

## Transcorp Acquisition of Nitel: Issues of Cash

Olufemi Adeagbo, 07.20.2006

Nitel is in the news again and the problematic organization is not going quietly. I opined a couple of weeks ago that the new parameters adopted by the BPE somewhat made the Nitel acquisition deal more tenable to a potential buyer, given the Federal Government's pledge to absorb retrenchment and pension obligations, which are considerable within the scheme of things. I was also certain that Transcorp would have had the funding in place to back up its bid price for the 75% stake it wished to acquire. Unfolding events however seem to indicate that the funding matter is not that much of a walkover. What makes matters worse is the appearance of a misunderstanding between the BPE and Transcorp on what should have been paid, and what the payment deadlines were. Given that this is potentially the biggest privatization transaction undertaken in this country so far, it flies in the face of reason to suggest that Transcorp thought they were supposed to pay \$75m initially, whilst BPE were of the view that the payment was supposed to be \$500m.

A misunderstanding of this scale if the report published on Sunday the 16th in Thisday newspaper, by one Lucky Fiakpa is accurate - introduces questions of basic competence on the part of the contracting teams who handled the transaction, and will only further erode public confidence in both contracting parties. A more sincere approach will be to take the view that \$500m is not an inconsequential amount of money, and more time is needed to complete negotiations to deliver on the agreement. That is the view carried in most reports, and must be the accurate one, especially as it is anchored on a requirement to clarify details of the Share Purchase Agreement, and some other pertinent issues. As sincere as that position may be, I can foresee accusations of preferential treatment, considering that others who have failed to meet Government's payment deadlines in the past have forfeited the right to buy, and even lost monies deposited. CIL's licensing with NCC, and IIL's \$100m forfeiture on the same Nitel transaction are episodes that are still fresh within our memories. CIL lost the right to a license, and \$20m, as a result of its payment moratorium, pending clarification on the legal status of the spectrum it had been allocated by the NCC.

Of course, there may well be a difference here - considering that this is a willing buyer -willing seller situation, that may not feature the strict impositions that applied in previous open competitive bidding cases. Nevertheless, it may give the appearance of lack of transparency, even though the exigencies of the Nitel situation may eclipse the consideration for an appearance of transparency. Can we really blame Transcorp if indeed the problem is a matter of cash? Answering that question mandates that we visit the underlying issues of valuation, and the dynamics of funding. It remains my considered opinion that the price aspirations for Nitel are quixotic and perhaps even self defeating. If achieved, significant impedance will have been placed in the pathways of growth. In holding out for the pricing range they want to achieve, everybody in the value matrix continues to lose out. I have sat with prominent politicians who literarily foam at the mouth at the thought of selling Nitel for under \$1b, anchoring their arguments on its status as a jewel and national treasure that can not be given away. Naturally, I am genuinely shocked, saddened and stupefied by these obtuse arguments. If their computations are driven the size of the populace, and the romantic nostalgia of a Nitel that should have been, without an understanding of the economics of purchasing power, the realities of declining spend on telecommunication, the competitive environment, the threats of alternative communication mediums like VOIP, the cost of modernizing and deploying telecoms networks, cost of capital etc; then it is not surprising that they have this warped value perception, which totally ignores well known scientific business rationale. As a friend of mine opined during a telephone conversation we had on Sunday - it is as if people are oblivious to the fact that Nitel will need significant funds to turn it around, considering

that a significant share of the consumer's purse has been claimed by the PTO's and the GSM operators. \$750 m (N90 billion), in her opinion, was a bit of a premium to pay for Nitel, considering its current state.

Whilst the relative ignorance of some observers can be excused I remain unclear about why the BPE has always been disinterested in devising an innovative mechanism to deal with a uniquely problematic situation. One is not really clear on whether the privatization objective is asset maximization, or consumer welfarism. Government has lost taxation income it would have levied on a performing Nitel - or even MTEL, had the privatization taken place at a more realistic price. Accruing obligations would have been much lower, and the liabilities that are now being absorbed would have been more compact. The populace would have benefited. Cumulative advantages would have accrued in productivity terms. Chances are that the monetary value for these components may well exceed the price range BPE has been holding out for. That the pricing position is unrealistic in the current telecommunications environment is clearly evidenced by the cumulative failures to nail down a complete purchase. We canvassed selling off Nitel in component / regional parts a couple of years ago, so that buyers could buy what was relevant to them within a framework of viability and affordability. This model has been successfully employed across the globe in places like the USA and Brazil. We canvassed for the selling of MTEL as a separate entity, as it had the promise of competing. Incidentally, the first GPRS service I used in Nigeria was MTEL's, and it worked very well. The first implementation of applications like credit sharing was introduced by MTEL. Yet, that organization has been effectively stifled and yoked by the reluctance to sever it from Papa Nitel, and its baggage of bureaucracy, corruption, incompetence and ineptitude. We now see another GSM company being acquired for over \$1b more than the BPE is seeking for the combined Nitel/MTEL entity.

Furthermore, when entities go into a transaction of this size without escrowed funds, and lenders are made aware of the pressured timelines, it immediately places the borrower in a very weak negotiating position. Considering the foregoing points, it seems that the entire disposition framework still has significant gaps within it, and the main one is understanding the true value of Nitel and its valuation rationale. Selling something successfully, in the short term, may have long term negative implications. The problems of a buyer that will employ thousands of people will be the problems of the economy and in a sense the problem of Government. It has happened in other places. The BPE may have unwittingly boxed itself into a corner, considering its refusal of the Orascom offer. The pendulum of negotiating strength may now lie with Transcorp, who are at least coming up with some cash, albeit much lower than what the BPE expected. The question is this who needs the transaction more; BPE or Transcorp? The answer will be found in the feedback provided by the NCP. The alternative of canceling and starting again is probably unpalatable, unless one of the other parties, with the same technical depth that BT and Etisalat brought to the Transcorp consortium, can take over the offer. In the absence of that, the prime concern will revolve around protecting this transaction to infuse life into a dying, scandal rocked Nitel. I suspect this concern will obfuscate all other considerations entirely.