In the Pipeline

By Adam Bennett - The New Zealand Herald | Friday, 18 December 2009

Fisher Funds' Australian Barramundi fund may be poised to exit its largest holding, fibre network operator Pipe Networks with a very respectable profit.

Larger rival TPG has offered A$6.30 a share for the company in a scheme of arrangement. Given Barramundi's average entry price for its 7 per cent stake, according to Fisher's Frank Jasper, was around A$3 the fund is well in the money.

At the offer price, Barramundi's stake is worth around A$30 million, "we've already doubled our money on it", but it is holding out for more.

Pipe is the third largest metropolitan fibre network in Australia, and is strategically important because of the cost and difficulty in replicating its infrastructure, and it has been growing quickly.

Barramundi's view is that TPG's offer is lower than that for similar transactions for a company that is growing faster than the wider industry. It also offers almost no consideration for the value of Pipe's recently completed undersea link to Guam.

"For the new cable we're effectively just being given back our money," says Jasper.

He also notes that TPG's own share price, unusually, has put on an enormous amount of value since the offer was tabled.

"It's telling you the market's ascribing enormous synergy value to this transaction or that the market thinks the price offered for Pipe is low and it will pick up the company cheaply.

"We say we should share those benefits even just 50:50 which to me would be enormously generous to TPG shareholders. That justifies a takeover price in excess of A$8.00 as does our valuation work. Our belief is we're not alone in our views on this."

As is frequently observed, in takeover offers in the Australian market, the first offer is often not the last.

Pipe's shares closed up 5c at A$6.05 yesterday. Barramundi units are currently trading at 68c.