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Dyno fertile ground for takeover

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Dyno Nobel has been a fish in a barrel since the end of August last year, when Incitec Pivot snapped up 13% of the explosives maker in an on-market raid, and the $2.54 base value placed on Incitec's long-awaited takeover is probably as good as Dyno was going to get.

From the time Incitec swooped there was nobody other than Incitec capable of taking Dyno out. And Dyno's chances of extracting a full takeover price declined as the market downturn worsened and problems mounted at its troubled ammonium nitrate plant in Moranbah, in Queensland's Bowen Basin.

The Dyno business was part of a larger explosives business acquired jointly by Macquarie Bank and Orica. Orica extracted Dyno's Latin American, Asian and European, Middle Eastern and African businesses , and Macquarie floated the remaining Australian and North American-focused explosives operation in April 2006, at $2.37 a share.

The shares hit $2.78 on their first day of trading, but by last August the market was plunging, and Dyno shares were down to $2.04. Then the company announced that construction costs for Moranbah would significantly exceed a $520 million budget. The shares gapped down to $1.88, and Incitec began buying, through its adviser, Citigroup.

Incitec paid an average of $2.35 for its strategic stake, and the groups have been talking on and off about a merger since then. But Incitec was in no rush: its shares have been supercharged by soaring fertiliser prices, and have more than doubled since it acquired its foothold, from $66.05 to $149.36 before today's scheme of arrangement, shares and cash buyout announcement.

Dyno on the other hand has struggled. The group put Moranbah on care and maintenance in November, and copped a $US52.4 million post-tax writedown on Moranbah in its December half result, by which time thoughts that Incitec would need to bid $3 or more for Dyno were history: its shares were $2.34 yesterday, before the merger announcement, in line with the price Incitec paid for its initial stake.

The deal is a logical one for Incitec: explosives and fertiliser use the same feedstock, so Incitec is familiar with Nobel's processes. And at the bid price, it is profitable: Incitec will pay one quarter cash and three quarters shares. Based on Incitec's pre-bid price of

$149.36 a share, Dyno is being valued at $2.80 a share, and that price it is expected to boost Incitec's earnings per share by about 15%.

Most Dyno shareholders will take a profit, too. The opening offer value of $2.80 a share is 25.7% above Dyno's weighted average price in the past month, and 48.9% above Dyno's price before the sharemarket raid last August, and the scheme of arrangement structure gives them a capital gains tax-deferred rollover into Incitec on the share swap component that makes up three quarters of the price.

Dyno has also extracted some bid value insurance from Incitec, which is a wise move given the current market uncertainty.

Incitec will maintain its 70 cents cash payment regardless of what happens to its share price. But it will issue more shares to top up the total value of the bid if its shares fall in value by more than 7.5%, from the pre-bid share exchange benchmark price of $149.36 to less than $138.16, by the time the merger is approved by Dyno's shareholders and the courts.

In effect, Dyno's shareholders are guaranteed a bid value of $2.64 a share.

Incitec's shares have actually fallen below the trigger point after the merger announcement, after losing more than $18 to settle around $130 a share in yet another weak sharemarket today as investors load in the fact that Incitec will be making a major share issue to effect the takeover.

But the scheme of arrangement approval process will take months, and unless the credit crisis and market slide totally derail global growth, Incitec can reasonably hope that its share price will recover. Fertiliser prices are so strong, broker analysts have recently been tipping Incitec shares will build on their phenomenal gains, and march towards $200.

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