

Bulletin:

MTN Group's Proposed Acquisition Of Telkom Could Reduce Rating Constraints But May Face Regulatory Hurdles

July 25, 2022

(Editor's Note: In the original version of this bulletin, published earlier today (July 25, 2022) we incorrectly stated the rating on Telkom SA SOC Ltd. It should be BB/Positive/--. This version corrects the error.)

This report does not constitute a rating action.

JOHANNESBURG (S&P Global Ratings) July 25, 2022--S&P Global Ratings today said that the joint announcement of MTN Group Ltd.'s (BB-/Stable/--) mooted acquisition of Telkom SA SOC Ltd. (BB/Positive/--) could reduce rating constraints for both entities. That said, concluding such a deal could be a prolonged and complex process.

In the companies' brief and consistent statements released on July 15, they note that they have commenced discussions regarding MTN's acquisition of Telkom's entire business, to be funded by an equity issuance by MTN and possibly some cash. The companies emphasized that discussions are at an early stage and that the transaction's conclusion was far from certain. No additional details on the structure, timing, or regulatory support for the transaction are available.

We assess pan-African telecommunications player MTN and South African telecommunication group Telkom as having the same stand-alone credit profiles ('bbb-'). Our ratings on both companies are subject to negative external influences, which the transaction could ease. MTN's earnings are materially exposed to South Africa and Nigeria, which keeps our rating two notches above the blended foreign currency sovereign rating on the two countries. If MTN's exposure to Nigeria (versus South Africa) were to reduce, the sovereign rating constraint on the rating on MTN could ease. Our rating on Telkom is one notch above the foreign currency sovereign rating on South Africa, with the extent to which it can be rated above the sovereign limited by its status as a government-related entity (GRE). If the government ownership in Telkom is reduced or eliminated, we could consider rating it an additional notch above the sovereign. However, given that the deal structure and its likelihood of concluding remain unclear, any rating action at this stage would be premature.

In our view, an acquisition by MTN (South Africa's second-largest mobile network operator [MNO] by subscribers with 31.5% market share) of Telkom (South Africa's third-largest MNO with 15.5% market share) could be subject to multiple and complex regulatory hurdles. The deal would most likely require approval from both the telecommunications regulator (ICASA) and the Competition

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Commission, at minimum. Telkom's largest shareholder (the South African government with a 40% stake) would also need to take a supportive stance.

Operationally, a combination of MTN and Telkom's businesses in South Africa offers many potential benefits. The merger of the mobile businesses would add significantly to MTN's already-large market position and introduce efficiencies in mobile infrastructure and spectrum use. Telkom has a dominant position in fiber broadband that would enhance MTN's position in data and related services.

However, the transaction would likely influence competition dynamics in South Africa's telecommunications space. This is why we expect it to garner significant regulatory attention. We expect this transaction, if it concludes at all, will be complex and lengthy.

For further details on our ratings on MTN and Telkom see "Some South Africa Corporate and Infrastructure Issuer Outlooks Revised To Positive On Sovereign Action; Ratings Affirmed," May 27, 2022; "Pan-African Telecommunications Provider MTN Group 'BB-' Rating Affirmed; Outlook Stable," Oct. 22, 2021; and "_000001 Telkom SA SOC Ltd.," Oct. 6, 2021.

Related Criteria and Research

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 2018
- Criteria | Corporates | General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- Criteria | Corporates | Recovery: Methodology: Jurisdiction Ranking Assessments, Jan. 20, 2016
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | Industrials: Key Credit Factors For The Telecommunications And Cable Industry, June 23, 2014
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 20, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

- Criteria - Corporates - General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018

Related Research

- Some South Africa Corporate and Infrastructure Issuer Outlooks Revised To Positive On Sovereign Action; Ratings Affirmed, May. 27, 2022.
- Industry Top Trends 2022: Telecommunications, Jan. 25, 2022
- Pan-African Telecommunications Provider MTN Group 'BB-' Rating Affirmed; Outlook Stable, Oct 22, 2021;
- Telkom SA SOC Ltd., Oct. 6, 2021

Regulatory Disclosure

Regulatory disclosures applicable to the most recent credit rating action can be found at "Some South Africa Corporate and Infrastructure Issuer Outlooks Revised To Positive On Sovereign Action; Ratings Affirmed," published May 27, 2021 on RatingsDirect, and "Pan-African Telecommunications Provider MTN Group 'BB-' Rating Affirmed; Outlook Stable," published Oct. 22, 2021 on RatingsDirect.

Glossary

- Country risk: This measures a country's influence on the overall credit risks for a rated company with regards to a country's economic, institutional and governance effectiveness, financial system, and payment culture/rule of law risks.
- EBITDA margin: This is EBITDA as a fraction of revenues.
- EBITDA: This is earnings before interest, tax, depreciation, and amortization.
- Issue credit rating: This is a forward-looking opinion about the creditworthiness of an obligor with respect to a specific class of financial obligations or a specific financial program.
- Issuer credit rating: This is a forward-looking opinion of an obligor's overall creditworthiness.
- Liquidity: This is the assessment of a company's monetary flows, assessed over a 12 to 24 month period. It also assesses the risk and potential consequences of a company's breach of covenant test, typically tied to declines in EBITDA.
- Outlook: This is the assessment of the potential direction of a long-term issuer rating over the short to intermediate term (typically six months to two years).
- Transfer and convertibility (T&C) assessment: S&P Global Ratings' view of the likelihood of a sovereign restricting nonsovereign access to foreign exchange needed to satisfy the nonsovereign's debt service obligations.

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