

Blue Chip Takeovers

After Shell & BG, who's next?



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A bold move

On Wednesday 8 April **Royal Dutch Shell (RDSb)** recently announced it would pay £47B for Oil & Gas sector peer **BG Group (BG)**. This bold move in an industry blighted by low oil prices with no sign of an imminent recovery sent BG shares up close to 40% while those in RDSb plummeted. With such volatility caused by a simple merger announcement, we thought it best to have a look around and see whether this may just have been the start of a wave of M&A activity that could see opportunities aplenty to profit from huge short term moves, both up and down.

The oil and gas sector has been highlighted before for its potential for mergers and acquisitions activity as a group of resilient oil majors, able to borrow at low costs, stalk their weaker small cap prey across the globe. But with so much attention on this one sector, have investors missed opportunities elsewhere? In this exclusive report we analyse the Shell/BG deal and present some additional interesting leads in other major sectors: Big Pharma, Tech, Telecoms & Media and Retail. Read on to see what we found!

Shell / BG. A wave machine?

The deal between Royal Dutch Shell and BG Group could prompt further sector consolidation with the decline in oil price over the past year weighing heavily on some stocks which are, as a result, now looking attractive. In the last year BG shares fell 30%, those in Petrofac (PFC) came down 20%, Premier Oil (PMO) tanked 55% and shares in Tullow Oil (TLW) slid a staggering 65%. By comparison, sector behemoths BP (BP.) and Royal Dutch Shell have only shed 10% over the same period leaving them in the position of predator rather than prey.

A similar oil slump in the late 1990s triggered a wave of mega-mergers that saw Exxon tying up with Mobil, creating one of the world's largest companies. BP went on a takeover offensive buying Amoco, Arco and Burmah Oil, while Total acquired Petrofina and Elf.

The more recent Oil price doldrums are making for tough waters to navigate for smaller firms such as Tullow, which fell out of the FTSE100 at the last reshuffle and has been eyed as a potential target for hungry oil majors.

Mergers or no mergers, we can be assured of big share price moves in the immediate oil & gas and wider energy sectors on speculation alone, making now the perfect time to seek out profitable trading opportunities with us here at Accendo Markets supporting you every step of the way.

It's not a done deal...

Royal Dutch Shell has agreed the 14th biggest corporate deal in history with a £47 billion move to buy BG Group in a cash and share offer that marks the first mega-deal since the oil price collapse last summer. There is of course great speculation, discussed below, on a host of other names as investors catch the buyout bug.

But before we move on to these, is it now too late to buy BG shares?

Upon disclosure of the deal on 8 April the share price soared an incredible 40% to 1300p. Shell announced an agreement to pay 383p a share in cash and 0.4454 RDSb shares for every BG share. The offer values BG

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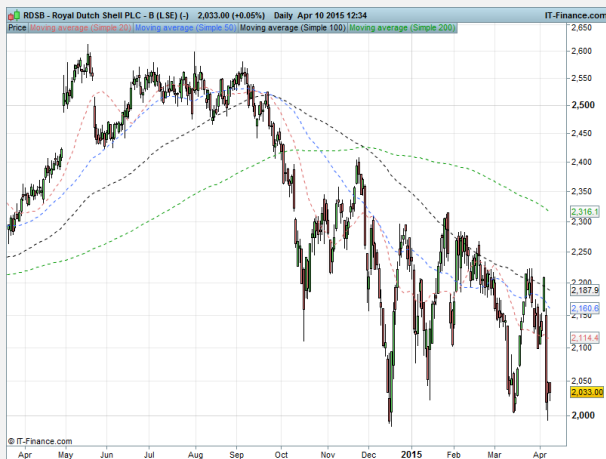
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group at around £13.67 a share, a 50% premium on the (pre bid) price.

BG group is currently trading around 1150p a share (price at time of writing). Buying BG shares at this price is a no brainer, right? There is over 200p in price discrepancy there - confident traders could realise profits of over 18%, providing the deal goes ahead, right?

Not necessarily. While some argue it's a sure bet, a song both Shell and BG are singing in harmonious agreement, it is the minute chance that the deal could break down that is enough to create the discrepancy in pricing. This is essentially what the risk is valued at.

Do you think it's worth a punt at this stage for a potential 18% gain?



