

Out Malone-ing Malone

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There's been a flurry of M&A activity in Latin America year to date but, despite best efforts, it's not (yet) John Malone emerging on top.

Several LatAm-region pieces of the jigsaw are conceivably in motion this year and it's been Telefonica's decision to rationalise its portfolio (tick in the box for Telefonica (Buy) which reported solid numbers and issued robust guidance this week) that has triggered the latest moves. Its initial decision to sell two Central American assets (Guatemala and El Salvador) to AMX last month may not have garnered global headlines – one regional behemoth selling to another – but rather this week's announced sale of its remaining three assets (Panama, Costa Rica and Nicaragua) to Millicom is arguably more intriguing.

Last month saw Malone's efforts, through Liberty Latin America, to acquire Millicom ultimately break down. This was the deal "we'd all been waiting for" following Liberty's spin of its LatAm assets in July-15 and the creation of a vehicle intended to roll up assets in the region. So, almost four years later, how is this roll up going...? A CWC acquisition (let's not go there), a small acquisition in Costa Rica and a minority buy in in Puerto Rico. It's not quite what the market had in mind.

M&A is hard to pull off, you could argue. True, but this hasn't stopped Liberty protégé Mauricio Ramos at Millicom move full steam ahead.

Millicom, once a cautious "keep leverage at 1.5x EBITDA" sort-of-a-company has now decided that 3x leverage is fine (in the event of M&A), very much adopting the Malone/Liberty business modus operandi. Millicom's acquisition of Panama late last year was Step One, Telefonica's assets this week is Step Two. We assume that's it for now but maybe it's becoming addictive. Furthermore, there's industrial logic to looking at further options in the region: Panama wireless consolidation, or even El Salvador. So, it's Millicom rolling and we like the stock at these levels (see [LINK](#) to upgrade).

Is this all part of a grander Malone plan? Won't the two assets (Liberty LA/Millicom) ultimately still end up under the same roof? Perhaps, but not in the near term. Millicom just got \$1.65bn bigger (the EV of TEF CA) and so if it was a stretch for Liberty LA last month, it's out of reach today. Rather, it's more likely to be Millicom acquiring Liberty LA, although there is absolutely no urgency or need to do this any time soon.

Rather, Liberty LA should focus on Chile, its strongest asset. Not only is there optionality there (adding mobile to HFC) but arguably this is a business which will need defending soon, with competition intensifying from Telefonica (FTTH) and slowing growth (as reported in the Q4s this week). M&A options include Entel – although this would be dilutive and so is probably off the table. Perhaps a better fit would be "WOM", a fast growth new entrant wireless asset which nevertheless hit EBITDA breakeven 18 months ago.

Synergies would follow and, with improvements at CWC, the shares would move back to mid or high \$20s. Whatever Malone is thinking, this would be a much stronger currency to carry into his regional end-game.

For the full weekly review and updated comp sheets, see [HERE](#).