Giddy.org
Resources in Finance

Case study

The Acquisition of Celtel

An African Company's Choice: IPO or Sale?

Prof. Ian Giddy, New York University

The Alternatives

Mo Ibrahim, Chairman

Marten Pieters, CEO

In early March 2005, Celtel International B.V., a pan-African mobile communications group, was facing a choice for the company's future. Many felt that now was the time for the private company to do an initial public offering (IPO), with a listing on the London and Johannesburg exchanges. Such a listing could give existing shareholders liquidity, enable the company to raise additional capital for expansion in Africa, and provide a high valuation for the company's equity. One estimate put the listed value at GBP1.1 billion ($2 billion). Stock markets were rewarding telecommunications players in emerging markets, so a listing would have placed a relatively high value on the shares. Celtel's Anglo-Sudanese founder and chairman, Mo Ibrahim, was keen on getting the highest possible price for his 21% stake.

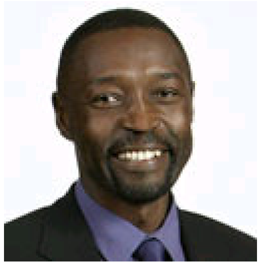
On the other hand, an IPO would be expensive, and would not immediately allow major investors to sell their shares. Hence another possibility being considered was a sale to a major telecoms company. The proposed IPO was drawing the attention of several international telecoms groups. "We never had a 'for sale' sign up," said Chief Executive Marten Pieters. "But if interested parties come in with unsolicited offers at a nice level, the board has a duty to share those with the shareholders."

What should be done? A decision had to be made soon. Now seemed a good time to sell the company: the company had just announced that net profit more than doubled to $147 million for the year ended Dec. 31 2004, compared with $73 million in 2003; this news would undoubtedly boost the potential IPO price.

* * *

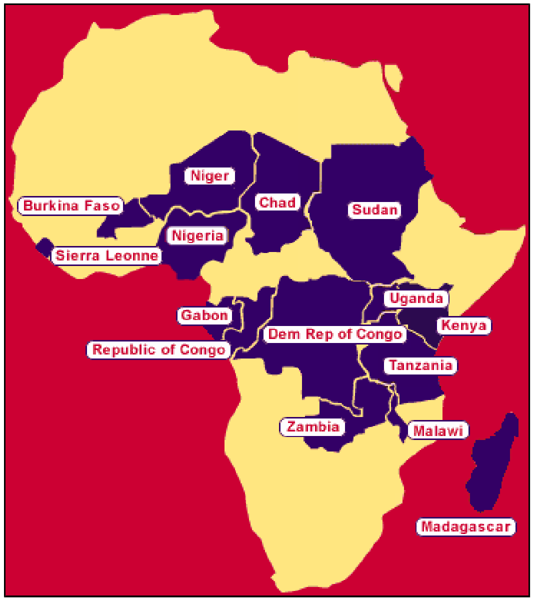
Pieters said the group was seeing good returns from its investment across the sub-Saharan region. "The Group is delivering strong organic growth in all our operations and we are now building on our unique position in East Africa as the only operator in each of Kenya, Tanzania and Uganda. We invested more than $250 million in infrastructure in Africa in 2004, an increase of 140% compared to the previous year. Our focus is to continue to invest in our pan-African business and premier brand at a time of rapid growth for mobile telephony on the continent," he said.

Celtel reported that revenues were up by 62% to U.S. $614 million on a consolidated basis, due to to strong organic growth of the customer base and the major acquisition in Kenya. Excluding the Kenyan operation, the Group grew its revenues by 42% and customers by 60%.



Tito Alai, Chief marketing Officer

EBITDA increased by 59% to U.S. $200 million (2003: U.S. $126 million) as a result of strong growth in revenues and cost controls despite the Group's investment in the Celtel brand. The Group had net finance costs of U.S. $48 million (2003: U.S. $26 million). The increase was mainly due to the costs of refinancing.



"As of December 2004, mobile penetration was less than 5% in 10 of the 13 countries in which Celtel operates (see map). Therefore, the Group believes that there is significant opportunity for customer and revenue growth in sub-Saharan Africa. Sub Sahara Africa is currently the world's fastest growing region for mobile telecommunications," said the company. "The Group aims to position Celtel as a pan-African brand known for quality of service, network coverage and customer care. Through a strong brand with a pan-African reach, Celtel aims to increase customer loyalty, expand its customer base and offer differentiated services."

"The demand for quality mobile telecommunications services in Africa is reflected in the strong organic growth of the Group's customer base. During the last quarter of 2004 Celtel was signing up on average 50,000 new customers per week, with significant numbers in particular coming from the Democratic Republic of Congo and Kenya."

Africa had a population of 850 million with most growth coming from South Africa, Morocco, Nigeria and Egypt. There was plenty of potential, analysts said. Mobile subscriptions across Africa rose 47 percent to 76.5 million in 2004, according to London-based research firm Informa Telecoms & Media.

