SPINOFF NEWS

Sears Holdings (SHLD) announced that Bruce Johnson, who served as its CEO from 2008 to 2011, will become CEO of Sears Hometown, set to list in a rights offering in coming weeks. The management choice, together with the commitment by SHLD controlling shareholder ESL Investments to oversubscribe for Hometown shares, strongly suggest that Hometown is the piece of Sears that knowledgeable insiders want. Hometown's last registration filing was July 20; at that point, no date had yet been set.

The wave of vertical disintegration in the petroleum industry continues. At the urging of spinoff activist Jana Partners, **Marathon Petroleum** (MPC), which itself was spun off just last summer, now plans to carve out its pipeline operations in a $365m IPO, creating a master limited partnership to be named MPLX. On July 31, refiner **Valero** (VLO) said it plans to spin off its retail marketing arm.

Any **IDT Corporation** (IDT) shareholders patient enough to sit through the months of spinoff delay have finally been rewarded with a reinstated announcement to independently list **Innovative Communications Technologies**, IDT's intellectual property unit, which owns some of the earliest patents on IP telephony.

Pfizer (PFE) says it will conduct both a 2012 IPO carve-out and 2013 spinoff distribution of animal health unit **Zoetis**.

Siemens (SI), unable to subscribe a planned IPO carve-out of lighting unit **Osram**, will now instead spin it off in Q2 2013.

Linn Energy (LINE) plans a new listing we haven't seen before: a shell corporation to be named **Linn Co** (LNCO), which will own LINE partnership units one-for-one. Though tax-inefficient (LINE passes through earnings, but LNCO must pay tax), it may offer a useful vehicle to investment partnerships that currently do not trade in limited partnerships for reasons of compliance complexity. We're a bit mystified as to how LNCO can be sold at a price high enough to purchase the same number of LINE shares, when tax effects render LNCO's cash flow per share 40% smaller than LINE's -- but the promotional skills of underwriters are not to be underestimated.

CC Land (1224.HK) spun off **Qualipak International Holdings Ltd** (1332.HK) on July 12 in a simultaneous IPO and shareholder distribution. This simultaneous approach is rare, because it creates selling pressure immediately after a promoted offering. Perhaps not surprisingly, shares have fallen 45% in the ensuing couple of weeks.

Pre-marketing began July 20 for the IPO carve-out of **Far East REIT** from **Orchard Parade** (O10.SG). Far East REIT will list in August.

At least five private equity buyers are reportedly preparing bids to buy **Direct Line Group** from **Royal Bank of Scotland** (RBS), as tempestuous European markets continue to hinder prospects for an IPO carveout of DLG.

CANCELLATIONS

On July 4, **Geden Holdings (**private) canceled the spinoff of **Universal Maritime** (UMAR.OL). **Louis Dreyfus** (private) this month first announced, then postponed Brazil IPO carveout **Biosev** on faltering demand. As we surmised in the March issue, **Loral Space & Communications** (LORL) has sold its space systems unit for cash, scuttling a proposed spinoff.

Lloyds Banking Group (LLOY.L, LYG) appears to have abandoned its effort to offer shares in its Project Verde consumer banking assets, and will instead sell them to Manchester-based **Co-operative Group** (private) for approximately half of book value. This may have been a negotiating tactic gone wrong: Lloyds reportedly had an offer from Co-operative late last year for twice the current price, but pursued an IPO instead, in hopes of doing better. Co-operative is a mutual, not a listed corporation.

CANCELED CARVE-OUT: CASH AMERICA

On July 26, pawnshop chain **Cash America** (CSH) abandoned plans to list its payday lending unit in a public offering as **Enova Financial** (ENVA), citing market conditions. The same day, it announced reduced guidance for the rest of 2012. CSH immediately fell about 20%, to 8 times earnings. Double-take: CSH is a well-financed, globally diversified high-margin lender with a long history of profitable growth, and its just-reported Q2 2012 earnings are *up* 12% year-over-year (the sequential decline from Q1 to Q2 is seasonal, as one can verify by looking at sequential results in prior years). Yet shares are priced as if the sky has fallen in.

