S&P Global Ratings

Telecoms

Stronger signals for the sector

January 14, 2025

This report does not constitute a rating action.

What's changed?

More favorable market and financing conditions, including slowing inflation, which has eased margin pressure, while moderating interest rates have improved capital market access.

Mergers and acquisitions (M&As) have increased. Telcos are seeking consolidation in Europe, Latin America and Asia-Pacific to ease competitive pressure, and JVs in the U.S. for fiber access.

The satellite segment has suffered as a growing orbit of LEO players are crowding MEO- and GEO-dependent players out of traditional business with services backed by superior broadband.

What are the key assumptions for 2025?

Steady earnings growth for 2025. Average telco revenue growth north of 2% and EBITDA growth of 3% through 2026, supported by steadily rising demand and upselling opportunities.

Digital infrastructure investment is spiking. Interest in data centers, fiber, and telecommunications towers will provide asset monetization opportunities for integrated telcos.

Capital expenditure (capex) will continue to decline. Capex will decline in markets with highly developed infrastructure, improving free cash flows.

What are the key risks around the baseline?

Consolidation M&A could improve market dynamics. If markets consolidate through M&A, competition could ease, improving business conditions.

However, competition still remains the key risk for operators. Competition has eroded more-for-more strategies, pressuring pricing, the top line, and return on capital, and remains a key risk.

Increasing investments or shareholder returns could limit credit metric improvements.

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Ratings Trends: Telecoms

Chart 1

Ratings distribution by subsector

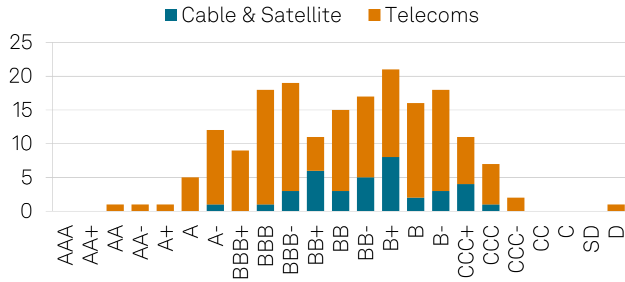


Chart 2

Ratings distribution by region

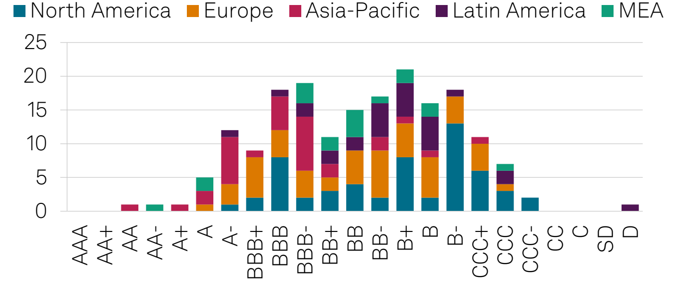


Chart 3

Ratings outlooks by subsector

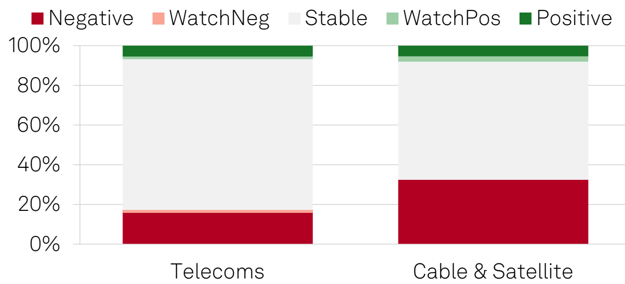


Chart 4

Ratings outlooks by region

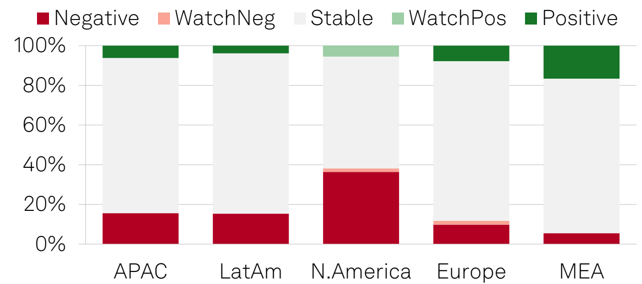


Chart 5

Ratings outlook net bias by subsector

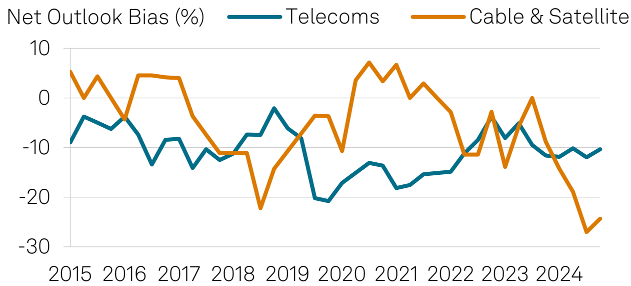


Chart 6

Ratings net outlook bias by region

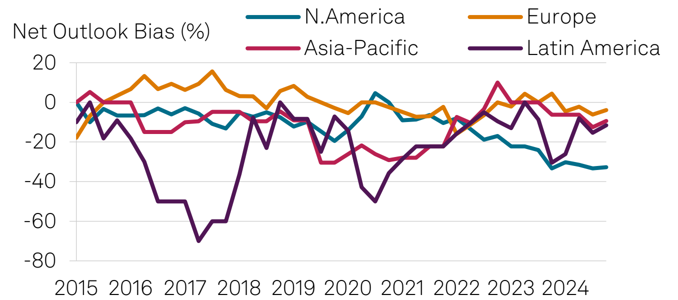


Chart 7

Ratings outlooks

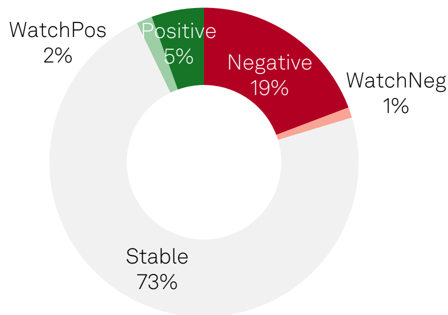
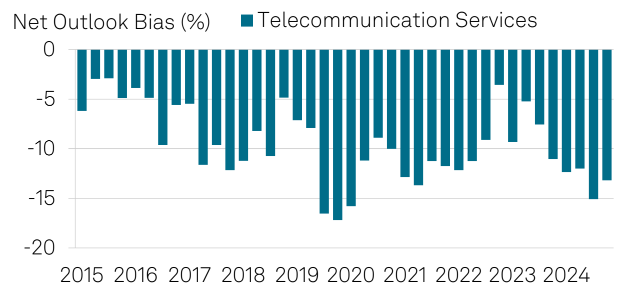


Chart 8

Ratings outlook net bias



Source: S&P Global Ratings. Ratings data measured at quarter-end.

Industry Outlook: Global

Ratings trends and outlook

While telecom ratings have a clear negative bias at 13% globally, this is mainly driven by North America, where the negative bias is above 30% on a large proportion of speculative-grade issuers, with high leverage and increased interest rates pressuring cash flow and debt sustainability. For the rest of the world, the negative bias averages below 10%.

Despite the negative bias, conditions have generally been improving in the telecoms industry. Our positive revenue forecast is supported by significant demand for telecommunications products—including premium fiber and 5G services—an increased normalization of regular price increases, and moderating competition in many regions that is partly aided by consolidation.

Main assumptions about 2025 and beyond

1. Steady earnings growth for 2025.

Revenue growth north of 2% and EBITDA growth of 3% for telecommunications companies (telcos) through 2026. This is supported by steadily rising demand and upselling opportunities for more widely available premium products, but with exceptions in some markets facing more intense competition.

2. Digital infrastructure investment is spiking.

The focus on data centers is particularly acute, but there is also steady interest in fiber and towers. This will extend asset monetization opportunities for integrated telcos and increase the scale and number of players in this more stable telecoms segment.

3. Capex will continue to decline overall.

We forecast declining capex on 5G and fiber in markets with highly developed infrastructure, in contrast to markets with lagging rollouts. However, we expect the bulk of the free cash flow made available will go toward shareholder remuneration rather than debt reduction, limiting positive credit rating outcomes.

We estimate that earnings will remain steady for 2025. Overall, we expect top-line growth for telcos will remain stable across regions. We expect growth to average above 2% in most regions for 2025, reflecting stable demand for telecom services despite strong competition. Meanwhile, a focus on cost efficiency measures should support slightly faster earnings growth at 3%.

In the U.S., wireless service revenue is likely to grow by about 3% in 2025 due to price increases on legacy plans, customer migration to more expensive 5G plans, and growth from fixed wireless access (FWA). For cable operators, we expect similar growth in 2025, reflecting a rise in broadband average revenue per user (ARPU), improving wireless economics, business services, and an expansion of operating coverage or 'footprint'.

In Europe, we expect top-line growth to average 2%. Despite slowing inflation, more sustainable levels of competition should allow continued contract-based price increases on postpaid subscriptions and reduced promotional discounts for new customers. Combined with margin improvements, we think earnings are poised to grow by 2%-3%.

In Latin America, we also forecast positive revenue growth, at about 4%, broadly in line with our expectations for the region's economic growth.

In Asia-Pacific, we expect revenue growth of about 3%-5% for 2025, given increased mobile data traffic and fixed broadband adoption.

The quality of markets varies widely. We expect better performance in countries with three or fewer operators and balanced market share. Such markets, sometimes as a result of consolidation, tend to be more stable and have lower churn levels. If supported by a predicable regulatory framework and higher interest rates suppressing unsustainable pricing, competition can become and remain more moderate, raising prices and improving growth prospects.

