



Structured Finance



TelecomAsia

HIGHLIGHTS

- THB 18.5bn (US\$ 425mn equivalent) multi-tranche bond issue by the largest private fixed-line telephone operator in Thailand
- IFC partial credit guarantee for 50% of the principal amount of the longer-dated tranche
- Achieved a national scale rating of single-A, three notches above the stand-alone rating of TelecomAsia
- One of the largest and longest-maturity issues ever in the domestic Thai market

THE COMPANY

TelecomAsia (TA) was established by CP Group, a Thai conglomerate, in 1990. One year after its inception, TA was granted a 25-year concession to build and operate 2.6mn lines for the fixed line telecom network in Bangkok. Today, TelecomAsia is the largest private fixed-line telephone operator in Thailand. It offers telephone and other related information and communication services to residential and business customers in the Bangkok Metropolitan Area. Major shareholders include CP Group and KfW.

FINANCING OBJECTIVES

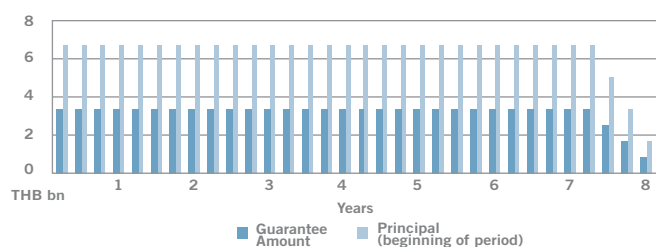
At the time of the Asian crisis in 1997, and the resultant Thai economic downturn and currency devaluation, the company's balance sheet consisted primarily of Thai baht assets and US dollar liabilities. This mismatch resulted in a deterioration of the company's financial situation. Hence, TA's main objective was to convert its US\$ 500mn foreign debt into Thai baht to minimize foreign exchange risk and strengthen the firm's financial position.

IFC assisted TelecomAsia by providing a partial guarantee which covered debt service payments on the company's longer-dated (8-year) tranche for an amount equal to 50% of the principal. By participating in the longer-dated tranche, IFC enabled TelecomAsia to simultaneously place a larger shorter-dated (6-year) tranche without the need for credit enhancement.

THE STRUCTURE

The offering totaled THB 18.5bn (US\$ 425mn equivalent) out of which THB 11.7bn was issued in six-year bonds (Tranche A) and THB 6.75bn was issued in eight-year bonds (Tranche B). Tranche A offered a yield of 6.1% and Tranche B a floating rate yield equal to the Average Minimum Lending Rate, each payable on a quarterly basis.

IFC's investment consisted of a partial guarantee on Tranche B for an amount equal to 50% of the principal. The guarantee was structured to cover both interest and principal payments. Additionally, IFC provided TelecomAsia with a THB 1.1bn subordinated secured convertible loan due 2011.



OUTCOME

The guaranteed bonds were rated single-A by Thai Rating and Information Services (TRIS), a three-notch upgrade from TA's stand alone rating of triple-B. The completion of the deal translated into access to previously unavailable long-term, local currency financing for TelecomAsia.

The transaction was IFC's first partial credit guarantee on a local bond issue in Thailand. Its participation helped ensure the successful completion of this large, local bond issue with one of the longest maturities in the Thai debt markets. By partially guaranteeing Tranche B IFC helped investors get comfortable with the longer maturity bonds while at the same time facilitating the placement of the shorter maturity tranche without the need of enhancement. In this way IFC contributed to the bond market development and set a benchmark for further Thai baht financing.

The success of the transaction allowed TA to tap the debt markets four months after the original issue date, and increase Tranche A by THB 3.3bn to THB 15bn in order to eliminate its remaining US\$ debt. This combined debt raising, allowed TA to strengthen its capital structure and better match its assets and liabilities. Furthermore, the success of the bond issue was instrumental in allowing the company to contract on October 2003 a new Thai baht loan to replace an existing loan obtained during the Asia crisis. Through this refinancing, TA extended the average life of its loans by approximately three years.

TERMS AND CONDITIONS

Amount	THB 18.5bn (approximately US\$425mn)
Currency	Thai Baht
Issue Date	October 15, 2002
Maturity	Tranche A: 6 years, non-call 3 Tranche B: 8 years, non-call 3
Series	Tranche A: THB 11.7bn (approximately US\$270mn) Tranche B: THB 6.75bn (approximately US\$155mn)
Interest Payment	Tranche A: 6.1%, payable quarterly Tranche B: Average Minimum Lending Rate of BBL, TFB, SCB, and KTB, payable quarterly
Principal Payment	Tranche A: amortized quarterly Tranche B: starting in June 2009, amortized quarterly
Rating	Tranche A: rated BBB by Thai Rating and Information Services Tranche B: rated A by Thai Rating and Information Services
Enhancement	Principal and interest for an amount equal to 50% of the outstanding principal amount of Tranche B