

## Amec Foster Wheeler to be acquired at a 30% premium by Wood Group

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Wood Group surprised the market by announcing an equity-financed bid for Amec Foster Wheeler at a price of 564p, a 28.7% premium to its 3-month average. Although the deal instantly fixes Amec Foster Wheeler's balance sheet, this wasn't through the rights issue that we had anticipated. Nonetheless, Wood Group's shrewd move highlights the longer-term underlying value we identified in Amec Foster Wheeler's shares.



**Michael Clements**  
European Equities Expert



**Alasdair Cummings**  
Analyst

*« Given what remains a challenging environment for oil and gas activity, further cost cutting via industry consolidation appears inevitable for the sector. »*

### Strong strategic rationale

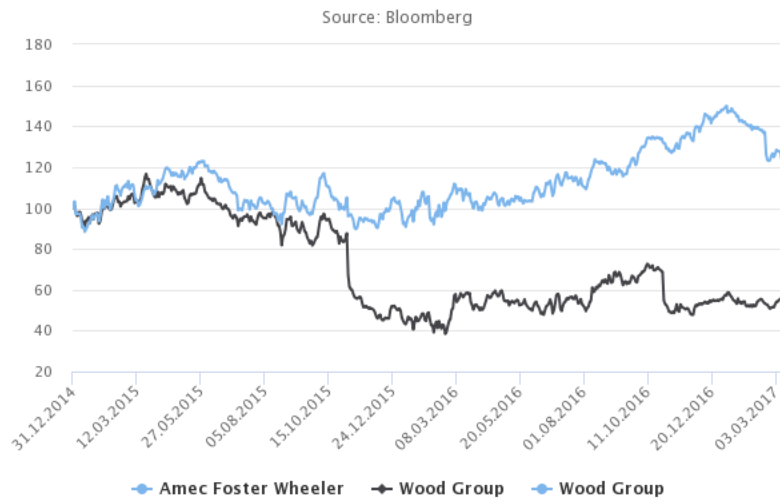
Assuming it goes through, the deal will create a global leader in project, engineering and technical services delivery. The industrial logic is compelling given complementary business models and the availability of material cost synergies (>14% of combined 2016E EBITA). It will therefore be significantly earnings enhancing and combined net debt will be \$1.6b, implying a manageable 1.9x net debt-to-EBITDA which is then expected to decline to a more appropriate 0.5x - 1.5x within 18 months of completion.

### Opportunistic timing

Wood Group has a highly successful track record of value creation through well timed acquisitions, and this appears to be another clever deal by the Scots towards the bottom of the cycle. Prior to the bid, Amec Foster Wheeler had underperformed Wood Group by c.70% since 2015, which suggests that now is an attractive time for Wood to make its move. Indeed, the large fall in Amec Foster Wheeler's share price in November 2015 provided us with the opportunity to initiate a position at 'bombed-out' levels. While we do not view the offer price as reflective of Amec Foster Wheeler's longer-term underlying value, Amec Foster Wheeler shareholders will own 44% of the combined entity which will still enable participation in the turn-around of the company, the significant synergies and scale benefits, and the potential upturn in the cycle.

### Counter bid on the cards?

In the wake of the announcement, it would not surprise us if some of the other globally diversified engineering companies were to 'run the rule' over Amec Foster Wheeler. Even though Amec Foster Wheeler has recommended the offer, several peers (such as SNC Lavalin, Fluor and Jacobs) have the balance sheet capacity and ability to make compelling cost synergy arguments, which could sway the board to accept a higher rival offer. Given what remains a challenging environment for oil and gas activity, further cost cutting via industry consolidation appears inevitable for the sector.



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