# GKN pledges demerger to keep hostile bidder at bay

Deirdre Hipwell

A commitment to demerge its aerospace and automotive businesses has been made by GKN in an attempt to see off a hostile takeover bid by Melrose.

The engineer confirmed that it would list the divisions separately by the middle of next year to create "two strong companies with investment-grade balance sheets".

GKN said that a demerger was a tax-efficient solution and one that would also support its pension liabilities, adding that it had reached an agreement with the pension trustees.

It promised to carry out the demerger as it reported a 16 per cent drop in its annual underlying profits. Most of the fall was down to problems in its North American aerospace structures division, where it had to take a £112 million one-off charge. Its statutory pre-tax profit rose by 125 per cent to £658 million.

**£340m**

**Annual cash benefit GKN expects from Project Boost strategy after 2020**

GKN

GKN is a British engineering company with global sales of more than £10 billion. It makes parts for some of the world's biggest aircraft and vehicle manufacturers, including Airbus, Boeing and Ford, employing 6,000 people in Britain and 53,000 in total.

Melrose is a London-based conglomerate that has made a fortune for its investors by buying underperforming engineers, shaking them up and selling them. It owns companies including Brush, Hawker Siddeley and Nortek, the American ventilation group.

Its attempted £7.4 billion hostile takeover of GKN is the first for a FTSE 100 company since BHP's abortive move on Rio Tinto in 2008. It has provoked a furious war of words between the two, with Melrose claiming that GKN is badly run and its target hitting back with accusations that Melrose is a corporate raider that could put GKN's long-term future at risk.

The demerger plan announced yesterday is part of GKN's "Project Boost" strategy that promises to return £2.5 billion of cash to shareholders over three years. It also plans to sell some assets, including its Powder Metallurgy division, return cash through enhanced dividends and improve its margins. In all, GKN expects Project Boost to deliver a recurring annual cash benefit of £340 million from the end of 2020.

The company said yesterday that underlying pre-tax profits had slipped by 16 per cent to £572 million, on sales that rose 11 per cent to £10.4 billion. Its trading margin fell from 8.2 per cent to 6.4 per cent in the year to December 31.

Anne Stevens, chief executive of GKN, said that it needed to employ a "renewed focus on strong margins and cash generation" as she set new trading margin targets of at least 14 per cent for its aerospace division, at least 9.5 per cent for automotives and 11 per cent for the group by 2020.

Christopher Miller, Melrose's chairman, dismissed GKN's results and strategy as "full of long-term promises and more short-term actual misses", and added: "They include a rushed plan to demerge aerospace and automotive, which begs the question whether the priority of Project Boost has been superseded by the dismemberment of GKN in the next 15 months.

"GKN deserves better than this. We believe Melrose is the only team with the ability to unlock its true potential."

Both GKN and Melrose were steady, at 430¾p and 225½p, respectively.

RICH LEGG/GETTY IMAGES

# Auctioneers cashing in on urge to Flog It!

**The growing and seemingly irresistible urge of Middle England to pick out a family heirloom and flog it has driven a boom in smaller, regional auction houses (Deirdre Hipwell writes).**

**The craze, popularised and encapsulated by the BBC valuation and sale series *Flog It!*, has highlighted a market otherwise dominated by the London's Big Four auctioneers of Sotheby's, Christie's, Bonhams and Phillips. Yet while they dominate the multimillion-pound world of fine art and antiques, they have left much of the lower-hanging fruit to provincial auctioneers.**

**For more than a decade, the Big Four's international salerooms have stopped selling objects in the £500 to £5,000 price bracket, a move that last year culminated in the closure of Christie's in South Kensington, London. In stark contrast, regional houses accounted for more than a quarter of the market last year, with combined sales of more than 500 auctioneers rising from £763 million in 2015 to £821 million, according to Thesaleroom.com, a sister brand to *Antiques Trade Gazette*. The regional auction houses' overall market share has edged up from 24 per cent in 2015 to 26 per cent in 2017, according to new figures.**

**Several have responded by hiring extra staff and adding to their specialist sales lists, which have helped to boost turnover. Many of the smaller houses are selling more lots online each year, which can drive the hammer price higher and swell sales.**

**Items sold at regional auctions can range from Australian Kangaroo issue stamps to fine clocks, barometers, scientific instruments, as well as art and antiques.**

