

Eurasiasat: banking on TV

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Financing closed on 28 June for the Eurasiasat-1 limited recourse satellite project. The deal entails the launch of a ?bird? to facilitate the transmission of telephony, television and video data services.

Eurasiasat differs widely from the spectacular satellite failures of 1999, most importantly in that it will cater for a market that quite clearly exists. No mobiles, no Internet, simply the provision of this-generation technology for a region whose demand for information is growing exponentially.

This does not eliminate the risks associated with firing an extremely expensive bit of hardware into space ? it merely ensures that once there it will not become redundant. Eurasiasat's sponsors are Turk Telekom (75%) and Alcatel Spacecom (25%), the satellite is controlled from a Turkish ground-station and the project company is incorporated in Monaco. The footprint of the satellite stretches from Western Europe to China, with limited coverage in North Africa and the Middle East.

The bird, also known as Turksat 2A, will co-share Turksat 1C's position in the 42 East Orbital slot. It is able to switch its position between two fixed coverage zones, from Europe to Asia, and two mobile coverage zones, in Eastern Asia, Africa and the Middle East. This arrangement suits operational flexibility well; one aim for the satellite is to bring content to the Turkish speaking republics of the former Soviet Union. Should this not be as lucrative as envisaged, the satellite can concentrate on serving its core market.

All revenue assumptions, therefore, are based on television traffic. Turkish television stations have taken up the entirety of the transponder capacity on Eurasiasat-1, with a small marketing team making light work within the relatively closed domestic market. Contracts are for fixed durations and based on availability ? there was no attempt to use them as quasi-equity contributions (pace subsea cables), largely because this would dilute the sponsors' interests.

The ideal solution for the sponsors back in 1998 was a high-yield issue. But, for reasons summed up as ICO and Iridium, this was abandoned. Donaldson Lufkin and Jenrette had received its commitments and was on the launch pad, but the final issue was aborted. In this situation Chase Manhattan stepped in to provide a \$58 million bridge loan ? albeit guaranteed ? and seriously endear itself to Eurasiasat.

The final banking set-up came as little surprise, and whilst the operator examined proposals from a number of other institutions, Chase was essentially left to arrange matters as co-ordinator. KfW, Bayerische Landesbank, ABN Amro, BNP Paribas, Credit Agricole Indosuez, Natexis and SG took the titles of arrangers and have decided not to go into primary syndication, probably down to a combination of the debt size and nervousness further down the syndication chain. Further institutions will be targeted selectively over the coming months.

The deal is split into three tranches: a \$100 million 7-year piece with political risk insurance (PRI) provided by Coface (in support of the Alcatel equipment) and a \$50 million section of the same tenor covered by the Export Credits Guarantee Department (ECGD). The latter part, however, is under the Overseas Export Insurance scheme and is not tied to any

particular export. The third tranche is an uncovered 2-year revolver of \$16 million. Credit Agricole and ABN Amro were the Coface and ECGD agents respectively.

Drawdown on the facility has already taken place, unsurprisingly given that the bridge loan was repaid, with shareholder support, in December 1999. Launch is scheduled for September or October 2000, using the Ariane rocket launched from Courou in French Guyana. The launch is covered by insurance obtained through Inspace, the specialist aerospace broker, and part of the Willis group.

The satellite becomes operational shortly after launch, with a market already in place. The fact that Turk Telekom already has the Turksat 1-B and 1-C satellites in place (1-A having unfortunately become fish food) is another good provider of comfort since domestic satellite dishes are already pointing in its direction. Eurasiasat is believed anecdotally to be twice as large as its predecessors ? presenting a number of opportunities since the transponders could be adapted to more advanced applications should the market demand it. The satellite is the most modern example of Alcatel Spacecom's three axis stabilized Spacebus 3000 platform, and is designed to stay up for at least 15 years.

Nevertheless, it would be a little wide of the mark to label this a pan-Eurasian deal, if only because the revenue and debt service structures have not been predicated on wider usage. Turk Telekom is still a government-owned enterprise, albeit one run strongly on commercial lines, even if the deal carries no government guarantee. And it would be probably a little too cynical to see the satellite as a way for the authorities to reach out to Turkish populations across Europe and Asia, even if the sponsor is a major capacity buyer.

It has yet to be decided exactly how the dividends sent upstream will be carved up, partly since when the deal was first mooted Aerospatiale Space had not yet been bought up by Alcatel. Turk Telekom is believed to benefit from marginally higher returns on equity, although a more formal distribution will be hammered out post-completion.

Eurasiasat, while prudently avoiding some of the tech-rhetoric that has been so cruelly exposed in other operators as shaky, genuinely sets a landmark. Many bankers cannot remember a similar satellite deal for over a decade, and the sponsors' ability to extricate themselves from the junk bond markets bodes well for the restructuring satellite mobile deals. Moreover, the complex jurisdictional jigsaw has created a security package with which the more satellite-friendly banks are comfortable. Monaco also presents sizeable tax benefits to the sponsors, although it would be charitable to mention that the bird itself is under construction 50km away.

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