Reprinted from **THE TIMES** Wednesday 4 February 2015

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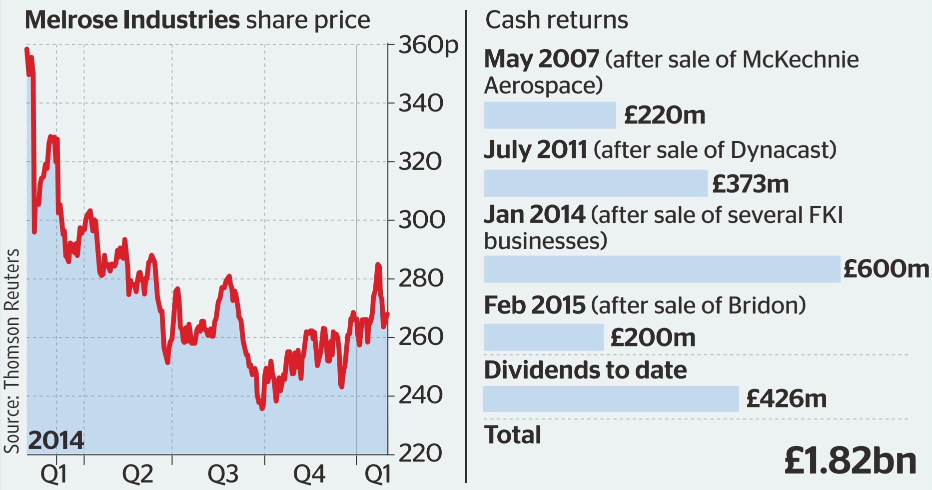
Buy, sell or hold: today's best share tips

Melrose turnround plan pays dividends

MELROSE INDUSTRIES

Share consolidation 13 for 14

High record of return



Melrose's business plan is like that of a private equity house, albeit one focused entirely on engineering. The company buys underperforming businesses, improves them and sells them on.

This does not require any structural improvements in the markets served, merely the ability to run a business more efficiently than previous management. It does mean that Melrose is probably competing with any number of private equity buyers when it goes seeking its latest acquisition. That competition undeniably has pushed the price of such assets higher over the past couple of years.

Yet there are indications that those prices, or at least vendors' expectations, have come down a bit, which makes the next deal more achievable, even if the timing is, as ever, impossible to predict. Equally unforeseeable is the pace of disposals, but yesterday the company set out the return to shareholders from the latest, the £365 million sale of Bridon, the maker of wire ropes. Investors will get £200 million, or 18.7p a share, in the form of income or dividends, whichever is more efficient for tax reasons.

A consolidation of every 14 shares into 13 means that the price should remain about the same despite the cash out. Melrose says that the latest return means that since 2005 it has created £2.5 billion of value for shareholders against net investments, taking out disposal proceeds, of £170 million. This is an astonishing record and explains why this column has long favoured the shares.

The next disposal, probably unlikely to trigger a return by itself, is the water meter side of Elster, a German business bought in 2012 for a reported £250 million. That could take place this year.

Further down the line is the Brush generators business, although present market conditions do not suggest a sale and, eventually, Elster itself.

This last is dependent on the margins that can be achieved there; these have already exceeded expectations, so there may be further to go.

The shares, up 3p at 269¾p, sell on 16 times 2015 earnings. This is more a case of trusting the management than worrying about market multiples. Buy long term.

18.7p
Amount returned from Bridon sale

MY ADVICE Buy long term
WHY The Melrose model of buying businesses, improving them, selling them on and returning capital to shareholders is a proven one