

Wireless consolidation - Europe, US...Brazil

By [Soomit Datta](#) | July 22, 2019

We hosted a conference call and published separately this week on lessons from European wireless consolidation. What happened in Italy, Germany...and what does this mean for the US as regards T-Mobile-Sprint?

This consolidation theme is a rich one in the sector and investors should equally be keeping focus on Brazil as we see developments here picking up imminently (yes, we realise we have been saying this for over five years but the stars really are aligning this time!).

We took Oi management around London this week following their long awaited strategic review and had the opportunity to listen to Board member Rodrigo Abreu (and expected future CEO) present for the first time to the market. He had some new thoughts on possible asset combinations in Brazil.

For the full note see [HERE](#). Feedback from the roadshow [HERE](#).

Return on capital has been stubbornly low in Brazil - and below WACC - for as long as we've followed the sector. The traditional telco travails (competition, pricing collapse, capex cycles) are exacerbated by the second highest telco taxes globally. Consolidation from 4 to 3 (we assume the smaller 5 to 4 Claro-Nextel deal will close in H2) will lift this profitability as costs are taken out (NPV of >R\$10bn). Brazil is also a market where fiscal synergies are very significant (billions of R\$). TEF, TI and AMX all have balance sheet rationale for stable pricing and rational behaviour in the market.

The broader regulatory backdrop in Brazil is very supportive for a deal - Anatel craves financial stability for Oi - furthermore, while the political backdrop in a more right-leaning EM country is supportive of anything which fosters investment in the country. Telecoms Law approval will formalise this is pretty irrelevant for wireless only deals.

We now see Oi selling its wireless unit as a very likely scenario. Liquidity concerns are real and meaningful.

Abreu was certainly happy to entertain such discussions and even elaborated on the notion that it's not just TI which could be a potential buyer.

On the contrary, and in addition to evident strong PE interest, we suspect that AMX and Vivo could be keen (more so than the market thinks) and from a regulatory perspective it's worth remembering that spectrum caps lifted earlier this year barely prohibit any combinations in the market.

Bidding tension would be super helpful for Oi, slightly less so for TIM. But frankly we suspect all stocks would re-rate from the culmination of 5-3 consolidation.

Full 12-month historical recommendation changes are available on request

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