

BT becomes 'takeover target' for Germany

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Germany comes calling for BT BT IS SET to become a takeover target for Deutsche Telekom as an international telecoms merger frenzy intensifies, according to senior industry executives and City analysts.

Talk of a potential tie-up comes as the German giant is reportedly in advanced talks to merge its American arm, T-Mobile US, with the satellite pay-TV operator Dish Networks. If a deal is struck, industry sources claim, the likelihood of a Teutonic takeover of BT will increase.

Merging T-Mobile US with Dish is seen as a route for Deutsche Telekom to exit the American market, in which it has struggled but is now enjoying improving market share. It could then redeploy billions in Europe by buying BT - to realise the long-held ambitions of industry executives to join up their networks across borders.

Speculation about the fate of Europe's former state monopolies is growing as Vodafone and John Malone's cable empire Liberty Global conduct talks on asset swaps.

Mr Malone is also exploring a merger that would create a powerful pan-continental player in broadband, mobile and pay-TV.

A senior industry source claimed: "Deutsche Telekom is clearly selling out of the US, but they don't want to give the money back to shareholders; they want to use it in Europe. They want to buy BT."

Deutsche Telekom owns two thirds of T-Mobile US, which is listed on the New York Stock Exchange. On its current market capitalisation, the stake is valued at nearly \$22bn (GBP 14.4bn).

BT's equity is currently valued at GBP 37bn, having gained 40pc in the past two years as the company has benefited from its broadband network upgrade and attacked Sky's pay-TV dominance.

The Germans are already due to become major shareholders in BT following the completion of its GBP 12.5bn takeover of EE, expected early next year.

In exchange for its 50pc stake in Britain's largest mobile operator, Deutsche Telekom accepted a 12pc stake in BT and the right to appoint a board member. Tim Hoettges, chief executive of the German operator and an enthusiastic advocate of European telecoms consolidation, is favourite to take the seat.

If Deutsche Telekom does harbour grand ambitions towards BT, however, there would be major pitfalls.

Citigroup analysts have claimed Dish could choose to sell itself to Verizon rather than merge with T-Mobile US, for instance, which could mean Deutsche Telekom is stuck in the American market for longer.

There is also the risk posed by the planned UK referendum on membership of the EU. A British exit from the trading bloc would make BT much less attractive to an operator inside the eurozone.

BT's chief executive, Gavin Patterson, and the company's chairman, Sir Mike Rake,

have already emerged as two of the most vocal senior business figures arguing in favour of continued EU membership.

It is likely there would be more political obstacles to overcome if Deutsche Telekom were to seek control of Britain's telecoms network, industry executives said.

It is a critical part of national infrastructure relied upon by all arms of the Government, including intelligence agencies and the military.