Conversely, lower-quality markets typically feature four or more players, new and aggressive entrants, highly imbalanced market share with subscale players willing to sacrifice pricing for subscriber growth, and aggressive wholesale regulatory requirements. Telecom operators in such markets may struggle to maintain pricing while retaining market share in these conditions and experience higher churn. This can spur such companies to cut prices and extend promotional packages, further lowering ARPU and perpetuating a vicious circle of zero-sum price wars that can drag down profitability and earnings for all operators.

Digital infrastructure investment is spiking, and we expect asset sales to continue during 2025. Telcos started selling tower portfolios over a decade ago and have been selling data centers and fixed-network assets more recently. Telcos have seen improved financial flexibility as a result of the proceeds and have reduced capex requirements by sharing the burden with partners or by pushing the capex off balance sheet altogether, boosting FOCF. But this trend may be compromised if sales of strategic assets impair telcos' business profiles—a risk we consider to be higher with fiber sales.

Capex is down overall but varies regionally. Capex intensity will largely depend on the state of 5G and fiber rollouts by telcos. Investment is falling in Europe, the Middle East and Africa (EMEA), Asia-Pacific (APAC), and Canada as fiber rollout nears completion for many markets in these regions, and 5G spending has slowed after extensive investments in initial rollouts. However, capex in the U.S. is flat to up and remains high in Latin America, in both cases because of network upgrades.

We expect average capex intensity in EMEA will fall to about 16% of revenue over the next three years, down from its 21% peak in 2021, which should continue to improve cash flow and financial flexibility.

The same approach has been evident in Canada, where we expect telcos will continue to ease capital intensity, bolstering free operating cash flow (FOCF) in 2025.

U.S. capex is flat to up due to fiber rollouts replacing declining 5G spending. This investment may enable the U.S. to start catching up with other advanced markets in terms of fiber and convergence.

Latin America remains in the rollout stage for 5G, and capex will therefore remain elevated. We believe that incumbent players are more likely to be the main 5G providers due to their greater financial flexibility, with higher profitability margins and stronger liquidity positions allowing for larger investment in the new technology.

In Asia-Pacific, capex will continue to decline as the first wave of 5G investment is over. Companies are now more focused on spending on network quality, including opportunistic fiber rollouts to increase market share.

Credit metrics and financial policy

We expect modest improvement in credit metrics throughout 2025, but any positive rating momentum will require clearer financial policy commitments. Most operators are generating

modest EBITDA growth and cash flow because of cost-cutting initiatives and lower capex. As a result, we expect some improvement in FOCF and increased financial flexibility. However, our forecast of relatively low growth, persistently high interest rates, and lingering inflation (especially in wages) means that financial policies will need to prioritize debt reduction to translate better cash flows into rating upside. This will be especially true when debt refinancing takes place and capital structures reset at higher rates.

Key risks or opportunities around the baseline

1. If accepted by regulators, continued consolidation M&A could materially improve markets.

Market consolidation through M&A could lead to cost savings, shared infrastructure, and cross-selling opportunities, ultimately improving business strength and easing competition.

2. Competition remains a risk for operators.

Competition is not only a risk in challenging markets like Italy, Colombia and Chile; as we've seen in Canada, a single aggressive player can push peers into making their own price responses. This can rapidly devolve into a price war with negative consequences for all players, even in hitherto higher-quality markets.

3. Increasing investments or shareholder returns could limit credit metric improvements.

If companies start dedicating more resources to higher shareholder returns or accelerated investments, credit metrics could deteriorate.

Consolidation M&A could significantly improve the operational fortunes of the sector. By merging with other operators in the same market, companies can achieve cost savings, shared infrastructure, and cross-selling opportunities, ultimately enhancing their business strength and competitive position. Such consolidation can also lead to a more stable market environment, reducing the risk of price wars and improving the overall profitability of the sector. As seen in Spain and the U.K., recently approved consolidations with relatively light regulatory remedies may indicate a recalibration of competition concerns and a more open regulatory environment for M&A.

Competition remains the key risk for operators, one that can lead to price wars and negatively impact profitability. This is particularly evident in markets with multiple players, such as Italy, Colombia, and Chile, where a single aggressive player can push peers to respond with price cuts. Furthermore, slow macroeconomic growth in Europe could exacerbate this risk, leading to a softening of the enterprise customer base and increased consumer price sensitivity.

Price competition typically increases customer churn and weakens ARPU and revenue as companies lower prices and bundle packages to retain customers. Telcos may choose to add premium services for retention purposes rather than lower pricing, but this can cannibalize some of their own customer base from higher-priced packages. This can also result in slower upgrades to higher-priced plans, especially in price-sensitive and predominantly prepaid markets, effectively mortgaging future growth potential.

Increasing investment or shareholder returns could limit improvements in credit metrics. We think companies will maintain financial discipline amid current economic uncertainties. In regions where moderate EBITDA growth and declining capex are improving cash flow and financial flexibility, we expect a balanced approach to deleveraging, investments, and shareholder returns. However, if companies come under pressure for higher shareholder returns or accelerated investment in assets with low predictability of returns, especially in the case of debt-funded M&As, their credit metrics could weaken and ratings pressure could mount.

Industry Outlook: North America

Ratings trends and outlook

Despite capital market conditions improving, 2024 was a difficult year for the U.S. telecom and cable industry due to high borrowing costs and increasing competition for broadband services, which hurt many operators' credit quality. As a result, ratings downgrades exceeded upgrades by almost 3 to 1 and over 25% of our ratings are now 'CCC+' or lower compared with 20% a year ago. Furthermore, we tightened our ratings triggers for most cable operators during the year due to a more competitive environment.

In 2024, S&P Global Ratings revised the outlook on Rogers Communications Inc. to stable from negative and upgraded Videotron Ltd. to 'BBB-', as both these companies exhibited consistent deleveraging as they integrated 2023 acquisitions and showed consistent growth. On the other hand, Bell Canada Inc. (BCE) was downgraded to 'BBB', its elevated leverage reflecting tepid revenue growth and high dividends, while Cogeco Communications Inc.'s outlook was revised to negative following a debt-financed share repurchase transaction with Rogers. Given the elevated leverage in the Canadian telecom industry and increased competition, the 2025 outlook for the sector is challenging.

Main assumptions about 2025 and beyond

1. We expect M&A and shareholder returns will limit credit metric improvement for U.S. telcos.

Despite our expectation of growing EBITDA and healthy FOCF, we assume that M&A and shareholder returns, including stock buybacks, will limit credit metric improvement in 2025 and 2026.

2. Convergence takes shape, resulting in increasing competition for in-home broadband and wireless.

Cable operators have an advantage due to their ability to bundle broadband and wireless across a larger customer footprint, and it will take several years for the telcos to approach the size of cable's existing footprint.

3. AI offers new benefits for U.S. telcos and cable operators but is unlikely to be a meaningful contributor to profit growth in 2025.

We expect AI will be used to improve network optimization and streamline back-office operations, which could drive incremental revenue, improve customer satisfaction, and enable margin expansion in the longer term. However, we do not expect it to contribute meaningful profit growth in 2025.

M&A and shareholder returns will likely limit credit metric improvement in the sector in 2025. In 2025, we expect capex to increase modestly for Verizon Communications Inc. to support its fiber-to-the-home (FTTH) builds and wireless network upgrades. For T-Mobile US Inc., we expect the acquisition of US Cellular, to be completed in the second half of 2025, will result in modestly higher capex and integration expenses.

Verizon: We forecast that capex will increase by about $500 million-$1 billion in 2025, in part due to an increase in FTTH 'passings' (establishment of infrastructure close to a property) to about 650,000 from 500,000 in 2024. We expect FOCF to decrease modestly in 2025 but remain at about $18 billion.

AT&T: We forecast that AT&T Inc.'s capex will be relatively flat as lower vendor financing payments are offset by an expansion of its FTTH passings to about 2.6 million-2.7 million from 2.3 million in 2024. We expect FOCF to decline to about $16 billion, primarily reflecting the loss of distributions from DirecTV, although this is partially offset by payments from TPG to buy the remaining stake of DirecTV that it didn't own.

T-Mobile: We forecast a modest increase in T-Mobile US Inc.'s capex, reflecting the incremental spending from US Cellular in the second half of 2025, but it should remain at about $9 billion-$10 billion. We expect FOCF to increase to about $18 billion-$18.5 billion in 2025, about 7%-9% higher than 2024.

Notwithstanding our expectation of growing EBITDA and continued healthy FOCF, we assume that M&A and shareholder returns, including stock buybacks, will limit credit metric improvement in 2025 and 2026. For example, we expect Verizon's adjusted leverage to decline to about 2.8x in 2025 from 3.0x in 2024. However, its proposed acquisition of Frontier Communications Holdings LLC will likely push leverage back up to 3.0x in 2026. Furthermore, Verizon indicated at its sell-side analyst day that it had increased its net unsecured debt-to-EBITDA target to 2.00x-2.25x from 1.75x-2.00x and that it would consider share repurchases once it hit 2.25x, which we estimate is about 2.8x-2.9x on an S&P Global Ratings-adjusted basis.

T-Mobile indicated at its analyst day that it has $80 billion of capacity for investment and shareholder returns. It has already allocated $10 billion to the acquisition of US Cellular and the JVs to acquire Lumos and MetroNet. It also plans to return up to $50 billion in dividends and share repurchases through 2027, leaving about $20 billion available for additional investments, debt reduction, or shareholder returns. However, we still expect T-Mobile to remain within its net leverage target of 2.5x (about 3.3x on an S&P Global Ratings-adjusted basis), which is supportive of the 'BBB' rating and stable outlook.

We expect FOCF at the three largest Canadian companies to improve, as peak capital spending on fiber is now complete. However, given elevated debt leverage at these three companies, weaker earnings growth in 2025 combined with dividend increase that exceeds EBITDA growth will provide less of a cushion to our downside rating thresholds. BCE paused its dividend growth and implemented a dividend reinvest plan (DRIP) to manage the balance sheet while acquiring Ziply. Telus Corp.'s DRIP has been in place for a few years, but the compounding growth of its dividend continues to pressure discretionary cash flow. Rogers' focus remains on deleveraging, and we don't anticipate additional shareholder returns in the next 24 months.

