



Telecoms Sector Finance

Media Seminar on the Telecoms Sector

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Characteristics of Funding Available

- **EQUITY**

- **Start-up businesses and greenfields projects**
- **Leverage once proven**
- **Unique characteristics of international telco's \ MNO's**
- **Sources**
 - **Owners**
 - **Venture Capital – SA Characteristics**
 - **Traditional Private Equity**
 - **Development Finance Institutions**

- **MEZZANINE**

- **Hybrid between Equity and Debt**

- **DEBT**

- **Proven ability of business to service interest and repay the debt over the prescribed tenor of the debt**
- **Secured**
 - **by the business with a proven operating track record**
 - **by the forecastable cash-flows of the underlying business**
- **Lifecycle characteristics**

Types of Debt Funding Available

- **Not an exhaustive list and unique country peculiarities**
 - **BOND ISSUANCES**
 - **CORPORATE ISSUANCES**
 - **PROJECT FINANCE**
 - **VENDOR FINANCE**
 - **EXPORT CREDIT FINANCE**

Bond Issuances

- Corporate issues a bond which may be listed on a bond exchange
- Large scale issuances
- Generally rated by rating agency
- Most liquid and tradable
- Often cheapest form of funding – price set by market (vs coupon)
- Generally only available to very mature corporates
- Limited covenants – limited security – cross default
- Widely held by multiple investor classes – desirable by institutional investors and funds
- BOND ISSUANCES
 - BHARTI AIRTEL ACQUISITION ZAIN'S AFRICAN OPERATIONS
 - MTN \ VODACOM

Corporate Issuances

- Corporate enters into a loan agreement with a financial institution, generally a bank \ club of banks
 - If club (very prevalent in current market) – governed by inter-creditor rules
- Less liquid and generally held to maturity by bank
- Regularly re-negotiated \ refinanced
- Pricing based off banks corporate cost of funding plus credit risk premium determined by internal \ external rating of corporate
- Must have established track record and credible business plan
 - ISSUES UNDER CURRENT MARKET CONDITIONS
- Numerous covenants regarding underlying performance \ gearing etc
- Security over entire business
- CORPORATE ISSUANCES
 - ALTECH \ PLESSEY \ DIMENSION DATA

Project Finance -

- Cash flow lending – but many hybrid forms – lends itself to large scale infrastructure projects
- Often used where lack of start-up capital available
- Generally available to either:
 - Greenfields \ Start-ups
 - Existing corporates for standalone \ ring-fenced projects
- Most complex form of funding due to:
 - Risks associated with construction and operation
 - Forecasting risk
- Generally only held by banks who structure and arrange the debt
- Most complex documentation and onerous covenants
 - Therefore most expensive form of funding aside from equity \ mezzanine
- Security is limited to project (ring-fenced) - limited recourse to sponsors
- PROJECT FINANCE
 - SEACOM EAST COAST CABLE
 - NEW DAWN SATELLITE

Vendor Finance

- Recently emerging class of funding in the telecoms space
- Provided by the providers of capital equipment to corporate \ projects to support sales by the supplier
- Often used as source of bridging finance until operations established \ proven
- Unique documentation and pricing varies significantly from deal to deal
- Occasionally vendor debt sold down to financial institutions
- VENDOR FINANCE
 - CELL C NEW NETWORK ROLLOUT WITH ZTE

Export Credit Finance

- Government supported Agencies constituted to promote exports from country of origination
- ECA provides either direct funding or guarantees to support a corporate in an export market
- Covers either political risk or commercial risk or both
- Long tenors
- Bank risk participation – usually 15%
- Usually a very cheap source of funding
- Documentation and pricing specific to institution – often governed by OECD \ EURO rules
- EXPORT CREDIT FINANCE AGENCIES
 - ECIC \ HERMES \ COFACE \ SACE \ US EXIM
- EXPORT CREDIT FINANCE EXAMPLES
 - ECONET ZIMBABWE NETWORK ROLLOUT

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