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Investors' focus is on how much Telekom will pay for TRI shares

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NOW that Telekom Malaysia Bhd has confirmed making overtures to buy Technology Resources Industries Bhd (TRI), we can get to the nitty gritty of a deal that may give birth to the biggest cellular operator in the country.

But before that, there is this matter of denial. One maxim is that you don't deny anything that may have a chance, no matter how slim, of being confirmed later, but apparently Telekom holds a different view.

By the time Telekom confirmed that it was interested in TRI, everybody already knew what was happening.

One clue was given by Prime Minister Datuk Seri Dr Mahathir Mohamad at a press conference last Monday morning. Just as a reminder, Telekom told the Kuala Lumpur Stock Exchange on the previous Friday that "it has not made an offer to Deutsche Telekom AG and Tajudin to purchase any shares in TRI".

Now, investors are going to take the obvious road to analysing this deal: they smell another helping hand for TRI chairman Tan Sri Tajudin Ramli. Whether that is a fair assessment of the situation or not depends on how much Telekom will pay Tajudin for his stake in TRI.

Question: Is Tajudin's 24.3 per cent TRI stake not the same Tajudin's TRI stake vested in Danaharta?

When contacted, Danaharta head of communications Nora Shah said the fund is not contemplating selling any large block of shares at the moment. But that, like Telekom's statement last Friday, could well be a non-statement.

Nora said 20 per cent of non-performing loans in Danaharta are backed by shares and that Danaharta will consider selling shares only in a case of default in payment.

Telekom officials declined comment on the reason for the apparent discrepancies in its announcements to the exchange on January 25 and January 29.

Both Telekom and TRI had on more than one occasion denied Business Times reports that they had been talking on possibilities of an equity transaction on TRI shares pledged against RM4.2 billion in borrowings. Telekom had on November 5 last year told the KLSE it was not eyeing a larger stake of the cellular market via TRI.

Various government-related bodies collectively own more than 80 per cent of Telekom.

At last Thursday's close, Telekom was 5 sen up at RM9.85, while TRI rose 16 sen to RM3.28.

Now we know that Telekom may merge with TRI. How the market react to this depends on how much Telekom will pay for the privilege of assuming the two million-plus subscribers on Celcom's list.

Even with the obvious benefits of having the most paying customers on its books, investors will want to see how much more Telekom is going to owe to buy it, and spend to realise the benefits.

"As it is, Telekom already has more than RM7 billion in long-term loans, and it will need at least another RM1 billion to roll out third-generation (3G) services," ING Barings regional research manager Syed Razif Al-Idid said.

Analysts hope there will be no deja vu of the Government buy of Tajudin's stake in Malaysian Airline System Bhd. That was when the Government paid RM8 per share for Tajudin's 29 per cent in the airline. In

2001, MAS was trading at an average of RM2.85 a share, reaching a high of RM3.98 on January 26 and a low of RM1.87 on November 9.

"Paying more than twice the market price for TRI will definitely be a no-no, regardless how much market share will grow or possible synergies of both an extensive fixed-line network plus a dual-band GSM mobile network," an analyst said.

A source told Business Times that the national utility company has just made a final offer to purchase between 10 and 20 per cent of TRI shares at RM3.80 each. Acquiring a fifth of the mobile phone company will cost Telekom some RM573 million.

Buying TRI will give Telekom dominant position in the cellular market in terms of market share. Telekom, with 1.3 million cellular service subscribers, has 16.6 per cent of the market share, while Celcom with 2.13 million subscribers has 27.35 per cent.

Market leader Maxis has 38.75 per cent, and DiGi.com Bhd and Time dotCom Bhd have 12.3 per cent and 5.01 per cent each.

Pricing aside, ING Baring's Syed Razif cautioned that Telekom will have to successfully address issues of re-branding the new merged cellular entity, issues such as whether it will maintain the better Celcom branding or market the merged entity under a new name.

"If the deal goes through, Telekom will have a good, high bandwidth dual-band (900 megahertz and 1800 megahertz) GSM network, something no Malaysian mobile company has at the moment. It can leverage on that to overcome network congestion problems significantly," Syed Razid said.

He added that the merged Telekom-TRI entity can also leverage Telekom's huge fixed-line subscriber base to deploy product bundling marketing, or packing fixed and mobile services in several packages for strategic segmented marketing.

GK Goh Research senior telecommunications analyst Tjandra Kartika said a dual-band integration will be a major plus for Telekom as Maxis is already facing network congestion problems in urban areas due to limitations in its 10MHz GSM 900 bandwidth.

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