Source: IT Finance



Analyst Summary: If Royal Dutch Shell doesn't go ahead with this, someone else will. BG, sitting way out in front of a rather scruffy bunch of small cap oil & gas companies, will add significant capability and downright value to Shell with its natural gas and deep water operations experience. With a projected finalisation date of June 2016 there is, however, plenty of time and plenty of scope for things to go wrong.

Technology: ARM Holdings (ARM)

Chip designer ARM Holdings has long been mooted as prey to Tech giant Apple's predator. With demand for Apple products such as the iPhone and iPad generating record sales, ARM remains Apple's largest and most important supplier. ARM remains at the forefront of chip design, producing processors that continue to outperform rivals. With Apple set to part company with the familiar Intel brand, will a new partnership materialise?

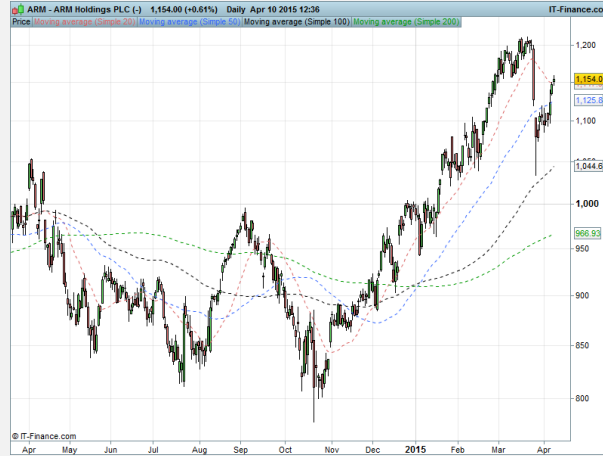
This year has already seen consolidation in the sector, with NXP Semiconductors acquiring Freescale for \$11.8bn and the aforementioned Intel rumoured to be buying Altera for over \$10bn. A takeover of ARM would surely cement Apple in its position as market leader in a growing smart phones and tablets business already worth hundreds of billions.

Apple invented the smart phone and the tablet. Now it's invented the smart watch. The need for Apple to maintain its market dominance makes consolidation all the more important, and a bid for ARM all the more likely.

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Source: IT Finance

Analyst summary: ARM holdings is a reasonably priced stock at the top of the chip design game. As above, so below - if Apple doesn't get in there soon, someone else will.

Retail: J Sainsbury (SBRY)

J Sainsbury has been the subject of takeover speculation for years. The Qatar investment fund which currently owns 26% of the UK's second largest retailer built up its shareholding in the company throughout 2007 before launching a £10.6bn takeover bid, which eventually failed. But with a fierce price war engulfing the retail sector, wreaking macro-economic havoc in the UK in the form of 0% inflation, is it time for J Sainsbury to get bagged up with someone else? There have been multiple opportunities for bidders to make an offer for the retailer over the past 12 months. J Sainsbury's share price plunged to a 10-year low at the end of last year, but no bid was forthcoming. Fast forward to early 2015 and UK activist hedge fund Crystal Amber sparked takeover fears as it negotiated with several large overseas investors as part of a plan to engineer a takeover, but this has yet to flirt with reality.



Analyst summary: The only way any of the major supermarkets would benefit from a merger would be their jumping into bed with 'cats amongst the pigeons' Aldi and Lidl. Neither can afford J Sainsbury, but

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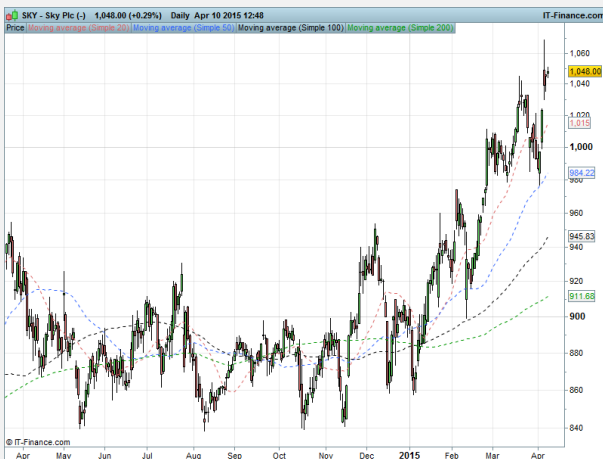
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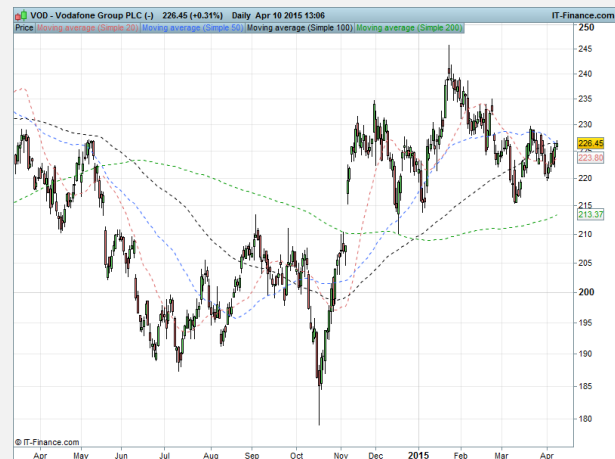
would either accept an offer?

