IPO is all in the timing, says Telkom

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Sizwe Nxasana, the chief executive of Telkom, has expressed some reservation about plans to sell about 20 percent of Telkom in the last quarter of this year, a deal likely to be the largest component of the R18 billion the government needs to receive from privatisation this year.

"Telkom is the product and the State is the salesman," Nxasana said at a briefing on Friday. He explained that before the privatisation sale could occur, new legislation would have to be enacted concerning the creation of a newly regulated environment allowing for greater competition in the local market.

When questioned by Business Report, he indicated the ultimate decision on the timing of the initial public offering (IPO) would depend on passing legislation on both the deregulation of the telephone industry and pricing structure of Telkom. Both decisions lie with Parliament.

He said he had misgivings about undertaking the IPO when the market for telecoms stock globally was depressed. Ahead of the budget government officials had said the timing of the Telkom IPO was conditional on market conditions. However, finance minister Trevor Manuel's linking of restructuring revenues to the Budget deficit target suggests that the privatisation will go ahead regardless.

Balancing the Budget depends on the government raising R18 billion through the sale of State assets. This is much more than revenues received from restructuring in previous years.

The government is relying on the privatisation of Telkom, Sasria and M-Cell for the revenues, putting pressure on Jeff Radebe, the minister of public enterprises to deliver. These will allow the government to meet its budget deficit target of 2,5 percent of GDP for 2001/2002.

However, before Telkom can be floated, the department of communication needs to present drafts on deregulation and pricing by March 22 and March 31, respectively. From there the drafts will be debated at portfolio committee level before being submitted to Parliament as a green paper, before becoming law.

In the local market, the last favourable month this year for the IPO would be October. That gives the department of public enterprises and the department of communications only eight months to finalise their preparations.

The experience of regulation and decision making in this sector so far, especially in view of the third cellular licence has been one of delays.

According to a consultant close to the process, the financial advisers fully intend to meet their obligations "concerning the sale of a portion of Telkom". Yet his concern was "whether there was sufficient time to squeeze, albeit on a fast track, the enactment of the laws through Parliament".

Parliament appears intent on signing into law a package of measures to reregulate the market before full market deregulation by 2007. These will favour accession to the market by existing State-owned enterprises.

This could involve creating a duopoly in the fixed-line market.

Apart from Telkom, the duopoly is most likely to favour other State-owned enterprises such as Transnet and Eskom, which already have extensive rural, regional and urban networks.

This was recently the case when Eskom participated in the Kenyan telephone company privatisation, while Transnet holds a stake in cellular licence operator MTN via M-Cell.

This would mean that effectively the State could still end up holding the golden share of the telecommunications industry.

The second fixed-line licence would either be auctioned or bought at a fixed price. Telkom enjoys a 25-year licence with market exclusivity expiring in 2002, or, if Telkom requests it, the following year.

If the Telkom sale is rushed to the end of this year, into a market that Nxasana admitted might be "depressed ... internationally," the additional 25-year licence could offset some of the revenue losses from the Telkom IPO, which industry spokesman say would hardly compensate the State for the R29 billion capex it has invested in Telkom since 1997. – Cape Town