What Westfield sale could mean for investors

Glenn Freeman | 15 Dec 2017

This top-100 ASX company, currently capitalised at $17.6 billion, will be part of a retail empire worth more than $90 billion if the proposed acquisition by Unibail-Rodamco is approved.

Founded in Sydney in 1953 by Frank Lowy and John Saunders, Westfield (ASX: WFD) holds interests in 35 shopping centres in the US and the UK, while its Australian centres are managed by the separately listed Scentre Group (ASX: SCG), according to AAP.

European property company Unibail-Rodamco values the shopping centre giant at $US24.7 billion. Under the terms of the deal, consideration will comprise 0.01844 Unibail-Rodamco stapled securities, plus US$2.67 for each Westfield security, according to Morningstar equity analyst, Tony Sherlock.

Shareholders can elect to accept the share allocation in either French or European scrip. The final consideration will vary from the offer price of $10, due to currency movement and changes in the value of the scrip, he says.

The new entity--should it emerge--will establish a Chess Depositary Interest (CDI) listed on the Australian Securities Exchange (ASX), which would be fully exchangeable with the new group's stapled securities, which are listed in Amsterdam and Paris.

Under these terms, the deal is fully-supported by Sir Frank Lowy AC, the 87-year-old founder of Westfield, and still Chairman of the Westfield Board, along with his sons Peter and Steven, both aged in their 50s. They will retain a substantial stake of around 11 per cent in the group.

The sale of the company appears to be part of a broader strategic shift for the shopping giant, with Lowy describing it as "the culmination of the strategic journey Westfield has been on since its 2014 restructure."

"We see this transaction as highly compelling for Westfield's securityholders and Unibail-Rodamco's shareholders alike," he says.

Sherlock believes the transaction is "almost a done deal". In response, he has raised Morningstar's Fair Value Estimate (FVE). Morningstar subscribers receive full access to this analysis and more.

While Westfield launched in Australia and New Zealand, a series of restructures means it is now a stand-alone internationally-focused entity that holds a strong portfolio of premium malls in the US and UK.

"In our view, Westfield is, and will remain, a market leader in mall development, reflecting its substantial in-house expertise, strong balance sheet, and options to redevelop existing malls," Sherlock told Morningstar.com.au earlier this year.

Regarded as holding a narrow moat rating of competitive advantage, he attributes this to its efficient scale, network effect, and high customer switching costs.

With the next executive meeting scheduled for early 2018, possibly early February, Sherlock anticipates the deal could be complete as early as April 2018.

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