Denmark's TDC deal rattles markets

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Europe's telecommunications market may become increasingly cut-throat, but competition means that smaller carriers too can hold out and not take up any investment offer that comes their way. Or at least that appears to be the strategy of one major shareholder in Denmark's TDC.

Despite weeks of preparation by a consortium of investors who were lining up to buy out the company, Danish pension fund ATP rejected the consortium's offer to acquire the domestic telecommunications group.

"In the opinion of ATP, the tender offer of DKK 382 (about $62) per share is off-hand attractive based on an assessment of TDC in its current form compared with other listed telecoms companies. Against that background, it was natural that the board of directors recommended that the shareholders accept the tender offer," ATP stated Monday.

Moreover, the pension group that holds just over 5 percent of total shares in TDC said that "it will be possible to generate an attractive long-term return by continuing and accelerating the initiatives already started up by the TDC management. This would include, among other things, increased focus on and continuing efficiency improvements of the company's core activities, divestment of non-core activities and optimisation of the company's capital structure."

ATP said that it recognized fully that by rejecting the offer by Nordic Telephone Company which was set up in November specifically to buy out TDC, it could lead to a fall in share price and anxiety in the near term. At the same time, the pension group said that "ATP's focus is on long-term value creation."

Represented by the Nordic Telephone Company are some of the world's biggest investment groups including the Blackstone Group and Providence Equity Partners. The other companies making up NTC are Apax Partners, Kohlberg Kravis Roberts & Co., and Permira Advisers. Certainly, the consortium's commitment to pushing the deal that would have allowed the group to buy TDC for $15.3 billion including its net debt was high, and market expectations that the agreement would go through were considerable.

Investors were clearly disappointed by Monday's development that thwarted NTC's attempts to buy out the group, as the telecommunication company's shares plunged nearly 3 percent from the previous session to 29.81. The stock had actually increased nearly 40 percent in value since the NTC consortium announced they would be bidding for the telecommunications group. Granted, the immediate fall in the company's share price was only to be expected by ATP.

Yet retaining the value of TDC is perhaps higher for ATP, given that its 5.51 percent shareholding in the telecom group represents about 9 percent of its overall equity portfolio. Analysts agree that ATP has clearly indicated that keeping the domestic telecommunications group under the current management would actually lead to more profits in the longer-term even as the European telecom market becomes ever more aggressive in ensuring their survival, rather than in the hands of a group of international investors.

Nevertheless, local Danish media broadly expect the TDC's board of directors to accept the NTC offer. The offer period expires Thursday.