We anticipated this risk when we recommended CSH in our April 30 issue. As we said then, "and what if the carve-out offering collapses, or regulators limit payday loans? We are left with a well-financed, growing business purchased at a fair multiple, with little or no premium paid for growth. Not a bad worst case." With shares now down wildly out of proportion to the change in fundamentals, CSH looks like a better deal today than in April.

FIFTH THIRD BANCORP: MISUNDERSTOOD PARENT?

Among the many casualties of the 2008 financial crisis, regional banks were some of the worst affected, such that even now, some are relatively cheap. **Fifth Third Bancorp** (FITB) looks that way, perhaps partly because of a recent IPO carve-out it no longer consolidates.

FITB nominally trades at 9 times earnings, but if we strip out its $2.4b holding in March carve-out **Vantiv** (VNTV), a payment processor, FITB looks closer to 7 times earnings, and a few percent below tangible book value to common. This is not the fire-sale discount we see in the too-big-to-fail banks, nor even the bargain-priced community banks, but FITB looks reasonably priced against both earnings and book value, is easy to understand, has scale, and appears to have completed its bubble-era writedowns. One might consider going long FITB and short its holding in VNTV. Just to be clear, we do not advocate shorting VNTV alone, as it may turn out to be a growth stock or acquisition candidate; we merely propose to hedge it away from FITB, to get the bank as cheaply as possible.

HOWARD BANCORP REGISTERS WITH SEC, LISTS ON NASDAQ, RAISES CASH, REMAINS CHEAP

Maryland-based **Howard Bancorp** (HBMD) listed on Nasdaq this month in a $10m offering that enjoyed heavy insider participation. We mentioned Howard in the March issue, while it was still on the Pink Sheets and trading at a big discount to tangible book value; today, the discount is "only" 17% (after deducting the face value of its SBLF preferred), but assets now consist largely of cash received in the offering, deposits are growing fast, and the company now has a national listing and SEC disclosure obligations. HBMD looks like a good deal at anything below the offering price of $7.30, for investors willing to tolerate extreme illiquidity: even with the the national listing, this remains a tiny ($28m of common), thinly traded issue.

RECENT MUTUAL CONVERSIONS

Community banks were the bargain story of 2011. Before December, discounts to book value were so large that one could have invested almost at random and made out handsomely by mid-2012. The easy pickings are gone, but recent mutual conversions still look cheap, compared to their asset quality.

At right is a list of most mutual conversions from the past year. This may miss a few from spring 2012, but should be reasonably complete.

Holding company name	Ticker	Offering date	Gross proceeds, $m	Price to tangible book value of common	Dodgy loans?
Georgetown Bancorp	GTWN	Jul 11, 2012	11	69%	
Hometrust Bancshares	HTBI	Jul 10, 2012	212	69%	yes
Wellesley Bancorp	WEBK	Jan 26, 2012	23	81%	
West End Indiana Bancshares	WEIN	Jan 11, 2012	14	62%	
Carroll Bancorp	CROL	Oct 13, 2011	4	43%	somewhat
ASB Bancorp	ASBB	Oct 12, 2011	56	68%	yes
BSB Bancorp	BLMT	Oct 5, 2011	90	87%	*n/a*
Poage Bankshares	PBSK	Sep 13, 2011	34	71%	
IF Bancorp	IROQ	Jul 8, 2011	45	73%	
State Investors Bancorp	SIBC	Jul 7, 2011	29	75%	
Average price to TBVC				70%	

In a mutual conversion, a bank transfers ownership from its depositors to new shareholders, typically by issuing shares in a holding company that then owns the bank. Shares are usually offered first to depositors, then management, then everyone else.

Such situations can be attractively priced for a number of reasons, not least that managers have an incentive to maximize their own participation by under-promoting the offering to everyone else. Even after the offering, such firms' small size and short SEC filing histories may limit transparency, unless one is willing to obtain FDIC filings and look at the underlying bank results. We find that, even today, recent mutual conversions trade at an average 30% discount to tangible book value -- and, importantly, none is encumbered by TARP, SBLF or other preferred issues.

