

GOOD MARRIAGE?

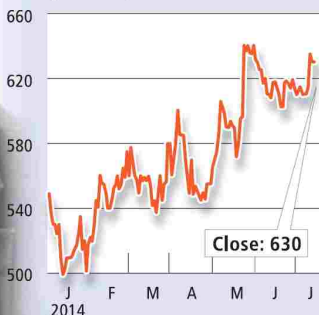
TELKOM SA

Share price, daily close (cents)



BUSINESS CONNEXION GROUP

Share price, daily close (cents)



SIPHO MASEKO

Graphic: DOROTHY TSHWAEDI Source: INET BFA

BCX takes Telkom offer to shareholders

Buyout bid favours Business Connexion investors

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BUSINESS Connexion (BCX) on Friday sent shareholders a firm offer from Telkom to buy out the group at R6.60 per share, valuing the information technology group at about R2.7bn.

Analysts believe the deal will win BCX shareholder approval on August 11 when they vote on it. Telkom pitched its offer for BCX in May at a 20% premium to the company's share price.

Payment will be in cash rather than Telkom shares, meaning BCX shareholders are not exposed to any future business risks. While a good deal for BCX shareholders, the question remains whether Telkom's shareholders will see a return from this R2.7bn investment given the phone utility's disastrous past acquisitions.

But analysts on Friday said the transaction looked fair to both shareholders of BCX and Telkom.

Peter Takaendesa, an equity analyst at Merge Investment Managers, said the transaction would be marginally dilutive to Telkom's earnings per share near term. But there was potential for significant value to be unlocked in

the longer term if management executed the buyout well.

In a bid to boost its fortunes and revenue, Telkom launched a second bid BCX in May. The R2.7bn bid was the second in eight years by government-controlled Telkom to acquire BCX.

In 2006, it offered R2.4bn to take over BCX. The first attempt was opposed by antitrust authorities, which argued that the tie-up would lead to unfair pricing of telecommunications tariffs.

Farai Mapfinya, head of equities and portfolio manager at JM Busha Asset managers, said he did not think Telkom's poor reputation would weigh on this deal. "Most, if not all, major missteps by Telkom in the past have been in geographies in which they had no experience and, compounding that, taking bets on technologies we believe they did not quite understand.

"Business Connexion is a local company that we think Telkom understands better than their previous forays outside of SA."

Telkom was going through a turnaround phase that had gone fairly well to date, Mr Mapfinya said. "We think that gives shareholders a bit more comfort as to

what Telkom's new management is trying to achieve with this turnaround strategy."

Mr Takaendesa agreed that Telkom had failed to extract value from most of its acquisitions over the past decade. These included big losses on the MultiLinks Nigeria acquisition and in the recently exited iWayAfrica ISP business, he said.

Some of the transactions were strategically sound, but execution was a major failure. "We believe this unfavourable reputation on acquisitions is unlikely to weigh in on this proposed transaction primarily because Telkom is now under a well-respected board and management team, as reflected in the strong share price recovery," Mr Takaendesa said.

"Additionally, the most significant scars on Telkom came from ventures outside SA while BCX is a well-established South African company with blue-chip clients."

Mr Takaendesa said the key issue for Telkom was obtaining the competition authorities' approval. The regulators had an additional dilemma of considering the implications of the proposed Vodacom-Neotel transaction.

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