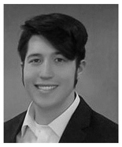
S&P Global Ratings

Telecommunications

Cable is squeezed but capital is accessible

This report does not constitute a rating action.

Oliver Vandestouwe
Des Moines
oliver.vande.stouwe@
spglobal.com
+1 312 233 7033



What's changed?

Increasing competition in the cable industry. We expect fiber-based competition will increase as fiber-to-the-home (FTTH) buildouts continue. Fixed wireless access (FWA) also continues to take broadband market share, and we have raised our forecast for FWA subscribers. Our view on cable is now more cautious, meaning tighter rating thresholds and lower ratings for some issuers.

Wireline companies have found alternative sources of funding. Gaining access to third-party capital and utilizing asset-backed security transactions has enabled the wirelines to continue their fiber buildouts with lower funding costs.

Debt issuance has increased. Despite continued high interest rates, companies facing upcoming maturities and those looking to proactively address their capital structure have been increasingly able to access the capital markets.

What to look out for?

Artificial intelligence has many applications for telecom companies: network optimization and predictive maintenance, customer retention, improved back-office operations, and sales and marketing. While AI could lead to cost reductions and margin expansion, investment in AI could also contribute to higher capital expenditures (capex) and lower cash flow.

Cable earning trends. We forecast only slight earnings growth for cable in 2024 and 2025, driven by modestly higher broadband average revenue per user (ARPU), wireless margin growth, and footprint expansion, partly offset by market share losses. Risks around our forecast include churn due to the end of the FCC's affordability program (ACP) and potential for more price-based competition with FWA.

Disruption from low-Earth-orbit (LEO) satellite operators. Uncertainty around earnings trends and competitive position in the satellite industry grows as new LEO entrants impact most end markets.

What are the key risks around the baseline?

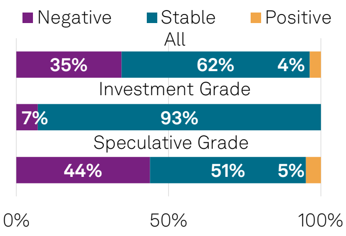
Pressure from FWA and FTTH is greater than expected. If market share losses are greater than our current base-case, cable companies could face pricing pressure and lower EBITDA.

Repercussions from lead sheath cable. Telecom companies could face remediation as well as potential litigation from a wide variety of impacted parties, which could curtail credit metric improvement.

Weaker cash flow if interest rates remain high. Companies with upcoming maturities or significant exposure to floating rates debt could experience a prolonged period of weaker cash flow metrics.

Rating Trends

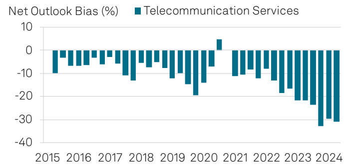
Outlook Distribution



Ratings Statistics (YTD)*

	IG	SG	All
Ratings	14	41	55
Downgrades	0	8	8
Upgrades	1	2	3

Ratings Outlook Net Bias



Sector Forecasts (Median)

2024	IG	SG
Revenue growth (Y/Y%)	1.9	0.1
EBITDA growth (Y/Y%)	5.0	2.5
EBITDA margin (%)	44.4	38.3
Capex growth (Y/Y%)	-4.3	-3.5
Debt/EBITDA (x)	3.5	5.4
FFO/Debt (%)	21.3	11.6
FOCF/Debt (%)	10.5	0.9

All data as of end-June 2024.
* Year-to-date. Current ratings only.

Related Research

Cable Industry Intertwining With Wireless, June 3, 2024

Credit FAQ: Calculating Leverage For Selected U.S. Telecommunications And Cable Companies (2024 Update), May 7, 2024

U.S. Cable Operators Face Heightened Competition – And A More Cautious View, April 29, 2024