MENA report: Call roaming

01/04/2006

Mobile phone usage is growing fast across the Middle East and North Africa (MENA), and there are heavy investment requirements for companies developing additional GSM networks and rolling out 3G services.

In addition to financing for new licences, there is also an M&A boom underway, as telecoms companies, many of which only five years ago had a largely domestic focus, establish a global presence.

Last year, Kuwait-based Mobile Telecommunications Company (MTC) paid $3.3 billion for Celtel, a Dutch owned company with services across Sub-Saharan Africa, in a deal where it was advised by UBS Investment Bank. And late in 2005, Saudi Arabia's Oger Telecom acquired a 55% stake in Turk Telekom for Eu5.6 billion ($6.7 billion), paying Eu1.1 billion up front and the rest over the next five years. Cairo-based Weather Investments, which controls Orascom Telecom, is doing an even bigger acquisition – it agreed to buy Italian mobile operator Wind from Enel for Eu12 billion.

Against this background, the size of telecoms financings in the international syndicated loan market is getting bigger. The same goes for Islamic financings.

In February Orascom was in the market to sign a $2 billion committed bank facility. In early April, Etisalat was tapping the Islamic market for over $2 billion. And at the time Project Finance went to press, MTC was putting in place a $5 billion revolving bank facility.

Thus far, bond offerings are rare. Capital markets funding may eventually be needed for diversification purposes, but for the moment most regional telecoms companies do not have credit ratings, and are relying upon syndicated bank debt, both in the form of project loans and secured lending facilities.

There is currently plenty of liquidity at international banks, and no signs that they are gorged on telecoms risk. And with oil up at over $60 a barrel, Middle Eastern banks are also flush with cash. So far the bank market has comfortably absorbed the needs of the fast-growing telecoms sector. But bankers say that by 2007, the market may be tested by the sheer size of financing requirements, and that lenders are looking for various guarantees, collateral and stricter covenants to reduce their risk.

"Deals involving new telecoms licences are generally unsuitable for pure project finance, since governments will not give lenders security over the license," says Robin Abraham, partner at Clifford Chance in Dubai. "At the time the financing closes the borrower simply has the right to develop a network, and few fixed assets that could be used as security. In addition, being granted security over future assets is problematic in many jurisdictions, and may not be possible. Lenders are usually looking for some sort of guarantee, and so most financings are being done at a parent company level, or with the help of guarantees from the leading shareholders.

"There is a mix of financing structures being used, with project-type loans, corporate loans, and both conventional and Islamic debt," he adds. "We may also see bond offerings at some point, but most regional telecoms companies are currently not rated, and they will need a rating to access the capital markets," says John McWall, vice-president, head of syndication at Arab Banking Corporation.

"There are a number of regional banks active across the GCC and North Africa that follow GCC telecoms operators as they expand across the region," says McWall. "But one of the features of this market right now is that the loans are getting much bigger, and banks are having to step up and underwrite very large amounts to get an MLA position. This tends to favour the big international banks, with the regional banks coming in for smaller tickets."

MTC revolves

One of the fastest growing GCC companies and biggest borrowers is MTC Group, which has gone from being a single operator in Kuwait to a global GSM and 3G player. It operates as MTC-Vodafone in Kuwait and Bahrain.

MTC has a funding strategy of putting revolving facilities in place, giving it the flexibility to act quickly when it wants to acquire new companies. In early April it was about to announce the mandated leads for a $5 billion revolving loan facility. Banks are said to be keen to get involved, but want additional information as to what potential acquisition targets might be.

MTC has ambitions to be a global player, with 30 million customers by 2011. Since acquiring Celtel in May 2005, growth objectives have been far exceeded, and its Sub-Saharan Africa customer base has jumped from 3.5 million to 14 million.

MTC put in place a $2.4 billion bridge loan for the Celtel acquisition and has now prepaid this, partially from the proceeds of a $2.3 billion share rights offering, and partially from a $750 million Murabaha facility signed in late February.

The Islamic deal is a departure for MTC, which had traditionally relied upon conventional facilities for debt funding. Joint bookrunners on the deal were ABC Islamic Bank, Calyon, Gulf International Bank, and Kuwait Finance House. Lead arrangers also included Arab Bank and National Bank of Abu Dhabi. NBK Capital, the investment banking arm of National Bank of Kuwait, advised MTC. A total of 20 financial institutions took part in the syndication.

