

VOC

AUD \$4.67

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Takeover!

Vocus (ASX, VOC) shares have been strong performers within the Fat Prophets portfolio after being added back to the fold just around 14 months ago. The recovery story that we have backed under new CEO Kevin Russell has borne steady fruit, with the shares receiving a major shot of adrenalin yesterday. Vocus Group confirmed a takeover approach which saw the shares surge, climbing to the highest level since February 2017. Fair to say that the telco is well and truly out of the recovery ward.

Vocus confirmed that it has received a conditional, non-binding indicative proposal from Swedish private equity group EQT Infrastructure to acquire all of the shares in the company. The proposed consideration is \$5.25 per share in cash, to be implemented by way of scheme of arrangement, and values the telco at \$3.3 billion. The indicative proposal is subject to a number of conditions and including the completion of due diligence.

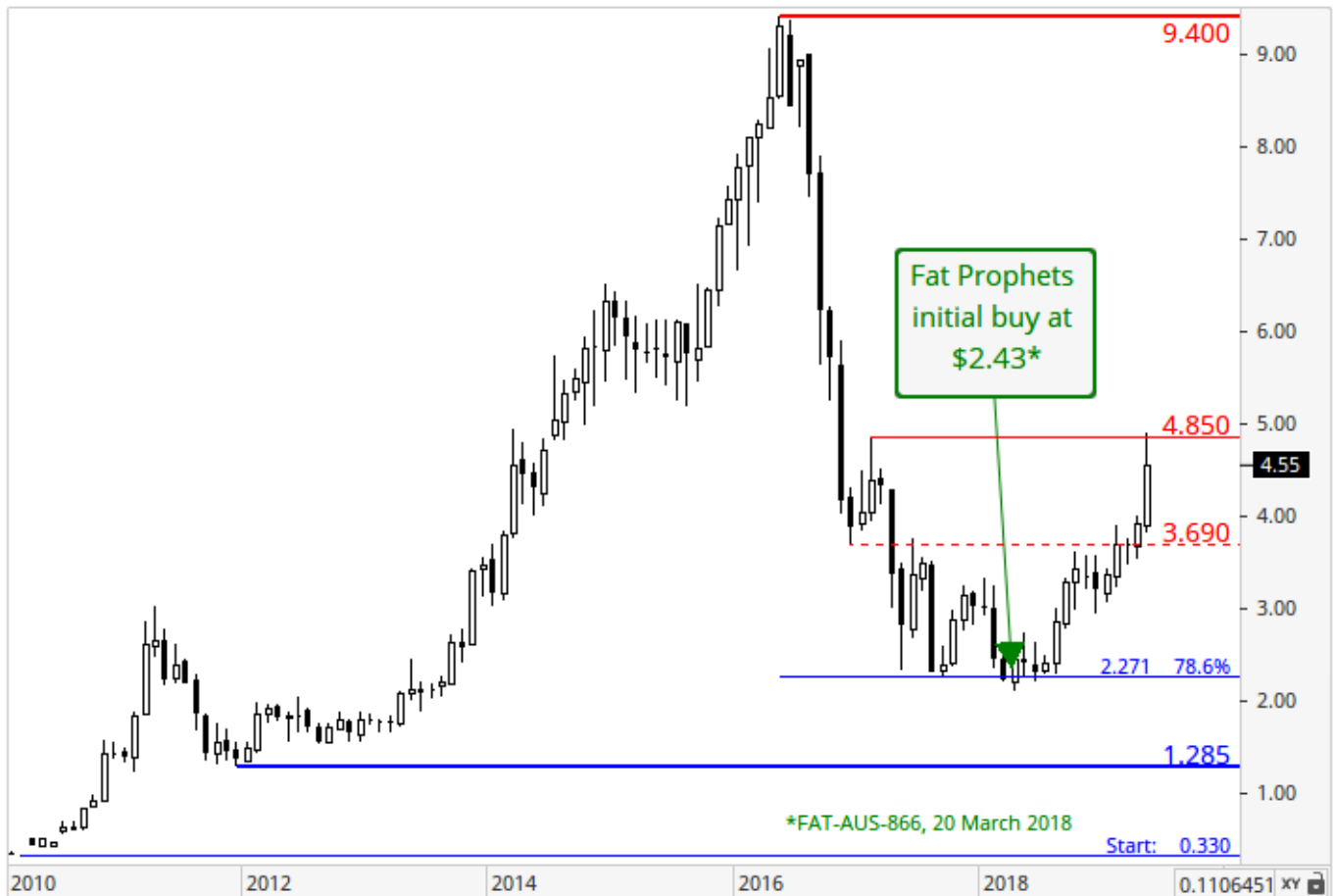
The announcement is a very positive one for shareholders, and is also a reflection of the turnaround that has been developing under CEO Kevin Russell. We have backed this with frequent buy recommendations since reinitiating on the stock last March at around \$2.42.

