



**Telecom Italia mulls shake-up**

Speculation that group could sell mobile assets; shares suspended in Milan

By Aude Lagorce, MarketWatch

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LONDON (MarketWatch) -- Telecom Italia shares were suspended in Milan amid intense speculation that Europe's fifth-largest phone company may decide to sell its mobile operations at a board meeting to discuss strategy on Monday. Telecom Italia (IT:349716) said on Sunday that the board meeting would examine a reorganization of its fixed-line and mobile telephone services.

Several newspapers reported the group was considering splitting off and selling all or part of its mobile operations, which are controlled by its subsidiary TIM.

Analysts for Dresdner Kleinwort told clients they expect Telecom Italia to sell its mobile business for about 35 billion euros (\$44.5 billion).

The move could allow Telecom Italia to erase some of its more than 40 billion euros in debt. It would also mark a major turnaround for the company, which has recently been integrating its mobile and fixed-line operations.

Such an abrupt change of strategy a little over a year after the completion of the TIM buy-in could tarnish Telecom Italia's reputation, Morgan Stanley analysts warned.

Christopher Kummer, the director of the Vienna-based Institute of Mergers, Acquisitions and Alliances, said the potential transformation of Telecom Italia into a media company was fraught with issues.

"Just selling content from Newscorp is not a new business model. Telecom Italia wouldn't be the first group to try and transform into a media company and fail," he said, referring to the disappointing attempt of Vivendi.

Kummer, however, said the timing of a potential sale was right, with lots of cash floating around to be used in M&A deals.

Any buyers?

Dresdner said it sees private-equity buyers bagging the division, but would not exclude a bid from another European integrated operator such as France Telecom (FR:013330) or Deutsche Telekom AG (DE:555750).

Clive McDonnell of Standard & Poor's, however, took a different view. He said he doesn't believe private-equity companies would be natural buyers of the business and that the predictable slow growth in cash flow generated from these assets is a natural match for insurance companies instead.

Dresdner also said it anticipates a big dividend to be paid out of the proceeds and the company to focus on broadband and content in the wake of the disposal.

Analysts for Exane NMP Paribas were less prone to see the deal done.

"We do not believe any asset sale is imminent, but ultimately believe that a solution that unlocks value to current shareholders is likely to emerge," they said.

The broker said the impetus behind the reorganization may be financial pressure on Chief Executive Tronchetti Provera, who indirectly controls 18% of the ordinary shares.

Trading in Telecom Italia shares was suspended on the Italian stock market, while shares of Pirelli (IT:007272), a big shareholder, gained 2.9% in afternoon trading. France Telecom and Deutsche Telekom shares both rose 2.2%.

Telecom Italia said it will hold a conference call at 6.00 pm CET (12 p.m. Eastern). See global markets page.

Aude Lagorce is a reporter for MarketWatch in London.