

January 3, 2017
Closing Note

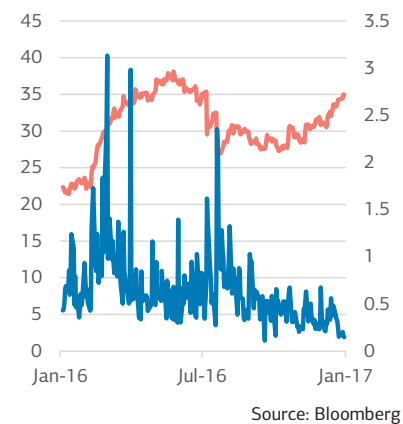
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Snap-on Inc. (SNA US)

Price	AUD 34.94
Rating	SELL
Market Cap	AUD 5.18 bln

Cimic Group Ltd. (CIM ASX) last share price in USD (pink) and volume (blue, in mln shares)



Cimic Group Ltd. (CIM ASX) No More to Say

► Why the buyback?

CIMIC announced a new share buyback plan on December 12 to acquire 10% of its outstanding shares. This could lift the German controlling shareholder's stake in CIMIC to 81% from 73%. We believe that it is very likely that CIMIC's ultimate Spanish parent company, ACS, will gradually take full control of CIMIC and have it go private. In the meantime, there is incentive to drive the share price higher.

► Running out of cash

We continue to believe that Cimic is running out of cash and that accounting tricks have led to over-valuation of the company by at least one-third.

► Close on Cimic

However, we are closing coverage of CIMIC given the declining free float and likelihood of a go-private deal.

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January 3, 2017

Management's Incentives: Push up Share Price

Cimic management has announced a share buyback program that we believe will lead to an offer for all the publicly held shares of the company. Cimic is being run for the financial gain of management, not for shareholder value, and we recommend that public shareholders sell.

Cimic's share price soared by 41% in 2016 due to apparent improvements in its debt position and margins. But the gains were optical, achieved via account manipulation. Why drive up the share price of a company with weak prospects? The answer seems to be simple: Board Chairman Marcelino Fernandez Verdes stands to make more than AUD 17.5 mln. Fernandez's 1.2 mln options vested last March and may be exercised over three years..

As executive chairman of Cimic's parent company, Hochtief, Fernandez is able to award himself stock benefits that minority shareholders cannot effectively oppose. Currently, Cimic's top 20 shareholders control 91% of the company's shares. Fernandez has been rewarded most recently for the successful hostile takeover of Cimic contractor UGL in late 2016.

For the first nine months of calendar 2016, Cimic reported strong improvement: the company reduced net debt by almost AUD 1.7 bln, improved margins on net profit after tax to 5.3% from 3.8%, and delivered shareholder return of 32%. Yet, as we have argued in our coverage, these financial improvements were achieved via accounting manipulation rather than fundamentals.

We close our coverage on CIMIC due to the small portion of tradable shares in the market and the possibility of a go-private offer.

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