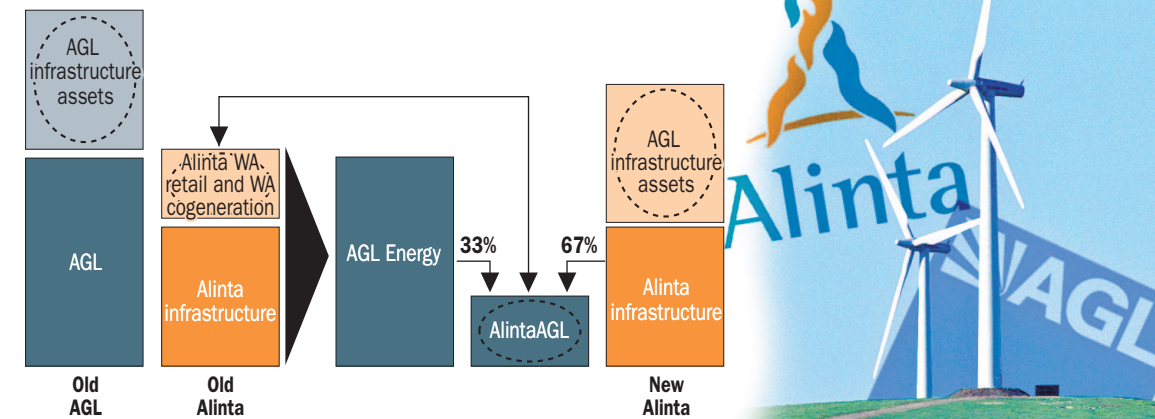
Goldman Sachs JBWere accounted for 12.4 per cent of the trading in Suncorp yesterday, with Credit Suisse and UBS the next most active brokers in the stock.

Of course, getting the Suncorp price up with investors jumping at shadows is a very good defence strategy if there is indeed a disruptive bid coming for Suncorp.

Perhaps it dawned on some large investors late in the day that the strength in the Suncorp share price was an artificial distortion based on baseless rumours — being that Westpac was going to bid for Suncorp — and a selling opportunity.

This aside, investors could be excused for coming to a view that the probability of consummating the

FINALLY COMPLETE Alinta and AGL Energy's asset split



Alinta too chancy for some at AGL

The "new" Alinta made a weak debut yesterday as some of AGL's conservative shareholders showed they weren't too keen to find out what life would be like as an Alinta shareholder under the energy infrastructure group's aggressive boss Bob Browning.

Perhaps AGL shareholders now on the Alinta register as a result of their recent scrip-based asset swap are worried about Browning's stoushes with regulators and the Australian Pipeline Trust, and his enormous appetite for acquisitions. Selling by some of these shareholders was blamed for the 37¢ fall in Alinta's share price to \$10.64. Under the deal, AGL shareholders

received 57.74 Alinta shares for every 100 AGL shares while retaining ownership of AGL Energy.

However, Goldman Sachs JBWere notes there may also be a lot of passive AGL shareholders and Babcock & Brown's presence on Alinta's register adds some corporate appeal.

Oil explorer Jupiter Energy's efforts to cash in on this year's bio-fuels phenomenon appear to have been badly timed. With falling oil prices, some ordinary recent listings (Sterling Biofuels) and disappointing project updates, institutional interest in the sector has unfortunately dried up for Jupiter and its plans to raise

\$75 million in new equity to spin-off and float Jupiter Biofuels. Jupiter Energy said yesterday it had not made a decision yet on whether to postpone the offering.

There may be a consolation prize available for the grim-faced Macquarie folk that had been working on a Macquarie Communications Infrastructure Group-led bid for France's broadcast tower company Télédiffusion de France. Macquarie was gazumped by Texas Pacific and Axa Private Equity, but another opportunity might arise given reports that Blackstone Group is seeking to sell its US-based mobile-phone tower company, Global Tower Partners, via Morgan Stanley.

MFS paints sunny picture ahead of filing S8 documents

The friendly merger of Gold Coast Inc deal-a-minute property and tourism groups – MFS and S8 – looks to have overcome some early reservations, and it now seems more likely that their scrip-based deal will proceed. MFS also moved to shore up the deal this week by telling investors that it expected to grow funds under management from \$3.87 billion to \$5 billion by the end of the year, not including the assets assumed from a successful S8 takeover.