Among those in the table, Hometrust and ASB have poor Texas ratios and/or nonperforming loan ratios, and Carroll is an outlier, with modestly elevated risk but extremely low price. The rest all look rather similar: well capitalized, recovered from the real estate crash, profitable (though typically inefficient, with efficiency ratios of 65%-85%), cheap relative to assets, and with rising equity.

A disadvantage of recent mutual conversions is that their charters often contain provisions to prevent a merger for 2 to 5 years after listing. Low price protects the investor from a downturn, but upside is limited unless the bank radically improves operational efficiency -- and management would need to find such gumption in the absence of outside pressure from meddling potential acquirers.

Still, we're not above collecting these cigar butts, especially given the present macroeconomic environment. Conditions today (slack demand, shrinking credit, low yields, low growth) are somewhat similar to those that prevailed in Benjamin Graham's heyday, and so may particularly reward his approach.

SPINOFF PROFILE

Engility Holdings

Event details	
Type	spinoff
Listed pre-spin	no
Parent	L-3 Communications
Headquarters	USA
Primary listing	USA
Record date	7/16/12
Listing date	7/18/12
Distribution ratio	1 : 6
Spin cap / Parent cap	0.04
CEO joins spinoff	no
Analyst coverage	limited

This month brought just one distribution-type US spinoff: **Engility** (EGL), which separated last week from defense contractor **L-3 Communications** (LLL). Engility offers training and engineering support services to various US government agencies, typically in situations requiring security clearance.

The stated reason for the spinoff is to permit Engility to take on more clients, independent from potential conflicts with L-3 contracts; it also happens to separate EGL's 5% operating margins from LLL's 11%, and offloads 9% of the parent's debt.

The pro forma financial statements of EGL imply it is priced today at just under 13 times trailing earnings, but this includes a 2011 goodwill impairment; excluding this effect, the trailing multiple is less than 3 times earnings. Why so cheap? Defense cutbacks. The company presents its revenue as consisting of two components: volatile Iraq/Afghanistan contracts, which will be largely wound down by the end of this year, and a more stable "base business," estimated to generate a stable $1.5b revenue and $100m operating income, as it has for several years. Company presentations provide segment breakouts to defend this assertion. If their claims are true, the company now costs a little over 4 times continuing net earnings.

Bottom line: Avoid LLL, but consider going long EGL, and short an equivalently sized basket of defense majors, such as NOC, GD, LMT and RTN, which all trade at 8 to 11 times earnings. This is not a perfect hedge, because EGL's contracts are with not just military but also civilian government.

The reason for the hedge is that, while Engility appears mispriced for its supposedly stable "base business," we presume the federal government will not forever spend over $1.50 per tax dollar, as it has done since 2009; we don't want to be long federal contractors when discipline resumes.

Engility historical, $ millions	***2011***	***2010***	***2009***	***2008***	***2007***
Sales	2,180	2,521	2,658	2,882	2,958
Operating income	98	69	255	274	266
Working capital	187	220	259	259	270
Return on capital	52%	31%	98%	106%	99%
L-3 Communications, ex-EGL, $ millions					
Sales	12,990	13,159	12,962	12,018	11,002
Operating income	1,232	1,411	1,135	1,146	904
Working capital	6,453	6,540	6,311	5,591	5,720
Return on capital	19%	22%	18%	20%	16%

Patience may be necessary: we proposed a similar long/short late last year with another defense spinoff, Exelis (XLS); it has worked modestly, but even now the P/E gap has not closed, with XLS 40% cheaper than defense majors by earnings multiple, and 50% cheaper by sales multiple.

Notes: (i) Includes contracts in progress.

