Newly listed Hutchison Telecom is poised to capture valuable growth opportunities in emerging telecoms markets.

By Mark Caldwell

Hutchison Telecommunications International Limited (Hutchison Telecom) listed on the Hong Kong and New York stock exchanges in mid-October. It was the largest Asian spin-off IPO in 2004 year-to-date, the largest IPO by a Hong Kong issuer in 2004 year-to-date and the first-ever Asian-focused emerging markets telecom IPO.

The listing opened the door for investors to gain exposure to high-growth emerging mobile telecommunications markets, such as those in India and Thailand, while balancing the portfolio with established and profitable telecoms operations elsewhere.

Hutchison Telecom brings together a stable of telecommunications companies owned by Hutchison Whampoa (HWL) that operate in eight key markets: Hong Kong, Macau, India, Israel, Thailand, Paraguay, Sri Lanka and Ghana. Collectively, the businesses currently have over 11 million subscribers, assets of more than US$5 billion and revenues in excess of US$1.29 billion in 2003.

With Goldman Sachs as lead underwriter, HWL offered 1.155 billion shares representing 25.67% of Hutchison Telecom’s share capital. HWL remains the largest shareholder with 70.1%.

The offering closed on October 6 and trading started on October 14 on the New York Stock Exchange (code HTX) with American Depository Shares (ADS) representing 15 ordinary shares. The stock made its debut on the main board of the Hong Kong Stock Exchange on October 15 (code 2332). The listing raised US$899 million with the shares priced at HK$6.01 and the ADS’s at US$11.67.

Despite challenging global equity markets, the deal was comfortably over-subscribed with strong demand from US and international institutional investors. The proceeds from the IPO will effectively be repaid to HWL, which has invested around US$2.7 billion into the Hutchison Telecom
group. But raising cash was not the primary motivation for the listing.

**Right Time**

“It was a good opportunity to ascribe paper value to Hutchison Telecom and allow investors to participate in the future growth in the company,” notes CFO Tim Pennington, who played a key role in the IPO. “Hutchison Telecom had reached an inflection point in its development. We had achieved a critical mass in our customer base and also reached the peak of the capex cycle for the current businesses. The next step was to become a public company, which would allow us to develop the business to the next level.”

At the helm of the development process is Dennis Lui, Hutchison Telecom’s CEO.

“Market timing was a crucial consideration,” he says. “If we had waited for two more years before listing, we might have got a better price for our shares because our business would be bigger and market sentiment might have improved. But we felt there is a tremendous window of opportunity right now for growing markets in Asia, Eastern Europe and the Middle East.”

“Currently, the bigger telecoms players in Europe and the US are resting a bit after the financial difficulties the industry has faced in the past few years. In our opinion, this has made now a good time to enter new markets at moderate prices. The IPO gives us additional liquidity to do that and it gives us acquisition currency in terms of the stock, which we might want to use in a merger situation.”

“By choosing to list now, we can tap into financial markets (Hutchison Telecom has a US$1 billion bank loan facility), enjoy independence as a company, and act with the interests of our own shareholders in mind.

**Track Record**

HWL has spent almost two decades building the Hutchison Telecom portfolio. The Group started out in the telecommunications business back in 1985, when it began offering mobile communications services in Hong Kong.

Since then, Hutchison Telecom has established a formidable track record, earning a reputation for being able to enter challenging markets and succeed where others could not.

HWL built the Orange brand and nurtured it into a leading global brand. The second-generation (2G) mobile telecommunications business was established in the UK in 1994 and then sold in 2000 for a US$14.6 billion consideration.

Funded in large part with profits

---

**1983**  
**1985**  
**1986**  
**1987**  
**1988**  
**1989**

**Hutchison Telecom** starts mobile business in Hong Kong  
Launches the first commercial Advanced Mobile Phone Services (AMPS) in Asia using AMPS network  
Acquires and merges with a number of paging companies to develop paging services in Hong Kong  
First to offer uninterrupted cellular coverage through Hong Kong’s cross-harbour tunnel  
Awarded a total telecommunications system licence for Hong Kong and becomes the world’s first cellular operator to provide both AMPS and TACS networks in a single location  
First in Hong Kong to launch trunked mobile radio communication system
from Orange, HWL’s rollouts of 3G operations under the 3 brand worldwide have dominated the headlines while its other valuable telecoms assets have gone relatively unnoticed.

Yet Hutchison Telecom is a telecoms powerhouse in its own right. The company amalgamates its group of mainly 2G businesses that collectively make it a world leader in emerging telecoms markets.

