

Memo

To: Prof. Campbell Harvey
From: Tanya Dorhout, Yashmin Fernandes, Shravan Chopra, Angela Ho, and Ben Lyons
Date: 03/06/01
Re: Emerging Markets Corporate Finance 456

Hugo Satellite Networks is looking to construct a VSAT plant in a foreign company. Historically, Hugo has focused on the corporate networking side of the market, as opposed to rural telephony. Its major VSAT competitor Gomex has filled the void in the rural telephony market, gaining market share vis-à-vis Hugo. However, as new technologies begin to threaten the VSAT market and corporate client growth slows, Hugo is looking build market share by expanding its capacity. It begins to look at the rural market as a low cost/high volume opportunity. Tremendous growth in the demand for rural telephony, particularly in emerging markets, has drawn Hugo to further explore this area.

Hugo executives have identified construction of a VSAT plant as way to meet this growing segment. By increasing capacity, it will be able to better satisfy demand. Constructing this plant in a foreign country might enable Hugo to benefit from favorable taxation, export incentives, and cheaper labor. In addition, locating this manufacturing facility in an emerging market such as Brazil, China, or India, could give Hugo access to existing telecommunications monopolies and potential preferred supplier status. Because of their large populations and relative high percentage of the population living in rural communities, Brazil, China, and India also provide a large market for the VSAT. The key questions facing the reader are whether to build the plant (given the VSAT market size), where to build it (Brazil, China, or India), what is the appropriate discount rate to use. Should the company consider other options like contracting versus building? Are there other options the firm should consider when valuing this sort of project?

Pedagogical Objectives

The student is required to analyze several elements common to most project finance cases in emerging markets:

- Evaluate NPV assumptions
- Cost of capital
 - Project-specific risks
 - Country-specific risks
- Uncertain cash flows (i.e., because of market size and price uncertainties)
- Assess technology in a business context
- Assess feasibility of new business strategy
- Identify Real Options