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BARRON'S

THE DOW JONES BUSINESS AND FINANCIAL WEEKLY

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OFF THE HOOK

WILL ANYONE PICK UP THE BATTERED TELECOM STOCKS?

DOW JONES

Wired for Hope

Our panel surveys the wreckage and finds surprisingly strong signals

Call them crazy, but the telecommunications experts who joined us this time last year for a discussion of the sector agreed to come back for another go at it. This after a grinding and grueling year, one in which the Nasdaq Telecommunications Index fell by 60% from when the panel last convened and the industry's difficulties deepened throughout the world.

Investors should have been braced for the brutalities that would come to bear on this market, thanks to the insights of our specialists: Michael Cahill, a managing director of Chilton Investment Co. and portfolio manager of the \$1 billion Chilton New Era funds, which delivered 11% last year, after fees; Marc Gabelli, a managing director of Gabelli Asset Management and manager of the global-equity team steering the \$200 million **Gabelli Global Telecommunications** fund, ranked No. 2 last year in its category by fund tracker Lipper, and accompanied this year by Evan Miller, now heading up global telecom research in London for Gabelli; and Robert Gensler, a vice president of T. Rowe Price Group and manager of its \$586 million **Price Media and Telecommunications** fund, Lipper's top-ranked telecom fund last year. Yet as skillful as these stock-pickers are, even they couldn't foresee that sanctuaries would be few and far between.

For what's on the horizon this year, please read on. — **Sandra Ward**

Barron's: *Marc, what are your best ideas?*

Gabelli: Rob focused on kimchee, and I'll move to foie gras -- Vivendi Universal, the No. 2 provider of telecommunications in France. But the story is really about content: music, film, entertainment and publishing. It's becoming a new company, a water utility transformed by a great financier and manager, Jean-Marie Messier.

Q: *Who's under a lot of fire. Does he stay?*

Gabelli: Messier has done an excellent job. He took over when the company was an otherwise misunderstood water utility with disparate holdings, and he's created

two vertically integrated, well-focused businesses. This is the year for Vivendi to show focus, flexibility and clarity in the marketplace because the shares have been hit hard. But this represents a very, very good opportunity to buy the shares.

Q: *What's misunderstood?*

Gabelli: This is an entertainment company that had utility analysts following it for many years. They've only recently started reporting along GAAP, or generally accepted accounting principles, the U.S. standard. The U.S. investor will start to better understand its businesses. It has an equity market cap of \$32 billion with a stock price of roughly \$30. The total enterprise value of the business is

\$30 billion, below its equity market value. Debt, not including the water utility, is \$18 billion. The water utility -- **Vivendi** owns 63% of it -- trades at \$32 a share, or \$11 billion. It has interests in **Houghton Mifflin**, **USA Networks**, the **Sundance Channel**, **BskyB**, **EchoStar**, **Canal Plus**, **Universal Films** and Music. You have a stock trading at roughly \$30, and could be worth about \$80 in 2003 on a private market basis, looking at companies with comparable assets like **AOL** and **Viacom**.

Q: *What about the Clamor surrounding Messier and the notion that greater clarification would come with his departure?*

Gabelli: If Messier leaves, it is a



very big negative. Messier is a great creator of value. The French government and French political interests are getting extremely involved in the free-market moves Messier is making. One complaint is that there is a growing shareholder base of Americans owning a French asset. The time to invest in businesses is when they are going through turmoil yet the asset values are still there. And the businesses are still very good businesses.

Q: *How will they realize value for share - holders eventually?*

Gabelli: Vivendi's telecom business could be potentially sold. They could restructure the business. The market sees Vivendi overburdened with debt, but the utility business is publicly traded and there are multiple ways to realize the cash on that. There are a hell of a lot of tax-loss carry-forwards associated with the business. They could do many things. The French government prevents them from selling shares outright, but all the negatives are priced into the stock.

Q: *What else do you like?*

Gabelli: A U.S. telecom, **Alltel**. It trades at \$51. It's small, but it has the fourth-largest market cap, \$21 billion in enterprise value, a \$16 billion equity market cap, \$5 billion in debt, with non-core assets of about \$1.5 billion. The stock trades at about 5.5 times Ebitda. They have wireline and wireless interests and they are involved in a few other areas. The stock has a private

market value of around of \$80 a share. It is a strong free-cash-flow generator: Free cash flow for 2003 should be about \$630 million, and that's on an increasing capex profile.

Q: *How do you get to \$80 a share?*

Gabelli: Putting multiples of eight times on the wireline business.

Q: *Evan, you focus on Europe. What do you like there?*

Miller: Vodafone is an incredibly defensible stock at these levels and management has made very, very few missteps. They're smart enough to know not to start dumping money into 3G rollouts until there's sufficient evidence of demand. They have been punished severely, as have all the wireless plays, but they're in a unique position worldwide. On the fixed-line side, we all know debt equals death. We favor companies with significant cash flow and low debt. In Continental Europe, my favorites are **Telecom Italia** and Spain's **Telefonica**. We put a private market value on Telecom Italia of €11 a share and it's trading at around €8.77 a share. We value Telefonica's businesses at €16 a share, compared with its recent price of €11.10 a share. On the fixed-network side, no one has a meaningful second position in Italy or Spain. And both have interesting international holdings.

Q: *Thanks, gentlemen.*



Marc Gabelli and Evan Miller's Picks

Company	Symbol	Recent Price
Vivendi	V	\$30.31
Alltel	AT	51.17
Vodafone	VOD	14.89
Telefonica	TEF	30.67
Telecom Italia	TI	80.56
Verizon	VZ	43.99

Source: Bloomberg



The views expressed in this article reflect those of the portfolio manager only through 6/3/02. Minor edits were made. The manager's views are subject to change at any time based on market and other conditions. Gabelli Securities, Inc., One Corporate Center, Rye NY 10580. 9/02

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