cc JV

Prime Minister

CONFIDENTIAL

Qa 06239

To: PRIME MINISTER

From: JOHN SPARROW

31 January 1983

Privatisation: British Transport Docks Board - Now Associated British Ports Holdings PLC (ABPH)

w/h MCS

1. I have seen a copy of David Howell's minute of 31 January. I recommend that you agree to the sale proceeding on the basis outlined in that minute, subject to unforeseen changes in market conditions or to any other unfavourable events.

2. The three issues for consideration are method of sale, pricing, and timing. As to method, I agree that an underwritten offer for sale is the most satisfactory procedure in this case. ABPH is not an exciting company nor is it an unknown quantity, and there seems no particular reason to prefer a sale by tender.

3. On pricing, comparisons are difficult as there are no similar quoted companies (and because I have not seen the draft prospectus). The closest analogy that I have been able to think of is European Ferries. That sells on a price earnings multiple of 7.5 and a dividend yield of 7.5 per cent. ABPH is not likely to be regarded as a growth stock, and the market will therefore judge it primarily by the proposed dividend yield of 9 per cent. Given the nature of the company, the disappointing current performance and the flatness of profit projections over the next few years, the pricing recommended by Schroders seems to me to be reasonable.

4. Finally, on timing, I see that Schroders have expressed the view that a better sale would be achieved if the offer were delayed for six or twelve months. It is true that a six month delay would permit a forecast of 1983 profits to be made. However, in addition to the arguments for action now advanced by David Howell, I believe that the chances of market conditions deteriorating over the next six or twelve months are at least as great as those of ABPH performing better than is currently expected. I recommend approval.

5. I am sending a copy of this minute to Sir Robert Armstrong.

JS

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