

Citigroup in ¥1.25 trillion takeover bid for Nikko

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Tokyo - Citigroup has offered ¥1.25 trillion (R78 billion) to buy its investment banking partner, Nikko Cordial, after the brokerage was battered by an accounting scam. It is the firm's biggest takeover bid in Asia.

Citigroup would pay ¥1 350 a share to raise its stake in Nikko from 4.9 percent, the company said yesterday. The takeover would be the second biggest by an overseas buyer in Japan and the largest by Charles Prince since he became chief executive in 2003. Nikko Cordial's shares surged 14 percent to ¥1 340 before the announcement.

The biggest US bank would gain 109 branches and 12 000 employees in the world's second-largest economy by acquiring Nikko Cordial. A takeover would also end concerns about Nikko's future after six top executives quit and the Tokyo Stock Exchange said it might delist the company's shares because of the accounts fraud.

"The business is worth more than ¥2 000 [a share], for sure, in the long term," said David Herro, the chief investment officer of international equities at Harris Associates.

Nikko said it sued its former chief executive, Junichi Arimura; former chief financial officer Hajime Yamamoto; and the former chairman of Nikko Principal Investments Japan, Hirofumi Hirano, for ¥3.1 billion, seeking compensation for losses suffered.

Nikko Cordial and Citigroup operate an investment banking venture, in which the US firm has a 49 percent stake.

"There has been some negative impact on the joint venture because of the publicity surrounding Nikko Cordial," said Citigroup's Prince.

In the run-up to yesterday's announcement, overseas investors increased their stakes in Nikko Cordial, and now account for more than 60 percent of the shares, the Nikkei newspaper reported on March 3. Harris Associates last month became the biggest investor in Nikko by raising its stake to 7.2 percent from 6.2 percent.

Japanese individual investors are increasingly taking money from bank savings to invest in higher-yielding assets, including overseas stocks and bonds. Overseas stock purchases by Japanese investors rose to ¥17.9 trillion last year from ¥12.8 trillion in 2004, according to Bloomberg data.

Goldman Sachs Group, UBS, Citigroup and Merrill Lynch for the first time took the top four slots for takeover advisory in Japan last year. Nomura Holdings slumped to sixth.

Buying Nikko Cordial may help restore credibility at the company after the top management was implicated in the accounting fraud.

In January, an outside panel found that Nikko Cordial's former chief financial officer ignored repeated warnings from the company's audit committee about accounting methods.

Citigroup has endured setbacks of its own in Japan. Three years ago, regulators ordered the company to close its local private bank for failing to police fraud and money laundering. Last month, Citigroup moved to shut about 80 percent of its consumer finance outlets in the country after new laws capped the interest rate non-bank lenders may charge.

Mizuho Financial Group, which has a 4.8 percent stake in Nikko Cordial, dropped a plan to acquire Nikko, officials said, eliminating a potential hurdle for the deal. - Bloomberg

