



FOCUS ABN bid battle hits wobble as credit worries hint at wider M&A slowdown

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AMSTERDAM (Thomson Financial) - Suggestions that the high-profile bid battle for ABN Amro Holding NV may be running out of steam invite speculation that the pace of global M&A activity is set to slow amid deepening disruptions in the credit markets, analysts said.

As credit squeeze fears sparked sharp sell-offs this morning in European markets and speculation surfaced that Barclays PLC might withdraw its offer for the Dutch bank, they agreed that the number of mergers and acquisitions that have helped support stock markets in recent months could soon shrink.

ABN Amro's share price tumbled amid speculation that Barclays had found 'skeletons' in the Dutch bank's accounts, as concern also emerged over Fortis NV's financing of its part of a consortium bid, especially over its plan to sell almost 2 bln eur in bonds and other credit facilities.

Barclays declined to comment.

And the Belgo-Dutch bancassurer told Thomson Financial News it can adjust the timing of some of the financial instruments it will use to fund the bid to avoid the current uncertainty in the current financial market.

Dutch brokerage Theodoor Gilissen agreed that Fortis probability has sufficient flexibility, also noting that shareholders of consortium member Santander SA have already approved the bid and that investors in the third member, Royal Bank of Scotland Group (RBS), are expected to do the same today.

'Therefore, the bid still appears to be realistic and the chance of success is large,' Theodoor Gilissen said in a note to clients.

Bank Degroof analyst Ivan Lathouders also foresees no problems with Fortis' financing.

But he expects the current credit market crisis to have an impact on the number of mergers in the coming period as conditions to raise funding become stricter - one reason that has contributed to the recent decline in share prices.

'People had been speculating that private equity funds would buy companies using significant leverage, but the cost of leverage has increased and that has a negative impact on the number of deals you would expect,' he said.

The director of the Institute of Mergers, Acquisitions and Alliances (MANDA), Christopher Kummer, also pointed to a possible decline in the number of M&As.

'A combination of a downturn of the stock markets and concerns in credit markets together, could bring a decrease in M&A activity,' said Kummer, who is also a junior research professor at Webster University in Vienna.

'There are still some financial and strategic players, however, who can afford to continue with acquisitions.'

Even prior to the credit market, concerns the financial attractiveness of some acquisitions looked doubtful 'given that deal bids are quite competitive these days', Kummer added.

But he added that 'even when financing conditions for deals change a bit, financially attractive deals remain possible'.

There has been growing concern that worries on the US sub-prime market might spread and traders have been made jittery by intervention from the European Central Bank yesterday and today.

The ECB has moved to inject almost 156 bln eur in liquidity to stabilise the nervousness in financial markets, acting to ensure banks have enough money at their disposal at short notice.

Panic sell-offs were seen in Amsterdam and across European markets though, with financials taking the hardest hits.

'It's panic, panic, panic over financials on the trading floors because of the credit crunch woes today,' an Amsterdam-based trader said.

But one analyst who did not wish to be named downplayed talk of a credit market crunch, saying that the ECB's move was related more to liquidity issues and inter-banking loans.

'The liquidity issue is deepening and broadening through Europe. But it is not really a credit crunch, but a liquidity issue. Interbank markets had a spike in rates, but hopefully that will go down a bit,' the analyst said.

He said there is strong demand for liquidity and that the market has to adjust supply and that ECB's actions has not really affected the 10-year interest rate, but was aimed at the overnight money market instead.

Turning back to ABN, the analyst said the RBS consortium's offer might come under pressure amid the current troubles, but added that Fortis still has some flexibility in its funding and the 10 bln eur 'liquidity backstop' if needed.

Bank Degroof's Lathouders also said the RBS-led consortium can still achieve the greatest amount of synergies and that it still boils down to who can offer the best price for ABN Amro -- and at 71.1 bln eur, the consortium is still in front.

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