This has helped to bolster MFS's shares ahead of the filing early next week of the takeover documents, slightly later than expected. This is important since S8 is obliged to recommend the offer only while MFS trades above \$4.25 a share.

At yesterday's prices, the offer of one MFS share and 70¢ cash is well

in excess of S8's share price, which suggests that investors are having some trouble believing MFS's sharemarket valuations (it is a more illiquid stock than S8) and may head for the exit as sellers once the deal is consummated.

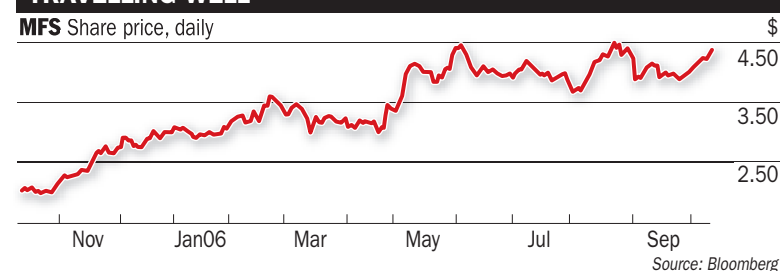
Meanwhile, shares in HFA Holdings, the hedge fund of funds

spin-off of MFS, have eased in the past month from \$1.90 to as low as \$1.60. With little news on the progress of its rumoured plan to buy its US hedge fund partner, Lighthouse Partners, HFA has made clear that it has not been affected by the high-profile woes faced by some US hedge funds, though the timing is awkward.

Other details to sort through include what happens to Promina's well-regarded boss Mike Wilkins. When Royal & SunAlliance Australia took over Tyndall, it was Wilkins who ended up running the combined group. Wilkins lacks experience in banking but is better regarded by the market than Suncorp management.

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TRAVELLING WELL



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The ACCC issues look very problematic given two players, Insurance Australia Group and Suncorp, would be left with 80 per cent of the motor insurance market. It won't be lost on Graeme Samuel that Citigroup and Carnegie Wylie are the same advisory team that lined up to convince him to let Toll take over Patrick. Promina and GIO have been winning motor insurance market share from IAG by discounting, which would probably disappear by approving the Suncorp takeover.

Cadence LIC aims to beat the odds

Conventional wisdom in recent years has been that listed investment companies (LICs) trade at a discount to net tangible assets, but such generalisations probably don't do the sector much justice.

While the LICs that have floated in recent years haven't all been a stunning success, a number of the well-established ones like Argo and Australian Foundation Investment Company do attract a premium (though they have been around a long time), and LICs that underperform are the ones that will get a discount over the long term.

Cadence Capital, an unlisted investment company created by former stockbroker Karl Siegling, is in the throes of raising \$25 million from investors to list the company via sponsoring broker Bell Potter.

This will give the company a market capitalisation of up to \$37 million, given Cadence already has 12.55 million shares on issue (assuming existing options are exercised on or before October 31). The funds will be raised at Cadence's net tangible assets and subscribers will get one 18-month option for each share issued to subscribe for shares at a price equal to NTA.

Cadence's aim, of course, is to be one of the outperformers.

In the year to August after fees, Cadence, which targets an absolute return regardless of market conditions, delivered a return of 30.03 per cent, more than twice the sharemarket's total return of less than 15 per cent over the same period.

As the portfolio stands, close to 40 per cent of the portfolio includes short sold positions, suggesting Cadence is relatively bearish on markets right now.

Also soon to launch its LIC is Magellan Financial (the old Pengana Hedge Funds), which is said to be looking at a whopping \$350 million offering because of the reputations of its two investment banker founders, Chris Mackay and Hamish Douglass.

Oxiana gains on Zinifex buzz

The rumour that Oxiana is about to get taken over just won't go away, given yesterday's market action that caused the copper/gold producer's shares to soar 10 per cent to \$3.32.

About 41 million shares changed hands, led by trading via Commonwealth Securities, on recurrent rumours that Zinifex will have a tilt using its strong share price. A deal would create a company with a \$10 billion-plus market capitalisation, but some dismissed the talk as premature.

UBS took the Australian prize for the best overall equity research and sales at this week's 17th annual Asia Money poll of institutional investors. Macquarie, Deutsche Bank, Goldman Sachs JBWere and Citigroup followed. For UBS, it is a solid win considering big changes in its analyst ranks in the past year as it has put together largely a new team to come up with money-making ideas for clients. UBS has also just rejigged its Sydney desk, appointing George Kanaan head of institutional sales.