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Privatisation fever takes grip

By Gill Plimmer
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First the downturn, then the sale of state assets – it is like a rerun of the 1980s.

Privatisation is again sweeping the world, with governments hauling in a record $213bn in revenues last year in a massive sale of everything from ports to phones and gambling companies to gas groups.

The US was the surprise leader in a stellar year for state sell-offs in 2010. It racked up $49bn in revenues, according to Privatisation Barometer, a joint project between KPMG and Fondazione Eni Enrico Mattei, a Milan-based research institute.

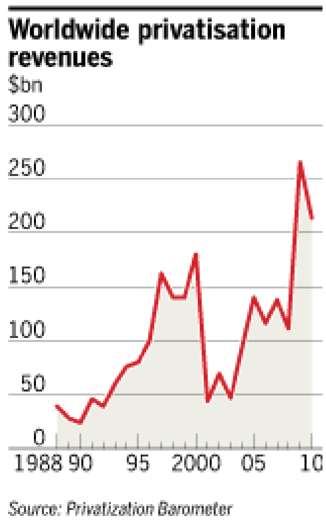
The trend looks set to continue globally this year with another $150bn on the block so far, suggesting that revenues from privatisation will near the 2010 figure, the highest achieved since governments began offloading assets three decades ago.

Large deals on the table include the $6.3bn auction of Polkomtel, the Polish mobile phone operator, and Mongolia's 30 per cent IPO of a stake in the mining company Erdenes Tavan Tolgoi, expected to raise as much as $2bn.

The figures have been bolstered by the offloading of stakes acquired in government rescues throughout the financial crisis.

The biggest privatisation this year is expected to be the US Treasury's estimated $15bn sale of shares in Ally Financial, General Motors' financial arm, bought when the car manufacturer was bailed out in 2009.

Although revenues from asset sales were technically higher in 2009 than in 2010, almost two-thirds of those sales involved bank repurchases of mostly preferred stock that were acquired through government bail-outs during the financial crisis, according to William Megginson, professor at the University of Oklahoma and the report's author.



Last year, governments sought to devolve responsibility for infrastructure and assets in almost every political system and country.

Significant deals included **Agricultural Bank of China**'s $22.1bn IPO, the largest stock offering in history.

The world's biggest developing economies have emerged as enthusiastic vendors. This year, Russia has authorised the sale of a 7.5 per cent stake in **Sberbank**, the nation's largest, as part of a goal to offload $50bn of assets by 2016.

The 27 EU nations have traditionally been slow to privatise but with sell-offs a condition of bail-outs, Spain, Poland, Portugal and Greece are set to unleash a wave of asset sales.

In May, the Portuguese government was forced to commit to selling off residual stakes in the country's energy company **Energias de Portugal** and airline TAP Air Portugal. The latest forecast has Greece privatising €50bn of assets over the next four years.

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“The economics of privatisation is simple: privatise when your debt soars, nationalise if your fiscal condition allows it,” says **Bernardo Bortolotti**, founder of Privatisation Barometer.

But he highlights several differences with previous surges in privatisation.

First, many of the largest deals last year were governments rushing to offload stakes in bailed-out companies; more than half of the US total was raised through sales of **Citigroup** shares.

“The US aren’t big privatisers,” says Mr Megginson. “They have a lot of valuable assets but these won’t be sold. Most airports are still in public hands, as is 90 per cent of Alaskan land.”

Second, the most active purchasers have been big institutional investors and sovereign wealth funds rather than the retail shareholders that bought into denationalised companies in the 1980s.

Third, there were several big infrastructure sales last year but many of the deals involved the sale of long-term contracts rather than entire assets. For example, the Queensland state government auctioned the right to operate the Port of Brisbane for 99 years.

Fourth, the Chinese, Indian and Polish governments were involved in a number of sell-offs, partly aimed at promoting their capital markets. But the government retains a controlling stake in deals such as AgBank’s.

Francesca Cornelli, professor of finance at London Business School, goes as far as to question whether this is privatisation as coined by Margaret Thatcher in the 1980s when companies were sold off in their entirety.

“Are they really selling their companies or not? You need to look at whether they are releasing control.”