

AT&T Sells Caribbean Mobile Assets to Lilac; Confirms Share Repurchases for 4Q19

By [Jonathan Chaplin](#) | October 9, 2019

What's new: AT&T and Lilac just announced a transaction for AT&T's mobile assets in Puerto Rico and the US Virgin Islands. The rumored price of \$2BN is reasonable, suggesting a multiple of close to 6.5x EBITDA. LatAm mobile assets should trade at roughly 6x; there would be synergies from fixed / mobile consolidation, as Lilac owns the Cable assets in Puerto Rico. We believe the sale will be modestly dilutive to earnings and FCF per share for AT&T, though the subscriber mix is of lower quality than AT&T overall (mostly prepaid). The \$2BN brings AT&T's total proceeds from asset sales to over \$11BN (including receivables sales and other nonsense). We now have little doubt they will meet their leverage threshold of 2.5x by year-end. AT&T confirmed share repurchases would be "part of the mix" for 4Q19. No change to thesis for AT&T.

Transaction details: AT&T is selling mostly-wireless assets in Puerto Rico and the US Virgin Islands for \$1.95BN. We estimate the assets generate \$300MM in EBITDA, representing a 6.5x EBITDA multiple, and have slightly higher capital intensity (~20%) than the overall wireless business. Altogether, we expect the deal to be <1% dilutive to EPS and FCF per share. The transaction includes 1.1MM mostly prepaid wireless subscribers. The companies expect the deal to close in 6-9 months, following regulatory review from the FCC and DOJ.

Thesis impact – AT&T: We have been conflicted on AT&T recently. We have seen early signs of a turn in the wireless business as AT&T deploys 60MHz of new spectrum (see report on churn trends [HERE](#)). We have held back on upgrading the stock because we think expectations for their other businesses look too optimistic. Our interest was piqued by Elliott's push for changes at Warner Media and for exploring a sale of DTV (see thoughts on Elliott letter [HERE](#)); however, Stankey's recent statements suggest little prospect of a DTV sale or of near-term changes in Warner Media's leadership ([LINK](#)). This leaves us back where we started, wishing we could own AT&T's Wireless Business at current multiples, but unwilling to buy into AT&T in its entirety. This transaction doesn't change things.

Full 12-month historical recommendation changes are available on request

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