Media & Telecoms: Sky (SKY), Vodafone (VOD)

Sky (formerly British Sky Broadcasting group) has found itself back on the M&A rumour mill this week. This time French media giant Vivendi denied claims that it was considering making a bid for the UK media giant. With a multi-billion euro war chest for purchases, does Vivendi just want to keep things close to its chest for the time being? Whatever the case, Sky shares rallied nearly 4%, highlighting the power of simple speculation. Deutsche bank believes that a 20% premium would need to be assumed if a takeover were to happen, equating to a £26bn bill for Vivendi.



Source: IT Finance



Source: IT Finance

Vodafone has also been on the watch list of M&A speculators. Speculation pervaded the market in early January indicating that Vodafone, bursting with cash after the sale of its stake in Verizon, had primed its own takeover coffers to seek potential prey. Naturally, Sky's name returned to the fold. Sky's partnership with Spain's Telefonica enhanced their offering of the much sought out 'Quad Play' (Broadband, Mobile, Landline and TV) while Vodafone is feeling the pressure as a multi-play services provider. Is Sky the perfect solution? With sector peers Talk-Talk and BT tying up, the heat is on. Could it be now or never for Voda?

Analyst Summary: If market direction heads the way of Quad Play, which seems to be happening, Vodafone could be left out in the cold. It has the resources to keep itself warm. Will it move inside next to the fire or just wrap itself up in a blanket?

Big Pharma: Shire (SHP), AstraZeneca (AZN)

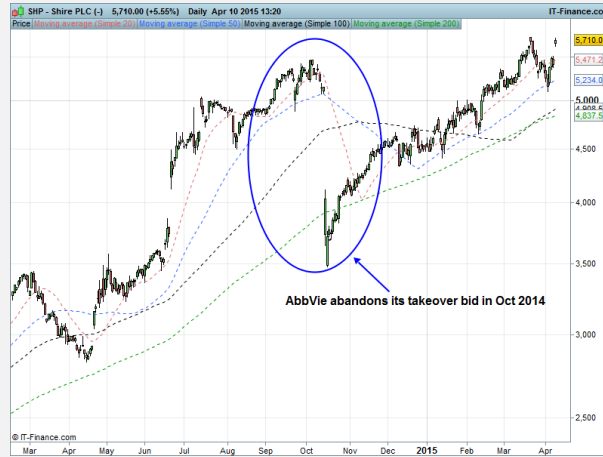
US firm **AbbVie** abandoned its £32bn takeover of **Shire** in October 2014 after a tax rule change in the US to discourage firms from relocating their head offices to more tax favourable destinations (Jersey in this case) rendered the deal unviable. AbbVie paid a \$1.6bn "break fee" to Shire as a result.

The current share price (5500p) has since surpassed the final offer. Should a 50% premium be required once again to satisfy shareholders, we'd be looking at a bid in excess of 8000p. The tax rule change coupled with a higher take out price sees this bid a long way from fruition.

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Pfizer failed with a £70bn bid (5500p per share) for **AstraZeneca** in May 2014 which was rejected by the board. Will they return with a new offer in light of the US tax rule change that deterred AbbVie from buying Shire? That said an improvement on the 5500p per share offer would present upside of 20% or more based on the current price (4700p). Sadly, the likeliness of this deal coming back to the table is slight since the US tax rule change.



Source: IT Finance

Analyst Summary: Once bitten, twice shy. The only viable candidate for takeover this year will likely be new kid on the FTSE100 **Hikma Pharmaceuticals (HIK)**, with its potential to be to the likes of GSK or Astra as BG is to Shell. But with all the (defensive cyclical) big Pharma players doing well in uncertain times, tie ups could prove just that little bit too bold for now.

