(BN) AT&T Carve-Up Urged by Elliott Has Everything But Buyers (1)

AT&T Carve-Up Urged by Elliott Has Everything But Buyers (1)
2019-09-09 19:26:26.200 GMT

By Olga Kharif
(Bloomberg) -- Elliott Management Corp.'s new push to get AT&T Inc. to divest assets seems popular with investors. But actually cutting the company up won't be easy.
Billionaire Paul Singer's hedge fund, which acquired a $3.2 billion AT&T stake in one of its biggest bets ever, has proposed a plan it says would raise the telecom giant's share price by more than 50%. The idea is to cut costs and offload assets, including its home-security business, video provider DirecTV, Mexican wireless operations and parts of its wireline footprint.
Many investors have floated these ideas for a long time privately, and would likely support the move, said Michael Mahoney, senior managing director at investment firm Falcon Point Capital.
However, many of these assets may not find takers at a worthwhile price. Other seemingly noncore assets actually are key to the company's core wireless business, said Chetan Sharma, an independent wireless analyst. And the biggest stumbling block: AT&T Chief Executive Officer Randall Stephenson is unlikely to bow to Elliott's pressure.
"Randall is not the kind of guy who is just going to suddenly fold and say, 'We are going to change our whole strategy,'" Mahoney said. Instead, AT&T may engage in polite interactions with Elliott, and perhaps sell a business or two -- such as its Latin American assets -- that it has earmarked for divesting already, he said.
"It's going to drag on for some amount of time," Mahoney said.
Here are the assets that might be in play -- and the challenges AT&T might face in trying to unload them:

DirecTV

The most obvious option here is to merge DirecTV with its biggest rival, Dish Network Corp. Elliott knows the company well as it previously owned a stake in Dish, though it announced the sale of that position earlier this year.

Both companies are open to such a deal and have indicated that they believe it could pass muster with U.S. regulators, people familiar with their thinking said earlier this summer. A previous combination of the companies was shot down 17 years ago, but now the situation has changed. Both satellite providers have been hemorrhaging customers, and teaming up might help bolster their position.

But Dish is busy with its own plans. The company is pivoting to wireless services, and is focused on a major -- and expensive -- acquisition of assets from the T-Mobile US Inc.-Sprint Corp. merger.

A cable company like Comcast Corp. also might be interested in acquiring DirecTV, so that it can add to its stable of subscribers, Sharma said.

But losing DirecTV’s cash flow could threaten AT&T’s dividend, according to Bloomberg Intelligence’s John Butler. And that could make a deal unpopular among the carrier’s shareholders, who prize the payout.

WarnerMedia

Dallas-based AT&T became a media giant last year when it spent $85 billion to acquire Time Warner, now known as WarnerMedia. Elliott hasn’t specifically proposed selling off that business, though the firm did slam AT&T’s handling of the deal: “AT&T has yet to articulate a clear strategic rationale for why AT&T needs to own Time Warner,” Elliott said in its letter.

Selling off WarnerMedia, or at least CNN, also would please Donald Trump, who fought the merger with a Justice Department suit and continually bashes CNN on Twitter.

Still, Stephenson is unlikely to let go of a prized jewel that he so recently acquired, Sharma said.

Landline Assets

The company’s declining landline business may seem like another obvious target, but it may be hard to sell: Companies that have acquired such assets in the past, such as the now-defunct FairPoint Communications, have struggled.

What’s more, these landline assets are key to AT&T’s wireless business, Sharma said: They can be used to transport wireless phone calls and data long distances for next-generation 5G networks. “I doubt they will consider it,” he said.

Latin America

Latin American assets, such as a wireless business in Mexico, are probably easier to sell, as “it’s a clean breakup, and it doesn’t impact AT&T’s core media strategy in the U.S.,” Sharma said. But it still won’t be easy to find buyers.

Potential acquirers could include a Telefonica SA unit in Latin America, he said. But that company has been trying to sell some of its assets in the region as well.

Billionaire Carlos Slim isn’t an option for the Mexican wireless assets. America Movil, the company controlled by the country’s richest man, has been battling regulators for years over a 2013 reform meant to reduce its dominant position in the wireless market. The telecom regulator would most likely block any attempt to buy rival AT&T Mexico. Slim might be able to look at assets elsewhere in the region, however.

Alphabet Model

With many major divestitures in doubt, AT&T may wish to adopt Alphabet Inc.’s model of creating many independent businesses under one roof, Sharma said.

“It’s not realistic to just chop off AT&T in a lot of different parts and just sell,” he said. “I think what makes sense is a different structure.” For instance, the company could create new units focused on security, telematics, access and wireless.

“But just selling the assets doesn’t make much sense,” Sharma said.

--With assistance from Andrea Navarro.