Why Sainsbury looks ripe to follow Morrisons as a takeover candidate

T
he Morrisons bid has sent fund managers lining up to attack private equity "vultures" for raiding UK Plc on the cheap, but who are they trying to kid?

PLCs aren't dictatorships, they're one-share-one-vote democracies. If shareholders don't like the takeover bids PE firms put in, they shouldn't accept them.

Is it private equity firms' fault UK PLCs are undervalued? Of course not.

Nor are PE firms to blame for the temptation PLC bosses feel at giving up running their companies in the PLC spotlight.

Who would enjoy having their pay slagged off every year by politically-correct proxy shareholders? Or the pressure, quarter in, quarter out, for higher sales, lower costs and bigger dividends rather than a long view of the company's needs.

That's the fault of PLC investors.

Private equity hasn't been ordering supermarkets to pay down their debt and needlessly own vast swathes of property – the factors now attracting PE bidders. It's the plc shareholders who've been demanding that.

Morrisons is not alone in being vulnerable to buyout groups now spying quick bucks from selling stores and raising debt.

Having once been encouraged by its shareholders to borrow, Sainsbury now pays down hundreds of millions of pounds in debt every year despite generating ample cash to service bigger loans.

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And, while the percentage of stores it owns is lower than Morrison's (60% rather than 85%), by value it's far bigger, at £10.1 billion compared with Mozzers' £6-£8 billion.

For a buyer looking for a quick and easy return that makes one sound: Kerching!

Unlike Mozzers, Sainsbury has a strong convenience stores arm, thriving Argos and a hefty online business.

Yet the stock market gives it an enterprise value of just £12 billion – only £2 billion more than its properties are worth.

With such pearls on offer, who can blame private equity for prising open the plc oyster?