



businessnews.com.au | January 20-26, 2014

CORPORATE FINANCE REVIEW
**Tough year
for deal
makers**

Some astute
acquisitions
were made in
a lean year.
Page 13



Bill Beament
Managing director
Northern Star Resources

Photo: Attila Csaszar



Deal makers bank on a bounce

The past 12 months have been tough for WA's corporate finance professionals, but there is cautious optimism that 2014 will be a different story.



5-PAGE FEATURE

Dan Wilkie

dan.wilkie@businessnews.com.au

THERE'S only one way to go when you've hit rock bottom – up.

After an extended dry period, Perth's corporate finance professionals are hoping the bottom was actually hit during 2013, a challenging 12 months in both equity capital markets and mergers and acquisitions.

Business News' research has found there were 245 capital raisings led by Western Australian companies in 2013, totalling just over \$3 billion.

The largest deal for the year occurred in August – BWP Trust's \$200 million entitlement offer, which was lead managed by UBS, with Herbert Smith Freehills acting as legal adviser.

Other significant capital raising transactions included Forge Group's \$187 million block trade, which was managed by Macquarie Capital, and property developer Peet's \$132 million placement and purchase plan, managed by Merrill Lynch and advised by King & Wood Mallesons.

But the 2013 figures were down about \$2.2 billion on 2012, and remain a long way off the record-high \$14.8 billion raised by WA companies in 2009, which included mammoth raisings from Wesfarmers and Woodside Petroleum, at \$4.7 billion and \$2.5 billion, respectively.

Not since the start of the recent boom in 2005 has the total value of equity capital market transactions dipped to \$3 billion in WA.

M&A slowdown

It was a similar story for mergers and acquisitions practitioners.

During the past 12 months there were 216 M&A deals – totalling \$10.83 billion – a significant fall from the \$27.8 billion worth of transactions recorded in 2012.

“Both deal value and volume was well off, and subdued levels of deal flow and activity reflected the rapid deterioration in share prices and the general sell off in resources,” Macquarie Capital Advisers executive director Michael Ashforth told *Business News*.

“For high levels of M&A activity, you need a general expectation that values are going up. Otherwise, if you think they are going sideways or down, there is less of an incentive to move.

“In a world where people were risk-averse or uncertain, that translated into lower levels of deal activity.”

Highlights of what was a lacklustre year overall included Insurance Australia Group's \$1.85 billion buyout of Wesfarmers' Australian and New Zealand insurance underwriting operations, brokered by UBS and announced in December.



Another significant transaction was the \$1.2 billion purchase of Griffin Power's Bluewaters power station in Collie by Japan's Sumitomo Corporation & Kansai Electric Co, while the \$462 million acquisition of the minority interests in construction and engineering services firm Clough by South Africa's Murray & Roberts was widely hailed as a great deal for shareholders.

There was also a small flurry of activity in the gold sector in the fourth quarter of 2013, with 12 M&A transactions totalling \$193.9 million.

The most talked about deal came in late December, with Northern Star Resources securing Barrick Gold's Plutonic gold mine for \$25 million, a deal touted by brokers and analysts as a bargain for the miner, which is seeking to double its production to 200,000 ounces of gold per year.

Barrick also sold its Yilgarn South assets for \$318.8m in August, to South African miner Gold Fields.

Northern Star managing director Bill Beaumont described the Plutonic acquisition as an ideal fit for the company. The deal was managed by RBC Capital Markets, with Clayton Utz acting as legal adviser.

Analysts are expecting a repeat of Northern Star's success at the Paulsens gold mine, which it acquired in 2010.

Stockbrokers Hartleys and Argonaut set share price targets of \$1.15 following the acquisition, which would represent a solid return on Northern Star's current share price of around 96 cents.

UBS executive director Tim Day said M&A activity in 2013 was mostly restricted to companies rationalising costs and divesting non-core businesses and assets.

"Boards of acquirers are also evidencing higher conviction around M&A to drive growth," he said.

"Resources activity will likely pick up [in 2014], but still be significantly lower than the boom years.

"Most of the resource transactions will probably involve divestments of non-core assets from majors and well capitalised mid-cap companies buying struggling juniors.

"We are also likely to see a return of Chinese buyers, particularly private companies."

IPO struggle

The difficulties raising capital were even more pronounced in the initial public offerings market.

According to research released by Deloitte there were just five WA IPOs in 2013, collectively valued at \$48.2 million.

The largest IPO of 2013 was Zeta Resources' \$25 million offering, a deal brokered by Azure Capital and advised by Hardy Bowen.

Just 12 months earlier, new market entrants in WA raised \$227 million.

The IPO market was set to be boosted by the \$510 million offering of BIS Industries, but the logistics firm's private equity owner, KKR, pulled the float in November, citing unfavourable sentiment towards the resources sector in Australia.

