

DECISION

ABOUT

the cost-of-capital rate for CTT – Correios de Portugal, S.A.

(2019 financial year)

ANACOM

2019

(page intentionally left blank)

1. Framework

By deliberation of its Board of Directors on 02.11.2017¹, ANACOM has defined its methodology for calculating the cost-of-capital rate for CTT, applicable to 2018 and subsequent financial years.

The *ex-ante* establishment of transparent rules governing the determination of the cost-of-capital rate contributes to a predictable environment to which agents may adjust, anticipating and managing their expectations more effectively. Moreover, when *ex-ante* standards are set out, the need for subsequent investigations, which are typically complex, lengthy, and potentially the matter of disputes, is reduced.

In this context and so as to determine the cost-of-capital rate to be used by the CTT in its CAS, for the 2019 financial year, which appropriately allows a reasonable profit to be obtained, taking account of the risk incurred in investments made to provide the US, ANACOM awarded to Mazars S.A. (henceforth Mazars) the critical revision of the current methodology and the updating of the data necessary to calculate each parameter of the capital cost rate, a matter described in this document and which forms part of the report "*Determining the cost-of-capital rate for CTT – Correios de Portugal, S.A.– for the 2019 financial year*", drawn up by Mazars (Annex 1).

2. Cost-of-capital rate

ANACOM's deliberation of 02.11.2017 defined the methodology to be used by the CTT in calculating the cost-of-capital rate for its CAS, and defined the methodology for determining the various parameters considered, as well as the information sources to be utilised.

The methodology defined in ANACOM's deliberation of 02.11.2017 for calculating the cost of capital, in accordance with its previous determinations, was based on the (pre-tax) formula for the weighted average cost of capital (WACC), on the basis of the capital asset pricing model (CAPM), to calculate the cost of equity.

¹ <https://www.anacom.pt/render.jsp?contentId=1423147>.

In addition, it is important to also mention that, as regards the parameters which are calculated based on a benchmarking methodology using comparable companies, the criteria used in the choice of these companies is based on the choice of entities which (i) operate in the postal sector in markets with an equivalent maturity to the domestic market; (ii) have securities traded (shares) in organised stock exchanges; and (iii) have an offer of products and/or services similar to those provided by CTT.

As such, the revision of the eligibility of comparable entities, carried out by Mazars (see Annex I), did not identify: (i) that there were significant changes to the business model of the selected companies, or the lack of at least 80% of the observations which could imply the exclusion of any of these entities, and (ii) any other company which could be considered comparable to be hereby included, therefore concluding that the benchmark to be used should remain unchanged given that defined in ANACOM's deliberation of 02.11.2017² (see Table 1):

Table 1. Benchmark of comparable companies

<i>Comparable Company</i>	<i>Country</i>
<i>CTT</i>	Portugal
<i>Royal Mail</i>	United Kingdom
<i>Bpost</i>	Belgium
<i>Österreichische Post (Austrian Post)</i>	Austria
<i>Malta Post</i>	Malta
<i>PostNL</i>	The Netherlands

Moreover, as new privatizations of postal operators are expected to take place at the European level, it is understood that, where appropriate, the current benchmark should be revised and updated, not only on account of benchmark companies that for some reason are no longer considered to be comparable, but also to allow the inclusion of other comparable companies that may arise in the meantime, which not only meet the criteria referred to above but which also present a minimum stock listing history (two years) that may dilute any speculative changes in the value of shares in the first months on the stock market.

² [Methodology for calculating the cost-of-capital rate for CTT \(2018 and subsequent financial years\)](#)

Notwithstanding the definition, *a priori*, of the methodology to calculate the cost-of-capital rate, and given that the current macroeconomic context advises a regular revision of parameters, it is considered that the referred parameters require an annual revision, on the basis of the methodology in force, being incumbent on ANACOM to determine the cost-of-capital rate applicable to each financial year, up to the first half of the year concerned, on the basis of the availability of the elements required for its determination.

In this respect, in the case of situations where it is not possible to use all the data, and respective series, required to determine the parameters considered in the calculation of the cost of capital, either due to the absence of available information, or to the occurrence of facts that call into question the continuity or validity of the series used, the calculation of the said parameters must, whenever possible, be performed in a way as close as possible to the methodology in force, only introducing the required deviations as necessary to address the absence and/or insufficiency of the information concerned.

In this sense, where it is found that databases that allow for the establishment of parameters show limitations, and that the application of the defined methodology is not possible, there are grounds for the respective change/replacement (only where it is not possible to guarantee the inclusion in the calculation of at least 80% of observations or of sources of information required for the establishment of parameters, considering that all comparable companies continue to comply with the selection criteria), which may be triggered by either party, by 31 May of the year concerned and subsequently submitted to a prior hearing of stakeholders and public consultation, otherwise the calculation of the value will simply be updated for the financial year concerned.

Having stated that the elements necessary to calculate the value of the cost-of-capital rate for 2019 are present and, furthermore, no methodological alteration has been carried out in terms of its calculation, ANACOM understands that the necessary conditions have been met to dispense with the prior hearing of stakeholders and public consultation, with it only being necessary to undertake and disseminate the calculation of the cost-of-capital rate for CTT for regulatory purposes for the 2019 tax year.

As such, based on the values in the consultant's report, attached to this document, it is determined that, for the CTT CAS results for 2019, the **cost-of-capital rate of 10.2879%** should be used, resulting from the application of the following parameters to the established calculation formula.

Table 2. Cost-of-capital rate (2019)

Parameters	
Risk-free interest rate	2.45%
Beta	0.816
Risk premium	6.54%
Gearing	9.60%
Debt premium	2.021%
Tax Rate	28.64%
Cost of equity	7.78%
Cost-of-capital rate (2019)	10.2879%

3. Conclusion

Given the methodology described above and the calculation shown in the previous point, it is determined that, for the CTT CAS results for 2019, **the cost-of-capital rate of 10.2879%** should be used.