Avoid overpriced Myer float, says fund manager

Blair Speedy

BOUTIQUE fund manager Sirius has slammed the upcoming float of department store group Myer as overpriced and an opportunistic attempt to cash in on the surging share price of rival retailer David Jones.

In a note to clients, Sirius fund manager Kieran Kelly said that as the biggest initial public offering since 2007, the $2.3 billion share sale "may tap into pent-up — and possibly irrational and ill-informed — public demand".

As a result, Mr Kelly said, Myer would succeed in selling its shares, with the retail portion of the offer likely to be oversubscribed, but if institutions avoided the float there was a risk the stock would trade below its offer price when it hit the market.

Mr Kelly recommended investors avoid the Myer IPO.

A number of institutional investors yesterday described the Myer float as "expensive," with those attending presentations from Myer management saying they would only be interested in buying the stock at the low to middle end of the $3.90 to $4.90 range at which it is being offered.

Mr Kelly said the company's use of former Miss Universe Jennifer Hawkins to promote the IPO might help the shares get off to a decent start, as could forecasts that the $400 million of capital investment made over the past three years would soon begin to pay off.

But he was sceptical that the company, bought from the former Coles Myer group for $1.4bn in 2006, was now worth the $3.1bn enterprise value it would carry when it listed in November.

Mr Kelly also said the decision of joint 81.4 per cent shareholders TPG and Blum Capital to retain a maximum 13.5 per cent stake suggested the private equiteers were following a "pump and dump" strategy, in which overhyped assets are sold for more than their true value. In addition, the timing of the float, which follows a 170 per cent surge in the value of David Jones shares since March, "smells of opportunism", Mr Kelly said.

Myer is offering between 479.3 million and 499.5 million shares at $3.90 to $4.90 apiece, giving it a valuation of between 14.3 and 17.3 times forecast earnings for the 2009-10 financial year.

Mr Kelly said that, at $4.90 a share, for new shareholders to receive a return of 10 per cent on their investment, Myer's valuation would need to rise to 19 times earnings, a level he described as "outrageous".

David Jones was yesterday trading at a P/E of 17.9 times forecast earnings. "Our conclusion is the float is designed to satisfy the interests of the vendors and the highly incentivised CEO, Bernie Brookes — there is little in this for new shareholders," Mr Kelly said.

Mr Brookes's shares in Myer will be worth up to $57.6m after the float, while TPG and Blum stand to pocket up to $1.9bn.

Stockbroker Joseph Palmer & Sons has also questioned the wisdom of investing in Myer, noting a long-term decline in department stores' share of the retail market. "However, just in time for the float of Myer, TPG management claim this decline is about to reverse as Myer returns to growth phase," the firm wrote in a note to clients.

Other recent retail floats such as The Reject Shop, JB Hi-Fi and Super Cheap Auto were less mature businesses than Myer and had increased store numbers by at least 25 per cent after listing to deliver revenue growth and expand profit margins.

In contrast, Myer had plans to expand its 65-store portfolio by just four new stores over the next two years and eight more by 2013, an increase of 20 per cent.

"I would argue that the low-hanging fruit has already been plucked from the Myer tree and the big winners here are likely to be the private equity sellers," JPS concluded.