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Hutchison to merge with HK Dock

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In a surprise move that whipped up a tremendous wave of excitement in the financial community, Hutchison International Ltd and Hongkong and Whampoa Dock Co yesterday made public their intention to merge.

The marriage will bring together one of Hongkong's oldest companies and Hutchison, which is certainly the most colourful and most closely-watched "hong" in recent years.

The union will produce a giant with a capitalisation of about \$2.3 billion, coming close but not quite equalling the size of Jardine Matheson with about \$3 billion.

Hutchison already owns 50.1 per cent of the Dock company.

As the Chief Executive of Hutchison, Mr Bill Wyllie, put it: "It will be a merger in its truest form."

The union will be effected by the creation of a new holding company which will acquire all the shares of both the companies, subject to the approval of shareholders.

"The result will be a much stronger company in its final form than the separate companies, one of which is controlled 50 per cent by the other.

"Clearly, the formal offer of shares in the new company to the existing companies will fully reflect the value of the assets of the present companies."

The terms of the merger are now being worked out by Wardley Ltd, appointed by Hutchison, and Schroders and Chartered, retained by the Dock company.

Mr Wyllie explained that the move would include merging the two boards, although Hongkong Dock will not lose its identity.

Both companies will become subsidiaries of the new company, still unnamed.

The move, he said, is not an exercise aimed at bigness but at a much more rational relationship.

Shareholders of the two companies will have to vote on the offer document when it comes out after the valuation of both companies.

Although the announcement was completely unexpected, Mr



Mr Wyllie

Wyllie admitted that the merger plan was not a sudden decision.

"We have been working on it for a while. But we still have a great deal of work to do," he said.

Obviously, a takeover could have been considered and, as far as the market is concerned, might have provided more excitement.

Mr Wyllie conceded that "it was a situation that was considered. But a merger in its truest form makes considerable sense, makes more logic than a takeover bid."

Admittedly, a merger is more friendly than a raid. And, as a banking source said, possibly less expensive to the offerer.

Just how much each company is worth will be reflected in their contributions to the new company where they will have to "exchange" shares in proportion to their valuations.

There is a strong opinion that the Dock company is possibly the "best part of Hutchison group" and it is a good idea for HIL to consolidate its assets.

Hutchison group's attributable profit last year was \$122.8 million, against a loss of \$31.2 million for the nine months to the end of 1975.

The group net profit of Hongkong and Whampoa Dock last year amounted to

\$89.3 million, 30 per cent higher than in 1975.

The issued capital of HIL is \$446.4 million in \$1 shares and Dock's \$126.6 million in \$1 shares.

A common question asked yesterday was what role the Hongkong and Shanghai Bank had played in the merger moves and what will happen to its one-third shareholding in Hutchison.

"Since the merger proposals were approved by both the boards, the bank must have been in the know," said a banker. As to its shareholding, it will be treated just like any other shareholder.

While both companies will continue to exist after the merger, they will no longer be quoted on the stock exchanges. Instead, the new company will go up on the boards.

At the request of two companies, dealing in their shares will remain suspended from today until the terms of their union are thrashed out.

London dealers were not making prices in the two shares yesterday, following their suspension in Hongkong.

There is no quibble that the merger will stimulate the market. It may be the thing that will prime the pump.

The market as a whole will benefit from the revaluation of the two companies' properties and there is talk of high valuations for both.

"It will be very good for the market as the speculative interest will spill over to other Hutchison companies. It will induce investors to look around at the other companies," explained an investment adviser.

As it happened, speculation surrounding subsidiaries of the Dock company - City and Urban Properties and China Provident - had been going the rounds lately and had created renewed activity in the market. But few expected the news to be as significant as it turned out to be.

Ahead of the announcement, Hutchison shares shot up 20 cents to \$3.45 and Dock shares gained 90 cents to \$11.80.

As the most actively traded share yesterday, 424,741 Dock shares changed hands in three exchanges.