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Merger kings now shedding assets

Ballooning telecom debt and Enron's collapse have given divestments a new urgency as firms attempt to stay viable

LONDON - Two years ago, companies were spending US$200 billion (S$367 billion) a month to get bigger. Now they are shrinking. Sprint, the No 3 long- distance telephone company, last Friday said it hired investment bankers to help review the sale of a directory publishing unit. Conglomerate Tyco International also plans to sell assets.

France Telecom has sold a stake in an Indonesian phone operator and may sell more shares in wireless unit Orange to cut US$56.5 billion of debt, investors said. While divestments were happening even before mergers slowed a year ago, ballooning telecom debt and Enron's December bankruptcy filing brought a new urgency. 'The companies that acquired most aggressively often have the most damaged balance sheets,' said Ms Margaret McLaren, head of European stocks at Britannic Asset Management.

'In a slower economy, they're going to struggle to divest assets at reasonable prices.' In 1999 and 2000, companies that wanted to go global or be No 1 in their industry bought about US$2 trillion a year of assets. European telcos borrowed about US$330 billion for acquisitions and licences for Internet services, then struggled to defend their credit ratings. Credit markets contracted after Enron's bankruptcy filing, pushing more executives to sell assets.

Tyco pulled out of the commercial paper market last month as lenders balked at refinancing short-term loans. After making US$64 billion worth of acquisitions over eight years, Tyco said in January it would cut about US$11 billion of the US$21.6 billion in debt at its industrial units. It is considering selling or spinning off its CIT Group finance arm and plans to get rid of other businesses to help shore up its stock, which has tumbled 49 per cent to US$30.30 since last year-end.

Some markets for asset sales are getting crowded. Shares of power company AES, which faces a cash crunch after currency devaluations that threaten profit from businesses in Argentina and Venezuela, fell 32 per cent on Feb 19 after the electricity producer said it would sell as much as US$1.5 billion in assets and trim spending by 41 per cent. The Arlington, Virginia-based company is shedding assets at a time when companies such as Williams and El Paso have offered billions of dollars of power plants, pipelines and utilities for sale to improve their balance sheets. 'It will be difficult for AES to command a fair value for any assets it puts up for sale,' said UBS Warburg analyst Ron Barone. -- Bloomberg News