The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

Russia's Vimpelcom Resumes Italian Mobile Merger Talks With Hutchison

By The Moscow Times

June 04, 2014



Hutchison, controlled by Asian tycoon Li Ka-shing, is turning its attention back to Italy.

Hutchison Whampoa has resumed talks with Russian telecom group Vimpelcom over merging their Italian mobile firms, encouraged by Hutchison's 3 getting the go-ahead last week for an acquisition in Ireland, according to several people familiar with the situation.

"The talks are live again," said one of the sources, who asked not to be named.

Vimpelcom has hired Morgan Stanley to advise on the deal, while Goldman Sachs is working with Hutchison, said the sources. Mediobanca is also expected to have a role, said the sources.

Spokespeople for Vimpelcom, Wind, Hutchison, Goldman Sachs, Morgan Stanley and Mediobanca declined to comment.

The parties have held on-off talks for more tahan six months and came very close to agreeing a deal in December, the sources said. The clearance of Hutchison's O2 Ireland acquisition,

together with a partial refinancing of Wind's debt, is now creating a new momentum for the deal to happen, said the sources.

Wind's current debt of 9.5 billion euros ($13 billion) has long been a hurdle to a deal, but the terms of a debt refinancing plan in April specifically allowed for a change of ownership.

Hutchison's 3 Ireland subsidiary finally got approval last week to acquire bigger rival O2 Ireland from Telefonica for $1 billion in cash, after lengthy negotiations with the competition regulators to allay concerns over the reduction in the number of network operators from four to three.

The deal is just the latest move by Hutchison's telecoms subsidiary 3 Group to strengthen its position in Europe, where it operates in six national markets. Eighteen months ago its 3 Austria unit acquired French group Orange's Austrian subsidiary for $1.7 billion after similarly overcoming objections from regulators.

Now Hutchison, controlled by Asian tycoon Li Ka-shing, is turning its attention back to Italy, where 3 Italia is the smallest of the country's four network operators, behind Telecom Italia Mobile, Vodafone and Vimpelcom's Wind subsidiary.

If Wind and Hutchison can agree terms this time around they would then have to convince the European regulators that reducing the number of wireless network operators would be in the interests of consumers.

But an important precedent could have been set by then, as the European Commission is due to decide by July 10 on whether to allow a similar consolidation in Germany, Europe's biggest mobile market, where Telefonica Deutschland wants to buy Dutch group KPN's local subsidiary E-Plus for some $12 billion.

Changing Wind

Wind reported earnings before interest, tax, depreciation and amortization, or EBITDA, of about 1.9 billion euros ($2.59 billion) in 2013 and could be valued on a multiple of 6.5 times EBITDA excluding debt, said several sources familiar with the company.

Prior to a deal with Hutchison, Vimpelcom could seek to increase Wind's equity via a capital increase or raise cash through asset disposals, said several sources familiar with Vimpelcom's thinking.

Vimpelcom could for instance sell fixed-line operator Infostrada, which could fetch about 1 billion to 1.5 billion euros ($1.36 billion to $2 billion) and would draw interest from the likes of Vodafone and Swisscom's Italian broadband operator Fastweb.

Wind has long been expected to sell its telecom masts in Italy in a possible 500 million euro deal ($680 million) but the process has not yet taken off because of the renewed talks between Vimpelcom and Hutchison, said several sources close to the situation.

Buying a majority stake in Wind proved a sticking point in previous negotiations, due to resistance from Vimpelcom's biggest shareholder Altimo, the telecoms investment arm of Russian billionaire Mikhail Fridman's Alfa Group.

But Fridman could be tempted if Hutchison came back with a full cash offer as it did for O2 Ireland, which would strengthen Wind's balance sheet to the relief of all of Vimpelcom's shareholders.

The Russian tycoon, who is constantly exploring investment opportunities around the world, could decide to give up Wind if he found a better opportunity in a bigger market, said the same source.

"Fridman's strategy is that of a trader. While he tends to take long positions, he retains a very open approach to dealmaking," said another source familiar with Vimpelcom's strategy.

See also:

Billionaire Fridman's Alfa Group Set to Invest Billions in European Telecoms

Original url:
https://www.themoscowtimes.com/2014/06/04/russias-vimpelcom-resumes-italian-mobile-merger-talks-with-hutchison-a36152