Mexican Mogul Salinas Pliego Turns Around Troubled Firms

By SANTIAGO PEREZ
DOW JONES NEWSWIRES

MEXICO CITY -- Mexican billionaire Ricardo Salinas Pliego doesn't miss a detail of what people are saying about him or his half-dozen companies.
An admirer of U.S. magnate Warren Buffett, Mr. Salinas Pliego has made a fortune and enriched many investors by targeting the low end of the Mexican market and turning around businesses, which generate $2.5 billion in annual revenue.
But the chairman and controlling shareholder of Mexico's second-largest broadcaster TV Azteca SA, behind Grupo Televisa SA, is well aware the investment risks associated with his business moves have caused skepticism on Wall Street more than once.

"There have always been plenty of analysts who say it can't be done," Mr. Salinas Pliego said in reference to his business moves. "It's the same old story, and that just makes me laugh."

Mr. Salinas Pliego, 47 years old, complains that many equity and debt analysts haven't visited the headquarters or checked out the operations of his businesses and sometimes don't even place a phone call before changing a rating.


Ricardo Salinas Pliego

That is why he has set his own rating for TV Azteca shares: "screaming buy."

TV Azteca's stock went on a roller-coaster ride after Mr. Salinas Pliego recently disclosed plans to pay $10 million for Grupo Iusacell SA, the country's third-largest wireless-phone carrier behind America Movil SA unit Telcel and Telefonica Moviles SA. The takeover price is "an extraordinary thing, I can't deny it," Mr. Salinas Pliego said.

But given that he also is assuming $815 million in debt from the mobile-phone operator, some analysts and investors expressed concern about the possibility Mr. Salinas Pliego again would divert some of TV Azteca's cash toward his telecommunications ventures. Merrill Lynch & Co. and Bear Stearns Cos. downgraded the stock and investors sold off shares in response. "There's a lot of bad information about TV Azteca in the market, but that's always an opportunity for smart and savvy investors," Mr. Salinas Pliego said. "In any case, I couldn't care less, I'm not planning to sell my shares."

With wide profit margins and low costs, TV Azteca is among the most efficient broadcasters in the world, Mr. Salinas Pliego said. Many analysts agree. "TV Azteca is definitely a company with very high profits and margins when compared to top local rival Televisa and its global peers," said Francisco Rivero, head of equity research at SCH Investment in Mexico City. But the company's shares trade at a steep discount to global peers because of perceived risks in noncore ventures and frequent litigation with partners.

"As a result of his many controversial actions, several investors refuse to invest with him altogether," said James Harper, a corporate-debt analyst at BCP Securities of Greenwich, Conn. "There are, however, several that do, attracted by the allure of high yields relative to credit quality because market prices suffer from the infamous 'Salinas discount.' Love him or hate him, one thing is undeniable, the guy plays tough and isn't afraid to take off the gloves."

This month, mobile-phone affiliate Unefon SA settled a legal dispute with Canada's Nortel Networks Corp., securing supplies and extending debt by 10 years. The settlement should make it easier for TV Azteca to sell its 46.5% stake in Unefon. Several years after the fallout with investors over the broadcaster's financial backing to Unefon, TV Azteca stands to reap the benefits of its support, with $4 million in advertising sales to the carrier so far this year and expectations of an additional $11 million by year's end, Mr. Salinas Pliego said.

TV Azteca also is promising discipline in its use of cash earnings, saying it won't use such capital to support noncore ventures. It also plans to distribute $500 million in dividends across six years. About 55% of the $140 million in dividends this year will be received by Azteca Holdings, which has a controlling stake in the TV business and needs the money to reduce debt.

Mr. Salinas Pliego said any potential funding gap related to the debt restructuring of TV Azteca's holding company will be filled with money from his own pocket, not from a related company.

Mr. Salinas Pliego also is put out by the response some of his ventures abroad have received. "The market gives us no credit for the launch of a network in the U.S., targeting the demographic segment with the highest growth rate in the world's largest market," he said.

U.S. unit Azteca America Network says it covers 60% of the Hispanic television market, after investing more than $100 million during recent years. But analysts believe the market coverage of Azteca America Network is less than the 60% the company says it has, as many of the local stations affiliated with TV Azteca's unit have low power or limited transmission capacity.

The battle for control of that market has intensified as well. General Electric Co.'s broadcasting unit NBC, for example, paid $2.7 billion this past year to buy Spanish-language TV network Telemundo, which since has lost prime-time-audience share to competition.

"The case of Telemundo shows that deep-pocketed players don't necessarily make things happen," Mr. Salinas Pliego said. He also said TV Azteca has had informal talks with Telemundo on possible ventures.

Write to Santiago Perez at santiago.perez@dowjones.com

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