Globe Talk: Turkey delights Vodafone

There should be satisfaction in beating out the competition to win over a company in a country with much potential. But while Vodafone executives may be rejoicing over their deal to buy out Turkey's Telsim earlier this week, some industry analysts are wondering whether indeed the investment will actually pay off.

The potential of the Turkish market for cell phone carriers is tremendous, as highlighted by the world's biggest mobile company itself.

"With a larger population than every European country except Germany, and a penetration level of approximately 53 percent, the Turkish market represents a major growth opportunity. Our extensive operating experience and unique set of products and services positions us to compete effectively in such a youthful market," said Vodafone's chief executive Arun Sarin.

In addition, the possibility of Turkey becoming part of the European Union only increases its allures to corporations in what has become one of the most competitive industries worldwide, not to mention the fact that nearly half of the population is under the age of 25, the age group that is particularly sensitive to mobile phone trends. Hence bids for Telsim came from a slew of rivals in the Middle East including Kuwait's MTC and Sistema of Russia at an auction.

But with a $4.55 billion price tag, Telsim may not be such a great deal after all, at least in the near-term. Certainly, shareholders of Vodafone were less than impressed by the company's latest bid to expand its overseas holdings through buyouts as the company's stock fell nearly 3 percent following the announcement. The deal is expected to be finalized by the first quarter of 2006, subject to approval from the Turkish authorities.

Few, if any, expect much opposition from the government regarding the deal, though. For one, Turkey's second-largest mobile provider has been owned by the government, namely the Turkish Savings Deposits Insurance Fund since its principal shareholders, the Imar Bank, collapsed in 2003 and left the government with debts of $6.5 billion. For the government, therefore, selling off Telsim has been a effective means to reduce its liabilities and press ahead with privatizing public utilities at the same time.

Julian Horn-Smith, the company's deputy chief executive, said in a conference call with reporters that while Vodafone expects Telsim to post a loss this year, the investment will gradually pay off.

The saving grace is that Vodafone will not be assuming any of Telsim's liabilities, including those related to Motorola and Nokia. Rather, the deal would only include purchasing the bulk of Telsim's assets and businesses, including its 9 million customers.

In 2002, Nokia and Motorola filed a suit with the New York District Court to reclaim the $3 billion owed to them by the Uzan family, which owned Telsim. Ownership of the company was then passed onto Imar Bank, which then filed for bankruptcy itself the following year. Motorola's general counsel Peter Lawson said at the time that the family had failed to act in good faith, and instead, it was "a premeditated and unlawful attempt by the Uzans to rob both Motorola and Nokia of our assets."

Since then, though, the companies had reached an agreement with the Turkish Savings and Deposit Insurance Fund, and they will be receiving a settlement payment upon completion of the sale. Nokia will be receiving 7.5 percent of the purchase price, which is expected to be received from the fund, and not Vodafone.

Indeed, Nokia publicly lauded Vodafone's purchase, stating that the company "will be helping to shape the future landscape of communications in Turkey" in addition to praising the Turkish authorities for handling the once-bitter situation.

Some analysts, meanwhile, remained largely upbeat about Vodafone's recent acquisition. Researchers at Dresdner Kleinwort Wasserstein reported Wednesday that it would keep its buy rating for the carrier as it sees Telsim's performance to improve and customer base to increase over the next five years.