

Can India's Bharti get MTN to the altar?

Will India's top mobile company, Bharti Airtel, be able to get South African flagship telecoms firm MTN to the altar after their attempted union failed last year? The outlook for a tie-up looks brighter this time round, analysts say.

MTN entered "exclusive talks" again this week with Bharti to create what the two say would be an "emerging market telecom powerhouse" with over 200 million subscribers and US\$20 billion annually in revenues.

Both companies, whose merger talks collapsed at the same time last year, have issued riders, saying the complex US\$23bn (about R190bn) cash-and-share swap discussions are at an early stage and "may or may not lead to a merger."

But now "both have a better understanding of each other so there is more of a sense of optimism about the deal going through," Madhusudan Gupta, an analyst at Gartner consultancy, told AFP.

Sensitivity

The proposed deal worth some US\$23bn would create a global telecoms company girdling Asia, the Middle East and Africa - three of the world's fastest-growing markets.

Sensitivity about ceding control of major companies to outsiders has been a big issue in South Africa. But its powerful union federation Cosatu, which this month tried to block British telecom giant Vodafone's takeover of South African's Vodacom, has voiced no big opposition to the Bharti-MTN tie-up.

"We're not too worried about this particular deal - MTN has never had a large public stake unlike Vodacom," Cosatu spokesman Peter Craven said by telephone.

A Bharti spokesman insisted any merger between Bharti, in which Singapore's SingTel holds a minority stake, and MTN would be "structured in the spirit of a partnership between the two parties."

Last year Bharti, headed by billionaire Sunil Bharti Mittal, wanted to take 51% control of MTN. Then MTN came back with a proposal Bharti said would have made the Indian company a "subsidiary" of the South African firm and the talks collapsed.

Afterwards India's second-largest mobile firm Reliance Communications began negotiations with MTN but those talks also ended in failure.

In these fresh discussions, Bharti - which says it aims to become a "multinational telecom giant, symbolizing the pride of India" - wants to take a 49% stake in what would be a merged, locally-based company.

It would be the single largest shareholder. MTN would have an effective 36% holding.

The aim would be "to achieve a full merger as soon as practicable," the spokesman told AFP.

MTN chief executive Phuthuma Nhleko said "the rationale for this potential transaction between MTN and Bharti is highly compelling" as it would create a "pre-eminent emerging market telecommunications company."

Deal in sight?

Analysts believe Bharti would not have made public the talks a second time if a deal wasn't in sight.

Bharti's share price has been falling on concerns the acquisition would place a burden on its balance sheet and reduce earnings per share. But analysts say investors are not looking at the longer-term.

"It's a game-changing initiative by Bharti," said Hitesh Agrawal, head of research at Mumbai's Angel Broking.

"Places like Africa are the last of the high-growth markets after India and China," he said. "The merger would be very important for both companies to keep up their growth momentum - it's win-win for both of them."

In subscriber numbers, the union would create the world's third-largest telecoms company after China Mobile and Vodafone, and be present in 22 countries. Bharti and MTN each have 100 million subscribers.

It would be able to compete with the "big boys of the telecom world," said Mohammad Saif, a consultant at Frost & Sullivan.

Angel estimated Bharti would have to take on four billion dollars in debt to fund the deal.

"But for this company with its current low debt and a respected management pedigree, it won't be difficult to raise this sum" even with the current global credit crunch, said Angel's Agrawal.

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