

## Telecommunications and Cable

### A Setback for Globalive

Jeff Fan, CA, CFA - 416-863-7780

[jeff\\_fan@scotiacapital.com](mailto:jeff_fan@scotiacapital.com)

Warren Hastings, MBA, CFA - 416-862-3721

[warren\\_hastings@scotiacapital.com](mailto:warren_hastings@scotiacapital.com)

Anubhav Mehla, MBA - 416-945-4249

[anubhav\\_mehla@scotiacapital.com](mailto:anubhav_mehla@scotiacapital.com)

#### Event

[SC Online Analyst Link](#)

- The CRTC ruled Globalive is not currently eligible to operate as a Canadian telecommunications common carrier (i.e., a new wireless entrant) because it has not met Canadian ownership rules.

#### Implications

- For the CRTC to approve, Globalive must make a number of changes related to board composition, liquidity rights, and veto rights, and it must reduce the amount of debt financing that comes from Orascom.
- Positive for Rogers, TELUS, and BCE (the wireless incumbents). Even if Orascom agrees to these changes, Globalive may be forced to seek alternative capital (possibly on less favourable terms given the circumstances), increasing its cost of capital and lowering returns.
- This development could delay Globalive's launch, which had been scheduled to occur in Toronto before year-end.

#### Recommendation

- We rate Rogers 1-Sector Outperform, TELUS 2-Sector Perform and BCE 2-Sector Perform.

#### Universe of Coverage

|       | Price    | Rating | Risk   | 1-Yr    | ROR   | 2-Yr    | ROR   |
|-------|----------|--------|--------|---------|-------|---------|-------|
| BA.UN | C\$27.24 | 3-SU   | Medium | \$26.00 | 6.1%  | \$26.00 | 16.7% |
| BCE   | C\$25.60 | 2-SP   | Medium | \$27.00 | 11.9% | \$29.00 | 26.1% |
| CCA   | C\$32.26 | 2-SP   | Medium | \$37.00 | 16.4% | \$41.00 | 30.6% |
| MBT   | C\$32.06 | 3-SU   | Medium | \$33.00 | 11.0% | \$34.00 | 22.3% |
| QBR.B | C\$23.22 | 1-SO   | High   | \$31.00 | 34.4% | \$37.00 | 61.1% |
| RCI.B | C\$30.98 | 1-SO   | Medium | \$39.00 | 30.1% | \$42.00 | 43.9% |
| SJR.B | C\$19.33 | 2-SP   | Medium | \$22.00 | 18.3% | \$23.00 | 28.0% |
| T     | C\$32.85 | 2-SP   | Medium | \$37.00 | 18.4% | \$41.00 | 36.4% |

**Potential Remedies**

■ The CRTC ruled Globalive is not currently eligible to operate as a Canadian telecommunications common carrier (i.e., a new wireless entrant) because it has not met Canadian ownership rules. However, after reading through the details of the CRTC's decision and having spoken to the CRTC, there are remedies for Globalive to obtain CRTC approval. Here they are:

1. Changes to board composition. Specifically, of the 11 total directors, the CRTC wants AAL (Canadian-controlled company) to designate a total of six (vs five) and Orascom to designate a total of five (vs four), with no selection committee for the independent directors (vs. a selection committee to select two independents). See Exhibit 1.
2. Changes to liquidity rights that gave Orascom power to force AAL to exit or sell at certain prices. See Exhibit 2.
3. Raise the dollar threshold on Orascom's veto rights. See Exhibit 2.
4. Reduce the amount of debt financing Orascom provided to Globalive. The CRTC cannot grant conditional approvals, so Globalive will have to reduce this debt before it begins operating. By how much? In the Canwest deal, the non-Canadian investor held less than 20% of total debt.

■ The question now is will Orascom agree to these changes? Note Orascom has already invested almost \$600M in wireless licenses and capex. To reduce the proportion of Globalive debt held by Orascom, Globalive may be forced to tap the capital markets for additional equity or debt financing on possibly unfavourable terms (given the circumstances), increasing its cost of capital and lowering returns.

■ Globalive may look raise to capital from existing players in the Canadian market that do not have national wireless offerings, including Quebecor, Shaw, or MTS, to replace Orascom's debt financing. If Quebecor or MTS aspire to be national wireless players, this could be their opportunity. Both recently signed roaming agreements with Rogers. Shaw is a potential source of capital but has recently publicly discussed partnering with Rogers. SaskTel is a crown corporation and recently signed a roaming agreement with TELUS. It is interesting to note that all the incumbents have been busy locking up roaming agreements.

■ The impact on incumbents (Rogers, TELUS and BCE) is positive. Even if Orascom agrees to the CRTC's proposed changes, Globalive's launch, originally scheduled before year-end, could be delayed.