Condensed pro forma financial statements		
$ millions, year ending December 31, 2011	**EGL**	**LLL**
Revenue	2071	13098
EBIT	105	1493
Net interest expense	22	213
Net profit	21	947
Cash & short-term investments	11	753
Receivables	405	835
Inventory (i)		2946
Other current assets	22	272
Total current assets	**438**	**4806**
PP&E net	12	922
Intangibles	951	8156
Other assets	16	196
Total assets	**1417**	**14080**
Payables	47	385
Accrued expenses	63	1184
Other current liabilities	140	871
Total current liabilities	**250**	**2440**
Long-term debt	345	3780
Other liabilities	121	1837
Total liabilities	**716**	**8057**
Common equity	701	6023
Tangible common equity	-250	-2133
Common shares, diluted	18	106
EBIT ret. on employed capital	42%	40%
Debt to tangible equity	neg eq	neg eq
Current ratio	1.8	2.0
Interest coverage ratio	4.8	7.0
Recent price, $	15.02	70.20
Market capitalization	264	7,413
P/Sales	0.1	0.6
P/Tangible equity	neg equity	neg eq
EBIT / EV	18%	14%
P/E	12.6	7.8
Major index	none	S&P500
Significant insider buying	no	no
Closely held	no	no

SPINOFF & REORG'S INVESTMENT PERFORMANCE

In the table at right, the first column shows the average 6-month return of all US spinoffs since June 2005. The second column shows the average 6-month return of all *Spinoff & Reorg* monthly picks (near the end of each issue) over the same period.

Mean 6-month return, all since Jun 2005	*All Spinoffs*	*Spinoff & Reorg Selections*	*Spinoff & Reorg Selections CAGR*
Absolute return	0.4%	**8.1%**	**16.9%**
Relative to S&P 500	3.1%	**7.6%**	**15.7%**
Standard deviation	49%	**34%**	

The pick from our January issue (released February 1), the **Swire Pacific** (0019.HK) long/short, is up 28% over the 6-month test period. This return includes the dividend received on 0019.HK, and the dividends paid on the hedging short positions in 0044.HK and 0293.HK; the calculation does not include short premium, which was well under 1% of the total return, nor currency effects, which were negligible: after much bouncing around, USD was down just 0.009% against HKD over the period.

Sadly, the author himself captured only some of this gain, as he was persuaded by apocalyptic news articles to reduce China exposure a couple of months ago. We hope readers stuck to their guns.

INSIDER BUYING AND/OR REPURCHASES AT CHEAP, HIGH-ROI FIRMS

The CEO and a director at **Dynamics Research** (DRCO) together bought about a quarter million dollars of DRCO in May. Shares are 5% cheaper now than then. The company trades at 5.8 times trailing earnings, but appears to be growing rapidly, with Q1 2012 sales up over 20% year over year. Operating return on employed capital is about 90%. DRCO is thus quite interesting, but comes with two blemishes. First, it is quite small, with a market cap of only about $60m, and so may not be accessible to all funds. Second, it is a government contractor, exposed to any unexpected return to fiscal conservatism.

Coca-Cola Enterprises (CCE) continues an epic buyback that began in 2011. Outstanding shares have already been reduced by 10% in the past 18 months, and the company announced Friday it intends to pick up another 2.5% (presumes current prices) before the end of the year. CCE trades at 13 times earnings, and operating return on employed capital is about 40%. Hardly as exciting as DRCO above, but more accessible to the bigger funds.

OWNERSHIP DISCLOSURE

Among companies mentioned in this issue, the author holds positions in the following: ORI, PBSK, CSH.

