

Cape attracts £332 million Altrad bid

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Cape (CIU) looks set to be the next UK corporate to fall into foreign ownership, after the industrial services outfit recommended shareholders accept a £332 million bid from French scaffolding group Altrad. At 265 pence a share, the all-cash offer represented an immediate 46 per cent premium to the closing price, but a much slimmer bonus to the stock's 249 pence price tag at the start of June.

The acquisition, which Altrad said would "create a multi-disciplinary industrial services leader in key markets around the world", comes as oil and gas services peers Wood Group (WG.) and Amec Foster Wheeler (AMFW) press ahead with their merger. Like Wood Group and Amec, Cape's earnings have been hampered by dwindling offshore energy project sanctions since oil prices started their decline in 2014.

"This genuinely is a great deal," Cape chief executive Joe Oatley told the IC. "It allows us to deliver share value in what is a pretty uncertain market." That uncertainty was spelled out last month when Cape said next year will likely be more challenging than 2017, which has seen several new contract awards with BP and JKC Australia, and an upward revision to performance expectations. Financials in 2018 are likely to be hit by falling construction activity in Asia Pacific, coupled with project delays and margin pressures in the Middle East.

Stubborn oversupply in the oil market, and fading energy prices, have added to the pessimism in the services sector. Since Cape last updated the market, its share price had faded 27 per cent.

According to Mr Oatley, Altrad and Cape had been in discussions since April, shortly after the UK group settled with insurers Aviva, RSA and Zurich over several industrial disease-related insurer product liability claims. Although Cape is on the hook for up to £34.5 million between 2018 and 2023 and could face claims from other insurers, the removal of potentially unlimited liabilities was described as a "critical" factor in Altrad's decision to make an offer.

IC VIEW

From an outsider's perspective, it's easy to see this bid as opportunistic, even accounting for the significant premium. Then again, Cape certainly sees tough times ahead. Asked whether cooperation between operators and oil services contractors might lead to a re-evaluation of the energy project pipeline, Mr Oatley said "it's certainly not what we're seeing". The shares are up on our 2016 results buy call, but we move to hold ahead of Altrad's formal offer document, expected by mid-August. Hold.