

SE Business
HD 'Vodafail' may just lead to a Voda sale
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Vodafone Group chief executive Vittorio Colao has told investors the company "would consider" selling its Australian operations along with other non-core assets and has been checking with potential buyers.

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Vodafone Hutchison Australia is a 50-50 joint-venture between UK-based Vodafone Group and Hong Kong's Hutchison Whampoa Limited.

But analysts and banking sources have warned the company would struggle to find a buyer for the business until there are clearer signs Vodafone Australia has recovered.

Mr Colao was speaking at a Morgan Stanley technology, media and telecoms conference in Barcelona this week when asked if he'd consider the sale of operations in Australia, Hungary and the Czech Republic.

"We constantly check with possible parties interested in some of our less core assets," Mr Colao reportedly said. "We would consider sales but we are not distressed sellers so therefore we must sell at full value. Otherwise we keep them and manage the cash."

After the comments emerged, Vodafone Australia said in a statement Mr Colao was referring to the general principle that Vodafone was open to potential changes to its portfolio and it had no specific plans to sell.

Any sale would come at a critical time for the Vodafone Australia as it attempts to repair its reputation after a network meltdown dubbed 'Vodafail'. It has lost more than 2 million users over the past two years and is continuing to lose customers but the rate of decline has greatly slowed in the last few months.

The joint-venture nature of Vodafone Australia also means all major decisions must be accepted and funded by both parties, which in turn makes it less attractive to potential buyers.

Telstra's dominance of the local mobile market and SingTel-Optus' position in second place means it is hard for a third-placed player to turn a strong profit.

"Ultimately in any deal you have to find a buyer and I think that's the real hurdle here," said one senior analyst, who declined to be named. "You're most likely player would be an overseas mobile provider but there aren't many out there that are buying."

"Locally there's sense putting mobile and fixed-line services together so TPG Telecom would be the one that springs to mind."

Where Vodafone Australia currently pays fixed-line providers to send its mobile data for phone and internet services across the country, a merger with a fixed-line player would help it slash costs and let it sell fixed-line broadband services for the first time.

Sources said it has previously considered buying both iiNet and TPG Telecom.

TPG would benefit by getting more use out of its networks and gain the ability to bundle a wide-range of telecommunications services. It would then be able to take on Telstra and SingTel-Optus and be in a better position to target the corporate market.

TPG is also one of the few Australian telecommunications companies that is big enough to attempt a merger or **acquisition** of Vodafone Australia. Telstra and Optus are unlikely to get permission from competition regulators to make such a move.

Earlier this month Swiss banking giant UBS said Vodafone Group should sell Vodafone Australia to focus on European and Asian growth businesses in a move that could earn it \$2.68 **billion**.

UBS head of European media and telecoms Polo Tang told clients Vodafone Australia was "struggling" and a prime candidate for **sale** along with several other divisions.

Mr Tang said selling off non-core businesses would give the parent **company** £4 **billion** (\$7.29 **billion**) that could be reinvested into businesses with better potential for growth. Vodafone's **stake** in its Australian **operations** alone would be worth \$2.68 **billion**.

The **company** is still losing customers despite previous chief executive Bill Morrow pledging that subscriber growth would bounce back to positive levels by mid-2014.

But the rate of decline has slowed and the **company** began a three year turnaround plan under Mr Morrow that is due to be completed by 2015. His replacement Inaki Berroeta has spent almost \$1 **billion** in the past 12 months alone to help fix the network and catch its rivals.

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