SPINOFF CALENDAR

	Spinoff	Parent	Type	Listing	Date	Market Cap
	Rouse Properties (RSE)	General Growth Properties (GGP)	Spinoff	USA	12/30/11	$100m - $500m
	Post Holdings (POST)	Ralcorp (RAH)	Spinoff	USA	01/30/12	> $2b
	Seabras Servicios de Petroleo (SEAB3	Seadrill (SDRL)	Carve-out	Brazil	02/13/12	$500m - $2b
*	Domino's Pizza Switzerland	Global Brands (GBR.L)	Spinoff	UK, Switz.	02/16/12	< $100m
	Atlas Resource Partners (ARP)	Atlas Energy (ATLS)	Spinoff	USA	02/28/12	$500m - $2b
	Sociedad Matríz SAAM (SMSAAM.SN)	Vapores (VAPORES.SN)	Spinoff	Chile	02/29/12	$100m - $500m
	Home Loan Servicing Solutions (HLSS	Ocwen Financial (OCN)	Carve-out	USA	03/01/12	$100m - $500m
*	RXi Pharmaceuticals (RXII)	Galena Biopharma (GALE)	Spinoff	USA	03/08/12	< $100m
*	Marlborough Software (MBGH)	Bitstream (BITS)	Spinoff	USA	03/08/12	< $100m
*	NSX Silver (NSY.CVE)	NSGold (NSX.CVE)	Spinoff	Canada	03/16/12	< $100m
*	New Brunswick properties (GOV.V)	Blue Note Mining (BNT.TO)	Spinoff	Canada	03/21/12	
	Vantiv (VNTV)	Fifth Third Bancorp (FITB)	Carve-out	USA	03/22/12	> $2b
	Whiting USA Trust II (WHZ)	Whiting (WLL)	Carve-out	USA	03/23/12	$100m - $500m
*	NovaCopper	NovaGold Resources (NG)	Spinoff	USA	03/28/12	$100m - $500m

