Naked Kapital

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Telecoms projects in central and eastern Europe are attracting more international bank attention. And in countries such as Poland, the Czech Republic, Slovak Republic, Hungary and Slovenia, uncovered commercial bank debt is increasingly available on a non-recourse basis.

The move towards uncovered bank debt in the region is testimony to the economic progress made in many countries of the former eastern bloc, some of which now carry investment grade sovereign ratings. Poland and Hungary, both of which are in line to join the European Union in the first phase of its planned eastward expansion, have recently seen their sovereign ratings upgraded from BBB to BBB-plus by Standard & Poor's.

Whereas in the early 1990s the majority of projects would have required the involvement of development banks or export credit agencies, today commercial bankers are more likely to press ahead alone with loans on wireless projects, as long as there is a sufficient level of equity put in by shareholders.

This means that export credit agencies such as EKN of Sweden and FIDE of Finland, or institutions such as the European Bank of Reconstruction and Development (EBRD) or the International Finance Corporation (IFC) are more likely to be found supporting deals in less developed countries such as Croatia, Ukraine or Romania.

?Where there is a group of borrowers on a specific project there may often be big names included, such as western European players like KPN or Telekom Austria, and they do not need the involvement of the EBRD,? comments Michal Dlouhy at White & Case in Prague. ?The EBRD is now more involved on the fringes of eastern Europe?.

?A few years ago we had co-financings with the EBRD in countries such as Poland, Hungary and the Czech Republic, but now we see that the EBRD is active in more difficult countries where country limits are typically more restricted,? adds Ingo Bleier at Bank Austria Creditanstalt in Vienna.

Bank Austria Creditanstalt is an important lender on telecoms deals in the region, and there is usually little or no recourse to the telco shareholders. ?If you look at our loan book for wireless projects in eastern Europe, most of that is non-recourse,? explains Bleier, with the banks generally lending on the back of a strong business plan and a suitable level of equity. ?In most cases we have a ratio of contributed equity to debt, which has to be maintained,? he says.

Sometimes vendors do help projects along by bringing in ECA cover from their home country. But bankers note that in the more developed countries, vendor or ECA support is only needed very early on in the life of a project, and at a later date uncovered bank debt becomes available. And the rapid growth in mobile phone usage in these countries usually means that positive cashflow can be achieved very early into the life of most projects.

One question mark which hangs over the sector at present is the move towards Universal Mobile Telecommunication System (UMTS), the expense of which may make the wireless sector more risky for everyone concerned, whether in western, central or eastern Europe.

UMTS Auctions

Auctions for UMTS licences are expected to take place in most countries of central and eastern Europe during 2001, and bankers will be anxious to assess the capital requirements for entry into third generation telecoms, and will need to approve the individual UMTS business plans before any money is committed.

Although commercial bankers are now doing many deals by themselves, there is still an important role for the EBRD. Izzet Guney, director of the Telecommunications, Informatics and Media at the EBRD in London, claims the bank remains active throughout the region, and that even in a country where a wireless business may be funded with uncovered bank debt, there may be other areas of the telecoms sector where the EBRD is needed to get a project off the ground.

Telecoms takes up a sizeable slice of total EBRD lending ? around 15% last year ? and that figure may rise as eastern European countries embrace the so-called new economy. In addition to lending, the EBRD also subscribes to Initial Public Offerings and secondary share placements, often taking a small stake of a few percent in a telecoms company, such as Golden Telecom which serves Russia and the Ukraine.

?Depending upon the risk coming from the entity itself, whether it is a fixed line business, a first GSM, or a fourth GSM licence, we are investing in and financing entities in both the more advanced and the less advanced countries,? says Guney. ?So regardless of the fact that Poland is investment grade, we now find ourselves doing riskier profile types of businesses such as internet plays, some alternate operator plays, and things that the market still views as risky.?

?We may ask for a sovereign guarantee if the country risk is too high, or if the transaction itself is very risky,? says Guney. ?It will depend upon the business plan. If we feel that the company is taking on a lot of financing which it may find difficult to service then we may try to get some sort of recourse. It depends on the whole package, and the stronger the business plan and the outlook for good revenues, the less demand we will have on our side for some type of recourse.?

The EBRD board has recently approved an expanded role for its telecoms team, which will soon be launching an initiative to get more heavily involved in informatics and media as well as telecoms. ?It is important that the EBRD is in line with the new economy trends, and provides funding such as venture capital for small- and medium-sized companies, for example in internet related businesses,? Guney says.

?The internet funding may not be large size, such as in the fixed line businesses or GSM, but it is important because it will be going to small- and medium-sized enterprises which will be the ones which will be the job creators and move the economies of the countries forward.?

