

## **Vivo buy-out pressure on Telefónica**

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Telefónica was last night under pressure to increase its €5.7bn (\$7.2bn) offer to buy Portugal Telecom out of Vivo, their Brazilian mobile phone joint venture.

Portugal Telecom's board on Monday rejected an unsolicited cash offer from the Spanish telecoms group to buy the Portuguese company's 50 per cent stake in Brasilcel, which has a controlling interest in Vivo. Telefónica owns the remainder of Brasilcel.

Telefónica's attempt to secure exclusive control of Vivo, Brazil's largest mobile operator, forms part of broader efforts by Telefónica to strengthen its faltering position in the country. Brazil has been the most important profit contributor among Telefónica's Latin American telecoms businesses. Telefónica is hoping some of Portugal Telecom's shareholders will urge the Portuguese company's board to review its rejection of the €5.7bn offer.

The Spanish company said it had no plans to increase its offer. Santiago Fernández Valbuena, Telefónica's chief financial officer, said: "The offer is full, final and fair."

Telefónica said it also envisaged making an offer for Vivo's free float, worth €600m. It would raise the total value of the proposed transaction to €6.3bn.

However, Zeinal Bava, Portugal Telecom's chief executive, said selling Vivo "would mean amputating our future".

"Scale and growth are critical success factors in telecoms and we are committed to making Vivo grow for the benefit of our shareholders," he added.

Robin Bienenstock, analyst at Bernstein, estimated Telefónica's €5.7bn offer represented a premium of 109 per cent on the fair value of Portugal Telecom's stake in Brasilcel.

She said if Telefónica raised its offer, it would not be a bad outcome for Portugal Telecom to accept.

"PT could reduce its debt, give some cash back to shareholders and consider other investments," she added. "But it would be very uncomfortable for PT management who would find themselves without a growth engine in a natural market for them, and with a large amount of cash on their hands."

Pedro Pinto Oliveira, analyst at Banco BPI, said Portugal Telecom was likely to gain support from shareholders in rejecting Telefónica's offer.

"It's unlikely PT will sell, but this could be the first step towards resolving the stalemate in Brazil where Telefónica wants to consolidate and PT wants to use the opportunity to grow."

César Alierta, Telefónica's chairman, wants to combine Vivo with Telesp, the Spanish company's underperforming Brazilian fixed-line phone business, to achieve cost savings.

Mr Alierta held talks with Mr Bava last month about a possible merger of Vivo and Telesp, but Portugal Telecom is sceptical.

The Portuguese company has repeatedly refused to sell its 50 per cent stake in Brasilcel. Telefónica made a €3bn-plus offer to buy Portugal Telecom out of Vivo in 2007, but was rebuffed.

Given Portugal Telecom's reluctance to quit Vivo, Telefónica has been considering other options to improve its Brazilian position. No decisions have been taken.

One option would be a takeover of Portugal Telecom, but Telefónica could run into political opposition. Another option would be a takeover of Telecom Italia, but it could also face political controversy.

A Telecom Italia takeover would enable Telefónica to secure control of TIM Brasil, the Italian company's Brazilian telecoms business and the country's third-largest mobile operator. However, a Telecom Italia takeover would be fraught with risk. With net debt of €34bn, Telecom Italia is western Europe's most leveraged former fixed-line phone monopoly. Telefónica became the largest shareholder in Telecom Italia in 2007 by joining a consortium that bought a controlling stake in the company.

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