

CE NO

Prime Minister ②

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To note Treasury view.
 Note by John Redwood also
 attached
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Treasury Chambers, Parliament Street, SW1P 3AG
 01-233 3000

6 December 1983

A Turnbull Esq.
 Private Secretary
 10 Downing Street
 LONDON
 SW1

Dear Andrew,

CABLE AND WIRELESS SALE: BRIEFING

We have taken a robust line with the Press over the undersubscription of the Cable and Wireless issue, which closed on Friday 2 December with applications received for 77.5 per cent of the shares offered (7½ per cent higher than the first estimates made on Friday). The result is rather hard to interpret, but the most plausible explanation is that the market misinterpreted the rise in the price during the offer period. Individual investors concluded that the striking price would be too high and as a result they did not apply for the offer.

It is too early to draw general conclusions: we shall need to look carefully at the events of last week and at the behaviour of the aftermarket. In the meantime, the line we are taking is summarised in the enclosed briefing, which the Prime Minister may find useful.

I am copying this letter to David Heyhoe in the Lord Privy Seal's Office.

Yours
 Judith

PP. MISS M O'MARA
 Private Secretary

General line

Stock market is inherently unpredictable. That is why we have issues such as this underwritten.

Quite wrong to talk of a serious failure. The issue was over 77 per cent subscribed. The small investor and everyone else who applied had a very reasonable deal at 275p. There was an encouraging number of small applicants.

The Government has in fact realised higher proceeds than could have been envisaged when it originally announced our intention to sell about half or holding on October. The price then was 260p.

Why was the issue not fully subscribed?

Difficult to say. One has seen a number of suggestions in the Press. It does seem that some investors may have been put off by what they considered to be exaggerated expectations of the likely tender price.

Does this raise questions about the tender method of sale?

No.

Does it call in question the privatisation programme?

Not at all.

Is the small shareholder once again going to suffer?

All those who acquired shares did so at a very fair price. [The latest market price for the partly-paid stock is in fact 98p, ie 2p below "par"]

Improper behaviour by Directors of C&W?

[Rumour that share price fell after Finance Director had lunch with a stockbroker on 1 December.] Not for us to comment.

MR TURNBULL

CABLE & WIRELESS OFFER FOR SALE

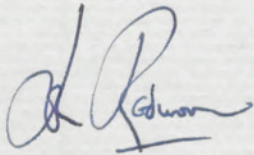
Thirty per cent of the Cable & Wireless shares were left with the underwriters last week. Early in the week the share price had been above £3 compared with a minimum tender price of £2.75 and City estimates had indicated an offer for sale price of about £3 a share being achieved. Why was it that sentiment turned so markedly in the last 2 days of the issue?

I have spoken to several people in the City who would normally have applied for such shares, and discovered they did not. They were swayed by the following considerations:

1. The lunch held at Scrimgeour's on Thursday where the Cable & Wireless board were cautious about the future. It is most unusual for such a lunch to be held so close to an issue.
2. A dislike of tenders - particularly Government ones - as many people have read them wrongly in the past.
3. One or two people mentioned the fact that it was decided during the BP sale to bank all the cheques. Whilst this is well within the rules of any issue, it is a most unusual practice and causes individuals some pain if they have been staggng on borrowed money.
4. A sense by some that they wish to warn the Government about the difficulty of selling British Telecom.

I do not think we should worry unduly about the result. The Government received a reasonable price for all its shares, and the underwriters again were reminded that underwriting is not without its hazards. The basic reason seems to have been that at the last minute people felt that they could not make money out of the issue, and this partly reflects the choice of the tender system, and partly their judgment of the market.

The only conceivable moral in the tale is that the Government could avoid adverse headlines concerning stock left with underwriters by having an offer for sale by tender with no minimum price and no underwriting. The argument for would be that it would save the underwriting fees, but this has to be balanced against the fact that the Government would not have sold the shares until the offer for sale were completed, and would not know what price it would realise at any stage in the run-up to the offer for sale. It would still be open to criticism about having sold too cheaply if all did not go well.



JOHN REDWOOD