2025 will be a transitional year for the Canadian telecom sector, as the incumbents pursue different strategies to offset slowing revenue growth due to intensifying competition**.** This is a new growth challenge for Canadian telcos following the 2023 Rogers-Shaw and Videotron-Freedom transactions amid slowing population growth, market maturity, and commoditization of services. As a result, despite a near-record 3.2% year-over-year increase in Canada's population in 2023—reflecting net growth from approximately 1.27 million largely economic migrants—prices, and ARPU, for wireless services softened. Such conditions could continue, in our view, over the next year.

A softer Canadian economy amid a rising cost of living—including higher debt service costs—is feeding into value-seeking consumers' increased propensity to change carriers (we estimate about 60% of wireless users are not under contract), particularly as perceived service differentiation narrows among the big three providers. We expect growth in the highly profitable wireless and fixed-broadband services segment, which accounts for over 70% of the sector's combined telecom and video revenue, to remain modestly positive in 2025, given the carry-over effect from the population surge in the second half of 2023 and first half of 2024. However, we believe industry revenue gains could slow through 2025, faced with additional headwinds of

regulatory actions over the last couple of years and the Videotron-Freedom merger conditions, which appear to favor greater competition.

Following the acquisitions, Rogers and Videotron are focused on sustained revenue growth to support their deleveraging aspirations and value creation. As revenue and EBITDA growth slows, Rogers is looking to maintain its deleveraging momentum, reducing by 0.5x annually, by exploring a JV structure whose proceeds of about C$7 billion will be used to repay debt. During their third quarter conference calls, both BCE and Telus provided guidance of 2025 revenue below their 2024 guidance. To address the slowing growth momentum, BCE is expanding into the U.S. through the C$7 billion acquisition of Ziply, focusing on growth opportunities in its core areas. We think Telus will likely defend its market share against Rogers, as delivering industry-leading growth is a key tenet of its deleveraging capacity and capital return aspirations. However, weakness in the non-telecom segments and Telus Digital are pressuring Telus' top line and could slow deleveraging.

Convergence has long been part of the customer experience in many markets outside the U.S., including several European countries, in both fixed and mobile. This is due in part to smaller regions that easily enable telecom operators to cover an entire footprint with both mobile and fixed-line infrastructure. In the U.S., bundling connectivity services has proven more difficult since the wireless market is essentially nationwide, whereas fixed-line broadband services are more regional. The largest two cable providers, Charter Communications Inc. and Comcast Corp., cover about 58.3 million and 63.4 million passings, respectively. Both providers are able to bundle in-home broadband with wireless service using a mobile virtual network operator (MVNO) agreement with Verizon. While the terms of the MVNO are not public, the economics of the perpetual wholesale agreement are reportedly favorable due in part to the scale benefits and origins of the agreement, which date back to a 2011 spectrum sale. We estimate that Comcast will generate about $587 million of wireless EBITDA in 2024, while Charter turned a profit for the first time in the third quarter of 2024 and will likely generate more wireless EBITDA in 2025.

At the same time, the two largest wireline telcos, AT&T and Verizon, cover about 28.3 million and 18 million passings, respectively. Including the proposed acquisition of Frontier, which is scheduled to close in 2026, Verizon will cover about 28 million passings, with plans to reach 30 million by 2028. Similarly, AT&T plans to cover 45 million customers and another 5 million through its JV agreement with Blackrock by 2029. T-Mobile announced two JVs with private equity sponsors to acquire MetroNet and Lumos with the aim of partially funding their planned fiber builds to cover 12 million-15 million passings by 2030.

Investment in generative AI fueled unprecedented capex at hyperscaler customers in 2024, and we expect spending to increase even more in 2025. AI algorithms already consume a lot of data that is transmitted over telecommunication networks, aiding in the development of this nascent technology. We think the issuers that are most likely to benefit from AI-related bandwidth demand from hyperscalers (large-scale data centers offering cloud computing and data solutions for businesses) in the near term are telcos with fiber-rich networks such as Lumen Technologies Inc. and Zayo Group Holdings Inc. as well as data center operators. However, the adoption of AI by enterprise customers has been constrained for some time by smaller operating budgets, as corporate IT spending remains depressed, although early indications are of a rebound in 2025 as inflationary pressures subside. This could help improve top-line trends from business customers, a segment that has been in secular decline for the larger telcos with significant exposure to legacy products.

In the second half of 2024, Lumen announced a series of transactions valued at over $8 billion with hyperscalers including Microsoft, Google Cloud, AWS, and Meta to provide access to the Lumen network as well as the installation of fiber on new and existing routes to support

connectivity between data centers for AI-related bandwidth demand. In addition, the company stated that there is likely another $4 billion of new deals in the pipeline that will improve its financial flexibility. As a result, we placed Lumen's ratings, including the 'CCC+' issuer credit rating, on CreditWatch with positive implications, implying the potential for a one-notch upgrade. We expect similar deals for Lumen and other telecommunications providers will likely materialize over the next couple of years.

Credit metrics and financial policy

We expect U.S. telco leverage to be stable in 2025. Notwithstanding our expectation of solid earnings growth and healthy FOCF, we think telcos will prioritize shareholder returns and M&A, which will constrain leverage improvement over the next couple of years.

Verizon: We previously forecast adjusted leverage to decline to 2.9x in 2024 from 3.1x in 2023. However, Verizon took a $1.7 billion charge, which we include in our EBITDA calculation, in the third quarter of 2024. Leverage is therefore likely to be about 3.0x, slightly worse than our previous base-case forecast. In anticipation of its proposed acquisition of Frontier, we expect Verizon to increase its financial capacity through FOCF. Coupled with EBITDA growth of about 3%, we expect leverage to decrease to about 2.8x in 2025 before increasing back to about 3x in 2026 to accommodate the purchase of Frontier.

AT&T: We expect leverage of about 3.4x in 2024, down from 3.6x in the prior year. In 2025, we expect AT&T's FOCF to decline by about $1.5 billion, due primarily to the loss of distributions from DirecTV, but remain healthy at about $16 billion. However, we also assume the company will repurchase about $3.5 billion-$4 billion of common stock and pay about $8 billion in dividends as part of its new three-year capital allocation program so that leverage improves only modestly to about 3.3x during the year.

T-Mobile: We expect T-Mobile's leverage to decrease to 3.1x in 2024 from 3.4x in the prior year. However, we assume that leverage will likely remain in the low 3x area over the next couple of years as the company issues debt to fund M&A and stock buybacks.

Key risks or opportunities around the baseline

1. Consolidation and a predictable competitive environment bode well for steady wireless service revenue growth.

Despite mature industry conditions, aggressive competition and market share gains by the cable providers, the U.S. wireless industry remained healthy in the first three quarters of 2024, and we expect this to continue in 2025.

2. U.S. wirelines are reaching an inflection point, and demand for fiber assets is robust.

Wireline operators are expanding their FTTH footprint and are growing overall broadband revenue through a combination of higher ARPU and the addition of new fiber customers across their footprints.

3. Starlink will continue to disrupt the industry, and Amazon enters the market in 2025.

Starlink has taken market share from incumbent operators in recent years, and we believe the company will continue to be a formidable competitor, particularly as it continues to add depth and capacity to its constellation.

We expect wireless service revenue growth to continue slowing somewhat. We forecast industry postpaid phone net subscriber additions of about 8.7 million in 2024, down by about 4% but stronger than previously, when we had expected industry postpaid phone net adds to decline by 7%-9%. We expect cable will take about 38% of net subscriber additions, which is lower than our previous forecast of over 50%, while price increases should support healthy service revenue growth for the telcos. Furthermore, bundling and the lack of new compelling handsets have reduced the level of switching activity, contributing to healthy earnings growth.

We expect this trend to continue in 2025, although the introduction of new AI-capable handsets could result in increased promotional activity, more handset upgrades, and margin compression. In 2025, we expect service revenue growth of about 3% for the telcos, down from 3.6% in 2024, which includes some of the following assumptions:

- Very modest 0%-1% postpaid ARPU growth due to the adoption of higher-end plans and rate increases, partially offset by a greater mix of lower ARPU business customers.
- Industry postpaid subscribers to increase by about 2%-3% in 2025.
- Postpaid phone net subscriber additions of about 7.8 million in 2025, down by about 10% from 2024 due to mature industry conditions. We also assume that cable will take about 37% of the postpaid phone net adds, comparable with 2024.

U.S. wireline operators are pursuing cost reduction initiatives, in addition to expanding their FTTH footprint and growing their ARPU and fiber customer base, while an increasing shift to higher-margin fiber broadband bodes well for improving cash flow. As a result, while revenue is still declining in some cases, EBITDA appears to have reached an inflection point, and we expect most of these issuers to record EBITDA growth in 2025. That said, wireline operators need to demonstrate more progress in stabilizing revenue that will establish a more realistic path to sustained EBITDA growth.

In addition, the market demand for fiber assets is growing as these companies increase their penetration of homes passed. In addition to Verizon's acquisition of Frontier, Canadian telco BCE announced it would acquire Ziply Fiber for $3.6 billion as it looks to get a foothold in the U.S. fiber market. T-Mobile also announced it will enter into JV partnerships with private equity sponsors to acquire Lumos and MetroNet with the aim of expanding its FTTH footprint to cover 12 million-15 million passings.

While Lumen does have a residential business, unlike its peers' it only accounts for about 20% of the company's revenue, and management has chosen not to invest its capex dollars to build fiber. Its main focus is providing communication and networking services to larger business customers. This segment is in secular decline as customers migrate to less expensive, software-defined networking technologies, and we expect revenue to decline by about 5%-9% in 2025.