“The listing will give the telecoms group outside of 3G some real momentum,” says Pennington. “It is a strategic opportunity that will give us increased focus and credibility and take the business forward.”

Following a gruelling 18-day IPO roadshow spanning three continents, and having successfully completed the IPO, Hutchison Telecom is now looking to move to the next level.

“We aim to expand our footprint both through buying into existing businesses and through setting up new ones,” says Lui, adding that Hutchison Telecom always seeks to maintain operational and financial control.

**Hutchison Telecom has earned a reputation for being able to enter challenging markets and succeed where others could not**

“We will invest in superior networks, strong branding, innovative products and excellent customer service,” Lui continues. “Through increased integration of our businesses we will also benefit from economies of scale, with synergies in the areas of branding, procurement, product development and technology transfer.”

**Balanced portfolio**

The appeal of Hutchison Telecom for investors is that it provides rare access to a balanced portfolio of telecoms businesses with an emphasis on Asia and emerging markets, managed by a team of seasoned telecoms professionals.

“Hutchison Telecom gives you exposure to fast-growth markets like India, balanced with established businesses such as those in Hong Kong and Israel,” notes Pennington. “It also offers direct exposure to the growth potential of 3G in Hong Kong, and Israel. We aim to be the No.1 or No.2 business in the markets we’re in – either through investment or acquisition.”

Of the developed markets in its portfolio, Hutchison Telecom is the No.1 mobile operator and the No.2 fixed-line operator in Hong Kong and the No.2 operator in Israel – a position attained in just four years.

In the burgeoning India market, Hutchison Telecom has a leading
presence in the high-value metropolitan circles. It is No.1 in Mumbai, Calcutta, and Gujarat, and No.2 in Delhi in terms of subscriber numbers, and the company is also ahead of its competitors when it comes to average revenue per user (ARPU).

Over the past few years, the India market has been developed through a combination of capital investment and acquisitions. Hutchison Telecom plans a further listing in the future to consolidate its India operations.

“The India business will be listed at some stage, subject to the right market and commercial conditions, and meeting pre-listing requirements,” Pennington confirms.

The India listing is further to Hutchison Telecom’s agreement with its local partners to do so, and it would also make it easier for the India operation to tap into local financing to drive its expansion.

Two companies that fall under the Hutchison Telecom umbrella are already independently listed: Partner Communications (Partner) and Hutchison Global Communications Holdings (HGCH).

Partner completed the largest ever IPO by an Israeli company when it listed on the NASDAQ and London Stock Exchange in October 1999 and on the Tel Aviv Stock Market the following year. In just four years, Partner overtook one incumbent operator to become No.2 in the market.

Earlier this year Hong Kong-based fixed line fibre-optic broadband service provider HGC merged with local companies Powercom and Vanda, a company listed on the Hong Kong Stock Exchange, which was subsequently renamed Hutchison Global Communications Holdings.

“These types of arrangement are typical in telecoms where joint ventures with local operators or investors are commonplace, and remains a valuable strategy and technique to establish value of the business and add capital,” says Pennington.

“For the external investor, there are different opportunities to access the value created by Hutchison,” Pennington adds. “With HGCH, investors gain exposure to the Hong Kong fixed-line market. With Hutchison Telecom, you are buying an investment in eight markets, with both fast-growth and established businesses.

While Hutchison Telecom does not expect to pay a dividend in the short term, its management believes that the long-term prospects for growth are encouraging.

“Hutchison has developed this business over the past 10-20 years,” says Pennington. “We see some
tremendous opportunities to expand our footprint. We are focused on higher population areas and have a lot of experience in building networks – where to put them and how to get returns from them.”

**Good Morning Vietnam**

Vietnam is next on Hutchison Telecom’s expansion radar. The company recently announced the signing of a Business Co-operation Contract (BCC), with Hanoi Telecom to develop the nascent local market. The contract is subject to final government approval, which is currently pending.

“Vietnam is a very exciting and challenging market, but challenging markets are what Hutchison does best. We went into Israel when others didn’t want to go; we stayed and grew into India when many were leaving; and we made a success of each of them. We have been very successful in Hong Kong amidst intense competition. We are the people who can make a success of what others consider too much of a challenge. We believe our initial investment in Vietnam and cash cost will be low, so there is good potential for a substantial return.”

Elsewhere, Hutchison Telecom has small interests in Sri Lanka, Ghana and Paraguay.

“These are potentially strong growth markets but it’s still too early for us to be widely involved,” says Pennington. “However, by having a foot in, we are getting to know the market, getting to know people. These are intangible things not yet reflected on the balance sheet. Our small exposure gives us the opportunity to assess markets. This is very valuable for the future.”