*	Goliath Gold (GGMJ.J)	Gold One International (GDO.AX)	Spinoff	Australia	03/28/12	< $100m
	Opus Group	McPherson's (MCP.AX)	Spinoff	Australia	03/30/12	
	Orient Cement	Orient Paper (502420.BO)	Spinoff	India	04/01/12	< $100m
	Sandridge Mississippian Trust II (SDR)	Sandridge Energy (SD)	Carve-out	USA	04/18/12	$500m - $2b
*	Newco	Benton Resources (BTC.V)	Spinoff	Canada	04/18/12	< $100m
*	Lockwood Technology	Infrax Systems (IFXY)	Spinoff	USA	04/19/12	< $100m
	ACCO Brands (ACCO)	MeadWestvaco (MWV)	Spinoff	USA	04/24/12	$500m - $2b
	Fiesta Restaurant Group (FRGI)	Carrols Restaurant Group (TAST)	Spinoff	USA	04/26/12	$100m - $500m
	Phillips 66 (PSX)	ConocoPhillips (COP)	Spinoff	USA	04/30/12	> $2b
	Advanced Metering	Eon Electric (532658.BO)	Spinoff	India	05/09/12	< $100m
	Grupo Argos	Cementos Argos (CMTOY.PK)	Spinoff	Colombia	06/02/12	
	D.E Master Blenders (DE.AMS)	Hillshire Brands (HSH)	Carve-out	USA	06/12/12	> $2b
	Network18 Media	Infomedia18 (509069.BO)	Spinoff	India	06/13/12	< $100m
	Matson Navigation (MATX)	Alexander & Baldwin (ALEX)	Spinoff	USA	06/18/12	$500m - $2b
	Vigor Alimentos (VIGR3.SA)	JBS (JBSS3.SA)	Splitoff	Brazil	06/21/12	$100m - $500m
	Qualipak (1332.HK)	CC Land (1224.HK)	Spinoff	Hong Kong	06/22/12	< $100m
	Lotto24	Tipp24 (TIM.DE)	Spinoff	Germany	06/26/12	
	EQT Midstream (EQM)	EQT (EQT)	Carve-out	USA	06/27/12	> $2b
*	KTG Energie	KTG Agrar (7KT.ETR)	Carve-out	Germany	06/29/12	< $100m
*	Kennady Diamonds (KDI.V)	Mountain Province Diamonds (MDM)	Spinoff	Canada	07/05/12	< $100m
	Qualipak (1332.HK)	CC Land (1224.HK)	Carve-out	Hong Kong	07/12/12	< $100m
	Engility Holdings (EGL)	L-3 Communications (LLL)	Spinoff	USA	07/16/12	> $2b
	Veripos	Subsea 7 (SUBC.OL, SUBCY)	Spinoff	Norway	07/25/12	
	Akzo Nobel Pakistan	ICI Pakistan (ICI.KAR)	Spinoff	Pakistan	Jul-2012	< $100m
	Far East REIT	Orchard Parade (O10.SG)	Carve-out	Singapore	08/27/12	> $2b
*	healthcare unit	Wizzard Software (WZE)	Spinoff	USA	Aug-2012	< $100m
	Pentair (PNR)	Tyco International (TYC)	Spinoff	USA	Sep-2012	> $2b
	North Star magnetite	Fortescue Metals (FMG.AX)	Carve-out	Hong Kong	Sep-2012	
*	gaming unit	Renren (RENN)	Carve-out	China	Sep-2012	$500m - $2b
	ADT	Tyco International (TYC)	Spinoff	USA	Q3 2012	> $2b
	Hyster-Yale Materials (HY)	NACCO Industries (NC)	Spinoff	USA	Q3 2012	< $100m
	Pacific Aluminium	Rio Tinto (RIO.L)	Spinoff	Australia	Q3 2012	> $2b
	Yancoal Australia	Yanzhou Coal Mining (1171.HK, YZC)	Spinoff	Australia	Q3 2012	
	International Lease Finance	AIG (AIG)	Carve-out	USA	Q3 2012	> $2b
	Quicksilver Production Partners (QPP)	Quicksilver Resources (KWK)	Carve-out	USA	Q3 2012	$100m - $500m
	Sears Hometown rights (SHOSR)	Sears Holdings (SHLD)	Carve-out	USA	Q3 2012	> $2b
	Santander Mexico	Banco Santander (STD, SAN.MC)	Carve-out	Mexico	10/04/12	
	Comverse (CNSI)	Comverse Technology (CMVT)	Spinoff	USA	Oct-2012	$100m - $500m
	TRUenergy	CLP Holdings (0002.HK)	Carve-out	Australia	Nov-2012	> $2b
	Kraft Foods (KRFT)	Mondelez International (MDLZ)	Spinoff	USA	Q4 2012	> $2b
	McGraw-Hill Education (MHED)	McGraw-Hill (MHP)	Spinoff	USA	Q4 2012	> $2b
	AbbVie	Abbott Labs (ABT)	Spinoff	USA	Q4 2012	> $2b
	Zoetis	Pfizer (PFE)	Carve-out	USA	Q4 2012	> $2b
	Direct Line Group	Royal Bank of Scotland (RBS)	Carve-out	UK	Q4 2012	> $2b
	Sports Toto Malaysia Trust	Berjaya Sports Toto (BSTB.KL)	Carve-out	Singapore	Q4 2012	
	Xintiandi	Shui On Land (0272.HK)	Carve-out	Hong Kong	Q4 2012	> $2b
	Kolbenschmidt Pierburg	Rheinmetall (RHMG.DE)	Carve-out	Germany	Q4 2012	$500m - $2b
	Innovative Communications	IDT Corporation (IDT)	Spinoff	USA	2012	
	Somalian assets	Range Resources (RRS.AX)	Spinoff	UK	2012	< $100m
	engineering and concrete	Lian Beng (L03.SI)	Spinoff	Taiwan	2012	$100m - $500m
	Yeo Hiap Seng (Y03.SG)	Orchard Parade (O10.SG)	Spinoff	Singapore	2012	
	Magnum gaming unit	Multi-Purpose Holdings (3859.KL)	Spinoff	Malaysia	2012	$500m - $2b
	Orascom Engineering	Orascom Construction (OCIC.CA, ORS(	Spinoff	Egypt	2012	
	Sears Canada (SCC.TO)	Sears Holdings (SHLD)	Spinoff	Canada	2012	$500m - $2b

