Abstract
This case study presents a dilemma situation on how to determine the discount rate for cash flows in places where the country risk perceived by investors differs considerably from the country’s sovereign debt premiums. Specifically, we present the case of TELMEX, the Mexican telecom corporation, valuing and presenting a bid offer for CANTV, the Venezuelan telecom corporation. Venezuelan capital markets and sovereign debt premiums have a lower correlation than those present in other Latin American and emerging markets. In this case and its study guide, we review the existing literature and propose a new and comprehensive methodology for the estimation of discount rates in the Venezuelan case, incorporating the difference in stock market volatilities into the country risk consideration. The proposed solution can be exported to other emerging markets with low correlations between their sovereign debt premiums and their internal capital markets.

Keywords
Discount rate, cost of capital, cost of equity, country risk premium, sovereign debt, Latin America, cash flow valuation.