In the ring

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Vodacom, Adones and Neotel – all closed debt financings in the past quarter against the backdrop of global bank illiquidity, and are all sub-Saharan Africa communications deals.

While the crunch has put many developed market deals on hold, the sub-Saharan telecoms market, particular South Africa, is one of the few sectors to actually attract debt and equity in the past months, and some of it is structurally innovative, compared with past deals.

The market has been defying the odds all year. In April Kenyan mobile operator Safaricom pulled off the country's largest initial public offering – $849 million – and came in five times oversubscribed, despite Kenya being engulfed in a political crisis for much of the marketing period.

The reasons for the sector's popularity with banks and equity investors are several. The mobile/wireless and cable markets have the potential for much greater penetration, and fixed-line development is often impractical and too expensive. Mobile phone subscriber numbers in Africa are expected to jump 36% in 2008, according to telecoms research consultancy Informa, pushing the total number of subscriptions to 400 million by the end of 2008, just nine months after breaking through the 300-million threshold.

M&A to pick up

There is also considerable scope for repeat work for banks, given that telecoms M&A markets are expected to hot up as smaller operators struggle with hits to their share prices.

Like developed markets, the price of African mobile assets has dropped – albeit to a lesser extent and despite strong subscriber growth – making smaller operators appetising targets for consolidation into the portfolios of the continent's well-established operators.

Vodacom, for example, acquired pan-African network and satellite services firm Gateway in August for $700 million. Kuwait's Mobile Telecommunications Co is sitting on $4.5 billion cash from a rights issue and wants to spend up to $4 billion on acquisitions in Africa before 2010. Sub-Saharan Africa's biggest mobile phone operator MTN is also looking for expansion opportunities and has bought up Arobase Telecom and Afnet in the Ivory Coast this year. And Orascom Telecom set up Telecel Globe in May to look for investment opportunities in Africa.

For the right deal, there is also significant local liquidity still available at South African banks, which are the biggest local commercial lenders to the sector, and strong appetite from both export credit agencies and development banks, because of the rapid social and developmental impact the communications market has demonstrated to date, and its potential as a customer for developed market exporters.

For example, last year Export Development Canada (EDC) signed a memorandum of understanding with Rand Merchant Bank for a $150 million facility to increase Canadian content in sub-Saharan projects including telecoms.

But some ECA involvement is not even export-driven. In September the Adones (Angola Domestic Cable Network System) project secured support from four multilateral/ECA sources – Development Bank of Southern Africa, the Swedish International Cooperation Development Agency, Export Credit Insurance Corporation of South Africa (ECIC) and Swedish export credit agency EKN. More significantly, the deal was the first to feature ECIC using the 'qualifying exporter' criterion, whereby no minimum local content level applies.

Vodacom

In October the biggest corporate South African telecoms syndicated loan of 2008 closed – the R6.45 billion ($645 million) Vodacom facility. The deal refinanced existing short-term indebtedness, finance capital expenditure and for general corporate use – in short Vodacom is getting its financial house in order as it begins to look for horizontal growth in a developed South African mobile market where penetration is near 100%.

The deal is the first South African telecoms financing to be launched as a Dutch auction, whereby pricing is not set at launch of syndication, but after the banks respond with the margin they are looking for, much like a bookbuild on a bond issue.

In a global credit crunch the strategy at first appears to be debt-pricing suicide for the sponsor. However, the joint mandated lead arrangers Absa (also sole bookrunner) and Nedbank were confident that the quality of the credit would stand out from lesser opportunities in the market and that the auction would actually create competitive pricing even though South Africa has a small syndications market.

In addition, Vodafone, which is 50% owner of Vodacom along with Telkom, played an active role in putting the deal together, and the potential upcoming Vodacom IPO, a move put forward by Vodafone and expected to add significant value to Vodacom, added further comfort. The deal pulled in significant interest and doubled in size from the initial R3.5 billion sought in June 2008, when Vodacom issued the RFP.

The facility is split into four tranches: A 3-year A tranche of R1.25 billion and a 5-year R3.75 billion B tranche – both bank-funded. And a R450 million 5-year C tranche and a 7-year R1 billion D tranche – both provided by funds and with prepayment penalties. The blended margin across all four tranches is around 150bp.

Given the pricing, the auction strategy worked. Both lead arrangers took around R3.5 billion each with the remainder going to Momentum, FutureGrowth Asset Management and Omsfin in a quasi-private placement: Because the South African syndications market is small, many loans find their way into the insurance market and then sub-divide into quasi-private placements. The C and D tranches on the deal are specifically designed for these markets, which are more sensitive to prepayments.

