

Cesky launches

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The \$450 million syndicated facility for Cesky Mobil, a consortium led by Canadian Telesystem International Wireless Co (TIW), has launched to co-arrangers, with Chase Manhattan and CIBC as lead arrangers. IPB joined as co-arranger before syndication, and there have been two further early commitments. ABN Amro and Deutsche join arrangers in the international portion of the deal. The debt supports the borrower's winning bid for the third GSM license in the Czech Republic ? one of the few remaining licenses in Europe.

The facility splits into two tranches. Tranche ?A' is a \$375 million 8.5 year revolver, paying an opening margin of 175bp above Libor. The margin is linked to a grid and ratchets down according to senior debt to Ebitda ratios, with a floor of 75bp. The availability period can be drawn before the end of December 2003. Tranche ?B' is a \$75 million 9.5 year revolver, which starts at 225bp, with a possible base of 100bp. There is an availability period on this tranche and can be drawn until the end of December of this year. Both tranches repay with an amortising structure.

The commitment fee is either 75bp or 50% of the applicable margin, whichever is lower. Co-arrangers will be asked to commit \$40 million for an underwriting fee of 25bp. The final take will be about \$25 million, for a flat fee of 70bp.

The Czech Republic awarded the country's third mobile license to Cesky Mobil, a joint venture between TIW (85.5%), Czech bank IPB (14%) and Priority Telecom (0.5%), with the license agreement for the GSM 1800 frequency signed in October of last year. TIW started network deployment to meet commercial launch earlier this year.

Cesky Mobil launched full commercial operations on March 1. It received its license after winning a competitive tender in which it proposed to invest up to \$850 million over the first several years of operations, and also to provide affordable services. The company went live with its network at the beginning of January, meeting a licensing requirement that it cover at least 37% of the country by that time.

Edging into a market with relatively high penetration, Cesky Mobil must develop new marketing strategies if it is to secure substantial market share. Fundamental to its market approach, and to its receipt of a late license, are its minimal tariffs. The company enters the market with five tariff plans, three of which have no activation fee or binding contract. These three plans also charge one rate on all networks 24 hours a day, a much simpler solution to those offered by the competition. The operator says it also intends to offer pre-paid service. The extremely low fees will put pressure on Cesky Mobil's operations, but it hopes to keep costs down by attracting many new subscribers via telephone and Internet sales, thereby cutting distribution costs.

Although Cesky Mobil is entering a market already punctuated by high penetration, the company was launched at an opportune time. After a period of restructuring and intensive investment, the Czech telecoms sector is gearing up for a new phase of development ? full liberalization and full privatization. And the mobile industry is just beginning the transition from simple voice provider to data and Internet on ramp. By entering now, Cesky Mobil could lock itself into a propitious footing within the new mobile market.

Unsurprisingly, Cesky Mobil is one of the three Czech mobile companies that have been cleared recently to join the bidding for UMTS licenses (the broadband that allows for high-speed data transmission over mobile phones). The other two are Eurotel, a Czech Telecom subsidiary controlled by KPN of the Netherlands, and RadioMobil, owned by a Deutsche Telekom-led consortium. The government has yet to decide whether it will issue the licenses through an auction process or a beauty contest.

But lately Cesky Mobil has run into an unusual set of problems. Rather than sacrifice the speed of its expansion, Cesky Mobil has decided to confront the protracted process of obtaining permits by not waiting for their receipt and instead opting to pay high fines. Ericsson and Siemens are rumoured to have built several transmitters for the mobile carrier without official permission in order to help the firm meet license conditions requiring an 83% coverage by June 30. The company just announced that it has achieved an 86% population coverage.

The foremost issue facing the fledgling company is how its parent, TIW, plans to fund its future expansion. TIW recently announced that it plans an initial public offering of shares in its majority owned Central European unit ClearWave N.V. The planning for the flotation is still in its preliminary stages. The IPO under consideration will be conducted by means of a global equity offering which soon will be registered with the US Securities Exchange Commission.

The company says that proceeds from the offering would be used primarily to fund the build-out of Cesky Mobil's GSM network, marketed under the name Oskar, in part to meet the future coverage requirements set by the licensing agreement. Cesky Mobil's financing needs are enormous. Accordingly, it will be financed with a 50/50 split between equity increases and syndicated loan facilities. IPB originally was to have financed the company, but has since stumbled into serious liquidity problems.

Other problems are goading sponsor TIW. Dolphin Telecom, the TIW-owned specialized mobile radio operator, incurred a sharply increased loss before tax of \$82.5 million in three months, to the end of the first quarter of this year. Revenues dropped considerably as a result of subscribers leaving the network and foreign currency movements. Plagued by such problems, the company was forced to reduce marketing efforts and focus on existing subscribers. The growth of its subscriber base has failed to live up to expectations.

Finance backing the Dolphin Telecoms ESMR business telecoms network was restructured last month. The digital parts of the network for mobile workers was due to launch in August of last year but experienced problems with the Nokia and Motorola handsets. It was relaunched in May.

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