**CRTC Decision: Next Step**

We believe some of Globalive's options include:

1. **Make the changes to satisfy the CRTC.** The most challenging aspect of this option is reducing Orascom's debt financing.
2. **Court of Appeal.** Globalive may not win and timing is uncertain.
3. **Petition to Cabinet.** Globalive may not win and timing is uncertain.

**Exhibit 1 - Board composition changes required to satisfy CRTC**

**Existing board structure**

GIHC Board of Directors (11)<sup>a</sup>  
(4) AAL  
(4) Orascom  
(3) Independent Directors<sup>b</sup>

Globalive Board of Directors (11)<sup>a</sup>  
(4) AAL  
(4) Orascom<sup>c</sup>  
(3) Independent Directors<sup>b</sup>

<sup>a</sup> Globalive Investment Holding Company (GIHC) has 100% control of Globalive Wireless Management Corp. (Globalive), which owns spectrum licenses.

<sup>b</sup> The first Independent Director is selected by AAL, with subsequent Independent Directors chosen by a selection committee composed of three members: the longest-serving Independent Director, one director nominated by AAL, and one director nominated by Orascom.

<sup>c</sup> Of which two must be Resident Canadians.

**Structure to satisfy CRTC**

GIHC Board of Directors (11)  
(5) AAL  
(4) Orascom  
(1) AAL-nominated Independent Director  
(1) Orascom-nominated Independent Director

Globalive Board of Directors (11)  
(5) AAL  
(4) Orascom  
(1) AAL-nominated Independent Director  
(1) Orascom-nominated Independent Director

Source: CRTC.

**Exhibit 2 - Liquidity and veto rights changes required to satisfy CRTC**

**Existing liquidity rights**

Mutual liquidity rights allow either AAL or Orascom to elect to sell its holdings in GIHC subject to a right of first refusal by the other party. AAL is guaranteed a floor price for its shares should it elect to sell within a certain period, and should AAL sell for greater than fair market value, it must pay Orascom the difference.

**Liquidity rights changes required to satisfy CRTC**

Unclear, but CRTC believes floor price and cap on the proceeds of sale should AAL sell are "inconsistent with the relative voting interests of the shareholders."

**Existing veto rights**

Orascom holds veto rights over certain items (such as capital expenditures) whose value exceeds \$22.1M, or five percent of the value of Globalive's wireless licenses.

**Veto rights changes required to satisfy CRTC**

The monetary threshold for vetoes should be set at five percent of Globalive's enterprise value as determined by its board every two years, based on a third-party valuation.

Source: CRTC

**Appendix A: Important Disclosures**

| <b>Company</b>                                  | <b>Ticker</b> | <b>Disclosures*</b> |
|---|---------------|---------------------|
| BCE Inc.  | BCE           | B26, B8, H3, S, T   |
| Bell Aliant Regional Communications Income Fund | BA.UN         | T, U                |
| Cogeco Cable Inc.                               | CCA           | T, U                |
| Manitoba Telecom Services Inc.                  | MBT           | B9, S, T, U         |
| Quebecor Inc.                                   | QBR.B         | T                   |
| Rogers Communications Inc.                      | RCI.B         | H3, S, T, U         |
| Shaw Communications Inc.                        | SJR.B         | S, T, U             |
| TELUS Corporation                               | T             | H3, S, T, U         |

I, Jeff Fan, certify that (1) the views expressed in this report in connection with securities or issuers that I analyze accurately reflect my personal views and (2) no part of my compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed by me in this report.

The Fundamental Research Analysts' compensation is based on various performance and market criteria and is charged as an expense to certain departments of Scotia Capital Inc., including investment banking.

Scotia Capital Inc. and/or its affiliates: expects to receive or intends to seek compensation for investment banking services from issuers covered in this report within the next three months; and has or seeks a business relationship with the issuers referred to herein which involves providing services, other than securities underwriting or advisory services, for which compensation is or may be received. These may include services relating to lending, cash management, foreign exchange, securities trading, derivatives, structured finance or precious metals.

For Scotia Capital Research analyst standards and disclosure policies, please visit <http://www.scotiacapital.com/disclosures>

\* *Legend*

- B8** Ronald Brenneman is a director of BCE Inc and is a director of the Bank of Nova Scotia.
- B9** N. Ashleigh Everett is a director of Manitoba Telecom and is a director of the Bank of Nova Scotia.
- B26** Thomas C. O'Neill is a director of BCE Inc and is a director of the Bank of Nova Scotia.
- H3** The Head of Equity Research/Supervisory Analyst, in his/her own account or in a related account, owns securities of this issuer.
- S** Scotia Capital Inc. and its affiliates collectively beneficially own in excess of 1% of one or more classes of the issued and outstanding equity securities of this issuer.
- T** The Fundamental Research Analyst/Associate has visited material operations of this issuer.
- U** Within the last 12 months, Scotia Capital Inc. and/or its affiliates have undertaken an underwriting liability with respect to equity or debt securities of, or have provided advice for a fee with respect to, this issuer.

