

CAPITAL BRIEF

‘Defend-at-all-cost tactic’: BlueScope digs in with \$438m cash return

The steelmaker fired a fresh shot in its takeover defence, announcing a \$1-per-share special dividend, but sources close to the bidders have dismissed the move as an act of desperation.



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Stock piles at BlueScope Steelworks in Port Kembla, Wollongong. Dean Lewins/AAP.

Fresh from its emphatic tear-down of SGH and Steel Dynamics' joint takeover bid last week, BlueScope delivered another show of strength on Wednesday morning by announcing a \$438 million special dividend for its shareholders.

But a source close to the bidders, who spoke to *Capital Brief* on the condition of anonymity, has called the move a "defend-at-all-cost tactic" and a "highly inefficient use of capital".

BlueScope insists that the move has been done as a part of its "established capital management framework" after selling residential land in West Dapto, Wollongong in December and its interest in the Tata BlueScope joint venture in January.

The unfranked special dividend option for returning capital was taken as an on-market buy-back is currently not available as the company fields the approach by **Stokes** family-controlled SGH and Nasdaq-listed Steel Dynamics.

A \$13 billion proposal from the consortium was emphatically rejected by BlueScope last week as "opportunistic" and an attempt to snap up the company from shareholders "on the cheap".

Milford Asset Management portfolio manager **Greg Cassidy** said the bumper payout is all part of BlueScope's defence negotiations to try and eke out a higher price from its suitors.

"It's just management and the board trying to say that we've got inherent value in this business," he told *Capital Brief*.

"I suppose they're trying to showcase that there's more to the business and the current earnings at the moment."

Cassidy, whose firm holds around \$300 million in BlueScope shares, said the consortium's \$30-per-share bid would need to rise to the "mid-to-low thirties" to tempt most fellow investors.

Four Steel Dynamics bids have now been rejected, including the immediate previous offer that implied a valuation of \$33 per share – comprising a \$24 per share valuation on the American assets and a \$9 per share on the rest.

According to the latest bid terms the special dividend would push SGH's even lower, from \$30 to \$29 per share.

Still, Cassidy sees nothing wrong with BlueScope's decision.

"They're not putting a balance sheet at risk because it's very strong," he said.

"Even after the dollar's paid out, it'll still be very healthy. So to me, it just forms part of the defence mechanism of trying to get a higher price. I don't think the company's saying we're not for sale necessarily. It's just saying \$30 was too low to engage."

Outgoing managing director and CEO **Mark Vassella** insists the dividend demonstrates the steelmaker's "ability to generate and distribute returns for its shareholders" and is "independent of any prior or potential future proposals for the company".

BlueScope said it also expects its free cash generation to "ramp up over the next 12-18 months" which could include the sale of the surplus land holdings it values at up to \$2.8 billion.

Balfour Capital Group director **Hersh Oberoi** told *Capital Brief* the return "is not necessarily a defensive move, but it clearly strengthens the board's broader narrative: BlueScope does not require a takeover to deliver cash returns to shareholders".

However, Oberoi does note that the move will put pressure on SGH and Steel Dynamics to raise their bid price as the capital return "lifts the implicit valuation floor".

"The board is effectively saying that it can return hundreds of millions of dollars today and still retain strategic flexibility. That weakens the argument that shareholders should accept a less-than-ideal offer in exchange for a control premium that may not be meaningfully higher," Oberoi said.

It might also convince some shareholders that "the 'do nothing' option now visibly includes near term cash in shareholders' hands".