

13/05/2010 Australian beef industry to see further consolidation due to tight capital for local players and hungry international buyers
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- **Bindaree Beef** needs capital and wants stronger state backing
 - **JBS** sees more potential buys but will wait for Rockdale deal to close before deciding on further acquisitions
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Australia's beef producers are facing difficulties accessing capital and are calling for government support, while international players get stronger. This could lead to more consolidation in the space, sector sources said.

Leigh Belbeck, a representative of NSW beef producer Bindaree Beef said the industry has always faced difficulty accessing funds. Bindaree Beef is attempting to raise funding from its local council. According to a 14 April-dated committee meeting summary on the Inverell Council website, family-owned Bindaree is looking for funding including a low-interest loan of AUD 30m from the state government.

Belbeck declined comment on the application, but explained that Bindaree Beef is seeking to branch out into other species including veal, lamb and goat. She said the company wants to expand its current plant in Inverell, which has 600 employees, to create 500 more jobs.

The meat and livestock association (MLA) which takes around AUD 160m per year from beef producers, needs a new structure to be effective for its members, Belbeck said. There should be better use of funds and more focus on the domestic market to combat the strength of the Australian dollar in exports, she added. Without some change there will likely be further companies entering administration and the local producers will be unable to compete with international businesses such as **JBS** (Bovespa: JBSS3), the world's largest beef processor based in Brazil.

She pointed to acquisitive international players such as JBS which has access to funding from the Brazilian development bank and called for the establishment of a similar development bank in Australia to lend to the beef industry at a low interest rate.

A sector banker also mentioned that government-backed enterprises like JBS and also sovereign wealth funds from places like Asia, Europe and the Middle East would also want to buy into Australia.

However, he said that while there is going to be consolidation it is more likely the larger players are bought, although location and supply agreements are critical in which companies are attractive. He pointed to a couple of producers that were put on the market last year like **Monbeef** and **Tabro** that did not sell.

Domestic buyers are unlikely, particularly for the smaller players due to limited access to capital and they may prefer to see them go out of business, therefore removing capacity. International players, such as Japanese bidders, may go for the larger companies, the banker added.

Despite the prospect of more consolidation, JBS director John Berry said the company is not looking at new acquisitions right now as it wants to finalise its acquisition of **Rockdale** beef before considering further growth in Australia. However, he acknowledged that there are assets on the market, often private companies and there has already been some rationalisation in beef in Queensland, but this will be replicated in the Southern States such as NSW and Victoria.

JBS agreed to buy Rockdale, the NSW based beef company in March for an undisclosed sum. The deal is subject to approval from the Australian competition watchdog, which has set a preliminary date of 27 May for a decision. JBS has made two other major acquisitions in the space since entering the country in 2007 through the Australian assets of Swift: SA-based mutton processor Tatiara meat and Tasman Group.

by Alexandra Cain

02/06/2010

Healthscope deal could be impacted by regulatory uncertainty in Australian healthcare, industry sources say
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* **PEP** founder cites regulatory, operational risk, but declines comment on **Healthscope**

Bidders for Healthscope, the Australian hospital operator and pathology business, should take into account potential regulatory changes in the country's healthcare sector, industry sources said. Pathology, hospitals and aged care could all be impacted, which may create uncertainty for bidders plotting longer term business plans.

"Regulatory risk is going to be a big issue in this deal," said an industry source following the situation. Healthcare in Australia gets a lot of funding from the government, he noted.

Healthscope is currently at the center of a bidding war between a consortium led by **TPG**, **Carlyle** and **Blackstone**, a consortium led by **KKR** and **CVC**, and **Tenet Healthcare**, a US hospital operator. Earlier today, 2 June, the local press speculated Australian private equity firm **PEP** "could be involved" in the Healthscope bidding war.

Simon Pillar, managing director and founder of **PEP**, declined to comment when asked at a mergermarket event in Sydney on 1 June if his firm would also bid for Healthscope. However, he did say that while global interest in healthcare is logical considering ageing populations and other factors, there is still regulatory risk and operational risk that needs to be considered.

PEP is unlikely to bid because it considers the regulatory risk to be too great, said the industry source following the situation. **PEP** had a previous experience with unexpected Australian regulatory changes that negatively impacted its investment in **Independent Liquor**, he pointed out. He also said that it may be too late for more bidders to get involved, with the **TPG** consortium already in due diligence.

