Aviva and Ageas 'could go head-to-head in Direct Line bidding war'

The City is preparing for a potential bidding war over Direct Line, following Aviva's £3.3bn approach, marking the second time this year that the company has been thrust into the takeover spotlight.

The FTSE 100 insurer is believed to have started engaging with shareholders of its smaller competitor in the last two days, sparking rumours that Aviva may launch a hostile takeover bid after Direct Line dismissed its initial proposal on Wednesday, as reported by City AM.

Meanwhile, analysts are suggesting that Belgian insurer Ageas could present a counter-bid, as it continues to seek UK takeover targets after Direct Line turned down two cash and share offers in March. Direct Line's board unanimously rejected Aviva's 250p cash and share proposal on Tuesday, labelling it "highly opportunistic".

Since the news of Aviva's approach, the company's stock price has risen to around 231p, indicating that its investors anticipate a higher offer or a counter-bid from another party. Aviva's initial proposal would have cost the firm £1.5bn in cash, almost entirely draining the £1.7bn of liquidity it reported at the end of October.

However, analysts suggest that Aviva still has scope to increase the share component of its proposal and make a higher offer. KBW analyst William Hawkins suggested that Aviva's offer ceiling could surpass 300p, given the "huge synergy potential" of a deal.

Barclays analysts estimated that a takeover could enhance

Aviva's operating earnings by approximately seven per cent, while the combined group could generate £2.23bn of earnings in 2029.

A potential takeover would also see many of Direct Line's top executives reunited with their former boss, Amanda Blanc. The company's CEO, CFO, COO, and chief risk officer have all recently joined from Aviva.

Aviva's offer price represented a 58% premium to Direct Line's last share price before the offer period began. Analysts at JP Morgan believe that the potential premium offered by Aviva or Ageas "would be very attractive" to Direct Line's shareholders.

Barclays analysts also find the deal's valuation and structure "attractive", noting that Aviva's shares are denominated in sterling, unlike Ageas'. They think it's likely that Direct Line's board would engage with Aviva if an improved offer is made, "or another participant like Ageas".

Investment bankers working for Ageas are reportedly re-examining their numbers regarding Direct Line. As the UK's sixth-largest car insurer, Ageas employs around 2,600 staff across the country.

Last month, CEO Hans de Cuyper stated that Ageas was open to making further takeover bids for British companies. However, a company spokesperson declined to comment on Friday when asked by City AM if Ageas was preparing a fresh bid for Direct Line.

Barclays analysts noted that in their recent conversations with Ageas management, the CEO reiterated the company's strategic interest in the UK personal lines market, including Direct Line as a suitable asset, while ruling out a hostile approach. KBW analyst Hawkins has suggested that a potential Aviva takeover of Direct Line could pose a "high risk" to the jobs of Direct Line's 10,000 staff members.

He stated, “a strong incentive for every individual in Direct Line to seek an owner who can help the business grow, not die” Describing the situation as hostile, he noted, “This is a hostile situation,” and highlighted that political and regulatory scrutiny would likely intensify over the integration of the two firms. Hawkins also mentioned, “Whilst insurers do not like to go hostile on targets, Direct Line finding a white knight would leave Aviva in the unenviable position of being the bad guy in the corporate insurance world.”

However, he pointed out that many larger potential counter-bidders might find more attractive M&A opportunities outside the UK.