

DECISION

ABOUT

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

(financial year of 2020)

1. Background

By determination of the Board of Directors on 2 November 2017¹, ANACOM defined the methodology for calculating the cost of capital rate of CTT – Correios de Portugal, S.A. (CTT), applicable to 2018 and subsequent financial years.

The *ex-ante* establishment of transparent rules for the determination of the cost of capital rate contributes to a predictable environment in which agents may adjust, anticipating and managing their expectations more effectively. Moreover, by establishing *ex-ante* this reduces the need for subsequent investigations, which are typically complex, lengthy, and potentially subject to disputes.

In this context and in order to determine the cost of capital rate to be used by CTT in its analytical accounting system (SCA), applicable to the financial year of 2020, and which appropriately allows a reasonable profit to be obtained, considering the risk incurred in the investments made in the provision of the Universal Service, ANACOM awarded Mazars, S.A. (hereinafter Mazars) the critical review of the current methodology and updating of the data required for calculating each parameter of the cost of capital rate, the subject matter of this document which is integral part of the report “Determination of the cost of capital rate of CTT – Correios de Portugal, S.A. – applicable to the financial year of 2020”, drawn up by Mazars (Annex 1).

2. Cost of capital rate

ANACOM's determination of 2 November 2020 defined the methodology to be used by CTT in calculating the cost of capital rate to be considered in its analytical accounting system, as well as the methodology for ascertaining the different parameters considered, and the information sources to be used.

The methodology defined in the determination of 2 November 2020 for calculating the cost of capital, in conformity with its previous determinations, is based on the (pre-tax) formula for the weighted average cost of capital (WACC), using the capital asset pricing model (CAPM), to calculate the cost of equity.

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

Furthermore, it is also important to note that, for the parameters calculated by a methodology based on a benchmark using comparable companies, the criteria used in the choice of these companies takes into account entities that: (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 review of the eligibility of comparable entities, carried out by Mazars (see Annex I), did not identify: (i) the existence of 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 that could be considered comparable to be included, where it was concluded that the benchmark to be used should remain unchanged given the provisions established in ANACOM's deliberation of 2 November 2017 ² (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>	Netherlands

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

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

Despite the definition, *a priori*, of the methodology to calculate the cost of capital rate, as the current macroeconomic context indicates that a regular review of parameters is advisable, it is considered that the parameters should be reviewed annually, based on the current methodology, where it is incumbent on ANACOM to determine the cost of capital rate applicable to each financial year, up to the first half of the year concerned, based on 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 non-existence of available information, or due to the occurrence of facts that call into question the continuity or validity of the series used, the calculation of these parameters must, whenever possible, be performed in a way as close as possible to the stipulated methodology in force, with the required deviations only being introduced as necessary to address the inexistence and/or insufficiency of the information in question.

In this regard, whenever it is found that databases that enable calculating the parameters show limitations, and that the application of the defined methodology is not possible, there are grounds for their alteration/replacement (only where it is not possible to guarantee the inclusion in the calculation of at least 80% of the observations or sources of information required for ascertaining the parameters, considering that all the 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 in question.

Having confirmed the existence of the elements required for the calculation of the value of the cost of capital rate for 2020, and furthermore, not having made any methodological change to the terms of the calculation in question, ANACOM believes that the necessary conditions have been met to enable waiving the procedures of prior hearing of the stakeholders and public consultation. Hence, it is only necessary to carry out and disclose the calculation of the cost of capital rate for CTT for regulatory purposes for the financial year of 2019.

Accordingly, based on the values presented in the consultant's report, attached to this document, it is determined that, for the results for 2020 of CTT's analytical accounting system, the **cost of capital rate of 9.7150%** should be used, arising from the application of the following parameters to the established calculation formula,

Table 2 Cost of capital rate (2020)

Parameters	
Risk-free interest rate	1.299%
Beta	0.958.
Risk premium	6.547%
Gearing	11.832%
Debt premium	2.080%
Tax rate	28.341%
Cost of equity	7.571%
Cost of capital rate (2020)	9.7150%

3. Conclusion

In view of the methodology described above and the calculation presented in the previous point, it is determined that, in the context of the results for 2020 of CTT's analytical accounting system, the **cost of capital rate of 9.7150%** should be used.