The 'second coming' into the portfolio comes after we called time on Vocus at \$7.75 a few years ago, conscious of a high valuation, and integration risk following a multitude of acquisitions. This ultimately saw previous management depart, with Mr Russell has come in as 'the cleaner,' doing a good job of steadying the ship, while also targeting meaningful organic growth.

Turning to the charts, and on the daily chart, even prior to Monday's gap up on the takeover, the outlook had strengthened, with prices pushing up from both the 50 (red line) and 200 (green line) day moving averages. Prices had also followed the upward trend line (green) which has been in place since late August. Our previous forecasts that prices over \$4 were achievable has transpired with some gusto.



With reference to the monthly chart, prices have jettisoned up and away from support sighted at the 78.6% Fibonacci retracement of \$2.27. A sustained break above resistance at \$3.69 strengthened the outlook further. The question now is whether the late 2016 high towards \$5 can be breached. This looks plausible given the takeover move, but there is also a risk this could evaporate.



The fact the Vocus share price remains more than 10% from the \$5.25 a share offered shows that investors are wary of the risks to the very conditional deal going through. What it **doesn't factor on the other side is the emergence of another bidder** – the rumour mill has suggested that multiple parties are interested. We wouldn't be surprised if the deal room got a bit more crowded before too long.

All that said we are also conscious that private equity bidders across a number of industries in Australia also have had a habit of 'walking away,' particularly after getting into the deal room. Vocus itself was spurned a few years ago, while Fairfax was similarly rebuffed prior to the combination with Nine. A downturn in the markets (not that we are anticipating one) is also always usually one to send buyers scurrying for cover.

The FIRB also doesn't have a habit of welcoming offshore predators with open arms, particularly where the assets in question have strategic value (think Chinese moves for gas). Never underestimate the willingness of a regulator to flex its muscle, and as with the TPG/Vodafone merger, block a deal just for sake's sake.

We believe that on the balance of probabilities that a takeover bid for Vocus will proceed, and it is also likely another bidder may emerge. However, there are also risks on the other side that do justify a bird in the hand approach, and particularly given the gains we have experienced to date (and on Vocus second visit to the portfolio). Added to this, **Vocus is not as cheap as when we first recommended the stock, trading at around 25 times earnings.**

Accordingly, we recommend that Members take some profits off the table and sell half their shares in Vocus. We will maintain a holding for longer term outperformance as developments progress with respect to the takeover.

Disclosure: Interests associated with Fat Prophets hold shares in Vocus.

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Snapshot VOC

Vocus Communications

Latest Closing Price: \$4.67

Vocus Communications merged with Amcom Telecommunications in July 2015. At that time the company was elevated to the fourth largest Data Network operator in the Australian market in terms of revenue and the third largest in the New Zealand market. The group owns a substantial and valuable set of Telco assets, including significant fibre networks in both nations, trans-Tasman fibre, bandwidth on the Southern Cross cable connecting Australia and New Zealand to the United States, and a growing portfolio of data centres.

Market Capitalisation: \$2.92b

	FY1	FY2
Price to Earnings	27.6	25.4
Dividend Yield (%)	-	0.2
Price to Book	1.18	1.15
Return on Equity (%)	3.9	4.3
EV/EBITDA	11.0	10.4

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