

BASF set to buy Cognis for €3bn-plus

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BASF is set to buy smaller rival Cognis for more than €3bn (\$3.7bn) to help the German chemicals maker diversify away from lower margin oil-based products.

The deal, which would be one of the largest in the sharply rebounding global chemicals sector this year, is expected to be announced in the first half of this week, several people close to the situation said.

One person directly involved in the negotiations said: "This deal is home and dry".

Cognis's owners – Goldman Sachs investment bank and the Permira private equity firm – have been haggling for several months over the price for the medium-sized German speciality chemicals maker.

While Goldman and Permira hoped to fetch up to €3.5bn, BASF, the world's largest chemicals maker by revenues initially hesitated to pay more than €3bn. The two sides have now agreed on a price in the middle of that range for Cognis, which made revenues of €2.6bn last year.

Andreas Heine, analyst at UniCredit, said: "Chemical companies with the same ebitda margin currently trade with a sales-multiple of 1.1 to 1.3 times sales, so a price between €3.2bn and €3.3bn would not come as a surprise to anybody".

BASF, which has been advised by investment bank Lazard, has been wary not to be seen as overpaying after its almost €4bn acquisition of Ciba, its Swiss rival, 18 months ago drew criticism.

Cognis' net debt of €1.9bn at the end of 2009 will add to BASF's some €13bn in net debt. BASF generates between €3bn and €5bn in free cash each year and is thus likely to fund the deal without taking on additional loans.

BASF, Goldman and Permira declined to comment.

Cognis would give BASF a foothold in the high-margin business of cosmetics and personal care products made from natural resources such as coconut oil.

It would also give better access to top consumer goods clients such as Procter & Gamble.

Cognis' management will be able to profit from BASF's sales and purchasing network as well as its IT infrastructure.

Analysts at Commerzbank estimate that BASF could reap annual synergies of €80m to €100m.

Goldman and Permira turned down a partly-share financed offer by rival Lubrizol recently as they were not interested in owning a stake in the US speciality chemicals maker.

The two private equity investors bought the former subsidiary of consumer goods group Henkel nine years ago in a €2.5bn take over. They tried to sell the business several times, but possible buyers – among them BASF – balked at Cognis' debt and the owners' high price tag.

Goldman and Permira are expected to reap high returns thanks to several dividend payments in the past few years, which pushed the company's debt higher.

Fonte: Financial Times, London, June 21st 2010, Companies, online.