

Temasek buyout throws sovereign weight behind Olam

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By REUTERS

A Temasek-led shareholders group has offered to pay US\$2.1 billion (RM6.9 billion) in cash for shares in Olam International Ltd they don't already own, putting the heft of the Singaporean state investor behind the commodity trading firm's weak balance sheet.

The proposal comes after a tumultuous stretch for Olam, one of the world's leading traders in rice, coffee and cocoa, that saw it come under attack from short-seller Muddy Waters in late 2012 for its accounting practices.

Olam denied the short-seller's claims, gained financial support from Temasek and drew up a plan to cut capital spending and debt. Its stock surged some 40% since late January prior to the offer announcement.

A deal would also be in keeping with Temasek's recent pattern of increasing the unlisted portion of its US\$170 billion portfolio of companies.

A Temasek unit, Breedens Investments, is leading a consortium that includes Aranda Investments and members of Olam's executive committee, which collectively own 52.5% of the commodities trader.

The offer price of S\$2.23 per share represents an 11.8% premium over Olam's last traded price and values the company at US\$4.3 billion. The deal also includes an offer to buy outstanding convertible bonds and warrants. Olam's shares rose to S\$2.21 after the announcement.

"A takeover will put Temasek's AAA rating squarely behind Olam and hopefully allow them to repair their weak financials," said Michael Dee, a former senior managing director at Temasek Holdings.

Dee noted that Olam continues to be over-leveraged and that last year's rights offering to Temasek and others had only added more debt and interest expenses.

While the deal would significantly reduce the amount of public Olam shares on the market, Breedens is not planning at this point to take the company private and will keep it listed unless it breaches the Singapore exchange's requirement of at least a 10% free float, according to the offer statement.

But several analysts said they expect Olam would eventually be taken private. In addition to allowing the commodities firm to fix its balance sheet away from public scrutiny, it would also take away the pressure to report quarterly earnings for a volatile sector.

Olam bonds rallied on the news, with both its US dollar and Singapore dollar bonds up 3-4 points on average. Long dated bonds have risen the most in price terms with the bonds due 2020 at 105-107, trading up from around par before the announcement.

Last month, Olam reported a 12.5% drop in second-quarter profit on weaker sales and commodity prices.

For cocoa and coffee beans, Olam is amongst the world's largest originators and shippers and it is also one of the biggest cotton companies in the world.

The company started its grains business in 2008, mainly focusing on wheat but it is slowly expanding into other products such as corn, barley, sorghum and rye. It is also among the top five traders of dairy ingredients in the world.

Credit Suisse Group AG, DBS Group Holdings Limited and United Overseas Bank Ltd are acting as advisors on the deal.

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