Industry Top Trends Update

# Telecommunications

## Rising costs and slowing growth could hurt credit quality

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## What's changed?

**Higher inflation and global supply chain issues.** Input costs have risen, especially for labor and energy, and we would expect some margin degradation for our rated companies. Lower-rated issuers in particular could get squeezed.

**Debt issuance has been scarce.** Rising interest rates and weak credit market conditions have limited debt issuance from U.S. telecom and cable providers in the first half of 2022. Lower-rated issuers with more floating rate debt could experience higher interest costs and weaker free cash flow metrics.

**Increasing competition in wireless and cable.** Cable broadband subscriber growth is moderating due to competition from fixed wireless and fiber-to-the-home (FTTH). Similarly, we expect wireless subscriber growth for the incumbent telcos will slow due to mature industry conditions and increasing competition from the cable providers through their mobile virtual network operator agreements.

## What to look out for?

**Margin compression.** Higher prices for energy, supplies, transport, as well as labor could weigh on margins in the second half of 2022. Additionally, global supply chain challenges could delay orders for equipment, making it difficult for companies to achieve build-out targets, especially for FTTH and spectrum deployments.

**Slower cable high-speed data growth.** We still expect the cable providers will be able to grow HSD subscribers and revenue in the near-term. However, risks have increased around our forecasts if the pace of new home formation and edge-out activity slow and competition from FTTH and fixed wireless intensifies.

**Weaker credit quality and lower ratings.** Telecom issuers increased leverage to fund spectrum purchases, network buildouts, and M&A. While telecom is more recession resistant and has less exposure to inflationary pressures than most other corporate sectors, these companies have less cushion at the current ratings to absorb slower earnings growth and weaker cash flow generation.

## What if there's a recession?

**U.S. telecom and cable is recession resistant.** We expect some weakness in top-line trends and profitability, but credit quality should not deteriorate significantly given the recurring, subscription-based revenue models. Broadband and mobile services are essential to businesses and consumers.

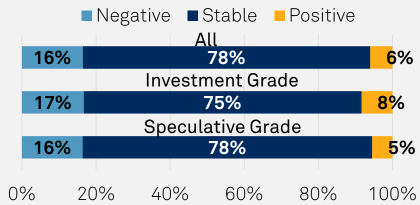
**Enterprise customers cut IT spending.** Telecom providers with greater exposure to business customers could experience greater top line degradation. Growth in cloud-based networking solutions could reduce demand for more expensive legacy products, accelerating revenue declines for U.S. wirelines.

**High unemployment could have ripple effects.** An economic recession and resultant unemployment could result in higher churn and bad debt expense.

## Latest Related Research

- Credit FAQ: Stepped-Up Competition Will Slow U.S. Cable Companies' Growth, June 29, 2022
- U.S. Tower Operators Poised To Benefit From 5G, But Credit Risk Looms With M&A And Expansion, May 20, 2022

### Outlook Distribution




### Ratings Statistics (YTD)*

| | IG | SG | All |
|---|---|---|---|
| **Ratings** | 12 | 55 | 67 |
| **Downgrades** | 0 | 2 | 2 |
| **Upgrades** | 1 | 3 | 4 |

Ratings data as of end-June 2022. * Year-to-date

### Ratings Outlook Net Bias