That said, recent business wins from hyperscalers and other technology companies to provide connectivity for AI data demand could prove material for Lumen's path to repairing its balance sheet. Lumen has secured about $8 billion of these deals to provide custom fiber networks that include dedicated access to existing fiber in the Lumen network and the installation of new fiber on existing and new routes, enabling them to support increasing demand for AI workload. These PCF sales come at an opportune moment given that its core business is in decline, as they will bolster the company's liquidity position and give it greater financial flexibility to integrate its network and IT systems over the next couple of years. Furthermore, management stated that there are about $3.5 billion worth of potential new deals still being negotiated that could provide Lumen with additional leeway to execute on its turnaround strategy

For Canada, we estimate a lower immigration target could reduce wireless net additions, to below 1.5 million in 2024 and to about 1 million in 2025 and in 2026 from just under 1.8 million in 2023. This implies wireless unit growth for the big three telcos could slow to about 2.5% from about 5% in 2023. Our estimate assumes that the increase in ongoing wireless subscriber penetration is limited to about 2% annually in the current tepid macroeconomic environment amid high market penetration, which we estimate at about 90%-94% of population presently.

Residential fixed-broadband subscriber growth is more indexed to new housing availability (largely a function of prior starts or conversions) given the relatively high penetration in most urban markets. It should therefore track the steady, albeit below potential, supply of new available homes, which we estimate in the 240,000-plus annual range in the current environment of high interest rates and weak affordability.

Although we expect slower unit growth, we recognize that carriers have some opportunity to upsell to customers, bundle new services, and manage promotions, discounting, and annual price adjustments to mitigate ARPU pressure. Furthermore, in the longer term, we think the generational effects of younger, immigration-led population growth, new home formation of potentially over 400,000 annually, and greater affordability should lead to new service adoption and pricing acceptance and support stronger growth.

Starlink has a competitive advantage in residential broadband with its low-latency service, but it has also been more successful than we previously anticipated in in-flight connectivity, maritime, and the government sector, and we expect these trends to continue. The primary limitation of the network is capacity constraints in high-traffic areas, given the uniform nature of low earth orbit (LEO) capacity. However, we believe this can be at least partly overcome with the launch of more satellites, which deep-pocketed Starlink plans. Furthermore, Amazon Kuiper plans to roll out a commercial service in 2025 with a mesh network of more than 3,000 satellites when fully deployed by 2029. Amazon could take a similar approach to Starlink once launched, with affordability as a key principle of the constellation. We believe this could reduce incumbent satellite operators' long-term growth prospects in mobility and place increasing pressure on its in-home broadband segment in the coming years.

Furthermore, Elon Musk's relationship with President-elect Trump increases uncertainty. Starlink owner Elon Musk may be able to influence decision-making at the federal level in several respects. First, Starlink could be better positioned to receive government subsidies to build out into rural America as part of the $42 billion Broadband Equity Access and Deployment (BEAD) program or others such as the Rural Digital Opportunity Fund (RDOF). Secondly, the Federal Communications Commission could act quickly to approve applications to launch new satellites. There could also be spectrum policy changes that benefit Starlink to allow for faster speeds and an even more competitive service. Finally, it's possible that government contracts may increasingly favor Starlink technology.

Industry Outlook: EMEA

Ratings trends and outlook

We expect continued stable ratings in 2025; 77% of rated telcos currently have a stable outlook (compared with 78% a year ago), and EMEA has the strongest regional balance globally. Our sector forecast is supported by incremental revenue and profitability gains, and lower capex. Revenue tailwinds from inflation have subsided after the last round of increases in early 2024, but moderate price hikes should continue with the introduction of fixed, in-contract escalator clauses in some markets and relatively relaxed promotional activity pressure. We expect EBITDA growth and lower capex will continue to improve cash flows and financial flexibility, as well as rating headroom potential, but we think this will only be sufficient for rating upside in a few cases.

We enter 2025 with negative outlooks and CreditWatch placements on 13% of our ratings (up from 6% a year ago). This is partly offset by positive outlooks and CreditWatch placements, resulting in a negative bias of about 4% (down from a 10% positive bias a year ago). The slight negative bias reflects weakened credit ratios (Proximus S.A., Swisscom AG, and Bouygues S.A. due to M&A, and Optics BidCo SpA due to its aggressive dividend policy) as well as refinancing and sustainability concerns for several 'B-' and below issuers (PrJSC VF Ukraine, Tele Columbus AG, and Altice International S.a.r.l.). Positive outlooks have fallen to 9% from 16% a year ago and stem from improving credit metrics (Zegona Communications PLC, Bite, United Group B.V. and TransteleCom Co. JSC), and revised sovereign outlooks that cap our ratings (Saudi Telecom Co. and Telkom SA SOC Ltd.).

We took a large number of rating actions in 2024, with 12 upgrades, 11 downgrades, and four new telecom ratings, but this belies relatively stable conditions. Downgrades were concentrated on a few companies, with multiple negative actions on TalkTalk (four downgrades on its path to default), Eutelsat and Altice France S.A. (two downgrades each for a weakening business position for the former, and weak cash flow prospects and sustainability concerns leading to restructuring talks for the latter). Similarly, the vast majority of upgrades did not stem from improved performance but from multiple upgrades of sovereign caps (Turk Telekom and Turkcell, three times and twice respectively), emergence from restructuring (TalkTalk and Tele Columbus), and the completion of M&A (e& PPF Telecom Group, Lorca Telecom Bidco S.A.U., and Telecom Italia SpA).

Main assumptions about 2025 and beyond

1. Revenue will grow despite lower inflationary price increases, and earnings will rise due to margin growth.

We expect revenue growth to average 2% over the next two years, an improvement on last year's forecast as lower competitive pressure and ongoing fiber migration will translate into better ARPU. Cost control from efficiency programs and the realization of M&A synergies will increase margins and EBITDA gains, despite labor costs continuing to climb, albeit at a slowing rate.

2. Capex will decline to a sustainably lower level through 2026, improving cash flow.

We think capex to support fiber and 5G mobile rollouts peaked in 2021 at 21% and will decline to about 16% in 2026 from 18% in 2023. This new level should be sustainable, improving FOCF. We expect variation around the average based on the degree of buildout progress in various

markets, and the need for additional 5G investment if new use cases drive greater capacity needs.

3. Improved cash flow will increase financial flexibility and improve financial ratio ratings headroom, but without material rating upside.

Revenue and margin growth and lower capex should strengthen cash flow and financial flexibility for many operators. Credit impact will depend on financial policy and management's capital allocation decisions.

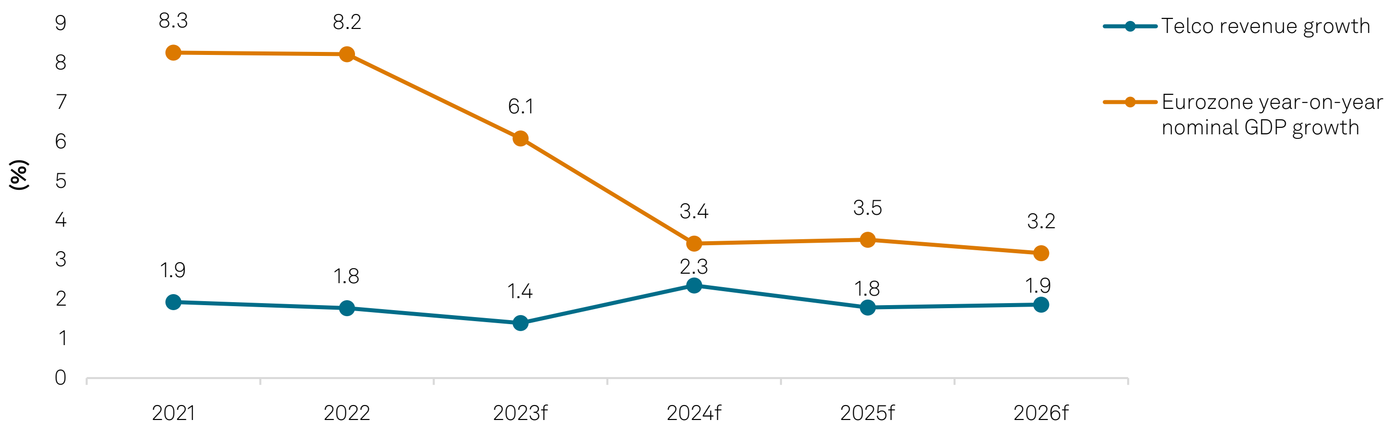
We expect revenue gains will continue, despite moderating inflation. Consolidation in Spain and the U.K., convergent M&A in Italy, and the effects of lighter-touch wholesale regulation should provide European operators with relief from excess competition. Annual price hikes should continue to lift the back book (prices for existing customers), though increasingly at a lower rate and via fixed, rather than inflation-linked, indexation. Relatively higher-for-longer interest rates should also temper the aggressiveness of challenger telco offers, curbing promotional offers and tit-for-tat price drops, which should lift the front book (price plans for new customers).

Unless interest rates move unexpectedly lower, we think this could remain a durably beneficial environment for telcos as more of the debt maturity wall begins to come due in 2026. As leveraged challengers refinance their capital structures at higher borrowing rates, greater debt service costs may widen cash flow shortfalls and the timeframe to break even. Among more aggressive price players, this could force a strategic reconsideration of market exits or a shift to higher-margin, higher-ARPU offerings to shorten the time to generate cash flow.

Service revenue trends have broadly turned favorable since 2021 (see chart 9). We expect this will continue to support top-line revenue growth of just under 2% on average for 2025-2026. Given our base-case assumption of over 3% annual nominal GDP growth in the eurozone for this period, we forecast that telecom revenue growth will lag inflation and remain slightly negative in real terms, but should be much better than in the prior three years.

Chart 9

European telcos will continue modest revenue growth in 2025-2026



f—Forecast. Source: S&P Global Ratings.