Gresham Advisory Partners co-head of corporate advisory, Darren Martin, told *Business News* the void created by a lack of resources sector IPOs was largely filled by private equity houses.

"Resource private equity firms were swamped with opportunity at the end of last year, and therefore people weren't necessarily prepared to go to the IPO market," Mr Martin said.

"So the Sentients, the RCFs and the Denham Capitals of the world were having a bit of a field day towards the end of 2013, just from the opportunities available."

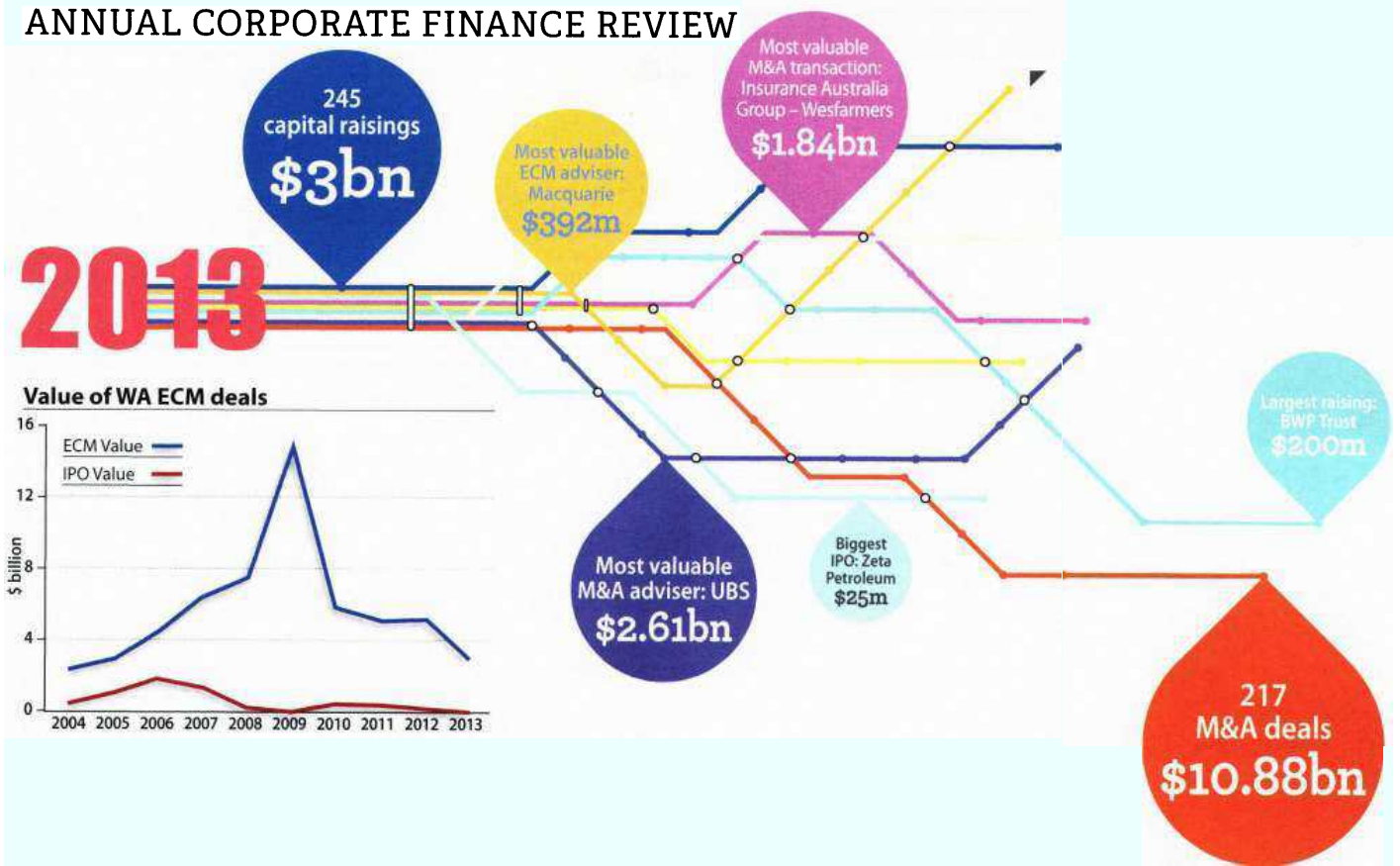
League leaders

The best-performing corporate advisory firm in the ECM space in 2013 was Macquarie, which raised a total of \$391.8 million for WA-based clients in four transactions.

Continued on page 14



ANNUAL CORPORATE FINANCE REVIEW



57% Drop in total ECM and M&A deals in 2013 from previous year

Finance sector banking on bounce

Highlights for Macquarie included a pair of share sell-downs for BC Iron, which totalled \$192 million, and Forge's \$187 million block trade.

