

# Analysis

## Telefonica shows its hand with CRT acquisition

SPAIN'S TELEFONICA SENT a clear message June 19 to rival bidders for Brazil's soon-to-be-privatized telephone system: it wants control of the fixed-line telephone business in the south of Brazil.

Telefonica's pursuit of Companhia Riograndense de Telecomunicacoes (CRT) has led to speculation regarding the July 29 sale of Telecentrosul, a much larger company currently controlled by Telebras, the federal government's holding company. "Now that Telefonica has CRT, it will be willing to pay a big premium to get Telecentrosul," says Rizwan Ali, a telecoms analyst with Bear Stearns. The fixed-line company will cover an area in the south-central region of Brazil contiguous to the state of Rio Grande do Sul.

A Telefonica-led consortium, including media company Rede Brasil Sur, exceeded the minimum asking price by 26.9% to win a majority stake in CRT on June 19. Its winning bid of Real1.17 billion (\$1.02 billion) secured a 50.12% stake in the company. The CRT sale is viewed as the warm-up act for the sale of the 12 telecoms companies now controlled by Telebras. CRT, which runs fixed-line and cellular phone service in the relatively wealthy southern state of Rio Grande do Sul, is one of the few companies not controlled by the federal government.

Telefonica's interest in CRT came as little surprise, but until the auction it was unknown how aggressively the Spanish telco would pursue a position in the region and whether it would face challengers. One competitor, a Brazilian company called Opportunity that specializes in investments in privatized companies, bid Real1.03 billion at the CRT auction, or an 11.07% premium to the minimum price. Although it did not openly declare any alliance, observers believe its strategy was to prevent Telefonica from making an offer close to the minimum price.

Although Telefonica did not come to the CRT

### CRT financial highlights



	1996	1997	Growth
Revenues (Real mil.)	729	938	28.7%
Net profit	-17	115	n/a
Investment	405	809	99.8%

Source: CRT

auction with new partners (it already shared ownership of 35% of CRT through a 1996 purchase by a consortium that included RBS), it sealed a partnership after winning the auction. In late June, Spanish energy company Iberdrola took a 7% stake in Telefonica do Brasil, which manages Telefonica's interests in Brazil. Spain's Banco Bilbao Vizcaya took a similar stake.

Portugal Telecom bought a 23% direct stake in Telefonica do Brasil for \$374.5 million, effectively confirming that PT and Telefonica will partner in bidding for Telebras companies. The Telefonica/Portugal Telecom partners now have an 85% stake in a company with about 1.25 million fixed lines and 401,000 cellular lines in service as of end-April.

Telecentrosul covers eight states with a population of 30.3 million. At end-1997 it had 3.2 million fixed lines in services.

There are likely to be other bidders for stakes in Telebras companies. These include Telecom Italia, which has established a consortium with Organizações Globo, Brazil's premier media company; France Telecom; Telecom Italia; and Brazilian telecoms equipment company Splice. But potential competitors may focus on Telesp, the operator in the state of Sao Paulo. The sale of northern operator Telenorte has generated less interest.

The minimum bid for Telebras' 19.2% stake in and management control of Telecentrosul is \$1.696 billion. L

### CRT operational summary



	1996	1997	Growth 1996-1997	April 1998	Growth Dec. 1997-April 1998
Fixed lines installed	946,447	1,161,932	22.8%	1,370,492	17.9%
Lines in service*	775,985	1,031,498	32.9%	1,250,000	21.2%
% installed in service*	82.0%	88.8%	8.3%	91.2%	2.7%
Network digitization*	59.0%	69.0%	16.9%	73.0%	5.8%
Cellular subs	176,241	359,652	104.1%	401,000	11.5%
Total lines in service*	952,226	1,391,150	46.1%	1,651,000	18.7%
Fixed lines					
Installed lines/100 pop	10.3	12.4	20.6%	14.6	17.2%
Lines in service/100 pop	8.4	11.0	30.6%	13.3	20.4%
Cellular subs/100 pop	1.9	3.8	100.5%	4.3	10.8%
Lines in service/employee	213.9	299.8	40.2%	347.8	16.0%
Employees	4,451	4,640	4.2%	4,747	2.3%
Population	9,188,806	9,354,204	1.8%	9,412,720	0.6%
Revenue (Real)/line in service	766	674	-11.9%	n/a	n/a

\*estimate for April 1998  
Sources: CRT, Latincom