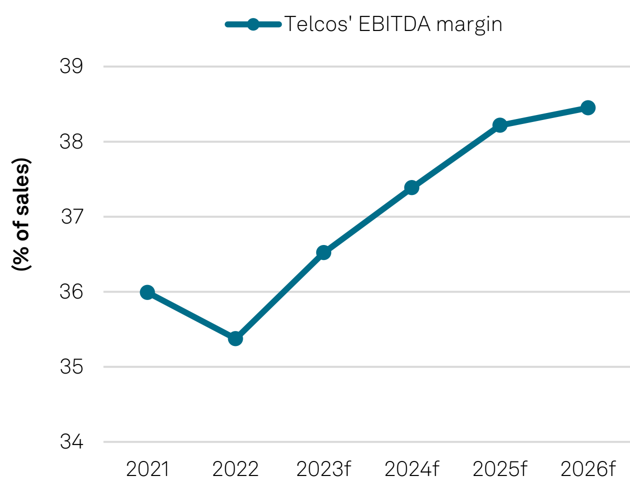
Growth rates will vary across markets and operators, but growth should be the norm. Countries with more intense competition and challenging market structures, such as Italy, will continue to see weaker-than-average telecom performance. We also forecast weaker-than-average, though still positive, growth in the U.K. and Spain. Both markets have recently seen consolidation

without strong regulatory requirements, and we anticipate a moderation in competition. However, we do not yet assume a material recovery in the market, which could take up to two years to manifest and remains subject to strategy shifts by the remaining players. There is therefore upside to our base case in these markets, but we will look for a positive track record before revising our forecasts.

We expect an incremental rise in margins. We forecast that European telcos will realize modest profitability gains, pushing EBITDA margins up by about 1 percentage point through 2026 (see chart 10). This should result in earnings growth that exceeds revenue growth. Drivers include efficiencies from traditional cost-cutting (such as Telia's 15% workforce reduction in the second half of 2024) and M&A synergies, and gradually declining maintenance operating expenditure (opex) as networks migrate to fiber. Labor costs grew in 2024, but we expect wage inflation will moderate in 2025-2026, helping shield margins from further pressure.

Chart 10

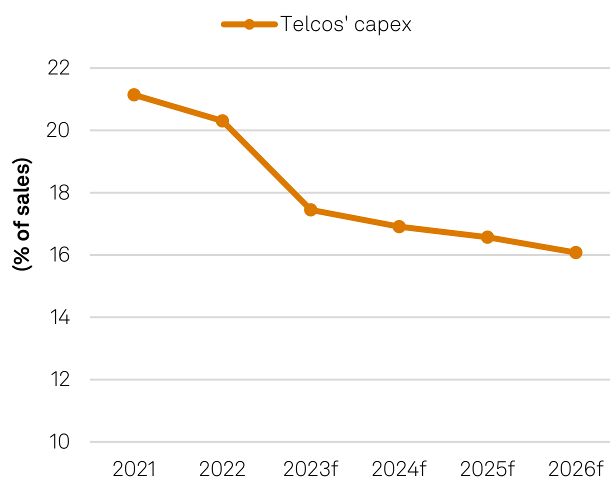
We expect European telcos' margin to increase...



f—Forecast. Source: S&P Global Ratings.

Chart 11

...while capex will fall



f—Forecast. Source: S&P Global Ratings.

Capex will likely shrink to a sustainably lower level for the next few years, improving cash flow. After remaining chronically elevated for a decade due to 4G rollouts and long-term densification, and then fiber and 5G rollouts, capex dropped sharply in 2023, to between 17% and 18% of revenue. We expect the fall will continue through 2026 to about 16% (see chart 11). However, the trend is uneven among markets. The drop is mainly due to fiber rollouts nearing completion in large markets like Spain and France, and, to a lesser extent, to a slowdown in 5G spending after the peak of the initial rollouts in many markets.

We expect incumbents like Orange S.A. and Telefonica S.A. will lower capex intensity across their operations to below 15% and about 12%, respectively. As operators decommission their copper networks, the lower maintenance capex associated with passive fiber networks should allow them to further reduce investments. On the other hand, with fiber rollouts in the U.K., Germany and Belgium—three markets that are significantly behind in fiber coverage—now in full swing, capex in those markets will remain high. We forecast 18%-19% capex intensity in Deutsche Telekom AG's German market over our forecast period, 21%-21% for Proximus in Belgium, and that British Telecommunications PLC will have at least 22% capex intensity through to 2026. In aggregate, however, falling capex intensity is good news for telcos' cash flows and credit metrics.

Credit metrics and financial policy

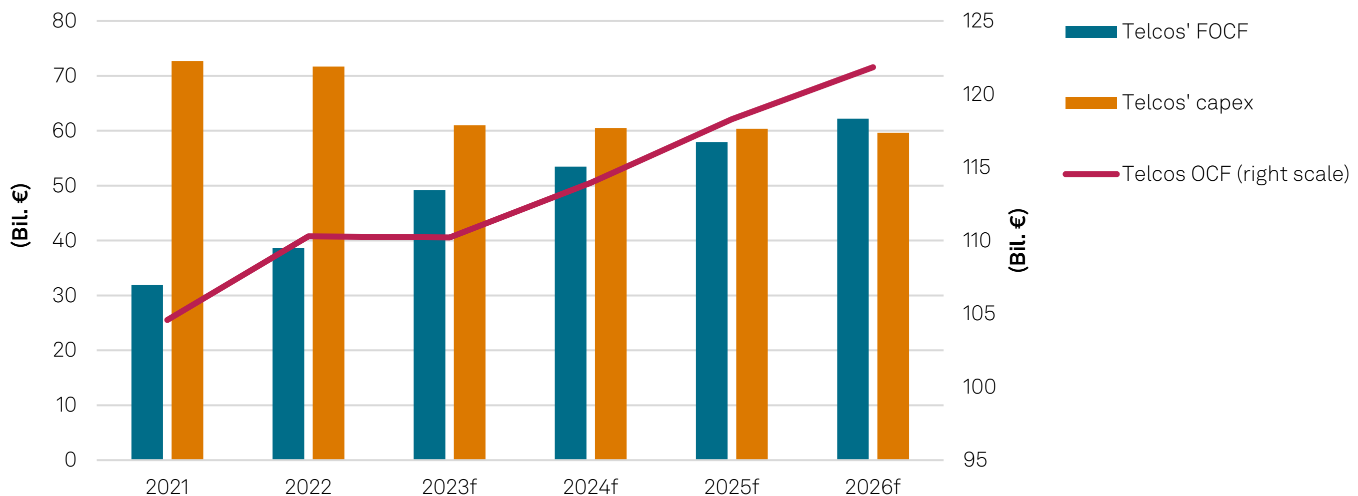
We expect stable core ratios with an opportunity for modest headroom improvement in leverage ratios by about 0.1x in aggregate per year through 2026, driven in part by improving FOCF.

Improved cash flow will raise financial flexibility, but without material rating upside, unless supported by conservative financial policies. We forecast that recent expansion in FOCF will continue, doubling by 2026 from the 2021 level (see chart 12). This, along with EBITDA expansion, should give telcos the financial flexibility to reduce leverage, improve their credit ratios, and increase rating headroom amid tighter funding conditions. However, we expect financial policies favoring shareholder returns, which should limit rating upside. In Gulf Cooperation Council (GCC) countries, for example, we have seen announcements of progressive dividend policies, such as e&'s increase of UAE dirham (AED) 0.03 annually for the fiscal years 2024, 2025, and 2026. We've also seen potential special dividends, depending on performance and strategy.

Chart 12

European telcos' FOCF looks set to steadily increase

European telcos' operating cash flow (OCF) breakdown



f—Forecast. Source: S&P Global Ratings.

Capital allocation priorities will be particularly important for highly leveraged speculative-grade telcos facing higher interest rate, and, to a certain extent, for investment-grade names such as Cellnex, for which our ratings incorporate a commitment of further deleveraging. Decisions to prioritize shareholder returns over debt reduction have contributed to recent downgrades at speculative-grade companies, increasing high leverage in some cases and liquidity risks in others. This has included VMED O2 UK Ltd., which is at least temporarily prioritizing dividend distributions over deleveraging targets, and Altice France, which has removed proceeds from asset sales from the restricted group despite upcoming maturities.

Key risks or opportunities around the baseline

1. A new wave of investment interest in digital infrastructure.

The infrastructure-like characteristics of telecom fiber, towers, and data centers is drawing interest from investors. This creates monetization opportunities at relatively attractive multiples for telcos, but also raises the risk of selling the crown jewels that support their business profile.

2. The re-intensification of competition remains a key risk.

Excess competition, while keeping prices low for consumers, has eroded more-for-more strategies, pressuring pricing, topline revenue, and the return on capital over the last decade. In countries like France, fragmentation and an imbalanced market share could reignite price competition. In markets like Spain, Belgium, and Portugal, new operators could disrupt the market.

3. Further consolidation and financial policy will be key credit determinants as companies decide what to do with increased cash flow.

Consolidation could extend cash flow and financial flexibility improvements, but the credit effect will depend on how management teams prioritize debt reduction, accelerated investment, M&A, and shareholder returns.

Telcos have steadily sold off infrastructure assets since the mid-2010s, starting with mobile tower portfolios. More recently, asset sales have transitioned to fiber network and data center sales. Buyers are typically interested in the critical nature of the assets; towers and data centers have a strong demand profile supported by contracted offtakes, while the regulation of fiber can be a significant credit strength when it limits competition and provides for stable revenues. Valuation multiples for these assets can be more than three times that of integrated telcos, making them an attractive monetization option.

But selling such assets can pose risks for the business, depending on the uniqueness and extent of the assets sold. For example, we view an incumbent's sale of all its fixed-network assets as likely to put its business profile under stress, with our assessment of it likely resulting in a downward revision by about one category. The impact could be less if a challenger telco sells off its network; if the network is overbuilt by competitors and is not a unique, differentiating asset; or if the operator retains other differentiating assets in the market or has diversified exposure to other markets.

