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Business Briefs: Transactions in Telecommunications, Steel, Mining

by LADB Staff

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Mexican corporate giants Grupo Mexico, Telmex, Alestra, and IMSA made headlines in late October by completing transactions or taking other steps to greatly expand their operations. Mining giant Grupo Mexico gained control of US copper company Asarco, while IMSA reached an agreement to acquire financially troubled AHMSA. Telmex and Alestra announced new ventures in telecommunications.

IMSA agrees to acquire AHMSA

Mexican steel manufacturer Grupo IMSA has agreed to acquire a majority share in rival Altos Hornos de Mexico (AHMSA). Financial difficulties forced AHMSA to default on payments to creditors earlier this year (see SourceMex, 1999-05-05, 1999-06-09). Because of the severe financial problems, AHMSA was forced to seek a business partner but found little or no interest from overseas companies. IMSA eventually offered to acquire the company after three months of negotiations.

The agreement must still gain approval from a consortium of Mexican and foreign banks that holds the majority of AHMSA's debt. The banks, which include US-based Bank of America and Norwest, hold about US\$1.8 billion of AHMSA's total debt of US\$2.4 billion. The Mexican banks that hold the bulk of AHMSA's bank debt are Banamex, Banorte, BBV-Probursa, Inverlat, and the government's export-import bank Banco Nacional de Comercio Exterior (BANCOMEXT).

IMSA has conditioned the merger on reaching an agreement with creditors to restructure the debt over a longer period. On Oct. 19, IMSA presented its merger plan to a group of creditors that showed some interest in the proposal. "We found this plan interesting," an officer for one of the banks at the meeting told the daily newspaper Reforma. The officer said that, if the IMSA plan is accepted, the creditors would like to see the merger completed by late December. AHMSA's executive vice president Alonso Ancira said the plan includes an offer of a 15% share in the merged company to the creditors. Should creditors approve the deal, it would create one of Latin America's largest steel producers, merging AHMSA's mining and steel distribution operations with IMSA's vast capacity to process steel.

IMSA chairman Eugenio Clariond Reyes has pledged not to sign any deal with AHMSA that would dangerously expand his company's own debt load. Still, a statement by IMSA downplayed the concerns about a major increase in debt. This was viewed as an attempt to ease the concerns of the company's shareholders. "The debt level of the new company will be sound compared to the leverage and interest [payment] coverage of similar companies in the steel industry," the company statement said. "As a result, it is anticipated that Grupo IMSA's creditors will not be affected in the quality of their assets."

Grupo Mexico gains control of US-based Asarco

Grupo Mexico completed a merger with New York-based copper producer Asarco, beating out a rival bid from another US company, Phelps Dodge. Asarco and Phelps Dodge had signed a preliminary merger agreement in early October worth US\$1.17 billion, in a deal that had apparently left Grupo Mexico out of the running to acquire Asarco (see SourceMex, 1999-10-06). But the merger agreement was not scheduled to become final until Oct. 25, which allowed Grupo Mexico to raise its bid to US\$1.24 billion, or US\$29.75 per share. Phelps Dodge was given the opportunity to match or increase the enhanced Grupo Mexico bid, but the US company declined to do so because of financial considerations.

The Asarco-Grupo Mexico merger will create the world's third-largest copper producer, surpassed only by Chile's Codelco and Phelps Dodge-Cyprus Amax. Officials for the Mexican company said they expected no difficulties in combining Grupo Mexico and Asarco into a single company. "Our operations are extremely complementary, and we hope to work with Asarco to integrate them without difficulties," said Grupo Mexico president German Larrea. As part of the merger agreement, Grupo Mexico will assume about US\$1 billion of Asarco's debt.

Alestra and TELMEX announce new ventures

In mid-October, Mexican telecommunications companies TELMEX and Alestra took major steps to expand their operations. Alestra has requested a permit from the Secretaria de Comunicaciones y Transportes (SCT) to provide local telephone service in Mexico's three largest cities, which would put the company in direct competition with TELMEX and other companies. Alestra, already one of the leading long-distance providers in Mexico, plans to invest US\$52 million to expand infrastructure to cover local service in Mexico City, Monterrey, and Guadalajara. A company spokesperson said the five-year project involves laying down 1,300 km of fiber-optic cable. Alestra is a joint venture between US-based telecommunications company AT&T, Mexican industrial conglomerate Grupo Alfa, and Mexican financial services company Grupo Financiero Bancomer (GFB).

Competing long-distance provider Avantel already received a permit from the SCT in August to offer local service. The company, a joint venture between US-based MCI World Com and Grupo Financiero Banamex-Accival, plans to begin offering local service in January 2000. Separately, TELMEX completed a joint-venture agreement with US computer giant Microsoft to create a Spanish-language portal on the Internet for the Americas. The companies formalized the venture by announcing a joint investment of US\$100 million to launch the service.

The TELMEX-Microsoft project will have offices in Argentina, Colombia, Chile, Mexico, Venezuela, and the US. A spokesperson for Microsoft said the new site, which will be introduced in many countries in the Americas, will include services such as free electronic mail, instant messaging, and shopping. Mauricio Santillan, Microsoft's vice president for Latin America, said Microsoft and Telmex hope to have 20 million to 30 million Spanish-speaking Internet users visiting the portal within the next few years. "What's most relevant about this alliance is the enormous potential of local content and options Microsoft and Telmex will offer to Spanish-speaking Internet users," said Santillan.

Microsoft estimates that there are currently 6 million Spanish-speaking Internet users in Latin America, and an additional 9 million in the US. A TELMEX spokesperson, meanwhile, said the company plans to create links from the new service to its US Internet subsidiary Prodigy. TELMEX owns a 20% share in Prodigy. TELMEX also provides Internet service to about 160,000 users in Mexico, or roughly 70% of the market. (Sources: Bloomberg news service, CNET News, The Dallas Morning News, 10/19/99; El Economista, 10/13/99, 10/21/99; Associated Press-Dow Jones news service, 10/21/99; Excelsior, 10/12/99, 10/13/99, 10/15/99, 10/19/99, 10/22/99; Reuters, 10/15/99, 10/18/99, 10/19/99, 10/20/99, 10/25/99; Associated Press, Notimex, 10/25/99; Reforma, 10/19/99, 10/20/99, 10/26/99; El Universal, 10/19/99, 10/21/99, 10/22/99, 10/26/99)

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