	Brainfarma	Hypermarcas (HYPE3.SA)	Spinoff	Brazil	2012	< $100m
	offshore coalbed methane	Dart Energy (DTE.AX)	Spinoff	Australia	2012	$100m - $500m
	Enova International (ENVA)	Cash America (CSH)	Carve-out	USA	2012	$500m - $2b
	Brookfield Property Partners (BPY)	Brookfield Asset Management (BAM)	Carve-out	USA	2012	> $2b
	Susser Petroleum Partners	Susser Holdings (SUSS)	Carve-out	USA	2012	$500m - $2b
	MPLX	Marathon Petroleum (MPC)	Carve-out	USA	2012	$500m - $2b
	Linn Co (LNCO)	Linn Energy (LINE)	Carve-out	USA	2012	
	Delek Logistics (DKL)	Delek US Holdings (DK)	Carve-out	USA	2012	$500m - $2b
*	precious and base metals	Emergent Resources (EMG.ASX)	Spinoff	China	2012	< $100m
*	Raging River Exploration	Wild Stream Exploration (WSX.TSX)	Spinoff	Canada	2012	$100m - $500m
	US insurance	ING Groep (ING)	Carve-out	USA	Q1 2013	> $2b
	European insurance	ING Groep (ING)	Carve-out	Netherlands	Q1 2013	> $2b
	Australia Mortgage Insurance	Genworth Financial (GNW)	Carve-out	Australia	Q1 2013	> $2b
	publishing unit	News Corp (NWSA)	Spinoff	USA	Q2 2013	> $2b
	pharma unit	Covidien (COV)	Spinoff	USA	Q2 2013	> $2b
	Osram	Siemens (SI)	Spinoff	Germany	Q2 2013	> $2b
	Zoetis	Pfizer (PFE)	Spinoff	USA	Jul-2013	> $2b
	ITC Holdings (ITC)	Entergy (ETR)	Spinoff	USA	2013	> $2b
	Santander UK	Banco Santander (STD, SAN.MC)	Spinoff	UK	2013	> $2b
	Chesapeake Oilfield Services	Chesapeake Energy (CHK)	Carve-out	USA	2013	> $2b
	Snam Rete Gas (SRG.IT)	Eni (ENI.IT)	Spinoff	Italy	2014	> $2b
	Oorja Holdings	Mercator Lines (526235.BO)	Carve-out	India	2014	> $2b
	Norr and Wecom Group	Technics Oil and Gas (5CQ.SG)	Spinoff	Taiwan	TBA	
	Wasco Energy	Wah Seong (WASEONG.KL)	Spinoff	Malaysia	TBA	$100m - $500m
	Valorem	Invernac	Spinoff		TBA	$100m - $500m
	Noble Agri	Noble Group (N21.SG)	Carve-out	Singapore	TBA	> $2b

LEGEND

AX	Australia	**HK**	Hong Kong	**LS**	Lisbon	**PK**	Pink Sheets	**TA**	Tel Aviv
BO	Bombay	**J**	Johannesburg	**none**	NYSE/Nasdaq/Amex	**RTS**	Russia	**TO**	Toronto
BR	Brussels	**KL**	Kuala Lumpur	**OB**	OTC Bulletin Board	**SG**	Singapore	**TW**	Taiwan
DL	Delhi	**L**	London	**PA**	Paris	**ST**	Stockholm	**V**	Vancouver

ABOUT THE CALENDAR

A spinoff is listed only if (i) management announces it is certain to proceed; and (ii) a market will be made promptly. "Date" means record date for distributions, listing date for IPOs, or either for Indian spinoffs. "Possible" spinoffs are not included. "Splitoff" transactions offer holders the option to exchange shares in the parent for shares in the spinoff. Speculative promotional stocks are marked with "*": we identify such firms by low revenue, press releases focusing on equity promotions rather than operating events, spinoff announcements without prompt regulatory filings, claims of valuable, non-yielding assets in remote locations (Arctic Canada and interior Africa are time-honored favorites), high management pay relative to income, and/or headquarters located in Vancouver, Miami or our own southern California. Please send suggestions to subscribe@gemfinder.com -- popular requests will be incorporated into upcoming issues.