To date, we have only a few rated examples of a fixed-network spin-off and its business impact on the telco. First was an integrated telco, Telcom New Zealand Ltd., renamed Spark New Zealand Ltd. after it split off its fixed network, which was named Chorus. The split led to a downgrade of Spark to 'A-' and a one-notch downward reassessment of its business risk profile to satisfactory from strong. Another example is TDC’s split between its retail business (Nuuday) and its fixed and mobile networks (TDC Net). The split led to a one-notch downward reassessment of Nuuday's business risk profile to fair from satisfactory. And most recently, we raised the rating on Telecom Italia to ‘BB/Stable/B’ after it completed the sale of its fixed-line network to private equity firm KKR and deleveraged to 3.5x-4.0x. This was despite the weakening of its business profile, which we reassessed to fair from satisfactory.

Constructive market dynamics could disappear if competition reignites. Consistent service revenue growth has been challenging for the sector, particularly in Europe, given high fragmentation and competition. Despite increased data traffic, which has required sustained levels of relatively high opex and capex, operators haven't been able to regularly raise prices,

leading to a long-term deterioration in return on capital (see chart 14 in the appendix). Competition has been a key reason for this, leading to lower prices to the benefit of consumers. The inflationary spike in 2022 and 2023 finally gave operators common cause to raise prices, while more aggressive operators found it riskier amid rising interest costs to make countervailing price cuts to increase market share. While return on capital has edged upward in the last two years, the threat of excess competition remains if conditions change.

Weaker macroeconomic conditions or a recession in Europe would ratchet up competition risk. We would expect an initial softening in the enterprise customer base resulting from reduced headcount, particularly among small and midsized enterprises. For retail consumers, steep drops in disposable income may not result in mass cancellations of contracts, but it could increase consumer price sensitivity. Customers looking for better value are more likely to switch providers, incentivizing low-price competition by carriers that can depress front book pricing, lowering ARPU and revenue. In such a scenario, markets that we view as most at risk to a flareup in competition include those with:

- An aggressive price challenger focused on growing to scale;
- A competitive market structure, typically four or more players, and a poor track record of price improvement; and
- Weak barriers to customer churn, including a high prepaid customer base and a low degree of convergence.

European operators have long sought market consolidation to relieve competitive pressure, which is the key risk to telcos' credit quality, in our view. Regulators have effectively denied market consolidation for most of the past decade, with the exception of in the Netherlands (a smaller market) and Italy, where stringent regulatory requirements resulted in a new and ultimately destabilizing entrant (Iliad S.A.). Recently approved consolidations in Spain and the U.K. with relatively light remedies potentially indicate a recalibration of competition concerns and the balance regulators are willing to strike between incentivizing investment and protecting consumers. This could encourage further consolidation attempts in Europe’s more challenging or structurally competitive markets, such as Italy or France.

While agreements and approvals are still far from assured, further consolidation could relax competitive pressure and add tailwinds to improving earnings and cash flow trends. However, companies are facing competing priorities, and the credit impact will depend on financial policies and relative prioritization between deleveraging, accelerated investment, M&A, and shareholder returns. We expect an emphasis on shareholder returns, partly reflected in standout European telecom equity performance this year. This could restrict broad-based, material improvements in credit metrics, limiting rating upside or even creating ratings pressure if financial policies become too aggressive.

Looking at the overall structure of the European telecom market, we still believe that the ambition to create ‘European champions’ through extensive crossborder M&A remains unlikely to come to fruition. While the prospect of rationalizing Europe’s highly fragmented market (compared with the U.S.) would allow for greater economies of scale, crossborder M&A lacks the typical synergy benefits for participants of in-market consolidation. Since separate countries’ markets are effectively siloed, participants don’t gain better positioning through combined market share and spectrum, rationalization of duplicate cost structures (outside of centralized corporate functions), and better infrastructure and capacity utilization. Furthermore, we do not anticipate reforms that could catalyze greater crossborder consolidation benefits, such as crossborder spectrum harmonization, anytime soon.

Industry Outlook: Latin America

Ratings trends and outlook

We expect ratings performance in Latin America to remain broadly stable. Revenues and EBITDA will likely continue to grow, despite our expectation of modest economic growth in the region. About 80% of outlooks are stable, up from 70% a year ago.

Main assumptions about 2025 and beyond

1. We expect moderate revenue growth.

We expect revenue growth of about 2.5% for 2025 thanks to 5G deployment and a greater focus on postpaid customers in the mobile business.

2. 5G rollout continues in the region.

We think the leading players will continue to deploy 5G technology to enhance the speed of data transmission and reduce churn rates.

3. Capex will remain high.

Investments will remain high in Panama, Costa Rica and Colombia, given the need for 5G rollout, but we expect them to be lower in Brazil.

Revenue growth will likely remain moderate. We expect revenue growth of about 4% in 2025 (excluding the effects of hyperinflation in Argentina), reflecting the 5G deployment by most of the companies in the sector. Across the mobile business, operators are primarily focused on migrating prepaid customers to higher-value postpaid contracts, strengthening recurring revenue streams, and reducing churn.

In Brazil, this growth aligns with a trend observed among companies that acquired slots in the 5G auction held in late 2021. In Argentina, amid the sharp deceleration in inflation, we expect revenues to resume positive real growth, after two years in which tariff increases have lagged well behind inflation. Furthermore, ARPUs in dollars should improve considerably as the Argentinian peso continues to appreciate. The lower inflation scenario should also allow for EBITDA margin improvements as costs in Argentina are largely indexed. The Caribbean region's mobile and fixed operations are also benefiting from a rebound in tourism, although certain cyclicality persists, with the fourth quarter typically the strongest period of the year.

Regarding independent infrastructure operators in Latin America, we continue to see favorable growth prospects for tower companies in the region as underpenetration remains a driver for investment. Although the adoption rates have been slower than originally expected, we continue to regard 5G as a boost for potential expansions in countries such as Colombia and Peru. We believe that independent infrastructure operators in Latin America continue to benefit from high cash flow predictability and relatively low substitution risk as a result of built-to-suit sites, price inflation-linked escalator clauses, and an overall long-term average maturity of contracts.

5G deployment continues in the region. Overall, telecom companies in the region continue to increase data transmission speed through 5G coverage. In Central America, countries such as Panama and Costa Rica are at the early stages of 5G rollout; spectrum auctions are scheduled for 2025, and initial nationwide deployments are expected to start in the latter half of that year and beyond. By contrast, in the Caribbean, 5G investments are likely to lag, given the limited footprint of the islands; hence, operators are prioritizing network improvements and the expansion of

FTTH services within their fixed-line segments. In Mexico, America Movil has increased 5G coverage, resulting in higher subscriber additions and reduced disconnections, currently with an average churn rate of about 3%.

Internet service providers (ISPs) in Brazil made progress in implementing 5G in 2024, albeit at a slower pace than in 2023, since most formal regulatory requirements will only take effect in 2026. Brisanet Participacoes S.A. has constructed its own towers in northeast Brazil and significantly expanded its coverage to reach 200 cities in the region. Meanwhile, Unifique Telecomunicacoes S.A. has also launched its 5G service in the South region, currently covering eight cities, but it has opted to utilize capacity from existing tower companies rather than invest in its own infrastructure.

Capex will differ across Latin America regions, and investments will vary depending on the capex cycle. We believe that the forthcoming 5G spectrum auctions in Costa Rica and Panama could shape long-term strategic planning. However, we anticipate a limited immediate effect on 2025 capex, given that meaningful development activity would likely commence in the second half of the year or later. In the meantime, we expect capex to focus on completing ongoing network upgrades, integrations, and expansions. In Chile, we expect intensity to remain elevated as the country is undergoing a technology transition both to 5G in mobile and to FTTH in the fixed-line business.

However, the ISP market in Brazil saw a slowdown in infrastructure investments during 2024, with a focus on increasing customer takeup, partly due to challenging macroeconomic conditions. Looking ahead to 2025, we anticipate a continued slowdown in investment pace, as companies have once again lowered their capex guidance to focus primarily on connecting existing homes and technology.

Credit metrics and financial policy

We expect companies will reduce leverage, despite higher expected investments to develop 5G. This will mainly depend on companies' ability to increase subscribers' growth and reduce churn rates to strengthen EBITDA generation and margins.

While the expansion will require further material investment, we expect companies will continue to access to bank and market debt funding. This should allow companies to continue to benefit from inorganic growth if opportunities from market consolidation or further spinoffs from carrier-owned assets materialize. While issuers with refinancing needs in 2025 may face a constrained market due to the overall competitive telecom environment in the region, we continue to view their long-term prospects for access to markets as more favorable than those of integrated carriers.

Key risks or opportunities around the baseline

1. Competition remains a challenge for telecom operators.

We expect competition to remain strong in the region, particularly in Colombia and Chile.

2. Currency risk could weigh on earnings and leverage.

A mismatch between revenues generated in local currency compared with foreign currency debt could have a negative impact on earnings and leverage.

3. Expected market consolidation will trigger M&A activity.

The need for cost reductions, shared infrastructure, and the creation of synergies between competitors will lead to M&A activity in the region.

Competition remains a risk. Fierce competition in Colombia remains a challenge for operators' ARPU and profitability, which is still translating into high investment needs for companies to enhance their services and thus maintain their competitive position. While this continues to hinder companies' ability to maintain solid liquidity positions, Colombia Telecomunicaciones (Coltel) intends to offset this through increased cash flows after spinning off its infrastructure assets in Colombia. At the same time, the collapse of players such as Wom S.A. in the country could provide some opportunities to recover some competitive ground.

