Opinion: Not impressed with Burlington Northern deal

(The following column by Jonathan Ratner appeared on the Financial Post website on November 5, 2009.)

OTTAWA — Christmas may have come early for Burlington Northern Santa Fe Corp. shareholders, but the company's board came up short in extracting maximum value for this transcontinental railway franchise.

Berkshire Hathaway Inc. offered to purchase the remaining 77.3% of the company it doesn't already own. Warren Buffett's holding company is paying US$100 per share, or a 31% premium to Monday's closing price.

Yes, the 8.6x lagging 12-month EV/EBITDA multiple falls within the historical 8-9x industry range, but the range is generally reflective of pre-secular pricing strength, according to UBS analysts.

They also noted that the multiple paid is on cyclically depressed EBITDA. It shrinks to 8.1x on next 12-month earnings and 7.8x based on estimated 2010 and 2008 numbers.

"For a premier franchise? We're not impressed."

While the deal requires BNI shareholder and regulatory approval, with a meeting and vote tentatively scheduled for the first quarter of 2010, the deal should close soon after.

It does not require Surface Transportation Board review and approval, does not involve a merger of two rails, and Berkshire does not control any other rails. It does own small, non-controlling stakes in Union Pacific Corp. and Norfolk Southern Corp.

So with Burlington shares trading just a few dollars shy of the offer price, investors would be wise to go elsewhere for their rail exposure.