

# Telkom's shares surge on talk of Cell C tie-up

Shares in Telkom rose 5.56% on Monday, 15 October 2012, to close at R19 on speculation that the company could merge its cellphone unit 8ta with Cell C, *Business Day* reported.



The merger is likely to be one of the proposals that Communications Minister Dina Pule will present to the Cabinet, which is awaiting a new strategy for Telkom. Since it was launched two years ago at great expense, 8ta has been making losses.

Sibonginkosi Nyanga, a telecoms analyst at securities firm Imara SP Reid, said on Monday that traders were buying Telkom's shares following speculation about the merger with Cell C. "All along we couldn't see any good progress regarding Telkom, but this news, even though not confirmed, could be what the market has been waiting for," he said.

Telkom said last week there had not been any formal approach from Cell C.

## Reduction in costs

Cell C's CEO Alan Knott-Craig said on Monday that in markets where telecommunication prices were high, the only way prices would come down was through a reduction in costs. "If you are prepared to live with small margins then you need scale.

"If you need scale, you cannot be a small player. This is why small players are increasingly looking at getting together to create scale."

Knott-Craig has previously said consolidation in the market was inevitable.

Chris Gilmour of Absa Asset Management Private Clients said on Monday that "in broad terms", Knott-Craig was correct.

"In an economy that is growing slowly, as is the case in South Africa, and if that sluggish growth is likely to persist, then consolidation does appear inevitable," he said.

## Beneficial to both Telkom and Cell C

Nyanga said if the merger went ahead, it would benefit both Telkom and Cell C.

"Everyone knows Alan (Knott-Craig) and his expertise in the sector and I suspect that if there will be a merger, he would want to be in charge of the merged entity. The market is anxiously waiting for the government's turnaround strategy on Telkom.

"The Cabinet's decision a few months ago to veto South Korea's KT Corp's plans to buy into Telkom came with no plan B. Maybe now investors are basing hopes for an 8ta turnaround on the Cell C merger."

Nyanga said "theoretically", the merger made sense as there were lots of synergies between Cell C and Telkom.

"It now boils down to details of the merger deal. One hopes that the government will let go of Telkom as it could be a good investment option. The largest shareholder has become its biggest liability as it is not motivated by the commercial realities Telkom faces. The company has a number of key assets and growth opportunities," said Nyanga.

## A different approach to the market

Khulekani Dlamini, head of research at Afena Capital, agreed that the merger made theoretical and "logical sense". Further, the marriage could benefit consumers as it might bring about a different approach to the market, depending on who ran the merged entity.

"Telkom plans to spend about R30bn over three to five years, which is three times its market cap," Dlamini said.

"From that perspective, buying Cell C which is now an asset that is Ebidta positive will make sense, considering that it also has some terrestrial assets like fibre. There are a lot of synergies to extract from that."

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