# LatAm Telecoms Fall in Ratings

*by Staff Reporters*

**LatAm telecom companies faced a tougher compliance questionnaire this year. Despite some improvements, most fell short.**

LatAm telecom companies performed worse this year on a series of metrics measuring social responsibility, corporate governance and overall sustainability, according to a study by *LatinFinance* in association with consultancy Management & Excellence (M&E).

"Performance scores among telecoms this year ranged from 16%-33%, all very weak scores," says William Cox, managing director at M&E.

The sector faced more stringent compliance guidelines in 2011 when compared to previous years, though this is the first year M&E has analyzed the sector as a whole. Most were not up to the challenge. "Telecoms have not yet discovered sustainability as a mechanism for driving investor interest, employee productivity or sales," Cox says.

The study measures companies according to three metrics: compliance, risk, and performance. All three are combined to yield an overall final score. Compliance measures the number of sustainability metrics, such as having a corporate code of ethics, which a company attempts to fulfill. For example, if management tries to comply with just 33 of the 157 categories covered in the survey it will receive a compliance score of about 21%.

Scores are generated in a similar way for performance, but it calculates how often a company delivers on its compliance intentions. Risk, meanwhile, computes the level of volatility in a company's metrics from year to year. Companies that excel on the survey typically have a narrow spread between performance and compliance, according to Cox.

To achieve a good result, companies need to demonstrate quantifiable performance improvements and stability in areas as diverse as emissions and employee work days lost, as well as earnings per share and debt costs. They must also demonstrate consistency and stability in past and current performance.

Investors aren't hearing progress from telecoms

The performance section of the questionnaire was new this year. Telecom companies had performed better in previous years when they were only asked to identify which aspects of corporate sustainability they were seeking to address.

This time they were also evaluated on how much progress they were making toward their goals and on specific data points such as percentage of emissions reductions and earnings per share. By these metrics, telecom lags other sectors M&E tracks, such as mining and energy.

Despite the general poor performance for the sector, there were bright spots. Telemar Oi, the Brazilian operator of the Oi telecom brand, actually improved its compliance ranking between 2009 and 2011 to 59% from 55%. Increased transparency, improvements in corporate governance and overall management quality as well as consideration of a greater number of risk areas drove the improved rating.

Telefonica Colombia, meanwhile, led the sector with a final tally of 65%, bolstered by a score of 75% in compliance but dragged down by low ratings for performance (33%) and risk (23%). While such percentages are enough to put it well ahead of other leading telecoms in the region like Oi (53%), Vivo (47%) and Telmex (45%), it remains significantly below scores for companies in other sectors.

"Telefonica Colombia excelled with consistent improvements in financial data and improving employee satisfaction results," Cox says. "But a final score of 65% is not good."

In comparison, LatAm's largest extraction companies tended to outshine on their survey, with Brazilian mining company Vale reaching a compliance grade of 86% and a final score of 79%, followed by Brazilian steel concern Usiminas with 69% and 61%.

Brazil remains the most advanced country in sustainability compliance. "Brazil is far ahead of the others, with Chile, Colombia and Mexico following," Cox says. "The top Brazilian companies are world class in sustainability."

Eight Brazilian companies, including two banks, are members of the Dow Jones Sustainability Index, the only LatAm country with companies represented in the index. Despite being the region's second-largest economy and having well-developed capital markets, Mexico lacks a single blue-chip company represented.

Mexican cement company Cemex, for example, fell short with -11% in sustainability, due to high risk caused by volatility in key performance data and low performance. Volatility in its EPS over the last three years is over 700%. Earnings per share have swung from $0.09 per share to -$0.04 per share over the last five years. However, it improved in areas such as work days lost, dropping to 3.2 in 2009 from 5.2 in 2007.

"In general, only the Brazilian companies take sustainability seriously," Cox says. "The big ones such as Vale [are] investing over $100 million annually in this area. If we were to consider environmentally relevant modernizations, these investments could easily be in the billions."

**Performance of Largest LatAm Extractive Companies 2011**
Brazil still leads

| | Vale | Usiminas | Codelco | GMexico | Cemex |
|---|---|---|---|---|---|
| | Brazil | Brazil | Chile | Mexico | Mexico |
| **Compliance** | | | | | |
| Percentage | 86% | 69% | 42% | 34% | 61% |
| **Performance** | | | | | |
| Percentage | 56% | 35% | 18% | 34% | 25% |
| **Risk Score** | | | | | |
| Percentage | 17% | 29% | 18% | 27% | 108% |
| **M&E Final Score** | | | | | |
| Percentage | 79% | 61% | 46% | 45% | -11% |
| **Rank** | 1 | 2 | 3 | 4 | 5 |

*Source: Management & Excellence*

**Performance of Largest LatAm Telecom Companies 2011**
Colombia at the top

| | Telefonica Colombia | Oi | Vivo | Telmex | Digicel |
|---|---|---|---|---|---|
| | Colombia | Brazil | Brazil | Mexico | Jamaica |
| **Compliance** | | | | | |
| Percentage | 75% | 59% | 36% | 32% | 1% |
| **Performance** | | | | | |
| Percentage | 33% | 38% | 24% | 16% | 0% |
| **Risk Score** | | | | | |
| Percentage | 23% | 41% | 15% | 8% | 0% |
| **M&E Final Score** | | | | | |
| Percentage | 65% | 53% | 47% | 45% | 7% |
| **Rank** | 1 | 2 | 3 | 4 | 5 |

*Source: Management & Excellence*

The banking sector performed the best overall, with other sectors only producing one or two companies in the top rankings. Companies that have listed ADRs tend to perform better in the rankings, but overseas listings aren't always a guarantee of good management.

Companies listing their ADRs on the NYSE, for example, are forced to submit a form 20F to the SEC, detailing consolidated figures for executive compensation. Although such reporting is common in developed countries, LatAm companies tend to remain closed with regard to management remuneration.

Investors are likely to increase the pressure on LatAm entities not only to be more transparent on sustainability initiatives, but also to demonstrate that investments in the sector are yielding positive cashflows. MSCI has plans to rate the entire investment universe of 8,500 companies worldwide on sustainability measures. "Sustainability is going to increasingly drive demand for equity as it becomes perceived as a fundamental indicator of effective management," Cox adds.

Meanwhile, Brazilian companies that have done consistently well in the survey have shown to outperform the Bovespa. A market cap-weighted index of 27 companies outperformed the overall Bovespa by 114% last year. However, much of that performance was driven by Vale, which accounts for nearly a quarter of the index and generated a staggering 86% return last year.

Indeed, the top Brazilian companies are already close to fulfilling all their compliance requirements with the Global Reporting Initiative, an organization which produces international sustainability reporting guidelines.

In general, companies perform best with regard to having a complete code of ethics. They tend to stumble on more difficult points such as being a member of the Dow Jones Sustainability Index or for rotating auditing firms every few years. **LF**