



UPDATE: Is The For-sale Sign Up Over U.K. Lender Northern Rock?

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By Aude Lagorce

LONDON (Dow Jones) -- Has the for-sale sign effectively gone up over Northern Rock?

Analysts say the U.K. mortgage lender's desperate need for cash, plummeting share price and threatened business model all make it vulnerable to a takeover.

Northern Rock said Friday that it needs to tap the Bank of England for emergency funding after the global credit crunch left it struggling to raise financing. It also warned that the turmoil would have a significant impact on profit.

Shares lost about a quarter of their value on the news. Year-to-date, the stock has fallen nearly 60%.

"Northern Rock is a definite takeover target," said David Buik, a strategist at Cantor Index in London.

Although the bank has far too much exposure to the U.S. mortgage market because of its twin role as a lender and as a trader of collateralized-debt obligations, it still has a "decent mortgage book" and some nice assets, Buik said.

"It would likely appeal to a large European bank looking for a strong U.K. presence," he said.

Credit Suisse analysts told clients they think Northern Rock could be worth 525 pence to 585 pence a share in a takeover scenario. As the share price falls below these levels, bid interest will intensify, the broker said. Shares on Friday morning were trading as low as 475 pence.

Credit Suisse also said the Bank of England loan is a stopgap solution, warning that Northern Rock's business model relies on the confidence of debt investors. "Without that, there is no model," they said. At some point, Northern Rock will have to return to the wholesale market or shrink, Credit Suisse added.

The broker also questioned how much goodwill a potential buyer may be prepared to offer for a bank whose predominant source of volume is the intermediary market, which is increasingly coming under regulatory scrutiny.

Bid not expected anytime soon

Any takeover bid could take weeks to emerge, Cantor Index's Buik cautioned, saying a potential buyer would be waiting for reassurance that "all the creepy crawlers have come out from under the rocks."

Meanwhile Christopher Kummer, president of the Zurich-based Institute of Mergers, Acquisitions and Alliances, stressed a possible scarcity of bidders.

"In such a situation, the list of possible acquirers will be quite short unless the risks are transparent and limited and the price would be extremely low," he said.

"I doubt that given the current market situation any responsibly behaving company board would approve the possible acquisition of Northern Rock," he added.

But Northern Rock may have no other option than to seek a tie-up.

Merrill Lynch analyst John-Paul Crutchley said he was doubtful about Northern Rock's future as a standalone company.

"We see a strategic partnership or full takeout of the business as the only viable alternative if Northern Rock is to return to writing significant new business volumes," the Merrill analyst said.

Even Northern Rock's chief executive, Adam Applegarth, acknowledged that a review of the company's strategic options may be unavoidable.

Responding to questions about whether the bank would consider selling itself, Applegarth said the board must ultimately decide what's in the best interests of shareholders.

"We're all extremely aware of our fiduciary duty," he said.

Landsbanki, meanwhile, didn't waste time reacting to news of the emergency loan.

The Icelandic brokerage immediately cut its rating on Northern Rock to hold from buy, saying it sees the British lender's asset growth to be nearer 9%, compared with the brokerage's expected 22%.

The only potential short-term fill-up for the share price would come from an acquisition by a bank with the capability to fund the business on an ongoing basis or a stabilization of the credit markets, Landsbanki also said.