

Street Talk

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Suncorp's hot topic of takeover talk

Street Talk is never one to dismiss takeover rumours, but some of the scuttlebutt circulating in the market is a case of investors getting just a tad too excited. These purported deals are huge and hard to execute. As for Foster's, there's no doubt the beer business CUB is a very sought-after asset but it sits in a relatively low growth market, it has sold its international brand in recent times and is over-exposed to the wine industry.

Yesterday's rumour of the day was that Macquarie was planning a bid for Suncorp in a similar vein to its purchase of explosives maker Dyno Nobel last year. That is, buy the whole company (the rumoured bid price is \$24 a share), sell the general insurance business to a trade buyer and float the banking business in a year or so.

Alternatively the banking business could be sold (it's easier to sell) and the general insurance operation floated.

Still, the domestic general insurance market is looking tough and there's plenty of opportunities for Macquarie to use its balance sheet to instead buy infrastructure assets overseas.

Like Coles Myer, some argue the Suncorp board would not be receptive to a bid and would instead pursue a demerger as a real option to unlock value.

All eyes will be on Suncorp's full year result tomorrow, which is expected to show the company is earning a very healthy insurance trading margin of 19 per cent.

significantly higher than the long term industry average of 11 to 14 per cent. Meanwhile the Kohlberg Kravis Roberts consortium is trying hard to get Coles Myer to agree to a takeover, but if it succeeds it would be a sad indictment on Australia's management ranks that would be justified only if the private equity funds ultimately lost their money on the deal. As for the Coles deal, it is understood Blackstone Group was the prime mover in the second Bath Capital-led consortium's decision to join the KKR consortium rather than give KKR et al a run for its money.

M&A talk turns to Anglo American

Given the frenzy of corporate activity, not a day goes by without a rumour emerging of some potential deal in the mining industry.

The South African media is doing its best to stoke the rumour mill by touting Anglo American as a potential target or merger partner with Rio Tinto, which has been conspicuously quiet on the M&A front. Bar its acquisition of a half share in the Hope Downs iron ore project last year.

The speculation has no doubt been fuelled by the conglomerate's ambition to shrink its way to glory with the spin-off of its Mondri paper business later this year or 2007, as well as a progressive sell-down of its interests in AngloGold Ashanti.

The slimmed down Anglo American would offer potential suitors exposure to a smorgasbord of commodities including iron ore, base metals, coal, platinum and diamonds through its 45 per cent stake in heavyweight DeBeers.

Interestingly, the same reports say former BHP Billiton boss Brian

IT'S A GUSHIER Selected recent oil industry acquisitions

DATE	ACQUIRER	TARGET	EV/RESERVES (\$US/bbl)
Dec 05	Norsk Hydro	Spinmaker	41.62
May 06	Goldren Resources	Noble Energy	23.15
Sep 05	Woodside	Gryphon	22.47
Apr 06	Mitsui	Pogo Producing	20.96
Aug 06	Woodside	Energy Partners	19.11
Jul 06	Merit Energy	Houston Exploration	19.03
Feb 06	Energy XXI Gulf Coast	Marlin Energy	16.72
Jan 05	Nippon Oil	Devon Energy	14.16
Apr 04	EnCana	Tom Brown	13.11
Jan 05	Cimarex	Magnum Hunter	12.07
Dec 04	Noble Energy	Patina Oil & Gas	12.00
Apr 04	Kerr McGee	Westport Resources	11.30
Oct 04	Apache	Anadarko	10.59



Source: Goldman Sachs JMWere

Numbers make sense for Woodside tilt

Woodside Petroleum's \$US1 billion plus tilt at Gulf of Mexico oil producer Energy Partners this week wouldn't be the cheapest oil acquisition ever, but that's hardly surprising given the scramble for oil reserves amid near record prices for the black stuff.

On Goldman Sachs JMWere's figures, the purchase price including debt equates to \$US19.20 a barrel of proven reserves, making it a cheaper acquisition than last year's purchase of Gryphon.

One of the benefits of buying Energy Partners is that the target has limited hedging arrangements in place which, according to analysts, gives Woodside the opportunity to put in place its own

hedging strategy to reduce the risks of the transaction.

Energy Partners also has some tax losses that may help make the purchase stack up, but it doesn't appear that the target has been too successful in its exploration efforts in recent times.

Despite the poor market reaction to yesterday's Origin Energy result, Street Talk continues to hear rumours that the energy group is sniffing around the coal-seam sector for acquisitions. With the renewed uncertainty over the PNG pipeline, this is definitely a sector to watch.

Three days in a row without falling is about as good as it gets for Telstra,

with Macquarie Equities, Credit Suisse and UBS topping yesterday's broking market share in orders.

