

Talk of BCE, Telus recurs on Street

CATHERINE MCLEAN, Telecom Reporter
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Reports that the purchase of U.S. radio company Clear Channel Communications Inc. could be derailed have set off another round of hand-wringing about whether the **BCE Inc.** deal will go through, prompting Bay Street to revive chatter about a merger with rival **Telus Corp.**

Banks have become much more averse to backing big deals amid the current credit crunch, and there is talk that those involved in the Clear Channel deal could refuse to lend money.

That gave BCE investors more reason to fret about the pending \$34.8-billion takeover by a group led by Ontario Teachers' Pension Plan, much of it financed through debt. The two deals share three of the same lenders: Citigroup Inc., Royal Bank of Scotland Group PLC, and Deutsche Bank.

BCE's stock slid further away from the \$42.75 a share takeover bid yesterday, and analysts warned it could go down to \$27 if the deal falls through.

Yet they also offered hope that there could be a fallback plan: BCE could hook up with an old suitor, Telus Corp.

Bank of Montreal analyst Peter Rhamey said BCE could be the hunter, while National Bank Financial analyst Greg MacDonald reckons Telus could buy BCE if Teachers walks away.

"We would place a greater than 50-per-cent chance on Telus making a bid for the company" in that scenario, Mr. MacDonald wrote yesterday in a note to clients.

Along with financing, investors also worry about whether Teachers will get regulatory approval for its acquisition. The Canadian Radio-television and Telecommunications Commission is expected to unveil its ruling today.

So far, Teachers and Montreal-based BCE continue to stress that things are on track. BCE spokesman Mark Langton referred to recent comments that the transaction will close by June 30.

Teachers spokeswoman Deborah Allan said "we're working to close the BCE transaction and we expect our banks will honour their financial obligations."

Citigroup spokeswoman Danielle Romero-Apsilos declined to comment on the BCE financing and Deutsche Bank and Royal Bank of Scotland didn't return a call seeking comment. As for the other main lender, Toronto-Dominion Bank, spokesman Simon Townsend said "we remain comfortable with the deal."

That may be the case, but some observers are wary about the fate of the BCE transaction. **Neeraj Monga**, an analyst at **Veritas Investment Research** reckons there is a 50-per-cent chance the deal will proceed. The Clear Channel rumours raise more questions about the BCE acquisition, he noted.

Moreover, he believes the outlook for the wireless industry has changed since the purchase was first announced last June. Back then, BCE, Telus and Rogers Communications Inc. controlled the cellphone market. But Ottawa plans to let new firms enter the market this year, putting pressure on prices, **Mr. Monga** said.

Telus (T)

Close: \$43.37, down 72¢