# Swisscom's Irish flap worries analysts

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Eircom may want to hold off from celebrating in finding a potential buyer, as the Swiss authorities are making it increasingly difficult for Swisscom to buy out a foreign competitor. Yet the company with the most to lose from the deal falling through could well be Swisscom, rather than its Irish counterpart.

Earlier this month, the Swiss telecommunications group made clear that it was in talks with Eircom to acquire its Irish rival by even going as far as to issue a news release declaring that the two companies were actually negotiating a "possible transaction."

Yet the biggest hurdle to the potential deal comes not from the users of Ireland's biggest fixed phone-line operator, nor from the shareholders of the company that is valued at around $3 billion. Rather, Swisscom is facing opposition from within the Swiss borders, as the government has made clear that it will not allow the Swiss company to buy up foreign competitors. The government remains its single biggest stakeholder in the telecommunications group, with 66 percent of total shares, or about $13 billion's worth in stock. There are, however, plans to reduce the government's stake in the company in part to meet some of the overall federal budget deficit.

For now, though, Eircom investors took the latest news in stride, as the company's share price remained effectively unchanged since last Friday at 1.90. On the other hand, Swisscom shareholders too were crushed by the government's decision, as the company's stock price tumbled nearly 2.5 percent to 454, marking its lowest price in over 15 months.

Of course, this is not be the first time Swisscom's efforts to buy out a foreign company have been thwarted, as its plans to buy out Telekom Austria and Cesky Telecom of the Czech Republic fell through over the past few months alone.

In a note to investors, Deutsche Bank analyst Guy Peddy said that "the government has effectively issued a veto of no confidence in management which could lead to increased corporate government interference, a change in management, or potentially management conflicting with its shareholders," and also cut the rating of Swisscom to sell from hold.

Meanwhile, Dan Bieler, an analyst at London-based telecommunications industry research group Ovum, stated that "we detect some roller-coaster decision making inside Swisscom, or at least signs of miscommunication between management and the major stakeholder. The announcement by the finance ministry last week to sell down its stake in Swisscom was generally interpreted as a decision by the government to reduce its influence over the Swisscom decision-making process going forward."

Bieler added, however, that "we expect business as usual, with various (mergers and acquisitions) deals to continue...the government will continue to influence the decision-making process. Any other thinking would be naïve."

Some analysts, however, welcomed Swisscom's decision not to buy out Eircom, given the high debts held by the Irish telecommunications company.

The precautionary tale for those opposed to Swisscom's urge to buy out European competitors look to the saga of Swissair, after the flagship domestic carrier filed for bankruptcy in 2001 following nearly a decade of aggressive expansion policy with overseas companies. The company

re-emerged as Swiss International Air Lines, and it was taken over by Germany's Lufthansa earlier this year.