**Definition of Scotia Capital Equity Research Ratings & Risk Rankings**

We have a three-tiered rating system, with ratings of 1-Sector Outperform, 2-Sector Perform, and 3-Sector Underperform. Each analyst assigns a rating that is relative to his or her coverage universe.

Our risk ranking system provides transparency as to the underlying financial and operational risk of each stock covered. Statistical and judgmental factors considered are: historical financial results, share price volatility, liquidity of the shares, credit ratings, analyst forecasts, consistency and predictability of earnings, EPS growth, dividends, cash flow from operations, and strength of balance sheet. The Director of Research and the Supervisory Analyst jointly make the final determination of all risk rankings.

**Ratings**

**1-Sector Outperform**

The stock is expected to outperform the average total return of the analyst's coverage universe by sector over the next 12 months.

**2-Sector Perform**

The stock is expected to perform approximately in line with the average total return of the analyst's coverage universe by sector over the next 12 months.

**3-Sector Underperform**

The stock is expected to underperform the average total return of the analyst's coverage universe by sector over the next 12 months.

**Other Ratings**

*Tender* – Investors are guided to tender to the terms of the takeover offer.

*Under Review* – The rating has been temporarily placed under review, until sufficient information has been received and assessed by the analyst.

**Risk Rankings**

**Low**

Low financial and operational risk, high predictability of financial results, low stock volatility.

**Medium**

Moderate financial and operational risk, moderate predictability of financial results, moderate stock volatility.

**High**

High financial and/or operational risk, low predictability of financial results, high stock volatility.

**Caution Warranted**

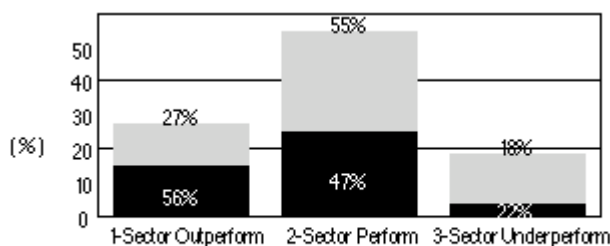
Exceptionally high financial and/or operational risk, exceptionally low predictability of financial results, exceptionally high stock volatility. For risk-tolerant investors only.

**Venture**

Risk and return consistent with Venture Capital. For risk-tolerant investors only.

**Scotia Capital Equity Research Ratings Distribution\***

**Distribution by Ratings and Equity and Equity-Related Financings\***



- Percentage of companies covered by Scotia Capital Equity Research within each rating category.
- Percentage of companies within each rating category for which Scotia Capital has undertaken an underwriting liability or has provided advice for a fee within the last 12 months.

\* As at September 30, 2009.

Source: Scotia Capital.

For the purposes of the ratings distribution disclosure the NASD requires members who use a ratings system with terms different than “buy,” “hold/neutral” and “sell,” to equate their own ratings into these categories. Our 1-Sector Outperform, 2-Sector Perform, and 3-Sector Underperform ratings are based on the criteria above, but for this purpose could be equated to buy, neutral and sell ratings, respectively.

**Disclaimer**

This report has been prepared by SCOTIA CAPITAL INC. (SCI), a subsidiary of the Bank of Nova Scotia. Opinions, estimates and projections contained herein are our own as of the date hereof and are subject to change without notice. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made as to their accuracy or completeness. Neither SCI nor its affiliates accepts any liability whatsoever for any loss arising from any use of this report or its contents. This report is not, and is not to be construed as, an offer to sell or solicitation of an offer to buy any securities and/or commodity futures contracts. The securities mentioned in this report may not be suitable for all investors nor eligible for sale in some jurisdictions. This research and all the information, opinions, and conclusions contained in it are protected by copyright. This report may not be reproduced in whole or in part, or referred to in any manner whatsoever, nor may the information, opinions, and conclusions contained in it be referred to without the prior express consent of SCI. SCI is regulated by FSA for conduct of investment business in the UK. U.S. Residents: This report is being distributed by Scotia Capital Inc. directly to U.S. persons who are Major Institutional Investors only. Any U.S. institutional investor wishing further information or to effect transactions in any security discussed in this report should contact Scotia Capital (USA) Inc., a broker-dealer registered with the SEC and FINRA and a member of SPIC, at 1-800-262-5363.