The Moscow Times
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Russia's Vimpelcom, Hong Kong's Hutchison Join Forces for Italian Mobile Deal

By The Moscow Times

August 05, 2015



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LONDON / MILAN — Russia's Vimpelcom and Hong Kong's Hutchison Whampoa are close to a deal to merge their Italian mobile phone businesses, sources close to the deal said.

A deal would help end a long and costly price war among local mobile operators in Europe's fourth-largest telecoms market.

Talks between the two companies had gathered pace in recent weeks and an announcement could come as early as this week, one of the sources said.

"Negotiations have become serious," a second source said, adding that Hutchison Managing Director Canning Fok had met with Vimpelcom counterparts in London several times this month.

Spokesmen at Vimpelcom and Hutchison declined to comment.

Amsterdam-based Vimpelcom will present its quarterly results in London on Thursday. The two companies acknowledged in May that they were negotiating on a joint venture.

Any deal would need antitrust clearance, the sources said. But since European and national regulators have already given the green light to similar deals in Ireland, Germany and Austria, Italian consolidation is also expected to pass muster.

The deal would combine Vimpelcom's WIND Telecomunicazioni, the country's third-largest mobile network operator, with fourth-placed 3 Italia, creating a market with three almost equally sized players in terms of mobile service revenues.

The merger would likely benefit the whole market, but especially former phone monopoly Telecom Italia. It would allow companies to increase investments in upgrading their networks rather than focusing on cutting prices to win market share, telecoms executives and analysts say.

Analysts estimate shares of Telecom Italia, which makes two-thirds of its revenue in its home market, could receive a boost of 0.08-0.20 euros if its rivals merge. That would lift the current share price by up to 15 percent.

Compromise Efforts

Hutchison Chairman Li Ka-shing and Russian billionaire Mikhail Fridman — whose LetterOne fund holds 47.9 percent of Vimpelcom's voting rights — have held on-off talks for years and came close to clinching a deal a few times before scrapping it at the eleventh hour over governance control.

But they were making new efforts to find a compromise and bridge differences over the capital structure and governance of the merged entity, one of the sources said.

A capital increase at the merged entity was an option under consideration, the source said, although no final decision had been made.

A cash call would help service WIND's debt of 8.9 billion euros ($9.74 billion), which has been a hurdle to a deal.

A banker close to Hutchison said the Hong Kong-based telecoms operator "is effectively in acquisition mode" after it agreed to acquire British mobile phone business O2 from Telefonica in January.

The Hong Kong-based company would seek to retain control of any merged entity by securing the majority of its voting rights, he said.

Hutchison has only one other joint venture deal. It holds a 50 percent stake in Australia in partnership with Vodafone. Its other European operations in telecommunications, including in Britain, Austria, Ireland, and Switzerland, are wholly owned by Hutchison.

Vimpelcom, which is advised by Morgan Stanley and HSBC, said in May it was in discussions

with Hutchison regarding a possible "equal" joint venture in Italy but added there could be no assurances an agreement would be signed.

Hutchison, which is advised by Goldman Sachs, also confirmed the talks in May.

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