

Industry Top Trends Update

Telecommunications

Stable, but still searching for growth

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What's changed?

European telecoms are seeing a modest rebound. Most players posted relatively stable performance in 2020, with revenue dips of only 2%-3% on average. As such, the rebound has been small as markets recover from the economic impact of COVID-19. We forecast revenue growth of about 1% for 2021, mainly from fixed broadband.

The mobility segment was hit hard and will be slow to rebound. Mobility was the most affected as a result of lockdowns and a near-halting of travel. We don't expect a return to 2019 levels of business and international travel until 2023, leaving roaming mobility revenue suppressed for at least another year.

How is recovery taking shape?

Infrastructure investment is strong. We forecast sustained high investment in fiber and 5G rollouts over the next two-to-three years, averaging 18% of revenue. Fixed-line retail and wholesale may benefit as durable in-home broadband demand and greater fiber availability spurs customer upgrades. In mobile, however, we see low short-term commercial prospects for 5G until compelling use cases emerge.

Asset sales will continue. We expect more infrastructure sales, provided that well-managed tapering and only transitory inflation maintain buyer access to attractive capital markets. Operators pursuing tower sales benefit from high valuation proceeds that can improve balance sheets and financial flexibility, while fiber sales can push expensive rollouts off balance sheet.

Government policy will likely remain supportive. Telecoms affirmed their services' strategic importance during the pandemic, and we expect governments will encourage robust infrastructure investment. This includes funds to accelerate digitization and infrastructure upgrades from EU Next Generation and national programs, relaxation of wholesale pricing controls, and possibly greater tolerance for consolidation through mergers and acquisitions.

What are the key risks around the baseline?

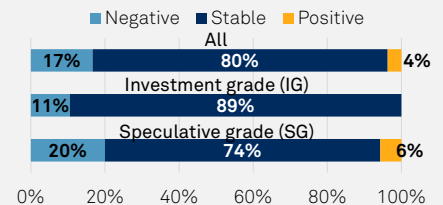
An uptick in competition. Competitive telecom markets like Italy and Spain could face weaker consumer prospects if high unemployment and low consumer spending raise demand elasticity. Low-price value challengers may have a window to increase market share, reigniting price competition after reduced churn rates amid the pandemic. This could impair operators' ability to pass on potential costs increases.

Delayed shocks from the pandemic. While not in our base case, a disruptive withdrawal of emergency support, like short-term work and furlough schemes, could unravel some of the cushions provided over the past year. This could particularly impact small and midsized enterprise demand for telecom services, which fared better than we expected during the pandemic.

Latest Related Research

- [Telecom Fiber Sales: Limited Financial Benefits And Big Credit Questions](#), Nov. 31, 2020
- [The U.K. Telecoms Market Will Pick Up In 2021-2022 As Pandemic Headwinds Ease And Fiber Investments Accelerate](#), Dec. 10, 2020

Outlook Distribution



Ratings Statistics*

	IG	SG	All
Ratings	19	35	54
Downgrades	0	2	2
Upgrades	1	0	1

Ratings data as of end-June 2021. *Year to date.

COVID-19 Heat Map

Telecommunications		
Estimated recovery to 2019 credit metrics		2022
Potential negative long-term industry disruption		No
2020 Versus 2019		
Revenue decline	EBITDA decline	Incremental borrowings
0%-5%	0%-10%	<5%
2021 Estimates Versus 2019		
Revenue decline	EBITDA decline	
0%-10%	≥2019	