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BlackRock repurchases $1bn of stock

By Baptiste Aboulian 1 June 2012

BlackRock has repurchased $1bn (€807m) of its own shares as part of Barclays' decision to sell its entire holding in the US mutual fund giant.

Earlier this week, Barclays **completed** the divestment of its $6.1bn (€4.7bn) stake in BlackRock, consisting of a $1bn buyback and a $4.2bn secondary offering of stock.

The UK bank decided to offload its 19.6 per cent holding in BlackRock ahead of the introduction of Basel III, which will make it more onerous for banks to hold financial stakes.

Barclays CEO Bob Diamond stepped down from BlackRock's board of directors after the completion of the second offering of 26.2 million shares, which came at a price of $160 per share. On Thursday, BlackRock's share price was $168.50.

BlackRock bought 6.4 million shares of common stock from Barclays for cancellation at a price of $156.80. The fund manager has issued new stock to PNC, its largest shareholder, in order to dilute the stake of the US financial group.

In order to finance the buyback, BlackRock issued two notes to raise the capital.

Boston-based Saibus Research says it is "pleased that BlackRock was able to not only repurchase a portion of Barclays' equity ownership, but that [it] executed it at a lower price than what it paid Bank of America in 2011".

In May 2011, BlackRock bought back 13.6 million shares at a price of $187.65 from **Bank of America Merrill Lynch**.

BlackRock used cash and $2bn in debt to buy back the $2.5bn stake, which Bank of America owned as a result of Merrill Lynch's 2006 agreement to integrate its fund management arm into the US mutual fund giant. Merrill Lynch itself was sold to Bank of America in 2009.

Saibus Research, however, believes BlackRock should have repurchased more stock from Barclays.

“We feel that BlackRock could and should take advantage of the low cost of debt financing to replace a portion of its equity with debt,” says Saibus in a research note published online.

“We feel that a high-quality, cash flow generating business like BlackRock could have easily repurchased all [the] shares held by Barclays.”

Saibus Research was unavailable for further comment, but the firm did add that it believes BlackRock is now a “screaming buy”.

The firm says the fund manager is particularly attractive because it is working to expand its brand, “especially because its branded mutual funds only account for some 3 per cent of assets under management, and we believe that BlackRock can improve that”.

In March, BlackRock launched its New World of Investing campaign to boost its brand awareness in Italy, Germany, the Netherlands, the US, Canada, Taiwan, Hong Kong, Australia and the UK.