Neotel raises fixed-line debt

The South African fixed line telecoms market is also spawning deals. As Project Finance goes to press, fixed line operator Neotel closed a R4.4 billion project finance facility, largely concluding a two-year programme to raise long term funding, of 7 to 10 years in tenor, which now totals R7.5 billion. The deal replaces all Neotel's existing bridging facilities.

Lead arranged by Nedbank Capital, Investec and Development Bank of Southern Africa, with the Industrial Development Corporation and the Infrastructure Finance Corporation Limited as participating lenders, the deal will be funded through a combination of senior, subordinated and mezzanine debt.

The deal is effectively a war chest as Neotel, which has already spent around R2 billion on its infrastructure roll-out, takes on Telkom. Neotel plans to invest a further R1.5 billion to R2 billion in infrastructure roll-out in the next three years and will spend between R10 billion and R11 billion in total on infrastructure roll-out, with generated revenues expected to provide the balance of the funding.

Private equity-owned Intelsat has also announced plans to build and finance a $250 million satellite with a Convergence Partners-led South African investor group. The project will be 85% debt financed with Nedbank Capital and Industrial Development Corporation of South Africa. The equity breakdown is Intelsat, 74.9%, and the Convergence Partners-led group, 25.1%, which also includes Altirah Telecoms. Intelsat's cash contribution to the project is expected to be around $25 million.

The debt financing for Intelsat New Dawn is already looking like a relatively easy sell. Fifty percent of the satellite's transponder units are already under contract, with pre-launch commitments received from Vodacom, Gateway, Zain

Nigeria and Gilat Satcom. Pre-orders for satellite capacity, or backlog, total more than $350 million, with some contracts for up to 15 years of service. The project is expected to launch by 2010 and will join the other 25 satellites in Intelsat's fleet.

Smaller operators

Smaller operators across Africa are expected to struggle to raise finance to roll out networks against the backdrop of expansion fundraising by the continent's major players, MTN, Orascom Telecom, Zain and Vodacom. But the minor equity and debt deals are still pulling interest.

Emerging markets telecoms advisory firm Delta Partners – which manages an $80 million Middle East private equity fund – is planning to invest about $40 million of its fund in African telecoms. And in October, France Telecom acquired a 53% stake in Hits Telecom Uganda, which was at risk of having its licence revoked because it had not met network rollout requirements.

On the debt side, the $80 million Adones financing demonstrates the amount of multilateral and ECA support needed to get small facilities financed – particularly in high political risk markets.

Sponsored by Angola Telecom, the $66 million project debt facility backs construction of a fibre-optic telecommunication system from Cabinda to Namibe. The 1,464km undersea cable has beach landing points at 10 cities and towns along the Angola coast.

The project is phase one of the new Angolan national broadband and mobile network backbone and will cover around 70% of Angola's population. It is designed to complement the existing satellite network as well as Angola's new nationwide terrestrial fibre network, which will interconnect with all Adones landing stations. The cable will also be connected to the SAT3 inter-continental cable that links the West African coast to Europe. The works are being undertaken by a consortium comprising Ericsson South Africa and Ericsson Sweden, with local contractors where possible.

Co-arranged by Rand Merchant Bank and Banco de Poupanca e Credito (Angola), the average loan tenor is 10 years. The deal pulled in five lenders – Rand Merchant Bank (backed by the Export Credit Insurance Corporation of South Africa), Development Bank of Southern Africa, Nordea Bank (backed by the Swedish export credit agency EKN), Swedish International Cooperation Development Agency and vendor finance lender Ericsson Credit AB.

Although Angola Telecom is the project sponsor, Banco de Poupanca e Credito acts as the borrower and on-lends the money to Angola Telecom under a separate loan agreement with matching repayment profiles. The entire deal is also backed by a guarantee from the Angolan Ministry of Finance.

Smaller operators like Angola Telecom will eventually give way to the corporate war chests of the telecoms majors. And the race for market share shows no signs of slowing. Kuwaiti mobile operator Zain has just launched a $420 million 3.5G network in Ghana, the first such network outside South Africa. But despite MTN, Millicom International Cellular's Tigo, Ghana Telecom (in which Vodafone bought a majority stake this year) and Kasapa (a subsidiary of Hutchison Whampoa) all having an established presence.