

Get off the line

Portugal Telecom and Spain's Telefónica squabble over Brazil.

"THE scale of Portugal Telecom is an asset for the country. We don't want a small company, we want a big one." So pronounced Portugal's prime minister, José Sócrates, this week, defending Portugal Telecom's rejection of a hostile bid from Spain's Telefónica for its share of Vivo, a fast-growing Brazilian mobile operator. Zeinal Bava, the boss of the Portuguese firm, added a warning that leaving Brazil would mean "amputating Portugal Telecom's future".



Loving that vicious competition

Yet such surgery may prove hard to resist, given Telefónica's financial clout. The Spanish firm offered €5.7 billion (\$7.2 billion) in cash for the bit of Vivo that it does not own. That is equivalent to over 80% of the total market value of Portugal Telecom itself.

Nine years ago, the two Iberian firms launched a united assault on Brazil, forming a joint venture from seven assorted mobile units that they already controlled. The resulting entity, Vivo, now has the largest share of a valuable and expanding market. With 52m subscribers, Vivo has a substantial mobile business and contributes 46% of Portugal Telecom's revenues.

Although it is growing, the Brazilian market is also proving to be viciously competitive. Three main groups are battling for share in mobile and fixed lines: as well as the Spanish and Portuguese with Vivo (and Telefónica's other assets), there are Oi, a local player, and América Móvil, part of the empire of Mexico's Carlos Slim. Success will probably depend on consolidation and better integration of mobile and fixed-line units. Oi and América Móvil have already tried, but now Telefónica would like to merge Vivo with Telesp, its fixed-line operator. The resulting entity would cut costs and could offer customers bundled telecoms packages. Telefónica also needs to bolster Telesp, which is struggling as customers dump fixed lines for mobiles.

The partnership between Portugal Telecom and Telefónica soured in 2006-07 when the Spanish giant unexpectedly backed a Portuguese firm, Sonaecom, in a failed hostile bid for the national operator. Telefónica's goal then, as now, was to push Portugal Telecom out of Vivo, which it had planned to buy from a victorious Sonaecom. Things have quickly turned nasty this time. Last week Telefónica's finance director attacked Portugal Telecom for rejecting its bid without consulting shareholders, which he said raised questions about the firm's corporate governance. The Portuguese say that Telefónica is cynically taking advantage of the euro-zone financial crisis, which has reduced Portugal Telecom's market capitalisation.

If, as expected, Telefónica raises its bid for Vivo in the coming weeks, Portugal Telecom may be obliged to let its shareholders decide. Telefónica itself owns 10% of Portugal Telecom's shares, but may not be allowed to vote on the matter. A hard core of mainly Portuguese allies hold about 30% of the shares and foreign investors the rest. Since Telefónica's offer is so high relative to the value of Portugal Telecom, analysts reckon the Spaniards could even make an offer for the whole firm if its bid for Vivo goes nowhere. Another option for Telefónica could be to bid for TIM Brasil, a mobile firm owned by Telecom Italia, and add it to Vivo.

However bitterly the Portuguese resent the attempt to push them out of Brazil, resolving ownership of Vivo is just one episode in a far more important battle—that between Telefónica and América Móvil right across Latin America. Telefónica's Movistar subsidiary is expected to win additional wireless spectrum and a stronger position in Mexico, América Móvil's home market, later this year. América Móvil would not welcome a merger of Vivo and Telesp, which would strengthen Telefónica's base in Brazil.

Could Mr Slim again be the one to ride to the rescue? He stepped in last time around when the Spaniards had seemed poised to seize full control of Vivo, in 2006-07, eventually acquiring a 5% stake in Portugal Telecom and helping to defeat the combined assault of Sonaecom and Telefónica. Mr Bava, who is now on a whirlwind tour of foreign shareholders, could yet conclude that he should be dropping in on Mexico City.

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