"There is a lot of liquidity in the Islamic market at present, so more telecoms companies with very large financing requirements are likely to tap the market," says Luma Saqqaf, partner at Linklaters in Dubai. "But Islamic banks cannot usually commit to the kind of long tenors typical in project financings.

In the late 1990s one deal – Thuraya Satellite Limited, which comprised a $600 million limited recourse financing, including a $100 million Islamic tranche done on an Ijara (leasing) basis (for more details search 'Thuraya' on www.projectfinancemagazine.com) – tapped the long-term project market. But the most recent Islamic financings have been short-term deals done on a Murabaha basis, rather than being based on the underlying assets.

Conventional telecoms debt

In the conventional telecoms debt market, Orascom recently completed a $2 billion five-year syndicated loan, secured on shares in MobilNil, its Egyptian mobile carrier. This was partly used to refinance a $1.2 billion vendor note issued by Hong Kong based Hutchison Whampoa in connection with Orascom's acquisition of 19.3% of Hutchison Telecom International.

The loan, signed in February, featured seven mandated lead arrangers: ABN Amro, Citigroup, Credit Suisse, Deutsche Bank, National Bank of Egypt, Banque Misr, and Bank of Alexandria. Among the banks that joined the syndicate were Calyon, Standard Bank, and WestLB.

This was a fairly typical MLA group for a regional telecoms deal, featuring both large international banks and domestic banks. Pricing was Libor plus 275bp.

The deal is secured against Orascom's holdings in Egyptian GSM operator MobiNil, as well as the holding in Hutchison Telecom. "These are not project finance-type loans, but rather loans with assets used as security," comments a banker on the syndicate, who is also expecting to come in on the MTC deal. "For Orascom the loan is to the holding company, whereas MTC is both holding and operating company, and is seeking corporate unsecured debt with the usual covenants."

"Terms for MTC are likely to be aggressive," he adds, suggesting that a margin of around 90bp is being discussed. "Even so, $5 billion fully underwritten with aggressive pricing is a test for the market, since institutions will need to hold fairly chunky numbers."

Islamic options

The Islamic market is similarly being tested to the full with very large financings. Last year the Emirates Telecommunications Corporation (Etisalat) put in place a $2.35 billion Islamic facility to finance its expansion into Saudi Arabia, where it has the second GSM licence and the first 3G licence and which go under the brand name Mobily.

Bankers say that the deal was viewed as a bridge financing, but that the structuring of a medium-term Islamic deal has run into delays. As a result, Mobily was back in the market in April with a one-year refinancing using a Murabaha. It will continue to work on putting medium-term finance in place during the course of this year.

Etisalat also recently acquired 26% of Pakistan Telecommunications Company (PTC). After many political difficulties and delays surrounding what was a controversial privatisation for the Pakistan government, Etisalat finally made the down payment in early April.

The company had a $2.1 billion facility lined up some time ago, but it remains to be seen whether the original banks will press ahead with this in its agreed form, or whether a cut-off date means negotiating a new term sheet.

Orascom was also in the market refinancing its Tunisian operation – Tunisiana. This was originally done as five-year project-type debt, but the refinancing is in the form of a more flexible five-year corporate debt structure, with reduced pricing. The Eu350 million loan was 100% oversubscribed.

The Tunisian authorities recently announced the outcome of a bidding process for a stake in state-owned Tunisie Telecom. TECOM, together with investors including a Dubai property developer, beat stiff competition from a variety of regional players.

Demand and supply

At present the bank debt market is absorbing all these financing requirements. But there are concerns that over the next 18 months some lenders may start to fill up on GCC and North African telecoms risk. Once the new GSM and 3G services have managed to establish a track record of steady cashflows, the owners will want to look at diversifying their sources of finance – either into fully non-recourse project debt or bond offerings.

For example, Oger Telecom of Saudi Arabia, new owners of Turk Telecom, will likely find it more efficient to refinance part of their purchase via a bond offering. Turk Telekom has a well established track record that makes it suitable for capital markets investors, as opposed to being a new licence that has to be developed from scratch. In addition, Turkish banks have already built up a strong following among international investors with a steady flow of Diversified Payment Rights (DPR) offerings.

But in the meantime it is the syndicated loan market that has to fund the rapid growth of telecoms in the region. Saudi Arabia, Oman and Qatar are all testing high-speed 3G mobile phones services, after its successful introduction in Bahrain. Customer demand for 3G in Bahrain has been high, and this points to the rapid spread of 3G across the region. Coupled with the ambitions of Middle-East players to buy existing companies in Europe, Africa and Asia, funding requirements over the next five years are going to become even heavier.