**Technically Speaking**

There are those who might argue that second-generation technology is on the way out and will soon be surpassed by newer-generation technologies such as 3G.

However, Dennis Lui is careful to explain that there is a clear distinction between the telecoms needs and affordability within emerging markets compared to developed ones.

“In developed markets such as Hong Kong there is over 100% saturation, but in India, for example, less than 5% of the population has a mobile phone,” he says.

“At some stage the technology curve will see India move to 3G. Hong Kong is sufficiently developed for 3G and 3G was introduced in Israel in December.

---

**2001**

- Global customer base reaches 4.5 million
- Acquires licences to operate GSM services in Karnataka, Andra Pradesh & Chennai in Indian licence auction
- Launches GSM services in Macau

**2002**

- Global customer base reaches 6 million
- Buys out Asia Global Crossing’s 50% stake in Hutchison GlobalCrossing
- NEC Corporation acquires an effective 5% strategic equity in Hong Kong mobile operations

**2003**

- Global customer base reaches 8.9 million
- Launches Hutch CAT in Thailand
- Adds Punjab, Haryana, Rajasthan and UP (East) circles to India operations

**2004**

- First in Hong Kong to roll out world class 3G service under the brand name “3”
- Global customer base reaches 11.2 million customers at 30 June 2004, with 1H YoY growth of 67%

---

**Hutchison Global Communications** joins forces with PowerCom, Vanda Systems and GlobalCentre to form listed company

**Hutchison Global Communications Holdings**

**Hutchison Telecommunications International Limited** lists on the New York and Hong Kong stock exchanges on Oct. 14 and 15

**Hutch India** launches services in UP (West), Uttarakhal, West Bengal & Sikkim

**Partner** launches 3G services in Israel
In Thailand, the market is quite sophisticated, so we have introduced CDMA1X, which is almost like 3G, though not quite. Because of our track record and pedigree (we’ve introduced 3G not just in Hong Kong but through our parent in Europe and Australia), we can introduce new technologies as they develop and at the right time for particular markets. At the end of the day, the customer does not care about the kind of technology used. We are focused on being the leader for a particular market – delivering innovative services that are right for those particular customers at the time.”

With its valuable footprint in emerging markets, Hutchison Telecom is making an important social impact, with many of its customers enjoying mobile communications for the first time at affordable prices.

Customers in more developed markets have also seen significant benefits in both quality and price, with Hutchison Telecom leading the way in introducing the latest services and technologies.

With a global subscriber base now exceeding 11 million and steadily rising revenues, Hutchison Telecom will keep customers – and investors – talking for a long time to come.
Hutchison Telecommunications (Hong Kong) Ltd is the No.1 mobile operator in Hong Kong with 1,957,695 customers – a 26% share of the mobile market.

First in Hong Kong to offer GSM Dualband; CDMA and 3G networks.

Provides all mobile services (2G GSM/CDMA/PCS, 2.5G GPRS/IS95B and 3G UMTS) under the 3 brand in Hong Kong and positioned for fixed-mobile convergence opportunities.

35.5% market share in Macau with 155,276 GSM customers.

Total number of mobile subscribers in Hong Kong and Macau is more than 2.1 million.

Hutchison Global Communications Holdings (HGCH) is an integrated telecommunications and information technology company providing the world’s leading 10mbps symmetrical broadband network in Hong Kong.

HGCH has the largest fibre-to-the-building telecommunications network in Hong Kong and is also a major provider of capacity in the region.

HGCH is listed on the Hong Kong Stock Exchange with Hutchison Telecom as the largest shareholder.

Hutchison Telecom (Hutch) has signed an agreement with Hanoi Telecom to roll out a CDMA 2000 network with 50% coverage at launch.

With a population of 83 million and 3.5% penetration, Vietnam represents a major growth market.

Hutch has approximately 529,999 customers.

Lanka is the holder of one of four nation-wide mobile telecom licences in Sri Lanka.

Operates under the Hutch and Rankotha brands with approximately 69,000 customers.

In the process of completing a nation-wide roll-out of GSM services.

Hutchison Telecom subscribers ('000)
Total subscribers 11.2 million

- **India**: 5,800 (51.8%)
- **Israel**: 2,200 (19.7%)
- **Hong Kong Mobile (including Macau)**: 2,115 (19%)
- **Thailand**: 530 (4.7%)
- **Hong Kong (Fixed-line)**: 225 (2%)

- **HK Residential Broadband**: 146 (1.3%)
- **Sri Lanka**: 69 (0.6%)
- **Paraguay**: 51 (0.45%)
- **Ghana**: 50 (0.45%)