Qube offer wins favour

Asciano switches affections in $9bn tug-of-war

PRASHANT MEHRA
DEALS

QUBE has gained the upper hand in its fight for Asciano after winning favour for its $9.01 billion offer from the target company's board.

The long-running battle to land Australia's biggest rail and ports operator is, however, set to continue as rival suitor Brookfield prepares a fresh bid.

Asciano said yesterday it was formally recommending Qube's offer to shareholders after Canadian infrastructure giant Brookfield failed to submit a better offer. Asciano had asked Brookfield to either match or beat Qube's revised bid by February 15.

"The Asciano board has determined that the Qube consortium proposal is superior to the proposal from Brookfield," Asciano said. "The board unanimously recommends the Qube consortium proposal to shareholders."

Qube, along with consortium partners Global Infrastructure Partners, Canada Pension Plan Investment Board and China Investment Corporation, has offered one Qube share and $7.04 in cash for every Asciano share, valuing the company at $9.24 a share.

Its offer trumped a previous $8.9 billion bid outlined by Brookfield in November.

The Qube and Brookfield consortiums each directly hold a stake of about 20 per cent in the target.

Asciano said it had now signed a binding agreement with the Qube-led group, and would pay a break fee of $88 million to Brookfield as a result of the change. Under Qube's proposal, the logistics company would directly acquire Asciano's entire ports business for $2.65 billion.

Qube has said the combination would double the size of the business and result in double-digit earnings.

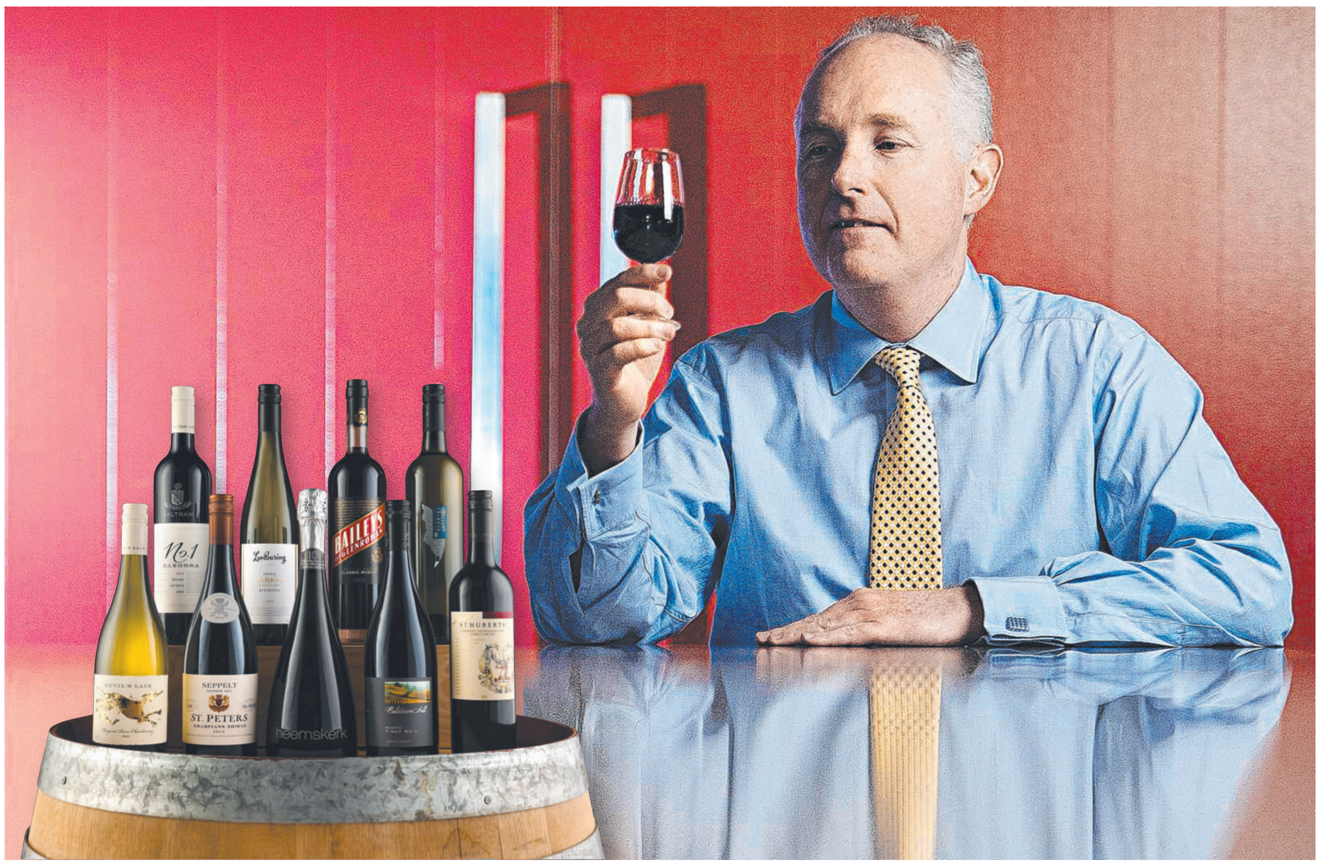
Qube's consortium partners would acquire Asciano's main Pacific Rail business, while its remaining bulk, auto and ports services businesses would be sold to an entity owned by these partners, for an enterprise value — a figure that includes debt — of $850 million.

The bidding war is expected to heat up further, as Brookfield waits for its offer to lapse tomorrow before launching a promised all-cash bid for Asciano at $9.28 per share.

