



M&A, Malone and Missing Your Moments (Maybe)

January 19, 2019 by Soomit Datta

The LatAm M&A jigsaw puzzle continues to tease and while a variety of future permutations and combinations exist, we continue to wonder when the regional “roll up” will start.

News this week suggested the answer was now! (or at least imminently). Liberty Latin America (LILA) and Millicom confirmed they were in talks and, furthermore, that some sort of offer (conditional, non-binding) had been made for 100% of Millicom’s shares by LILA. The market (and we) went away, ran the numbers, scratched our heads and, in our case, we couldn’t really make the maths works: leverage is too high (this isn’t the US... how much USD leverage do you want to put on a Paraguayan or Bolivian asset...?) but, perhaps of more relevance, LILA’s equity is too low. Why would Malone want to issue such a meaningful amount of equity at levels 40% below where he bought stock back in mid-2017?

As a result, we don’t see a deal as likely in the near-term. A recovery in LILA’s equity would change things in the future (issuance would surely happen >\$20, ideally closer to \$30). Should Millicom’s 37% shareholder Kinnevik hold out, Entel in Chile could be equally interesting and – as a FM convergence deal – arguably drive more synergies.

Malone’s interest in the region extends to Mexican cable (explicitly via Mike Fries’ Board position at Televisa) and we caught up with the Mexican Ad giant a few days ago in New York. This time last year we had high hopes that Televisa would look to spin off its cable business (Izzy) and create an equity which could be used to acquire Megacable: cable consolidation, with a single asset passing two thirds of Mexican homes. In turn, this could have flushed out interest from Malone in the whole entity

One year on and the strategic review looks dead and buried and comments from Televisa suggest the prospect of a Megacable bid are very slim (and not helped by AT&T suggesting it is a seller of SKY

Mexico). So, the status quo, market structure wise, looks set to persist.

Elsewhere, it's perhaps five years and counting since the market first speculated that TI might look to sell out of TIM Brasil. Oi was a rumoured bidder at the time (with some crazy constructs considered, such as splitting TIM into thirds). We continue to be of the view that there are significant synergies (~R\$25bn) from a merger with Oi – too large to ignore we think for both TI and Oi.

We also feel confident that the Telecoms Law (PL79) will pass shortly after the Senate reconvenes in early February which could kick start some excitement about corporate activity. However, terms of moving from concession to authorisation this will take a little time to negotiate (operators and Anatel) and so formal transition is unlikely until late 2019. This probably holds back merger talks. We may see smaller scale consolidation, such as a TIM bid for Nextel, but a larger deal is unlikely before 2020 we suspect.

So, while tantalisingly close, our base case for Latin America remains that, aside from minor acquisitions (Telefonica selling out of Central America perhaps next) 2019 won't necessarily be the year of deals which it could have been.

So, what do we do with the stocks...?

Millicom (Buy) feels well supported by both strong fundamentals ([see UPGRADE note](#)) and Malone's interest (which won't disappear), but in the very near term if a deal doesn't conclude we'd expect the stock to drop back below SEK600. At this point we'd be looking to build a position.

In this scenario we'd anticipate LILA (Buy) taking the proceeds announced from the insurance settlement last week (\$110m, of which \$50m is already booked), combined with 2019's positive EFCF, and look to buy back shares at this heavily diluted level. From dilution, to accretion, then: the stock should do well in the near term.

In the future, Entel (Neutral) is an alternative meaningful transaction for LILA. Trading conditions are very tough at Entel and the valuation is far from compelling. So, M&A is the ONLY reason to own the stock at this stage, in our view.

Anyone holding out for a Megacable (Neutral) bid will we think be disappointed, although fundamentals should be fine. Televisa (Buy)'s lack of strategic initiative will, unfortunately, unlikely be the catalyst we're looking for to realise value.

In Brazil, Oi (Buy) has been driven down by technicalities which should come to an end this month. At <3x EBITDA and with a number of catalysts: Telecoms Law, new CEO, bankers appointed to assess asset sales (amongst other things), ongoing positive momentum on post-paid wireless, we remain very positive ahead

of future M&A. We see less catalysts at TIM (Buy) although, at 4x EBITDA, it's trading close to historic lows and M&A optionality remains significant.

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

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