Cleansed of Debt, Satmex Beginning To Rebuild Core Business

PETER B. de SELDING, PARIS

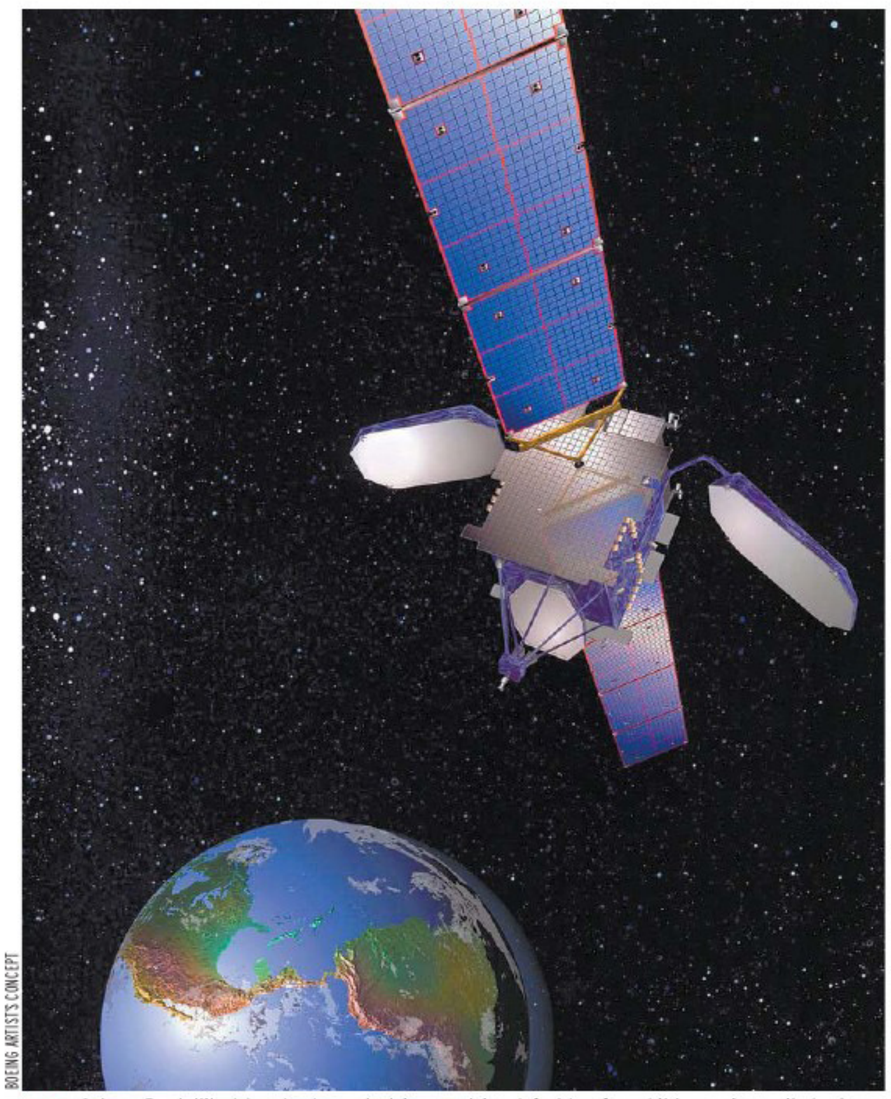
Satellite fleet operator Satmex of Mexico, which exited bankruptcy in May with a $325 million loan, on Nov. 17 reported a slight decline in core satellite-lease revenue for the nine months ending Sept. 30.

The company said its Satmex 5 satellite, whose electric propulsion defect has forced it to survive on its backup chemical propulsion, is now estimated to be able to continue service until December 2012 — time enough to secure a smooth transition with the company's new Satmex 8 satellite.

Satmex 8, under construction by Space Systems/Loral of Palo Alto, Calif., is scheduled for delivery in July with a launch set aboard an International Launch Services Proton rocket in August.

With Satmex 5 nearing the end of its days, the launch of Satmex 8 cannot come soon enough for Satmex as the company can ill afford to lose the Satmex 5 customers.

In a Nov. 17 conference call with investors, Satmex Chief Executive Patricio Northland said a recent Satmex 5 fuel supply estimate made by the satellite's builder, Boeing Space and Intelligence Systems, concluded that the satellite could hang on about 10 weeks longer than previously thought.



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Satmex 5 satellite (above), whose electric propulsion defect has forced it to survive on its backup chemical propulsion, is now estimated to be able to continue service until December 2012.

"This is important for the rollover to Satmex 8," Northland said. "We will now have five months" of overlap between the time that Satmex 8 is operational in orbit and when Satmex 5 will no longer be able to support its existing customers.

"This gives us a high level of comfort that we will be able to transfer all Satmex 5 customers to Satmex 8," Northland said, adding that Space Systems/Loral may be able to deliver Satmex 8 before its contracted deadline of July 1.

Satmex 5 is operated at 116.8 degrees west longitude. It has 24 C-band and 24 Ku-band transponders. Satmex 8 has 40 Ku-band transponders and 24 C-band transponders, meaning it offers Satmex room to grow in its core Latin American market in addition to replacing Satmex 5.

Latin America is one of the world's hottest markets for commercial satellite operators, and several of them are planning to add capacity to meet the growing demand.

Northland said the combined fill rate for Satmex 5 and the newer — and healthier — Satmex 6 satellite is 94 percent. Satmex 6 is located at 113 degrees west longitude.

