Smithfield Shareholder Still Presses for Break Up

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US - A key shareholder in Smithfield Foods Inc has hired advisers to help break up the US pork giant and sell it in pieces rather than allow it to be sold intact to China's Shuanghui International Holdings Ltd, according to a regulatory filing.

Starboard Value LP, a 5.7 per cent shareholder in Smithfield, said it hired New York-based Moelis & Co and Business Development Asia LLC to help get a better offer for Smithfield shareholders than the $4.7 billion deal which would be the largest Chinese takeover of a US company if completed.

In the filing, Starboard, a New York-based hedge fund, reiterated its belief that Virginia-based Smithfield, the world's largest hog farmer and pork processor, would be worth more if it were broken into three parts - US pork production, hog farming and international sales of fresh and packaged meats - and then sold.

The advisory firms will assist it in "identifying and connecting any strategic or financial buyers" for Smithfield's "individual business units" and finding a "sum of the parts transaction that could qualify as a superior agreement", Starboard said in the filing.

Starboard, which laid out its criticisms of the Smithfield deal in a letter to the company's board last month, did not reply to an e-mail from *China Daily* requesting further comment on the hedge fund's decision to hire advisers.

Smithfield agreed in May to be acquired by Shuanghui, the main shareholder in China's largest meat-processing enterprise, for $34 a share, or $4.7 billion. The agreement, which the companies said they expected to close in the second half of this year, also includes $2.38 billion in assumed debt.

The proposed deal is under review by the Committee on Foreign Investment in the United States (CFIUS), an interagency panel that investigates foreign investments in connection with national security issues. The proposed deal is seen as helping China - the world's largest consumer of pork - meet demand for the meat, as its increasingly prosperous residents eat more protein.

Since the proposed deal's announcement, US Senators have raised questions about the Chinese company's ability to comply with food safety standards if the transaction goes ahead. US lawmakers also have raised concerns about foreign ownership of the nation's food supply.

Ken Goldman, an analyst at JP Morgan Equity Research of America, said he believes the transaction will be approved, as CFIUS works out a "compromise solution".

Although pork itself doesn't directly affect US national security, a bird flu outbreak this spring and the discovery of thousands of dead pigs in Shanghai's rivers, has added to China's "negative reputation" in the protein industry, the analyst said. Deaths tied to tainted milk and a chicken-processing plant fire also have fueled food safety concerns.

Observers, however, expect the proposed Smithfield deal to win regulatory approval, due to the companies' assertion that the merger is driven by growing pork demand in China and not a strategy to export pork to the US. The agreement is unlikely to raise traditional antitrust concerns because it doesn't give Smithfield - already the world's largest hog farmer and pork producer - a larger share of the US pork market.

Smithfield CEO Larry Pope recently told the US Senate Agriculture Committee that the nation's pork producers "struggle" to build market share in the US as Americans' pork consumption dwindles. As pork is only the third most consumed US meat, producers are forced to look outside the US for growth opportunities, he said. Since announced, the proposed Smithfield deal has received support from local, state and national officials, unions, hog farmers, academics and US food industry peers, Mr Pope said.

The transaction apparently has cleared one US regulatory hurdle, as the waiting period for objections to be filed with the US Justice Department expired Friday. The company already has satisfied antitrust authorities in Mexico and Poland.

The proposed deal still requires approval by Smithfield shareholders, who had long been critical of Smithfield's stock price with Pope in charge before the transaction was announced.

In its 17 June letter to Smithfield's board, Starboard said the proposed merger "significantly understates a conservative sum-of-the-parts valuation of the company," which it put at between $9 billion and $10.8 billion, after tax, or approximately $44 to $55 per share. That projected price represents a premium of 29 per cent to 62 per cent to the $34 per share Shuanghui deal, according to the letter.

Starboard's letter noted that Smithfield's hog-production and pork divisions are the world's largest, and its international division includes interests in hog farming, meat processing, and branded meat operations in Poland, Romania, UK and Mexico.

"It is our belief that the divisions of Smithfield are easily separable and had the company explored a sale of these businesses in separate transactions, shareholders may have received far more value than the $34 per share consideration contemplated by the proposed merger," Starboard's letter said.

"We question whether the board gave sufficient consideration to a sale of the divisions in separate transactions, or whether it focused primarily on an all-cash transaction for the company as a whole, which we believe would entail a much more limited universe of potential."

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