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When does an apple or an Orange become a lemon?

FINANCE Minister Trevor Manuel handed apples to journalists at last week's budget briefing. Perhaps he should have given them oranges.

That is the fruit that obviously comes to mind when the talk turns to telecommunications, which is the main focus of this year's privatisation.

Orange, the French mobile telecommunications company, had a dismal listing this month in Europe, deepening the gloom over telecommunications stocks. In fact, not even a surprise 17% reduction in Orange's pricing range the week before the listing helped. Institutional investors were not impressed. Moreover, the huge debt burdens of companies like British Telecommunications, Deutsche Telekom and KPN of the Netherlands have cast their own pall over the sector. Credit-rating agencies have issued warnings about the ability to service debt.

Alarm bells are ringing for anyone planning to list a telecoms company in the foreseeable future.

So it is hardly surprising that

Sizwe Nxasana, Telkom's CE, said the timing of its initial public offering (IPO), scheduled for the fourth quarter of this year, might be reviewed if the current downturn in world telecoms stocks continued.

How will a postponement of Telkom's listing affect the budget?

Even if market conditions improve miraculously, it will be difficult to be ready for a Telkom listing by October or November this year. Analysts say clarity about Telkom's trading environment is crucial for a successful listing.

That means not only that the number of new licences to be awarded should be known, but also that they should already have been awarded — before the IPO.

Given SA's track record in awarding telecoms licences, this is a tall order.

But failure to award the second and/or third fixed-line licence will lead investors to assume the worst about potential competition for Telkom. With investors assuming a worst-case scenario, it is difficult to envisage a successful IPO.

Does all this cast doubt over the privatisation numbers in the budget?

Not necessarily. Manuel dropped some fascinating hints last week which suggested that the full story behind the privatisation budget has yet to be told.

Among others, he suggested that the proceeds from the Telkom listing would not make out the bulk of the budgeted privatisation proceeds of R18bn. His comment was intriguing, to say the least. He said the view that the Telkom listing would provide the bulk of the R18bn "might not be entirely correct".

So, what else is in that number?

One big-ticket item is the sale of Transnet's 24% stake in M-Cell, which, at Friday's market prices, was worth about R9bn. (The actual price to be realised is anyone's guess.)

Presumably, the announcement of the M-Cell sale would not have been made, and the proceeds included in the budget, unless a deal was pretty close to being signed, sealed and delivered.

Still, it is somewhat worrying that Orange is rumoured to be M-Cell's

Greta Steyn

buyer. What if Orange made its offer conditional on the success of its flotation? Given Orange's dismal market debut, it would be unusual for it soon afterwards to become a big buyer of offshore telecoms.

Nevertheless, Manuel would surely not have budgeted for the M-Cell proceeds without a definite deal on the table?

Even so, the full amount raised from the sale of M-Cell will not accrue to the fiscus, as Transnet wants some of the cash to reduce its

pension fund deficit as well as to finance capital expenditure. Nonetheless, let us assume that M-Cell will make out about half of the budgeted privatisation number. Can we believe that Manuel can find the other half easily, without Telkom's listing?

To some extent, Manuel's credibility has been weakened because his last budget for privatisation proceeds was

undershot. In the 2000/01 fiscal year, privatisation proceeds fell short of the budgeted R5bn by almost R3bn. Apparently, this was because of a deal which did not go through.

One deal that failed to materialise was the sale of a further 10% of SAA to Swissair, estimated at about R700m. Also delayed was a further payout from Sasria, the SA Special Risks Insurance Association. Expectations are that about R3bn will flow to the fiscus from Sasria in the next year, while the SAA deal is off the cards.

M-Cell and Sasria together could account for perhaps two-thirds of the budgeted amount.

If Telkom's listing comes through on top of that, the Treasury will be swimming in cash. The inflow into the Treasury's coffers from privatisation will hugely exceed the budgeted number.

If not, it looks as if there will be a shortfall, which will not be

inconsequential. So, does that mean the news will either be very good or moderately bad, depending on whether the IPO makes it into this fiscal year or not? Is the Telkom IPO the key to the bullish budget?

There is another possibility which could change the picture. If government decides to sell the new licences it issues, it could rake in a big whack of cash from that source. If Nigeria could pull in \$285m in a telecoms licence auction, can SA not climb onto that bandwagon?

The answer to that crucial question will probably come next month, when the department of communications has to issue its policy recommendations. Moreover, if the communications department meets its deadlines, the prospects of an early Telkom listing improve.

Until Communications Minister Ivy Matsepe-Casaburri shows her hand, it is difficult to judge the credibility of the privatisation numbers. Yet it is not impossible to reach R18bn without Telkom's listing — as Manuel hinted last week.

The markets appear to have given Manuel the benefit of the doubt, as well they should. But the fact is that much doubt remains about the privatisation numbers. It is understandable that more detail is not available at this stage; until it becomes available, there is a risk that comparing apples and oranges will lead to incorrect conclusions.