Asciano shares were steady at $8.90, while Qube added 4.5c, or 2.3 per cent, to $2.03.
AAP

Victoria a regional gem for Treasury

BEVERAGES



Treasury Wine Estates chief Michael Clarke and, inset, labels among Treasury's "regional gems".

VICTORIA has emerged as the champion of a campaign by winemaker Treasury Wine Estates to bolster sales of top regional labels.

Treasury Wine, led by chief executive Michael Clarke, has announced the second stage of its global push to get more out of its brands, this time from its so-called "regional gems".

First came the 15 global priority brands announced last year, including Penfolds and three other Australian labels.

Now, come nine Australian regional gems, including five from Victoria. The Victorian labels include Baileys of Glenrowan, Coldstream Hills, Seppelt, T'Gallant, and St Huberts.

Heemskerk from Tasmania, Saltram and Leo Buring from South Australia and Western Australia's Devil's Lair round out the collection.

Treasury Wine says that as with its global priority brands, it wants to maximise the potential of the chosen regional wines.

It hopes to capture consumer interest by telling the history and stories behind the wines and giving them a greater marketing push.

Treasury Wine's managing director of operations in Australia and New Zealand, Angus McPherson, said the regional wines were among Australia's most iconic and historic brands.

"The gem brands are smaller in scale than the global priority brands," Mr McPherson said. "They are brands we believe that we can grow globally. Our target is to get 50 per cent of sales outside of Australia.

"Consumers around the world want brands with authentic stories, from regions, and quality."

Mr McPherson said the gem brands were premium and luxury wines from renowned winemaking regions, such as the Yarra Valley in Victoria, the Barossa Valley in SA and Margaret River in WA.

All the brands had an impressive history of awards from wine judges worldwide.

The prices range from $20 a bottle to more than $100.

Treasury Wines will have a dedicated team to focus on the regional gems push.

Tail wags on strong sales

DEALS

STRONG sales for vet and pet-care chain Greencross have bolstered the directors' resolve to ignore private equity suitors.

Greencross revealed yesterday its first-half net profit had surged more than sixfold to $18.7 million. Sales jumped 18 per cent to $362.7 million.

The results led the group to reiterate its disinterest in takeover offers, including a $770 million bid led by private equity house TPG.

Challenger's profit jumps

FINANCIAL SERVICES

WEALTH management group Challenger has reported an 80 per cent surge in first-half earnings, helped by growing demand for annuities.

It posted a net profit of $234 million for the six months to December.

The group said there was strong growth in demand for annuities, which are investment products generally used by retirees to deliver steady income streams.

Investors should tread warily as China's woes to worsen

THE SHORT CUT
with ROGER MONTGOMERY

SOME investors on our blog are asking whether we believe it's time to venture back into the market.

In summary, no.

While substantial gains can be generated picking low points in markets and share prices, it isn't until the prospects for the underlying businesses brighten that any improvement in share prices can be sustained.

In other words, jumping into a fast-falling elevator on the ground floor ignores the many basement levels below.

Far better is it to enter on the first or second floor, when the operations are stable.

According to one prominent fund manager: "No matter how one analyses the available data, China's economy has already started to experience a hard landing."

This has relatively serious implications for the world. It suggests lower interest rates in China which, in turn, could mean a declining yuan. A declining yuan would send many Chinese companies with borrowings in US dollars to the wall, and would also mean deflation being exported around the world.

Deflation is never desirable because when consumers believe prices will be lower in the future, they defer their spending.

It becomes even harder for governments and central banks to inspire consumption-led economic growth. China's foreign reserves have long been the envy of central bankers globally but these reserves are not infinite and they now have to not only support a flood of currency outflows as Chinese citizens seek to transfer money offshore, they must also support the banks in a deteriorating economy.

Kyle Bass is a global hedge fund manager who successfully predicted and profited from both the US subprime crisis and the collapse of Greece.

Last year at the Buttonwood Gathering, Bass echoed another famous hedge fund manager Ray Dalio's concerns, noting: "The next recession will be a hard one because the tools in the toolbox are not there to avert a severe downturn."

With US rates still near zero, and the US economy seven years into its growth cycle, there are no bullets in the chamber to fire at the economy if it slows.

Bass has now turned his attention to China and believes China's foreign exchange reserves are "already below a critical level of minimum reserve adequacy".

In a recent letter explaining his thesis, he added: "In other words, China is currently out of the required level of reserves needed to safely operate its financial system."

In 2010, we warned that Australian investors would not be immune to any deterioration in China's economic prospects.

Meanwhile, China's stock market has collapsed by more than 40 per cent, residential real estate by 10 per cent and commercial real estate prices by 50 per cent.

And all of this was occurring as China was attempting to rebalance its economic growth from construction of bridges, railways and cities, to growth fuelled by consumption.

China has dropped its pebble in the pond and eventually the ripples will hit our shores. They've already reached Perth.

This week, China published data illustrating its rebalancing is both painful and fitful. January imports are down 14.4 per cent year on year. Expectations were for a 1.8 per cent rise in yuan terms.

In a further sign the world may be slowing faster than expected, Chinese exports missed analysts' expectations of 3.6 per cent growth, printing a 6.6 per cent decline. Coal imports fell 9.2 per cent year-on-year and crude oil imports declined 4.6 per cent.

We reiterate that share market investors in anything but the highest-quality businesses should be cautious.

And so should anyone borrowing money to buy properties generating returns so low only negative gearing makes them palatable.

ROGER MONTGOMERY IS CHIEF INVESTMENT OFFICER AT THE MONTGOMERY FUND