CANCELED SPINOFF

SITUATION

Old Republic International

BACKGROUND

Old Republic International (ORI) gave up plans to spin off its troubled mortgage insurer, sending shares down 20% in just two days in June. The CEO struggles to explain this to analysts, but continues to buy the stock, including a large market purchase just yesterday, July 30.

COMMENTARY

Efficient market theory notwithstanding, it seems inarticulate or windy CEOs can unintentionally create windows of value.

Spinoff & Reorg did well with **Hewlett-Packard** (HPQ) in 2011, though shares fell by half over the past year. How? We recommended it below 6x earnings when HP's halting, sometimes obtuse CEO, Leo Apotheker, spooked the market into a 20% selloff, even as he set forth HP's most credible turnaround plan in years. Soon after, the board dumped Apotheker, an enterprise computing expert, to hire failed gubernatorial candidate and former web auctioneer Meg Whitman. Whitman abandoned strategic focus in favor of simple layoffs, an analyst crowd-pleaser that merely delays the reckoning for a strategically weak PC unit. On Dec. 2, we advised exiting HPQ at 9x earnings, for a 14% gain; shares soon cratered.

Like HP's dearly departed Apotheker, ORI's CEO, Aldo Zucaro, struggles to communicate succinctly, to the point that impatient twentysomething analysts actually cut him off in conference calls. This lack of pithiness may be what has prevented markets from absorbing the fact that the parent company's exposure to its troubled mortgage insurance subsidiary is quite limited, and thus the parent should not be priced as if it were at great risk of impairment.

OWNERSHIP DISCLOSURE

Author owns ORI.

COMPANY

Old Republic (ORI) owns a variety of insurance units, classified as financial indemnity (on mortgages and consumer credit), "general" (property, casualty and liability), and title insurance.

The financial indemnity subsidiary, RFIG (Republic Financial Indemnity Group), looks like a goner, knocked flat by the mortgage credit crisis, and in runoff since 2008. For the quarter ended June 30, it lost $95.5m (operating) on $117.5m in revenue; by agreement with the North Carolina insurance commissioner, it pays only 50% cash on claims. Receivership is possible, even likely, barring a last-minute *deus ex regulatum.*

Since ORI consolidates RFIG, the firm as a whole appears at first glance to be in terrible trouble, or even irresponsible, paying out 78 cents in dividends as it loses 37 cents a share (trailing 12 months). But look deeper, and one finds the rest of the company is in good shape, generating not just investment profit but also underwriting profit, easily earning out the dividend. In the quarter ended June 30, the company paid down about 40% of debt, reducing the total to 15% of tangible equity.

Thus ORI is only in trouble if RFIG has some claim on ORI assets or cash flows. Does it? Over the past two analyst calls, management has been asked this question over a dozen times in different ways. The answer is always the same, and reiterated increasingly impatiently by management: RFIG has no claim on the assets or cash flows of ORI and its other divisions; positive cash may flow up to the parent, but negative cash doesn't drain from the parent; and management will never put another penny into RFIG. As a result, its dividend is fully earned and easily sustainable.

VALUATION

ORI closed today at 8.06, about 55% of consolidated tangible book value (57% excluding RFIG). The company trades at about 9 times earnings (again excluding RFIG), and dividend yield is almost 9%.

RECOMMENDATION

Buy and hold. A seemingly stable 9% cash yield on a $2b firm, purchased at just over half of book value, with prospects for slow growth, is a rare situation under current macro circumstances.

RISKS

The obvious risk here is that markets may be right, and management wrong, about ORI exposure to RFIG. This risk looks remote to us, not just because multiple managers have exposed themselves to liability by repeatedly going on record about it, but also because the CEO has put so much of his own money into ORI shares. Public filings suggest he is the largest non-institutional shareholder, and personally earns more than twice as much from his regular ORI dividends as from his management compensation. He has consistently bought ORI shares on the open market, including a $78k purchase just yesterday.

A less obvious risk is that an RFIG bankruptcy would break covenants on ORI's $200m convertible debt issue. ORI insists it has resources to honor that debt promptly, even if the lender demanded immediate payment.