Some analysts have also started to become more upbeat about the impact of index changes on demand for the stock. Assuming only \$8 billion worth of shares are released into the

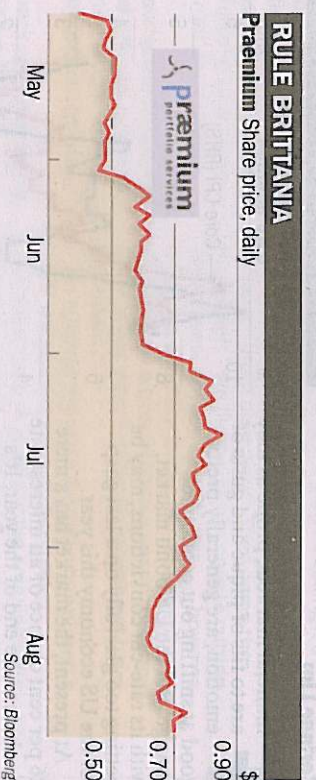
free float from the T3 offer, Telstra's weighting in the S&P/ASX 200 Index will rise from about 2.25 per cent to slightly more than 3 per cent. That means if Telstra manages to morph itself into an outperformer from a perennial underperformer, fund managers (who are mostly underweight) will be taking a big risk by not at least holding a market-weight position.

Praemium shares float to a premium on whiff of UK deal

Newly listed investment portfolio administration provider Praemium has managed to achieve something few other recently floated companies could claim.

Despite making no explicit forecasts about future earnings, Praemium's shares have surged from their float price of 40¢ to 69¢, largely based on the prospect of Praemium selling its separately managed accounts (SMA) technology into the nascent UK market.

And earlier this week, Praemium boss Arthur Naoumidis's plans received a boost when Praemium was selected by Argenta Private Capital, a licensed Lloyd's of London adviser that manages the affairs of more than 800 investors, to broaden its product offering to include presenting SMAs to these customers. Argenta clients



are potentially the cream of the high net-worth end of the market.

The UK is in the middle of rugged industry debate about the transition by financial advisers to more flexible administration platforms, and Naoumidis is pushing hard for advisers to move to SMAs rather than wrap accounts.

the company's margins and returns on capital lag those generated by the two biggest players.

Merrill Lynch's decision to bring back former head of equities Paul Masi from Hong Kong as the bank's Australian "country head" and chief executive is another sign of the bank's increased commitment to this market. The man he replaces, Kevin Skelton, is considered one of the country's more underrated empowerment legislation and foreign exchange controls.

Anglo American's share price is up about 67 per cent over the past year, compared with 35 per cent and 45 per cent from BHP Billiton and Rio Tinto respectively — partly due to its recently revealed plan to return \$US5 billion (\$6.6 billion) to shareholders.

The challenge for any potential deal is to improve the performance of Anglo American's assets, given

United they stand as Unitalab strikes

As expected, Ron Brierley's Guinness Peat Group and Alex Waislitz's Thornley Holdings have decided to pool their stakes in gaming and lotteries company Tattersall's into a single listed entity. Getting in just before Unitalab shareholders vote on a \$4 billion merger with Tattersall's, GPG and Thornley will combine their

Tattersall's stock into their low-profile vehicle, Rattoon Holdings. The deal gives them a bigger say in the future of the enlarged group. Rattoon, which is listed on the Newcastle Stock Exchange, now owns a 0.9 per cent stake in Tattersall's. But after Brierley and Waislitz sell their shares into the company, that stake will spike to 7 per cent and make it the biggest shareholder. Rattoon will also raise up to \$8 million for "working capital".

The deal needs to be supported by shareholders of Rattoon. GPG and Waislitz are both major shareholders in Rattoon. If successful, GPG will emerge with a 44 to 46 per cent stake in Rattoon, while Thornley will have 44 to 45 per cent. GPG director Gary Weiss is good mates with Queensland property developer and Unitalab director Kevin Seymour. Seymour owns a 6.5 per cent stake in Unitalab.

It's no secret that it's tough times in the biotech sector, and the talk surrounding drug discovery company Phylogica's attempts to raise circa \$5 million at 54¢ a share via Bell Potter would appear to confirm that. Phylogica, which has been in a trading halt this week, is thought to be having some trouble raising the money, not helped by recent hiccups in the sector (Alechemia). The issue is believed not to be underwritten, so the company may just end up raising a portion of the money.

Fishing for gold in murky retail waters

New Zealand's James Pascoe Ltd, an Auckland-based private company that owns Pascoes Jewellers, last night emerged as the party that gobbled up an 11 per cent stake in jewellery retailer Angus & Coote on Tuesday night after the market closed.

The line of 1.33 million shares was actually crossed in a special trade at \$5.25 a share by Goldman Sachs JMWere, a reasonable premium to Angus & Coote's closing price of \$4.30 on that day.

This would suggest there is a reasonable chance of consolidation in this sector — the other major player being the NZ-listed Michael Hill International.

Angus & Coote informed investors in May in its inimitable style that "net profit after tax is now likely to be below break-even for this financial year". Its shares closed 10¢ higher yesterday at \$4.40 but on typically thin trade.

The company remains 60 per cent controlled by its founding shareholders. The most logical seller of the stake is long-term supporter LA Niederer & Company.

Street Talk's inquiries to Angus & Coote were met with a blank reaction but the action suggests the buyer isn't merely hoping there's a rush of watch sales for Father's Day, with Robert Gray