Deals pile up

In the meantime, the EBRD will also remain quite active in wireless projects in the less developed countries of the old eastern bloc. In October of last year the bank stepped up to support the construction of a second national Global System for Mobile Communications (GSM) mobile network in Croatia, helping promote some much needed competition in the sector.

The borrower was VIP-Net GSM, which is building its network, having won the international tender for the second national mobile licence. The sponsors are Austrian mobile operator Mobilkom, and Western Wireless International, which is the international arm of Western Wireless Corp of the United States.

The financing comprised a s77.6 million syndicated loan guaranteed by the export credit agencies OeKB of Austria and EKN of Sweden, plus parallel loans of s22.4 million from the EBRD and s20 million from the Nordic Investment Bank.

The lead arranger was Bank Austria Creditanstalt, with EBRD's joint arranger, and Creditanstalt itself provided s20 million as part of the syndicate. Other participating banks were ABN Amro, HypoVereinsbank, Bayerische Landesbank, Erste Bank der Osterreichischen Sparkassen, Leonia Corporate Bank plc, Raiffeisen Zentralbank Osterreich, and Swedbank Foreningssparbanken AB.

The EBRD has also recently been active in the Ukraine, which with its population of 50 million is a fast growing market, served by players such as Digital Cellular Communications (DCC) and Ukrainian Mobile Communications (UMC). Recently the EBRD extended a $30 million term loan to Kyivstar, the country's second largest GSM operator. Telenor has a 35% stake in the Kiev-based company. The loan was accompanied by a second quasi equity/sub debt facility of $4.2 million. And in addition, Ericsson has extended another $54 million worth of term financing.

The European Investment Bank (EIB) is also a player in the region. As the financing arm of the European Union, the EIB has a strategic interest in developing infrastructure in central Europe, where it has done a sizeable number of deals. In January the EIB lent s50 million to the Latvian telecom company SIA Lattelekom, for the digitisation and expansion of the country's fixed line telecoms network.

And in June the EIB was involved in another Baltic states transaction, this time for Lithuanian mobile operator UAB Bite GSM (a $93.7 million eight-year loan led by ING Barings). The company has a marketshare of around one-third, and is wholly owned by TeleDanmark, but the loan was non-recourse to the parent company.

The main challenge to bringing lenders in on the loan was Lithuanian country risk, and part of the facility guarantees the commercial risk on Bite GSM in favour of the EIB, while another part of the facility benefits from PRI cover provided by a private insurer.

This support allowed the loan to be financed without any recourse to TeleDanmark. The facility was split into four tranches: a three-year $12.9 million EIB guarantee facility, a three-year $5.8 million EIB guarantee facility, an eight-year s45 million EIB guarantee facility, and an eight-year s30 million project finance facility.

The proceeds will be used to increase network capacity as well as to fund new areas such as internet and other services. The senior co-arranger was Unibank of Denmark, and there were also seven co-arrangers, Bikuben Girobank of Denmark, Bank Austria Creditanstalt, Dresdner Bank, Erste Bank of Austria, Hypovereinsbank, Landesbank Kiel, and NordLB.

The IFC is also often to be found on telecoms transactions in the region, and in July signed a financing package for Mobil Rom, one of the three private GSM operators in Romania. The financing comprised a $15 million A loan for the IFC's own account, plus a $20 million B loan provided by ING, Societe Generale, Dexia, BNP Paribas and Banque Worms.

The IFC provided $210 million worth of financing to help launch the Mobil Rom cellular network back in 1997, and the new financing will help it expand its nationwide GSM network. Mobil Rom's shareholders include France Telecom Mobile International, Radcom, MBL Computers, Tomen Corporation-Japan, Alcatel NV of the Netherlands, plus an AIG led consortium of international institutional investors.

Bankers and lawyers expect to see a continued high level of activity in telecoms across the region, with commercial banks doing the big wireless projects in the more developed countries, and the development banks providing financing elsewhere.

?I don't see a lot of difference in the more developed countries in the eastern European market compared to the structures that you see on western European deals, though obviously the pricing is much more aggressive on west European deals,? says Mark Coker at Freshfields in London.

?Telecom deals typically have a very high level of equity, maybe 50:50 and not more than 60:40 leverage, so further shareholder support in terms of recourse is not usually needed,? Coker explains. ?And if the equity has been front end loaded, lenders will have much more comfort than if the shareholder is putting equity in at the back end,? he adds.

?One of the main drivers is the recognition that there is so much capital required that you will be going to need all sorts of financing sources, with vendor financing being one of the obvious ones,? says Coker. This applies to western Europe as well as eastern Europe, especially now that UMTS is arriving.

Just as in western Europe, bankers are waiting to see how the UMTS licence auctions proceed across eastern Europe, and whether the capital needed to move to third generation will alter the financing landscape, and make telecoms lending a much riskier proposition overall.