The Offer

On March 29, 2005 Celtel received a $3.4bn all-cash offer from Kuwait's Mobile Telecommunications Company (MTC).

MTC, which had a market capitalisation of around $7 bn, had more than 20 years of experience in the cellular business. It.had operations in Kuwait, Jordan, Lebanon, Iraq and Bahrain and also had a strategic partnership with Vodafone

Group PLC. It reportedly had 3.4m customers in the Middle East and aimed to have 15m users by 2011. Arguing that Celtel shareholders should be happy with the offer, MTC chairman Saad al Barrak said "Together, MTC and Celtel will leverage the strong synergies, shared cultural values and heritage which exist between the Arab World and Sub-Saharan Africa."

If accepted, offer would give even the most recent investors a return of at least 250% as the most that investors paid was $20 a share and MTC was offering $56. Shareholders included Actis, a South African private equity investor, Old Mutual, and African Merchant Bank. Actis backed Celtel as a start-up and contributed $77m in three rounds of funding. Its 9.3% made it the largest holder after Celtel chairman Mo Ibrahim. Other shareholders included the Africa Infrastructure Fund and a number of US venture capital firms.

The cash from MTC would take out existing stakeholders but would not add any working capital or pay off loans Celtel raised to fund expansion. To implement its growth strategy, MTC would have to invest a substantial amount in mobile phone infrastructure in places like Nigeria.

Celtel had a reputation for being well run: it was profitable and had a presence in 13 countries, but money was always tight and Celtel's plans for African dominance had been relatively easy to dismiss. Its management skills and sound business practices had seen it repeatedly raise debt and equity funding to expand, but a buy-in from MTC would ease that pressure. If MTC succeeded in its buyout, some felt this could provide Celtel with the capital for further African expansion.

The Meeting

Some of Celtel's shareholders -- notably the venture capital firm Actis -- were keen to accept MTC's offer. However the Board wanted to be sure this was the best possible price that could be obtained for all shareholders. A hasty meeting was arranged in Amsterdam with the company's advisors, ABN AMRO Bank.

Hendrik Meulenbroek, an experienced M&A specialist at the bank, opened the meeting. "I've assembled some rough figures based on research I've been doing on Celtel and MTC," he said. "Let's look at the numbers. I think that once we've analyzed them, we should be able to make a decision about whether it makes sense to accept MTC's offer."

Questions

1. From the point of view of Celtel's shareholders, what are the advantages of a sale of the company to a strategic buyer versus an IPO?
2. What is your estimate of a fair acquisition price for Celtel, considering the benefits to MTC and the possibility of rival offers from other telecoms companies?

Appendix 1: Meulenbroek's Memo

[confidential - to be provided]

Appendix 2: Celtel Financials
Year end results for the year ended 31 December 2004

Group Key Performance Indicators

	FY04	FY03	FY04 vs FY03
Total managed mobile customers (millions)	5.2	2.5	108%
Proportionate mobile customers (millions)	3.6	1.7	118%
Average revenue per user per month (US$)	21	25	-16%
Average churn per month (%)*	3	3	N.A.

* Churn equals monthly deactivations divided by the local number of customers at the end of the previous month

Consolidated P&L

Consolidated P&L US $ million	FY04	FY03	FY04 vs FY03
Revenue	614	380	62%
Operational expenditures	414	254	63%
EBITDA	200	126	59%
EBITDA %	32.6	33.3	-
Profit before tax and minority interests	186	95	96%
Net profit	147	73	101%

The effective tax rate was 17% (2003: 14%) reflecting local tax holidays and non-taxable income.

Consolidated statement of Cash Flows

US $ million	FY04	FY03
Operating activities	152	98
Investing activities	(353)	(74)
Free cash flow before financing activities	(199)	24

Financing activities	133	89
Net (decrease)/increase in cash and cash equivalents	(69)	113
Cash and cash equivalents as of 31 December	64	132

Three year record
for the year ended 31 December

	2003	2002	2001
Proportionate revenue ($ millions)*	446	314	194
Proportionate mobile customers (millions)	1.7	1	0.5
Total managed customers (millions)	2.5	1.4	0.6
Proportionate EBITDA ($ millions)*	151	80	29
Proportionate EBITDA margin (%)*	34	25	15
Net profit ($ millions)	74	-24	-38
Average revenue per user per annum ($)	300	360	499
Capital expenditure ($ million)	105	73	78
Total assets at year end ($ million)	715	488	465
Year end gross debt ($ million)	238	232	186

Proportionate figures reflect Celtel International's share of both its controlled subsidiaries and associate companies. Celtel International's equity interest in controlled subsidiaries and associate companies are highlighted in Note 4 to the financial statements. Proportionate consolidation of controlled subsidiaries and associate companies does not comply with International Financial Reporting Standards but provides insight into Celtel International's expansion since incorporation.