We expect the industry to remain highly competitive in Chile. Wom S.A's announcement that it had reached a restructuring agreement under the Chapter 11 process in early December 2024 eliminates possibilities of further industry consolidation in the short term. This means there are at least four to five carriers competing both in fixed and wireless services in an already highly penetrated market.

The Central America and Caribbean telecom markets remain highly competitive, generally supporting four or five carriers per market. Within this landscape, one or two operators typically assume incumbent positions. For companies such as Cable & Wireless, we expect 2025 performance to be somewhat better than 2024 levels, driven by the completion of integration initiatives and network upgrades.

Telcos in the region could face some currency risk pressures. Companies with U.S. dollar-denominated debt could face increased foreign exchange rate volatility risk in 2025 if the local currency depreciates. Such exposure to exchange rate volatility remains a key risk for telcos in the region, given that the revenue model in local currency doesn't necessarily fully protect them from this exposure. Significant local currency depreciation would have a negative impact on cash flows on a dollar basis and therefore damage Latin American telcos' credit metrics.

M&A activity in the region will likely continue. We expect to see consolidation in some Latin American telecom markets because of the need for cost reductions, shared infrastructure, and the creation of synergies between competitors.

In Mexico, America Movil announced the consolidation into its ongoing business with ClaroVTR in Chile, as well as a nonbinding offer to acquire Wom S.A.'s assets in a joint participation with Telefonica S.A., with a purchase potentially occurring in 2025. In Brazil, we had anticipated more consistent M&A activity in 2024, but this was again hindered by macroeconomic conditions. Following the merger of Vero and America Net in late 2023, only smaller transactions have occurred, which have had minimal impact on metrics. However, we expect M&A activity to increase in 2025 as competition and professionalization constrain organic growth. Nevertheless, we foresee credit remaining a barrier in an environment of persistently high interest rates throughout 2025, contrary to our expectations at the start of 2024.

Industry Outlook: Asia-Pacific

Ratings trends and outlook

We expect generally stable ratings in 2025. Overall, the region's telcos have coped well with the capex wave of recent years. They have done so by means of strategic M&A to boost competitiveness and ease price pressure, implementing cost-cutting measures, and divesting non-core assets and businesses. In our view, our rated telcos in Asia-Pacific continue to have measures they can take or at least plans to manage leverage.

Our base case assumes moderate earnings growth, spurred by increasing mobile data traffic and fixed broadband adoption. These factors, combined with our view that infrastructure sharing is set to rise, support our growth expectations for the tower company industry in Asia-Pacific.

Rating actions will likely be driven by idiosyncratic factors. Similar to 2024, we expect any upside or downside to ratings to result from entity-specific circumstances rather than sector-wide issues.

Among our publicly rated issuers, 2024 saw the improvement of Taiwanese telco Far EasTone Telecommunications Co. Ltd.'s stand-alone credit profile and the revision of our rating outlook on India-based telco Bharti Airtel Ltd. to positive from stable. Both actions reflected lower leverage.

However, we also revised our rating outlook on CAS Holdings No. 1 Ltd., which controls telecommunications businesses including Hong Kong Telecommunications (HKT) Ltd., to negative from stable. This revision reflects the risk of leverage at PCCW Ltd. (CAS' parent) creeping back up, even after the recently announced asset divestment, due to persistent shareholder returns.

We think ad-hoc merger, acquisition and divestment activity will continue to be a risk to ratings, both on the upside and downside.

Main assumptions about 2025 and beyond

1. Modestly rising earnings with moderate revenue gains and cost-cutting efforts.

The EBITDA of Asia-Pacific telcos will, on average, rise by 3%-5% in 2025. Increased mobile data traffic and fixed broadband adoption will continue to bolster the top line. Cost-cutting, supported by AI adoption and simplified business structures, remains a common theme in the sector.

2. Less network capex and more infrastructure sharing.

Investment in 5G has waned for now. There are, however, pockets of rising fiber capex in some markets to capture market share amid increasing fixed broadband adoption. Both passive and active infrastructure sharing is likely to increase. In addition to tower sharing, players in some markets have proposed or entered into network sharing agreements for cost and capex efficiency.

3. Step-up in spending in high-growth segments, with AI investment increasing.

Divestments of non-core businesses and assets provide balance sheet capacity to undertake such investments.

We expect earnings to grow, albeit modestly, in most markets, supported by increased mobile data consumption. Price hikes in markets such as India and Australia add an extra boost to telcos' topline trends. In some South and Southeast Asian markets, we also see increasing fixed broadband adoption contributing to rising earnings.

Active cost-cutting will remain a common theme as Asia-Pacific telcos continue to navigate inflation-linked rising costs. It is rare for prices of mobile plans in this region to be linked to the consumer price index (CPI) or other inflation measures. Therefore, Asia-Pacific telcos tend not to have a direct mechanism to pass inflation on to consumers, instead relying on ad-hoc execution of price changes. Among Asia-Pacific telco markets that we analyze, we only saw mobile plans explicitly linked to CPI in Australia. However, these too have now ceased following the removal by Australia's leading telco Telstra Group Ltd. of CPI-linked price increases on all mobile post-paid plans in May 2024.

AI adoption will increasingly be used as a cost-cutting tool. We expect telcos could use AI, for example, to aid customer service and improve targeted marketing. In addition, more telcos may streamline their business structures to gain synergies and cost efficiencies, as companies including Telekom Malaysia Bhd and Singapore Telecommunications Ltd. (Singtel) have done.

Competition is likely to ease following consolidation in several markets. The last 12-18 months have seen consolidation either announced or implemented in Indonesia, Sri Lanka, Taiwan, and Thailand.

In the case of Taiwan, we expect greater pricing discipline in the market following the merger of Far EasTone Telecommunications and Asia Pacific Telecom Co. in December 2023. In Indonesia, the proposed merger between XL Axiata Tbk. PT and Smartfren Telecom Tbk. PT follows a 2022 merger between Hutchison 3 Indonesia PT and Indosat Tbk. PT, creating a predominantly three-player market.

Capex intensity dips as 5G spending wanes for now. We believe telcos are now more cautious about investing further without the availability of significant monetizable use cases. This sentiment was apparent in the muted appetite for spectrum at the June 2024 auction in India, despite issuing some of the region’s most expensive spectrum licenses in the past. The three largest Indian telcos bought Indian rupee (INR) 113 billion of airwaves. This amount contrasts starkly with the INR1.5 trillion that the three main telcos jointly spent on 5G spectrum in 2022.

In the meantime, we expect telcos to improve their 5G network quality based on adoption rates. This could mean strengthening 5G coverage in dense cities and central business districts ahead of less populated areas.

In contrast to easing 5G capex, there are markets where fiber network investments have picked up, particularly where there is lower fixed-line broadband penetration and uptake. For example, Philippine-based PLDT Inc. and Thai telco Advanced Info Service Public Co. Ltd. are both accelerating fiber rollout to capture a larger share in their respective underpenetrated fixed broadband markets.

As a result, we project average capex intensity (capex as a percentage of revenue) for rated Asia-Pacific telcos to ease slightly to 19%-21% in 2025 and 2026, from an estimated 21%-22% in 2024.

Infrastructure sharing is set to rise. In particular, telecom tower sharing will likely increase, boosting the development and earnings of the region's independent tower company industry. This comes after a wave of tower sales by the region's mobile network operators (MNOs) in the past three to five years, especially in Australia, New Zealand, and the Philippines. Many telcos regard such assets as less of a source of competitive advantage as network coverage improves. Tower sharing will allow MNOs to improve coverage more quickly and at a lower cost.

Regulators have also encouraged tower sharing, with a common objective of a faster improvement in the market's network quality. Regulations promoting or mandating tower sharing can help to improve network accessibility for rural areas, for example. The Philippines, Australia

and Bangladesh are some of the markets that have policies encouraging tower sharing nationwide or in rural areas.

In addition to tower sharing, more Asia-Pacific telcos could be open to network sharing arrangements, as some players in the region have entered into. Such agreements range from the sharing of selected terrestrial and submarine fiber-optic cable assets in the Philippines to the exchange of spectrum use for network service provision in Australian regions.

In our view, the need to recoup significant network investments and cost savings are key factors driving increased infrastructure sharing. We expect telcos will be more cautious about sharing active network assets than passive infrastructure. This is because active infrastructure assets are typically more central to telcos' competitiveness, especially if they are extensive or unique to the telco in question, as this could then weigh on their business strength. In determining the implications for telcos' credit profiles, we will consider factors such as the assets' importance to competitive advantage, the level of control retained in these assets, and any change to leverage.

Non-core asset sales are likely to continue, supporting balance sheet strength and ratings. Proceeds from the sale of assets that are not key to a telco's competitiveness can create balance sheet capacity for capex and investment in new growth areas.

Singtel, for example, announced that it has identified a Singapore dollar (S$) 6 billion asset monetization pipeline. This comes after a spate of asset monetization by the company in the past two years that has resulted in greater financial flexibility at its current rating level. Other telcos have used asset disposals to preserve ratings. For instance, PCCW group (which includes HKT) has disposed of various assets in the past few years to manage leverage. This includes HKT's disposal of a minority stake in its wireline business, announced in 2024.

We expect investments in cloud, data centers and AI to remain high as companies try to boost long-term earnings potential. If funded by debt, such investments can reduce rating headroom, as these new revenue streams take time to ramp up.

Partial divestments in such new growth engines are likely to continue, particularly to introduce strategic partners. In addition to lowering the leverage burden, this could help telcos reduce exposure to execution risks. For example, PLDT Inc. is looking to sell up to 49% of its data center unit.

Credit metrics and financial policy

We expect credit metrics in 2025 to be flat overall, despite our expectations of moderate improvement in earnings and continued divestments. We estimate that the average debt-to-EBITDA ratio for Asia-Pacific telcos will be about 2.9x in 2025, similar to our estimate for the full year 2024. This is because continued investments in new growth engines will use up balance sheet capacity. In addition, a number of telcos in the region also tend to distribute special dividends from divestments, diluting any deleveraging benefits that such actions could otherwise bring.

