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Kier Group PLC

12:38 17 Jun 2019

Could Kier become the next takeover target after Babcock rebuffs Serco offer?

Price: 78.4

Market Cap: £127.1 m

1 Year Share Price Graph

Share Information

Code:		KIE
Listing:		LSE
52 week	**High**	**Low**
	547	**58.4**
Sector:		**Builders and building materials**
Website:		**www.kier.co.uk**

Company Synopsis:

Kier Group is engaged in construction, support services, residential and commercial property development, and infrastructure project investment. The company is organised in five divisions. The construction segment comprises Kier Regional and Kier Construction.

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The outsourcing industry has been on a downward spiral since the collapse of construction firm Carillion last year, raising speculation that there could be a wave of consolidation.

Babcock International Group PLC (LON:BAB) has resisted consolidation, revealing on Monday that it had rejected a second takeover approach from rival defence contractor Serco Group PLC (LON:SRP).

It said the proposed merger has "no strategic merit" and was "not in the best interests of Babcock's shareholders, customers or wider stakeholders.

READ: Babcock rejects second approach from rival Serco
AJ Bell investment director, Russ Mould, said it could be argued that Serco is punching above its weight.

"Its margins are slimmer than Babcock's, it has a materially lower market value and it still faces its own challenges, not least an ongoing fraud probe relating to overcharging the Ministry of Justice for tagging offenders," he said.

"If there is any disappointment among Serco shareholders that its overtures to Babcock have been rebuffed it may also be tinged with relief, particularly as it is less than a month since the company announced the proposed £170mln acquisition of US defence firm Naval Systems Business Unit.

"Chief executive Rupert Soames has saved Serco from the brink of bankruptcy when he took over in 2014 and has probably earned a bit of trust from the market but that doesn't mean the company should run before it can walk."

Babcock's valuation has become more attractive to potential buyers as its shares have fallen from a peak of nearly 1,300p in 2014 to 485p amid concerns about sector-wide struggles and whether it can turn around its fortunes after disappointing profits.

Last month, the company posted a 39% drop in pre-tax profit to £235mln and a 4% decline in revenue to £4.5bn, adding that it predicts both measures to sink in the year ahead.

Contractors in strife
An update from fellow outsourcer Kier Group PLC (LON:KIE) on Monday, further underlined an industry under duress.

Kier said it would axe 1,200 jobs, suspend dividend payments and sell non-core businesses as part of a turnaround plan under new boss Andrew Davies.

Davies launched a strategic review of the business in April after taking over the reins from Hayden Mursell, who was ousted after shareholders rejected plans for a £250mln rights issue to cut debt.

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The new chief executive said on Monday that he would take actions to simplify the group, better allocate capital resources and identify additional steps to improve cash generation and reduce average net debt.

READ: Kier to axe 1,200 jobs and sell non-core businesses as part of overhaul
Kier plans to sell or substantially exit its housebuilding, property development, facilities management and environmental services businesses.

The group said it would suspend its dividend payments for the 2019 and 2020 financial years as it warned its net debt is running at around £420mln to £450mln at the end of each month, higher than analysts expected.

"The expected actions are broadly as we would expect, and in our view could generate c.£260mln of proceeds and entail a major reduction in the debt profile," Numis said.

"However, this needs to be enacted immediately, as the supply chain squeeze could accelerate from here.

"We maintain an 'under review' recommendation; material value exists in the business and saleable assets can provide the solution to Kier's debt profile, but issues need to be bottomed out for value to be realised."

Earlier this month, Kier issued a profit warning, blaming lower-than-expected sales in its building division as well as "volume pressures" in its highways, utilities and housing maintenance arms.

The latest announcement sent Kier shares down almost 12% to 109p around noon.

Kier a possible takeover target?
In the past year, Kier's shares have plunged 88%, piling further pressure on one of its largest shareholders, Woodford Investment Management.

Famed fund manger Neil Woodford, which runs Woodford Investment Management, suspended his flagship fund after a wave of withdrawals on the same day as Kier downgraded its profit estimates.

Woodford owned nearly 16% of Kier as of June 5 after cutting his stake from 20%.

The slide in Kier's share price begs the question of whether it could become the next takeover target. Instead of trying to sell off parts of the business, could it put the whole company up for sale?

The same could be said for the rest of the UK sector, which has seen valuations shrink since Carillion's demise last January.

Carillion's sector peers have been under the microscope due to worries they could face the same fate in an increasingly tough market.

Interserve entered administration in March after the contractor's shareholders voted against a rescue plan while Capita has been carrying out a major overhaul of the business following a series of profit warnings.

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