

CALCULATION OF THE WEIGHTED AVERAGE COST OF CAPITAL RATE FOR TELECOM SECTOR IN KOSOVO

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Abstract

The importance and usefulness of weighted average cost of capital (WACC) as a financial tool for both investors and the companies are well accepted among the financial analysts. It is important for companies to make their investment decisions and evaluate projects with similar and dissimilar risks. Calculation of important metrics like net present values and economic value added requires WACC. It is equally important for investors for arriving at valuations of companies. In some sectors that have the characteristics of natural monopoly, such as the energy sector, electronic communications, etc. calculation of WACC is an obligated for operators in the relevant sectors who set prices and project their revenues to cover the costs of their own activities. So far, there have been no WACC estimates for the telecom sector by state institutions in Kosovo. This paper aims to determine the WACC level for the telecom sector in Kosovo. The limitation of this paper is the lack of some relevant data for Kosovo to calculate the weighted average cost of capital; therefore a benchmark method was used. Based on the calculations made in the paper, the optimal level of the weighted average cost of capital in the telecom sector in Kosovo is 12%. The added value of this paper is the WACC calculation for the first time at sectoral level in Kosovo.

Keywords: WACC, rate, calculation, telecom sector, Kosovo

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