

# Latin American Telecoms Deal of the Year 2001

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The last year's turbulent market for telecoms financings has demonstrated that the sector is no longer an exception to the rule that strong sponsors get deals done quickly. This year's massive financing from Telemar was not only successfully sold to a club of banks at a time when telecoms appetite is not strong, but also at a time when Argentina's difficulties threatened to engulf its neighbours. Telemar's \$1.425 billion PCS financing builds upon the multisourcing expertise built up on last year's BCP refinancing and sets the stage for a number of refinancings expected this year in Latin America.

Telemar (full name ? Tele Norte Leste Participacoes) is the incumbent fixed-line operator for north-eastern Brazil, and covers roughly 64% of the country and 93 million people. It is a relic of the former state telecoms monopoly and therefore has many of the advantages of a PTT, although it is now in private hands and does not cover the entire country. Its mirror rival, which holds a concession designed to foster competition, is Vesper S.A., a Qualcomm and Velocom venture has been having difficulties raising finance.

Telemar is one of the few operators in Brazil that can afford to build up a strong presence in the emerging market for PCS subscribers. The Brazilian PCS auction was not an especially burdensome one. The telecoms regulator ANEEL has consistency favoured strong bids with a realistic chance of building a network quickly over gaining large slices of revenue.

At issue is more the availability of capital to fund such work. Global sentiment towards telecoms credits has hardened and several banks have scaled back their presence in the sector. Moreover the vendors, who have been the most consistent providers to the Latin telcos, have been experiencing their own balance sheet difficulties. Whilst several of them now are a little more optimistic about future sales, 2001 can readily be seen as the low point for financial weakness.

Telemar was fortunate in having a relatively strong hand in its negotiations with the vendors, who came in long before the commercial bank syndicate after their equipment was selected for use on the new network. Siemens, Nokia and Alcatel are three equipment suppliers with relatively strong balance sheets and are slightly less the victims of the recent slump.

Nevertheless, assembling a financing package in the available window with the participation of a commercial bank syndicate was a challenge. The early part of the year saw the first signs of Argentinean economic distress, after the installation of Domingo Cavallo as finance minister. After the situation improved, the mood amongst participants was to get the deal closed before bad news came out of the country.

Here the BCP financing provided some useful lessons. BCP was the template for the multisourcing of telecoms deals, incorporating bank debt, ECA support and vendor finance. ECA support was unlikely to be forthcoming within the

framework available, but the importance of putting together viable intercreditor arrangements made the BCP experience invaluable. Moreover several of the lawyers and arrangers on the deal are BCP veterans.

The most important part of the arrangements is to try and square the different priorities of the two groups of lenders ? most especially in regard to how severely a default situation should be treated. Typically, Vendors take a more indulgent view of how present (and also future customers) perform. Much of this stems from the fact that they are not bound by the Bank of International Settlements rules.

This divergence in credit perceptions can be a little overstated, however. Most of the equipment suppliers would be interested in the future in selling on their commitments, either through ECA-backed debt, directly into the commercial bank market, or to institutions through a securitisation of receivables or collateralised loan obligation. These options, which were not really viable given the tight financing timetable, led to an invisible presence at the negotiating table.

The vendor commitments make up \$725 million of the total, of which \$425 million comes from Nokia, \$160 million from Siemens and \$140 million from Alcatel. A further \$700 million comes from the commercial banks, of which ABN Amro was the main negotiator. It was joined by Citibank, FleetBoston, Banco Bilbao Vizcaya Argentaria, ING, JP Morgan Chase, SG and Wachovia Securities.

The banks here did not benefit from an umbrella political risk insurance (PRI) policy, possibly because of the time this would have taken to assemble, but also because lenders are occasionally comfortable with the risks involved with Brazil. Expropriation is rarely a problem, although transferability and convertability questions still remain. Moreover, Real-denominated tariffs, whilst less capped by regulators than in other sectors, are still vulnerable to devaluation.

This commercial portion features two A tranches with a 2.5-year tenor and 325bp over libor pricing and a three-year tenor and 350bp pricing respectively. These do not feature PRI. The next three tranches are a 3.5-year piece (300bp), 4-year piece (325bp) and a 4.5-year piece (350bp). The pricing on these three is sweetened by 175bp if banks decline to use the PRI offered. This is extended on each commitment, but is not mandatory. A final five-year bullet tranche prices at 75bp over the sovereign.

The Japan Bank for International Co-operation provided a \$300 million credit to the parent company, rather than the PCS project vehicle, at roughly the same time. This untied loan, however, was more part of the bank's developmental remit than tied in any way to the project. It will, however have improved the parent's funding ability, although, as a company listed in New York, Telemar is not the typical aid recipient.

## **TNL PCS S.A.**

Status: closed 16 August 2001.

Location: Brazil

Description: build out of PCS GSM network within northeastern Brazil.

Sponsor: Tele Norte Leste Participacoes S.A. (Telemar).

Debt: \$1.425 billion in vendor credits and commercial loans

Lead arranger: ABN Amro

Arrangers: Citibank, Bank Boston, Banco Bilbao Vizcaya Argentaria, ING, JP Morgan Chase, SG and Wachovia Securities.

Vendors: Nokia, Siemens and Alcatel.

Lawyers to the borrower: Millbank Tweed Hadley & McCloy

Lawyers to the lenders: Mayer Brown & Platt

Lawyers to the vendors: Cleary Gottlieb Steen & Hamilton (Nokia) Gibson Dunn & Crutcher (Siemens and Alcatel)

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