FOCUS: Sale Of Siemens' VDO Seen More Lucrative Than IPO
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FRANKFURT (Dow Jones)-- Siemens AG (SI) would be wise to scrap its plans for an initial public offering of its automotive unit and would be better off pursuing an outright sale, which could reap the German engineering giant more than EUR10 billion, analysts say.

Strategic synergies could push up the acquisition price for the standalone unit compared with an IPO, which is planned for later this year. VDO has already attracted the attention of potential buyers.

"It is very doubtful" whether Siemens will go ahead with an IPO of the VDO unit, said Christopher Kummer, a director at the Vienna-based Institute for Mergers, Acquisition and Alliances, or MANDA.

Kummer pointed to financial analysts' estimates, which show Siemens could generate significantly higher proceeds with a sale of VDO to a trade buyer.

In the fiscal year ended Sept. 30, VDO reported EUR10 billion in sales and an operating profit of EUR669 million, compared with EUR9.6 billion in sales and EUR630 million in operating profit in fiscal 2005.

Siemens said in January it plans to sell a stake in the unit - which makes components that include parts for fuel injection and engine management in cars - through an IPO but wanted to retain a majority interest.

However, since then Siemens has said several parties, including private equity firms, have shown interest in taking over the unit as a whole. VDO's domestic rival Continental AG (CON.XE) has publicly said it might be interested in a takeover of VDO.

A combination of the two would be among the world's largest automotive component makers, and would improve its competitive strength vis-a-vis rivals in Japan and the U.S.

People familiar with the matter have told Dow Jones Newswires that Continental has put in an indicative bid for VDO of just over EUR10 billion, but the company has yet to be given access to the VDO books.

Siemens' Chief Financial Officer Joe Kaeser said in May that Continental's overtures haven't so far resulted in "a competitive offer for VDO." He declined to disclose the value of the offer.

But analysts estimate that the value of VDO on a stand-alone basis in the range of EUR6.5 billion to EUR9.0 billion, arguing that an IPO of VDO will likely result in significantly lower proceeds for Siemens.

An offer from Continental of around EUR10 billion would be "a good price," said car industry expert Stefan Bratzel, who heads the automotive center at the University of Applied Sciences and Economics in Bergisch Gladbach, Germany. He estimates a knockout bid that couldn't be ignored by Siemens would be somewhere around EUR12 billion.

But analysts say Continental is already stretching itself to the limit and EUR10 billion would be a full price. Considering it would pay Siemens a large portion of the acquisition price in shares, it's doubtful whether Siemens would even benefit if Continental overpays.

Some analysts point to the fact that Siemens has more considerations than just extracting the most value out of a future VDO deal, such as the well-being of its 53,000 employees.

A sale to Continental would likely result in significant job losses, and under German labor law, companies need the approval of labor unions and staff representatives for such deals.

"Public opinion (among VDO workers) favors an IPO, but the financial aspects (of any future VDO deal would favor) a trade sale," is how analyst Marc-Rene Tonn of German private bank M.M. Warburg describes the apparent standoff between the two options.

However, high-placed executives in the German car industry have been lobbying for a deal between Continental and Siemens, people familiar with the matter say.

Meanwhile, Siemens says it is going ahead with preparations for the VDO IPO, which is planned to take place in the current fiscal year ending Sept. 30. However, supervisory board chairman Gerhard Cromme has said he is keeping open all future options "that generate value" for VDO.

Analysts have interpreted this remark as a sign that Siemens is trying to push up the price for interested parties.

Some saw parallels with events in the Netherlands in March. In a surprise move, Dutch pharmaceutical firm Akzo Nobel NV (AKZOY) offloaded its Organon BioSciences unit for EUR11 billion to Schering-Plough (SGP), hours before it was slated to issue the IPO prospectus for the flotation of a stake of up to 30% in the unit.

In any case, Manda's Kummer argues that Siemens should pursue the option that will create the most value. "Strategy can't be a reason to forego value creation," Kummer said.

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(Joon Knapen in Berlin contributed to this report.) [07-06-07 1201GMT]