

# Overseas investors circle ABC Learning [AU] <sup>[1]</sup>

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## EXCERPTS

The Singapore Government's investment arm has tightened its grip on the stricken ABC Learning Centres, giving it a key say in the future of Australia's biggest childcare centre operator.

Temasek Holdings said yesterday it had increased its stake in ABC from 12.4 per cent to 14.7 per cent, buying the bulk of the shares as other investors dumped their stock during Tuesday's stock market plunge.

The buying increases speculation that Temasek could become a bidder for all or part of ABC, whose shares remain suspended from trading as the company considers selling some of its international empire to cut its heavy debt load.

However, Temasek's new \$150 million stake also puts it just below the 15 per cent trigger that would require the approval of the commonwealth's Foreign Investment Review Board.

Temasek, as a government-controlled fund, will face additional scrutiny from the FIRB under Wayne Swan's proposal this month to ensure that "sovereign funds" cannot be manipulated by their political masters, before they are allowed to invest in Australian companies.

Industry experts said yesterday the sale of ABC childcare centres to foreign interests would see millions of dollars in government subsidies flow out of Australia and on to the bottom line of overseas companies.

The Singapore Government, through Temasek and the Government Investment Corporation, is already one of the biggest foreign investors in Australia. It holds a majority stake in Singapore Telecommunications, which in turn owns Australia's No2 telecommunications group, Optus.

The move on ABC, which runs almost 1100 childcare centres in Australia, is part of the flurry of activity by Singapore's sovereign funds in the country over the past 12 months. Last year, a Temasek subsidiary bought underwater electricity cables group BassLink for \$1.2billion. A Temasek associate, CapitaLand, owns 55 per cent of listed property company AustraLand and is believed to be looking over the portfolio of shopping centres owned by the ailing Centro property empire.

Temasek took its initial stake in ABC last year at \$7.30 a share, compared with Tuesday's closing price of \$2.14. The fund yesterday refused to comment on the possibility of a bid for ABC, saying it "does not get involved in the operational and commercial decisions of our portfolio companies, including those in Australia".

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Lazard Asset Management, an arm of a US investment bank, also revealed yesterday that it had raised its shareholding in ABC to almost 14 per cent before the company halted trading its shares on Wednesday morning.

Shares in ABC collapsed on Tuesday, plunging as low as \$1.15 as rumours swept the market that the company had breached banking covenants. Despite denials by the company, the plunging share price forced directors, including founder Eddy Groves and his wife, Le Neve Groves, to sell shares to meet margin calls from their brokers.

The sales, part of \$52.4 million worth of stock dumped by four directors, slashed their combined stake in the company to less than 4 per cent. ABC, which analysts believe took on too much debt during its expansion into the US and British childcare markets, remains in discussions with a party interested in its US business. The company called in investment bank Goldmans Sachs JB Were on Tuesday after receiving the approach.

Any takeover of ABC by Temasek or another company would trigger the so-called "exploding" \$600 million convertible notes in the company issued last year.

The notes are designed to be converted in the future into ordinary shares on a dollar-value basis. The lower the ABC share price at the time of conversion, the bigger the stake the convertible noteholders will receive. The Australian understands the other event that would trigger the notes' conversion is sale of businesses generating more than half of ABC's earnings - effectively its Australian operations.

ABC last night requested a formal suspension of its shares "as a result of continuing discussions with respect to indications of interest that the company has received in relation to part of its business".

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**Region:** Australia and New Zealand <sup>[2]</sup>

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