Telecommunications

More network sharing, less capex allow telcos to invest in growth

This report does not constitute a rating action.

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What do we expect over the next 12 months?

Telecom operators' earnings will, on average, rise by a mid-single digit in 2024 from increased mobile data traffic and fixed broadband adoption. Cost cutting, supported by AI adoption and simplified business structures, will mitigate the effect of inflation on margins.

Average capex intensity should ease as 5G investment declines, even as telcos pivot spending to other digital infrastructure such as fiber, cloud and data centers.

Moderating competition in Asia-Pacific, such as Indonesia and Taiwan, because of market consolidation.

What are the key risks around the baseline?

A need for more 5G capex. Telcos that rolled out non-standalone 5G may need to fund another investment wave as they move toward standalone 5G. Sporadic spectrum buys could also exacerbate leverage.

Inflation and currency risks. Inflation strains could slow upgrades to pricier plans and 5G-enabled handsets and weigh on telcos' ability to execute on price increases. Macroeconomic pressures could weaken demand from enterprise customers. Input cost inflation could undermine telcos' cost cutting. Axiata Group Bhd. and Bharti Airtel Ltd. are more exposed to currency risk. A sizable proportion of Axiata's debt is denominated in U.S. dollars; domestic currencies have weakened substantially in Bharti Airtel's African operations.

Rising investment in growth engines. Telcos have been investing in high-growth segments such as fiber, cloud, and data centers. Such investments, if debt-funded, can erode rating headroom, as new earnings streams take time to ramp up. Execution risks could also lead to higher-than-expected capital intensity.

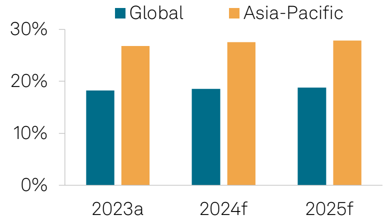
What do they mean for the sector?

Telcos will be more open to infrastructure sharing. We expect to see more active and passive network sharing, subject to regulatory and competition considerations. Players in markets such as Australia, the Philippines and Malaysia have proposed or entered network sharing agreements. Tower sharing in the region is also set to rise after the spate of tower sales in the past three to five years.

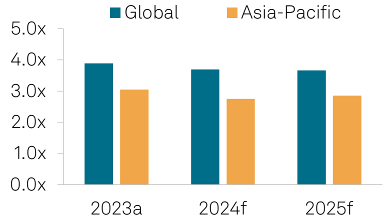
Timely and strategic divestments will be the key leverage management tool. With rated Asia-Pacific telcos mostly at investment grade, the focus is on financial policy. We believe telcos will consider selling non-core businesses and passive infrastructure assets to fund investments in new growth engines. We see signs of this as some telcos restructure their businesses, which could facilitate subsequent divestments. There is also some initial momentum in bringing in strategic partners for new growth engines such as data centers.

Rating Metrics

FFO to debt (median, adjusted)



Debt to EBITDA (median, adjusted)



Source: S&P Global Ratings.

All figures are converted into U.S. dollars using historical exchange rates. Forecasts are converted at the last financial year-end spot rate. FFO--Funds from operations. a--Actual. f--Forecast.