UBS was close behind, raising \$364.7 million in five deals, while Patersons Securities was in third position, with a total of \$229.5 million raised over 27 transactions.

UBS was also the market leader in M&A transactions, advising clients on eight deals collectively worth more than \$2.6 billion, including Insurance Australia Group's \$1.8 billion acquisition of Wesfarmers Insurance and Lumley Insurance, as well as Nine Entertainment Co's \$223 million acquisition of WIN TV Perth.

Gresham Advisory Partners was the second ranking advisory firm by M&A value, at \$2.3 billion.

Another firm considerably active across both ECM and M&A in 2013 was Azure Capital, which executed 17 M&A transactions, totalling \$491.3 million, and led seven capital raisings, with a collective value of \$65.76 million.

Significant Azure transactions from the final quarter of the year included advising Asanko Gold in relation to its \$194 million, all-share acquisition of PMI Gold, and a \$15 million placement by Panoramic Resources.

Azure director Adrian Arundell told *Business News* the company's pipeline of work strengthened towards the end of the year, with cautious optimism creating renewed momentum for deals that stalled in 2013 due to a lack of confidence.

"We have a number of transactions across public and private markets, with the first half of 2014 expected to be a stronger period of activity than we have probably seen for the last few years," Mr Arundell said.

He said 2014 was expected to be more positive for equity raisings, with a number of non-resources sector businesses preparing for significant IPOs, including car dealer network John Hughes.

Hartleys head of corporate finance Grey Egerton-Warburton agreed, anticipating increased market interest in the coming 12 months.

"A declining \$A will provide assistance for Western Australian businesses," Mr Egerton-Warburton said.

"Businesses will continue to focus on costs, and those who have built or are building strong relationships with the market will be the ones to emerge fastest and strongest from the tougher period."



TOP 5 ECM MANAGERS

- | | | |
|----------|--|-----------------|
| 1 | Macquarie | \$391.8m |
| | 4 deals | |
| | 1. \$187m Forge Group block trade | |
| | 2. \$111m BC Iron selldown | |
| | 3. \$81m BC Iron selldown | |
| 2 | UBS | \$364.7m |
| | 5 deals | |
| | 1. \$200m BWP Trust entitlement offer | |
| | 2. \$88m Paladin Energy placement | |
| | 3. \$40m Sundance Resources convertible notes | |
| 3 | Patersons Securities | \$229.5m |
| | 27 deals | |
| | 1. \$65 Tanami Gold entitlement offer | |
| | 2. \$37m Galaxy Resources entitlement offer | |
| | 3. \$20m Sumatra Copper & Gold entitlement offer | |
| 4 | Hartleys | \$222.5m |
| | 16 deals | |
| | 1. \$91m MACA placement and selldown | |
| | 2. \$83m Sirius Resources placement | |
| | 3. \$7m Attila Resources placement | |
| 5 | Euroz Securities | \$145.8m |
| | 8 deals | |
| | 1. \$63m Sundance Energy placement + SPP | |
| | 2. \$53m Sino Gas & Energy Holdings placement | |
| | 3. \$34m Medusa Mining placement | |

TOP 5 M&A ADVISERS

- | | | |
|----------|--|-----------------|
| 1 | UBS | \$2.61bn |
| | 8 deals | |
| | 1. Insurance Australia Group \$1.84bn acquisition of Wesfarmers Insurance & Lumley Insurance | |
| | 2. Barrick Gold \$318.8m sale of its Yilgarn South gold mines to Gold Fields | |
| | 3. Nine Entertainment Co \$223m acquisition of WIN TV Perth | |
| 2 | Gresham Advisory Partners | \$2.31bn |
| | 2 deals | |
| | 1. Wesfarmers \$1.84bn sale of its insurance businesses to Insurance Australia Group | |
| | 2. Clough \$462m takeover by Murray & Roberts | |
| 3 | Goldman Sachs | \$1.84bn |
| | 1 deal | |
| | 1. Wesfarmers \$1.84bn sale of its insurance businesses to Insurance Australia Group | |
| 4 | PwC | \$1.74bn |
| | 10 deals | |
| | 1. ITOCHU Corporation & Mitsui \$1.6bn acquisition of BHP Billiton's 15% stake in Jumblebar mine | |
| | 2. Waterlogic \$60m acquisition of Cool Clear Water Group | |
| | 3. Fugro \$30m acquisition of Advanced Geomechanics | |
| 5 | Macquarie Capital | \$0.73bn |
| | 4 deals | |
| | 1. Murray & Roberts \$462m takeover of Clough | |
| | 2. Troy Resources \$188m takeover of Azimuth Resources | |
| | 3. Ampella Mining \$40.9m acquisition by Centamin | |