Delay in listing has significant implications, some positive and some negative

Telkom guessing game goes on

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THE finance ministry has finally acknowledged publicly that Telkom may not be listed in November — something many people in government and the industry have known for months.

The tenacity with which the national treasury has clung to the notion that the listing will happen in November, even after delays in releasing the telecoms policy, is indicative of the value it places on protecting the credibility of SA's fiscal policies.

Several analysts have been predicting since May that Telkom's initial public offering (IPO) will not happen this year.

Key factors behind the expected delay are the continuing poor performance of telecoms stocks globally, the failure of government to meet its deadlines for the release of a new phone policy and the need to still issue clear regulations on the market.

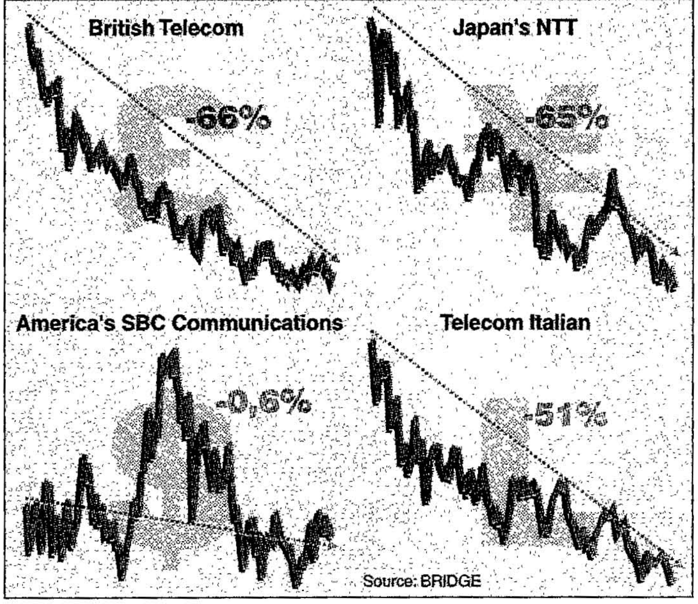
A report by SG Securities highlights a further possible factor: there is no foreign interest in a Telkom offering. "If the Telkom IPO goes ahead (this year), against our expectations, then there are grounds for real concern that it will not deliver anywhere near the privatisation dividend which was budgeted for," says the report.

Bond analysts say final confirmation that the listing is unlikely to happen this calendar year should not affect the market negatively, with several saying that a rushed and botched privatisation process would have been greater cause for concern.

The listing was expected to raise as much as R10bn for the state, depending on the percentage of Telkom which was to be sold. Market conditions and a poorly planned privatisation, however, could dictate against the raising of that sort of cash.

The delay has significant implications for government and Telkom — some positive and some negative.

TELECOMMUNICATIONS STOCKS TAKE A POUNDING



Source: BRIDGE

Moving the listing from November to February or March next year will give the public enterprises ministry sufficient breathing space to sell the IPO to international fund managers and to prepare its retail strategy.

Public Enterprises Minister Jeff Radebe has indicated that the IPO is an important vehicle for SA to take its place in the global economic market place, and that it will position Telkom as a global player in a rapidly developing industry and in the new economy.

Radebe says another key aim is to support government empowerment objectives of extending ownership to historically disadvantaged South Africans through a creative retail strategy. This is being devised by Deutsche Bank and JP Morgan, which were appointed as global co-ordinators of the IPO last year, but a significant education campaign must still take place.

However, the SG Securities report says government is now unlikely to raise anything close to the promised R18bn in the current fiscal year.

The money was expected to come primarily from the riot insurance entity Sasria, the sale of government's 24,5% stake in M-Cell which is held via Transnet, and the IPO of Telkom.

Investec Asset Management portfolio manager John Stopford says he still expects privatisation to generate about R13bn in revenue this fiscal year, which should be enough for government not to have to draw on the syndicated loan that it recently secured with a number of banks.

Stopford says that SA's sound fiscal management and the probability of tax revenues again exceeding government expectations should help shield the market from disappointment about delays in privatisation.

Dawie Roodt, PLJ Financial Services economist, says that he expects a revenue overrun of between R6bn and R7bn.

Government has budgeted for a 2,5% deficit this fiscal year, but most economists expect it to be closer to 2%, while the national treasury has hinted it may even be below 2%, which reduces the pressure to rush the listing.

SA has also secured a $1,5bn syndicated loan from a range of foreign banks, which can be used as a safety net if Telkom's privatisation is postponed and the fiscus is left short of cash.

Analysts say potential flows from the loan and the expected revenue overruns should comfortably cover any shortfalls from a delayed privatisation and one of the main factors driving the rally in the bond market — shortage of supply — should remain.

Brait fixed-income analyst Tim Marsland says confirmation that the listing will happen only next year can be seen in a positive light as a clear sign government is not desperate for cash.

Finance Minister Trevor Manuel said this week that government was unwilling to sell Telkom at "bargain basement levels", and that the timing of the sale would depend on market conditions.

This has also raised concerns among analysts about whether or not government should now play fund manager. They warn that indefinite postponement would be disastrous. Some point out that market conditions for telecoms might never improve.

But for now, analysts argue that the sell-off in the bond market has more to do with worries about the inflation outlook in the wake of the slide in the value of the rand. The currency's slide this week has pushed its losses against the basket of currencies measured by the Reserve Bank to more than 7% for the year so far, pointing to the possibility of imported inflation ahead.