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Buy or Sell?

Shares in BG Group took off after the announcement of the deal with Royal Dutch Shell, netting those with long positions in the company (expecting the stock to appreciate) a tidy profit. Conversely, as it became clear that AbbVie was going to cancel its bid for Shire, Shares in the latter plummeted.

Whilst many brokers concentrate purely on what to buy, **Accendo Markets** provides trading facilities that allow you to speculate on falling as well as rising prices. To that end, this report highlights tradable opportunities throughout. Take, for example, the abandonment of AbbVie's takeover of Shire. A quick witted and competent investor could have profited from the decline (taking a short position) in Shire's share price using one of our trading accounts.

Trading equities

Whether you see the **FTSE100 index** or its **components** going **up or down** over the course of 2015, one thing is for sure - **tradable opportunities** will present themselves regularly, especially around mergers and acquisitions.

If you have a particular equity in mind, you can trade it using CFDs which require as little as 5% deposit.

If you are optimistic on **Barclays (BARC)*** and wish to gain **long exposure** worth £10,000 via CFDs, you would require a £500 deposit. If the shares rally by 10% you would stand to make £1,000, just as if you held £10,000 of shares, with CFD leverage magnifying the return on your small deposit. If the shares fell by 10%, however, you would of course be liable for the £1,000 loss.

If you are negative on **J Sainsbury (SBRY)*** and wish to take **short exposure** worth £10,000 via CFDs, you would require a £500 deposit. If the shares fell 20% you would stand to make £2,000, as if you had sold short £10,000 worth of shares, with CFD leverage magnifying the return on your small deposit. If the shares gained 20%, however, you would of course be liable for the £2,000 loss.

Note that '**Stop losses**' can be used on Equity CFD positions to limit any losses.

*NB: *Stocks chosen randomly.*

Before taking a position in Stocks, be sure to contact Accendo for...

- ✓ **Updates** - How does the index or your preferred stock look in terms of investor **sentiment**? News and broker updates can emerge daily affecting share prices. **Optimism** can switch to **pessimism** in the blink of an eye depending on what's going on around the **world**.
- ✓ **How to use CFDs and Spread Bets to maximise your profit potential.**
- ✓ **How to use the tools available to minimise the risk involved.**

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The Accendo approach – what's different?

At **Accendo Markets** we don't tell you what to do. It's your call whether you buy or sell. Our aim is to provide the **help** you need, highlighting opportunities which may be profitable to you, the trader, and assist you in making **trading decisions** from which you can benefit via use of **leveraged instruments**.

Our approach focuses on **3 elements** below;

- **Education - not obligation**
- **Observations - not recommendations**
- **Assistance - not persistence**

Our unique and **award-winning service** provides you with the help and tools you need to make appropriate trading decisions in the financial markets, both to grow and **protect your capital**.

CFDs – A simple way to increase profit potential

For example, while **traditional Vodafone (VOD) shares** require the full amount be paid up front (e.g. £10,000 outlay for 4,545 shares at 220p), an **identical trade** using CFDs involves an **initial outlay** of just £500 (VOD CFDs require a 5% deposit). The outlay is lower but the **risk and reward are the same** as if £10,000 of shares were held.

The **CFD trader** benefits/suffers to the same extent as the **traditional investor** but has the advantage of **not having to part with the full amount** at the outset. He/she also saves on **stamp duty** as there is no physical purchase. Best of all, the CFD trader can take a **positive or negative view**.

Should you **not be interested in the leverage** advantage of CFDs but do wish to **purchase shares**, you can always **treat CFDs like shares** (also avoiding stamp duty). Simply deposit the full value of the share position you would like to take (i.e. £10,000) and take an equivalent CFD position (note that overnight financing costs will still apply).

Think an index will **rise**? Take a **long position** by buying the CFDs. Think an index will **fall**? Take a **short position** by selling the CFDs. For a more detailed rundown of CFDs, their mechanics, associated costs and some trading scenarios [click here](#).

Beware that the combination of CFD **leverage** and bigger share-price movements (**volatility**) can result in bigger than expected losses which can even exceed your original deposit.

**For any questions on how to trade UK equities via CFDs or shares,
including ways in which your risk can be managed,
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Our aim is to provide you with the manpower and expertise you need to help you clarify, interpret and capitalise on the ever-growing volume of market information.

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