

Mixed reports on childcare giant [AU] ^[1]

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EXCERPTS

Childcare giant ABC Learning Centres yesterday had its first share rally in four trading sessions since a surprise fall in profits.

But ABC is still trading at 2001 levels despite yesterday's 8 cents rise to \$1.55.

That came as one American analyst said ABC's planned US joint-venture should be able to attract funding but that it needed to keep acquiring smaller centres in a consolidating market.

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Two large substantial shareholders, Singapore government fund Temasek Holdings and Lazard Asset Management, have lifted holdings.

While ABC insisted it was not under pressure from banks, last week it signed a deal with Morgan Stanley's private equity arm to buy 60 per cent of ABC's American assets and pay off debt.

While ABC has hailed the deal as fantastic the move drew a mixed response.

"It's a bad time to be selling US assets (due to currency) and particularly a major stake in what was meant to be an important long-term earnings driver," Citigroup analysts (with a hold recommendation) wrote last week.

UBS analysts (with a buy recommendation) wrote the deal established an underlying value for the US asset not reflected recently but ABC still had issues to address, such as an inability to convey its underlying trading position.

ABC said the deal valued the US business at \$US775 million (\$A842 million).

It said that, as a multiple of raw earnings, this represented significant value, but ABC has declined to detail what level of its \$3 billion in intangible assets could be attributed to US childcare licences.

San Francisco-based Trace Urdan, an analyst with Signal Hill who has covered US childcare stocks, said the "US-based ABC business should be stable enough to support leverage, which is one of the ways these transactions typically make money for their sponsors".

"But the US childcare market is consolidating rapidly and if Morgan Stanley does not also supply additional capital to open new centres and acquire smaller centres, it could see its market share contract."

Meanwhile, UBS analysts played down reports about ABC having "exploding convertible notes", saying they were "benign and should not be a source of intrigue".

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- reprinted from The Herald Morning Sun

Region: Australia and New Zealand ^[2]

Tags: privatization ^[3]

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