**Next month, Dreweatts & Bloomsbury Auctions in Berkshire are offering a rare George III 2.5in pocket globe, dated 1782 and produced by John Newton, for between £3,000 and £5,000.**

A pocket globe from 1782 is among the rare items due to be sold at Britain's thriving regional auction houses

**It is not only cheaper lots that are sold at regional auction houses. An early American porcelain teapot was sold this year for £460,000 at a Woolley & Wallis auction in Salisbury to the Metropolitan Museum of Art in New York. The pot was only the seventh piece known to be from the John Bartlam factory in Cain Hoy, South Carolina.**

**Fellows, which is Britain's largest regional auction house, led last year's league table, with £17 million of sales in the year to December.**

# Qataris pour scorn on Carillion claim

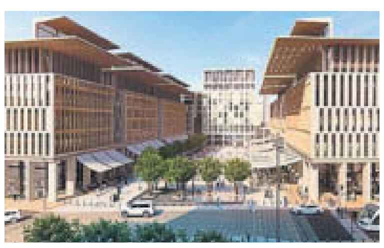
Gurpreet Narwan

The Qatari company accused of withholding payment to Carillion has hit back at suggestions that it contributed to the group's collapse, claiming that it was itself owed £200 million.

MPs said that a "litany of excuses" for the failure of Carillion was "fast unravelling" after Msheireb Properties wrote to the work and pensions committee accusing Carillion of mis-stating the value of work it had completed in the centre of Doha.

In the letter, Msheireb Properties rejected evidence submitted by Richard Howson, Carillion's chief executive until last July, who had told MPs that he "felt like a bailiff" when attempting to obtain £200 million for the project.

His comments, which are said to have infuriated the Gulf country's ruling al-Thani family, were entirely "misleading" and referred to "the value of construction work remaining to be completed" plus "the value of claims relating to further delays", the Qatari company said. Instead, Carillion owed Msheireb about £200 million, comprising "good faith overpayments", which it had made to assist the ailing outsourcer, direct payments to subcontractors that Carillion had not paid and damages caused by contractual delays.



Carillion has been closely involved in the overhaul of the centre of Doha

Britain's second-largest construction company went into liquidation last month with debts and pension liabilities each exceeding £1 billion. In the days that followed its collapse, the unfinished £5.5 billion Msheireb development in the centre of Doha became a focal point as Carillion's directors sought to blame Msheireb for contributing to the group's demise.

Msheireb said that the claims made by Keith Cochrane, Carillion's chief executive until the collapse, that it had not been paid by the Qatari company for 18 months before the business had failed were "factually incorrect".

Carillion "was paid at regular monthly intervals … without exception, in accordance with the conditions of the contract" until January 2017, Msheireb said. In 2017, payments were reduced after an agreement that Msheireb "would pay its subcontractors directly as Carillion was unable or unwilling to do so".

MPs noted that Carillion's accounts suggested that the amount owed at the end of 2016 was £72 million and said the contradictory positions reinforced "the impression that the upper reaches of Carillion was stocked with fantasists".

# Silver linings overshadowed by growing clouds at miner

Emily Gosden

Rising costs have prompted Fresnillo to warn of a challenging year ahead after profits fell short of expectations yesterday.

Shares in the Mexico-based precious metals mining group fell by more than 4 per cent, despite announcing a dividend that was higher than the stock market had expected.

Fresnillo, which was listed in London in 2008, owns the world's largest primary silver mine and is one of Mexico's biggest gold producers.

It has seven operating mines in the country and produces lead and zinc alongside the precious metals. The first Mexican company to have its primary listing in London, Fresnillo is a constituent of the FTSE 100.

It reported pre-tax profits of $742 million last year, up from $718 million in 2016, as silver production hit a record 58.7 million ounces thanks to a boost in operations at its San Julián mines. It also benefited from a 35 per cent increase in zinc prices and 25 per cent rise in lead prices.

However, higher-than-expected cost inflation of 6.4 per cent took the shine off the result and profits of $1.06 billion before deductions were just shy of the $1.09 billion that had been forecast by analysts. Cost inflation could run at about 7 per cent this year, Fresnillo predicted.

The company said that inflationary pressures over the past year had included a 3.3 per cent increase in wages, a 29 per cent jump in electricity prices in Mexico and a 22 per cent rise in diesel prices following the country's move to liberalise its fuels market.

The shares closed down 59p at £12.73 last night.