Satmex also operates the Solidaridad 2 satellite, which has been in inclined orbit to save fuel. Solidaridad 2 is used mainly by the Mexican government for mobile services in L-band that can maintain links with a satellite in inclined orbit.

In a Nov. 17 filing with the U.S. Securities and Exchange Commission (SEC), Satmex said it had proposed to de-orbit Solidaridad-2 — moving it to a higher graveyard orbit out of the geostationary arc. The Mexican government is making its own estimate of how long the satellite can be operated, the company said.

For the nine months ending Sept. 30, Satmex reported total revenue of $96.2 million, which is flat from the same period last year. Its main business, selling satellite bandwidth, reported revenue of $78.2 million, down 1.5 percent from a year ago as some customers declined to renew their leases.

The bankruptcy proceedings in the United States and Mexico cleansed Satmex of most of its debt. As part of the reorganization in May, Satmex entered into a $325 million debt agreement for which it pays 9.5 percent annual interest. The principal payment is due in May 2017.

Satmex estimates that its Satmex 8 satellite will cost a total of $317 million, a figure that includes the satellite's construction, launch and insurance for the first year in orbit. Satmex reported it had $104 million in cash as of Sept. 30.

The company has paid Space Systems/Loral some $2.6 million to begin studies of a Satmex 7 satellite, with the contract — recently renewed with Satmex's Alterna TV subsidiary — set to expire at the end of 2012. Satmex said in its SEC filing that it still intends to build Satmex 7, but a contract schedule was not disclosed.

Gilat To Provide Ka-band Satellite Technology to Russian Government

PETER B. de SELDING, PARIS

Satellite ground terminal manufacturer Gilat's contract to provide the Russian government with Ka-band satellite technology for consumer broadband access could be the company's biggest deal in the growing Ka-band satellite market, Gilat Chief Executive Amiram Levinberg said Nov. 16.

In an interview, Levinberg declined to specify the exact nature of the agreement with RTComm, the satellite-service arm of Rostelecom, Russia's national telecommunications operator; and with NIIR FSUE, a technology institute at the Ministry for Telecommunications and Mass Communications.

Levinberg in particular declined to specify whether the technology transfer clause in the agreements, which he said is substantial, would end up with Gilat providing Ka-band satellite terminals in Russia, or merely licensing Gilat technology to Russian manufacturers.

The Russian government is planning to build three Ka-band satellites to serve up to 2 million Russian households that do not have broadband access. Russia's biggest satellite fleet operator, Russian Satellite Communications Co. (RSCC), has ordered Ka-band capacity as part of its ongoing fleet expansion. It remains unclear whether RTComm will order its own satellites or order capacity from RSCC that may be under construction. Gilat said the Russian network should be in place between 2012 and 2014.

"The agreement includes required technology transfer for local manufacturing in Russia," Levinberg said. "To what extent they will be using it remains to be seen. We could provide terminals to start, and then we might create a joint venture with them — this is still an open question. They have acquired the [technology] necessary to do the manufacturing."

A group of Russian engineers are expected to receive Gilat training at the company's Petah Tikva, Israel, production site, Levinberg said.

Gilat is one of a half-dozen major manufacturers of very small aperture terminal (VSAT) hardware that links users to satellites for two-way data transmission. The industry is growing into new markets, including maritime broadband applications, but the biggest near-term market appears to be to provide Ka-band terminals for large, high-throughput satellites.

In the United States, this market is dominated by ViaSat and Hughes. Both are vertically integrated, owning their own satellites and producing terminals to link with them, meaning the Ka-band market is all but out of Gilat's reach.

In Europe, ViaSat and Hughes have aligned themselves with Eutelsat of Paris and Avanti of London, respectively, for those companies' consumer satellite broadband projects.

But Gilat recently won a competition to be a nonexclusive supplier of ground gear for Luxembourg-based SES, whose Astra2Connect consumer broadband service is gradually moving from Ku-band — with terminals provided by Newtec of Belgium — to Ka-band, with Gilat and Newtec both selected as terminal providers.

Levinberg said Gilat's new Ka-band VSAT gear will enable subscribers to install it themselves if they choose to do so — a selling point that Newtec has made for its Ku-band gear used up to now for Astra2Connect. But for Gilat, it remains unclear how many customers will actually choose to self-install their antennas and cabling, especially as the existing base of satellite television hardware distributors educates itself on installing two-way satellite dishes for broadband.

Depending on the production rates it can develop with SES and Russia, Gilat may be better positioned competitively against Hughes, ViaSat and others in the expected competitions for Ka-band satellite systems in Latin America, Australia and elsewhere.

Australia's NBN has a budget and mandate to provide broadband links to all Australians. But the company's initial plans to build two dedicated Ka-band satellites now appear to have been modified.

For now NBN has selected Gilat, along with Australia's Optus telecommunications operator and Thaicom of Thailand's IPStar Ku-band broadband system, to provide interim capacity for the NBN project until a firm decision is made to move to Ka-band satellites.

"The agreement includes required technology transfer for local manufacturing in Russia."

Amiram Levinberg

Gilat, Hughes and ViaSat — as well as U.S., European and Japanese satellite builders — are all planning bids for the NBN work should a Ka-band network materialize there. It is possible that Australia, like SES in Europe, will elect to place Ka-band hosted payloads on a conventional Ku-band telecommunications satellite instead of ordering dedicated satellites.

Levinberg said that whatever the final decision by NBN, Gilat expects its contract to provide interim capacity is likely to continue for three to five years.