VOLUME IV No. 120 F R I D A Y June 28, 2002

THE WORLDCOM INCORPORATED SCANDAL : HOW MANY OTHER TELECOMMUNICATIONS COMPANIES WILL FOLLOW IN ITS WAKE ?

Every telecommunications company, throughout the Western World, is suspect.

From the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC), to Zanzibar, Africa, to Iceland, to Israel, to the Antipodes, and, especially to North America, all are, now, open to suspicion.

Which telecommunication company will be the next to succumb to the weight of its debts, nobody but the insiders can tell.

This is the logical extension of the WorldCom Incorporated Scandal, with its $US3.80 billion ($HK30 billion) admission of accounting fraud.

One should make no mistake about this matter: It is major; and, it is of international importance and significance.

The repercussions will be felt for many months – if not years – to come.

Mr Li Ka Shing, one of the richest men in the world, many of his companies, deeply involved in the telecommunications industry, worldwide, must be very concerned about this situation, even with his squillions of dollars.

WorldCom – which is quickly, being known as WorldCon – has just about guaranteed its early death.

That it will seek the protection from creditor banks and other lenders, by filing what the Americans call, Chapter 11, is a forgone conclusion – and this will shake up the telecommunications industry just that much more.

Last Tuesday, WorldCom announced that, for the previous 5 quarters, it had lied to the world about its profits, booking, incorrectly, billions of dollars of expenses as capital expenditure.

That accounting *'error'* boosted profits by at least that amount of money.

It is difficult to swallow that such a *'mistake'* was not engineered with the intent of duping investors and/or creditors alike because it was a *'mistake'*, amounting to not less than $US3.80 billion.

And it could be more after the books of the company are scanned, more carefully.

Who knows?

For the past 2 years or so, most telecommunications companies have struggled with collapsing prices, heavy debt loads, rising capital costs, and ever-increasing competition.

On Wednesday, Washington time, the US Federal Reserve Board determined to leave interest rates at their current, 40-year lows.

Even with such low borrowing levels, many companies, not just telecommunications entities, but even corporations that are involved in networking and supplying/manufacturing telecommunications equipment, have had a great deal of trouble in meeting debt-service commitments.

In Coudersport, Pennsylvania, there is a company, named Adelphia Communications Corporation.

It is a cable operator, which filed for bankruptcy, just one week ago – after securing a $US1.50-billion bridge financing package with the assistance of J.P. Morgan Chase Bank and Citigroup USA.

The previous week, Adelphia had defaulted on a $US100-million, Senior Note Interest payment.

Whether or not J.P. Morgan/Citigroup will have to bite their respective tongues remains to be seen, but the point is that international lenders of any size must now be very wary before opening up their purses.

And looking at Profit and Loss Accounts and Balance Sheets may not mean much, as was made apparent in the case of the WorldCom Scandal.

WorldCom will be hard-pressed to get any more financing of any size from anybody; the Scandal may well drive it to the wall.

That the company misjudged the entire telecommunications industry in the 1990s need not be mentioned, again, because Management has, openly, admitted that its core bandwidth business has suffered from the overbuilding of the 1990s.

It is estimated that its debts, today, stand at more than $US31 billion (about $HK241 billion).

There is a guarantee that it cannot service this debt, let alone retire principal.

It is known that it was trying to negotiate a $US5-billion credit line, just before the proverbial balloon went up.

Well, one can kiss that goodbye, for certain.

When one cheats one's bankers, it, usually, rebounds on one's head in the fullness of time: Things that go around, come around.

With traditional and prospective lenders very suspicious of WorldCom, and being able to place no reliance on the company's accounts, it is difficult to conceive of the probability of it, being able to survive for long.

Customers, who rely on a stable, long-haul service, will think, no doubt, of switching to other carriers.

A decided exodus of customers will exacerbate an already ticklish situation.

The only way out for WorldCom will be to start to sell off assets in order to reduce debt service.

But that could well impact on the company, too.

Lending institutions, now, will start to put the squeeze on other customers, engaged in similar lines of endeavour as that of WorldCom.

Increased borrowing costs are sure to follow.

This will have the effect of constraining companies, which are solvent at this time, from keeping up with the latest technological advances, making them fall behind until, eventually, they will start to see an erosion of profits and customers.

The bottom line will be for many a telecommunication company to have to try to find the wherewithal to keep afloat, pay back principals amid shrinking revenues, and find a solution to higher compound debt-servicing costs.

As it is, many telecommunications companies have let go wads of staff, slashed capital spending and, in many cases, sought the protection from armies of creditors by filing the equivalent of Chapter 11 in jurisdictions, other than the US.

In the HKSAR, Pacific Century CyberWorks Ltd (Code: 8, Main Board, The Stock Exchange of Hongkong Ltd) has let go hundreds of its workers, over the past year or so, and the Chairman, Mr Richard Li Tzar Kai, the Number Two Son of Mr Li Ka Shing, has not ruled out further sackings in his companies.

Pacific Century CyberWorks has, also, been rescheduling debt, which, at one time, stood at about $HK127 billion.

It is estimated that, in the past year, about 100,000 telecommunications workers, internationally, have lost their jobs.

WorldCom, effective today, is to let go some 17,000 of its workers.

Telecommunications equipment producers, such as Nortel Networks Incorporated, which used to be the largest company in Canada, will find it difficult to unload inventories, except, perhaps, at fire sales – and at a loss.

In 2001, shipments from the US to other countries of telecommunications equipment sunk by about 30 percent, Year-on-Year.

Lastly, investor confidence, the world over, has been dealt a severe blow, thanks to this latest scandal.

Global Crossing was one of the first to go down the plughole, with strong suggestions that Hutchison Whampoa Ltd (Code: 13, Main Board, The Stock Exchange of Hongkong Ltd), was to take up the remains of the company.

What appeared to have been overlooked at the time of this financial failure was that Global Crossing had been spending upwards of $US1 billion per month for some time.

It was conjectured that such expenditure was never justified.

Be that as it may, eventually, Hutchison was eased out of the Global Crossing *'play'* – possibly a lucky break as it turned out, using hindsight.

Weak investor confidence will take its toll of stock prices, as Price-Earnings Ratios will be re-assessed in the wake of the WorldCom Scandal.

There will be a new way to value telecommunications companies in the same way that the former regimes of South Africa, under successive white Administrations, employed the Kaffir Factor to take into account the shortcomings of the black people, who were doing the manual labour for the whites.

The telecommunications industry, over the past 5 years or so, over-invested, raised too much money, internationally, spent too much money on infrastructure that did not pan out, and, today, has to try to pay the piper.

WorldCom, like Global Crossing, will not be able to hack it.

How many others will follow in its path?

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