Two legal sources agreed the regulatory issues are significant, citing the Australian federal government's proposal to take greater operational control of hospitals, and the fact that it is an election year, and many things could change.

One of the legal sources pointed to the government review regarding funding for pathology; a key business for Healthscope. A decision is not due for another year, but the government has already de-regulated collection centre licenses, which is putting downward pressure on earnings in pathology. **Primary Health Care**, a pathology provider, issued a profit warning last month.

Additionally, the government is doing a review of aged care; this has not been legislated since 1997, so is expected to be a big shake-up, the same legal source said. A decision on this is due toward the end of July.

According to the National Coalition of Public Pathology, a similar review is also being conducted on diagnostic imaging services. **DCA/I-Med**, an operator of diagnostic imaging clinics, is already being affected by related legislative changes, the first source said.

All in all, the federal government's review of pathology is "expected to be unsettling" because the outcome is uncertain, the first legal source said. It would be difficult for any company in this space to make a three year business plan now with such uncertainty about this policy and future levels of funding. The new measures will come out in the 2011/12 Federal Budget.

by Alexandra Cain in Sydney

22/02/2010

Hong Kong Aviation interested in Awas and RBS, CEO says
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Hong Kong Aviation Company (HKAC) could be interested in the Australian assets of aviation leasing companies Awas and RBS as it seeks to further expand, Bravia Capital's chief executive, Bharat Bhise, said in an interview with this news service.

The consortium, consisting of New York-based Bravia Capital Partners and Chinese HNA Group, closed the purchase of the Allco aircraft leasing portfolio worth reportedly around AUD 3bn last month, and said it has ambitions to grow further through acquisitions in Australasia.

Bhise said he was "absolutely" interested in RBS Aviation Capital, the leasing company owned by British bank RBS. He said HKAC had spoken to Goldman Sachs, RBS's advisers on the sale, however he described the sales process as "a bit on-again-off again". RBS announced in March 2009 that the leasing portfolio was non-core, but press reports since then have suggested that it could take some time, as it is not a distressed sale.

One sector source thought that the RBS portfolio - reported to be worth around USD 12bn - might be too large. However, Bhise said it would be most interested in its Australasian assets, and thought it was possible RBS could be sold in pieces.

HKAC would also be interested in Awas, the Australian based lessor, if it were to come to market, and depending on what private equity owner Terra Firma intends to do with the business, Bhise said. Terra Firma bought Awas in 2006, then acquired another aviation lessor, Pegasus, in 2007 and merged the two, which according to its website has a combined value of EUR 5.8bn.

Two sector sources agreed that Awas and RBS could make good targets for HKAC and thought Gecas, the aircraft leasing arm of GE, could be willing to sell a portfolio to lighten the weight on its balance sheet.

However Bhise was firmly against any suggestion they could buy a portfolio from the GE owned lessor. "One thing I can categorically say is that we will not be doing a deal with Gecas. I don't know one person who has made money out of doing a deal with Gecas." The sector source agreed that a Gecas deal would not necessarily be a smart investment. "You would be getting older aircraft - so while it would boost your aircraft numbers, you would not necessarily be making any money," he said.

Bhise also said that they had found GAAM interesting, but believe it is not for sale. GAAM is an Australia-based aircraft leasing company with a portfolio of around 50 aircraft and Australian airline customers Virgin Blue and Qantas.

There is no specific time frame for the acquisitions, Bhise said, however the funding lines are available to do a deal whenever it finds one. Bhise said that he would like to find acquisitions worth USD 1-2bn, but the question is whether deals that big are available.

As well as acquisitions, HKAC is interested in growing organically, using the Allco management team to get new aircraft lease deals. "That is why we paid so much more than the other bidders for Allco, because we wanted to retain the management," Bhise said. However the sector source thought it is difficult to secure aircraft sale/leaseback deals at the moment.

Bhise also said that HKAC is interested in other assets; while its main focus is aircraft, shipping and rail, it has a secondary focus on tourism-related industries such as hotels, as long as they are "asset-related". He said HKAC's management is in Sydney over the next couple of weeks and is looking at between four and five deals, for assets such as hotels and a rail leasing portfolio. The company is in the process of appointing a new CEO, who should be announced next week.

by Alexandra Cain