Active leverage management, including timely divestments, is key. With rated Asia-Pacific telcos mostly at investment grade, our focus is on financial policy. For instance, our rating on Spark New Zealand incorporates our expectations that the company will take prompt action to bring credit metrics back to levels commensurate with its current ratings.

We expect that telcos will continue selling non-core businesses and passive infrastructure assets to fund investments in new growth engines, as well as managing their leverage.

Key risks or opportunities around the baseline

1. Macroeconomic uncertainties could weigh on earnings and debt, especially in emerging markets.

More persistent inflation and a decline in consumer sentiment could translate into slower upgrades by consumers to pricier plans and weigh on telcos' ability to execute on price increases. Macro headwinds could also weaken demand from enterprise customers. Entities with exposure to emerging markets with weakened currencies could face lower earnings and greater balance sheet pressure arising from foreign currency-denominated debt.

2. Mergers, acquisitions, and divestments could present a mixed bag of credit impact.

Market consolidation could ease market competition and result in more competitive, larger companies. However, it could come at the expense of other credit factors such as higher debt. Similarly, divestments could aid deleveraging but could weaken business strength.

3. Sporadic spectrum purchases, and, in the longer term, the need to fund another round of capex.

Telcos that have rolled out non-standalone 5G may face another investment wave as they move toward stand-alone 5G. Sporadic spectrum buys and renewals could also add leverage stress.

Earnings and deleveraging momentum could be disrupted, owing to a possible decline in retail and enterprise customer confidence, as well as currency woes. We have yet to see trading down to lower-priced plans amid inflationary pressure, due to the relatively persistent nature of data consumption. However, higher and persistent inflation could lead to slower upgrades to pricier plans. At the same time, macroeconomic uncertainties could hurt business sentiment and spending by enterprise customers.

Earnings of some of the region's rated issuers could be hit by currency weakness, particularly in South and Southeast Asia. In addition to the impact on earnings, currency weakness can be a double whammy for a company's leverage, particularly if it has significant unhedged debt denominated in foreign currency .

Strategic actions often have an opposite, unequal impact on business and financial strength. We expect mergers, acquisitions and divestment activity to continue in 2025. Business combinations usually improve business strength and give rise to synergies, including cross-selling opportunities and cost efficiencies. A more consolidated market also typically translates into an easing of competition.

However, these benefits come at a cost, such as higher leverage from funding the acquisition. In other cases, a merger could lead to weaker earnings quality. We see this in Malaysia-based Axiata Group, which is pursuing a merger in Indonesia. In our view, the deterioration stems from the loss of direct control over the merged Indonesian entity, even though it is larger.

Similarly, while divestments can help to bring down leverage, the sale of assets or businesses that play a strategic role in a telco's competitiveness can weaken its business position.

Another round of capex could pose a risk. In our view, telcos with non-standalone 5G may need to fund another capex wave as they move toward standalone 5G. However, this risk lies in the medium term.

Sporadic spectrum auctions, especially in regions where spectrum licenses are expensive, pose an event risk. In 2025, spectrum auctions are slated to be held in some markets, including Thailand and Indonesia.

Related Research

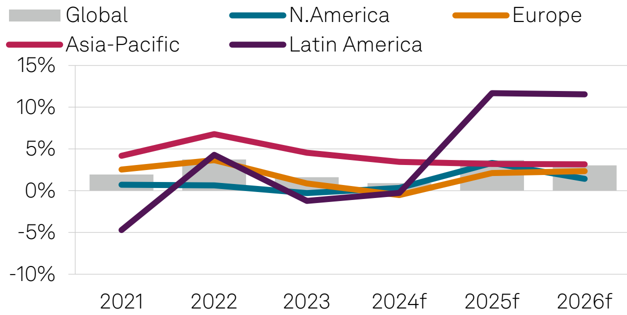
- ESG Credit Brief: Telecommunications, Dec. 4, 2024
- Spanish Telecoms Outlook: Consolidation Unlikely To Reduce Competitive Pressures, Nov. 26, 2024
- Cross-Practice Views On Rating European Digital Infrastructure, Nov. 14, 2024
- Satellite Providers Pulled Into Starlink's Orbit, Nov. 7, 2024
- The Canadian Telco Squeeze--The Need To Compete Will Lower Returns, July 30, 2024
- Asia-Pacific Towercos: More Construction, Colocation and Consolidation Ahead, May 9, 2024

Industry Forecasts

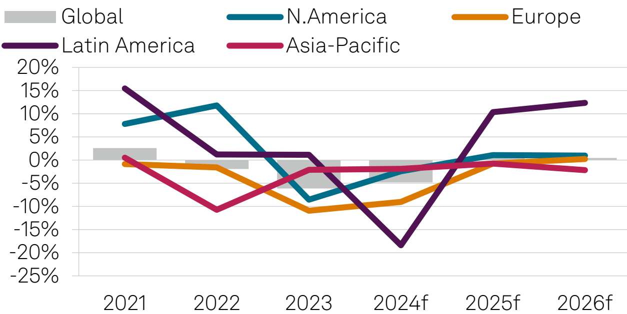
Telecoms - Fixed and Wireless

Chart 13

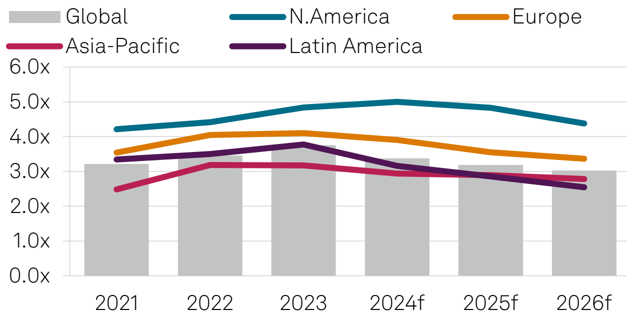
a) Revenue growth (local currency)



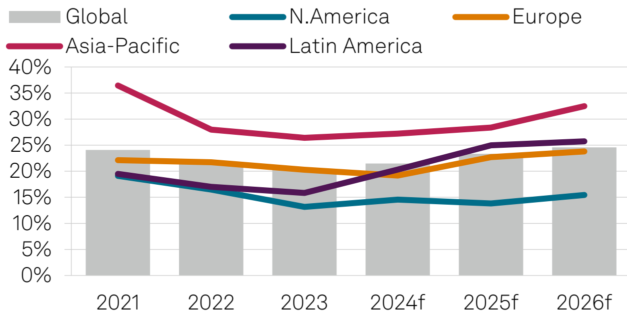
b) Capital expenditure growth (adjusted)



c) Debt / EBITDA (median, adjusted)



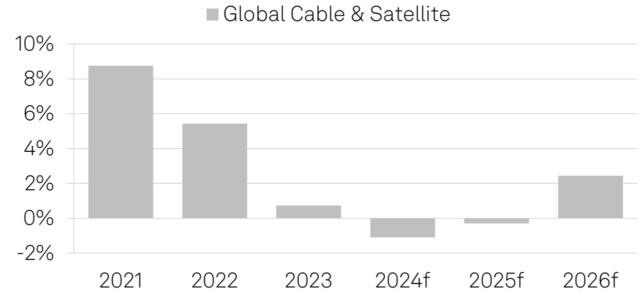
d) FFO / Debt (median, adjusted)



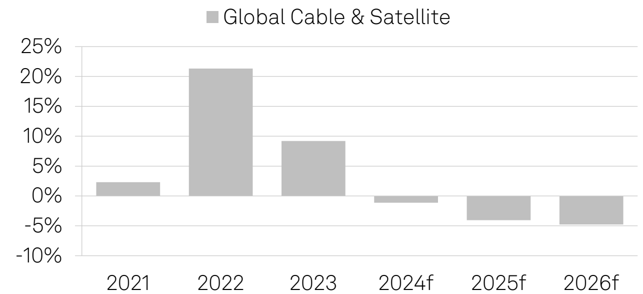
Cable and Satellite

Chart 14

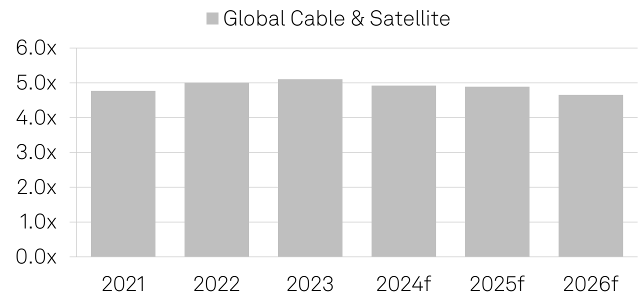
a) Revenue growth (local currency)



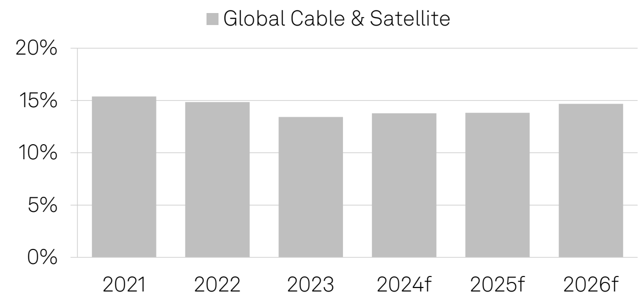
b) Capital expenditure growth (adjusted)



c) Debt / EBITDA (median, adjusted)



d) FFO / Debt (median, adjusted)



Source: S&P Global Ratings. f = Forecast.
Revenue growth shows local currency growth weighted by prior-year common-currency revenue share. All other figures are converted into U.S. dollars using historic exchange rates. Forecasts are converted at the last financial year-end spot rate. FFO—Funds from operations.

Cash, Debt, And Returns: Telecoms

Chart 15

Cash flow and primary uses

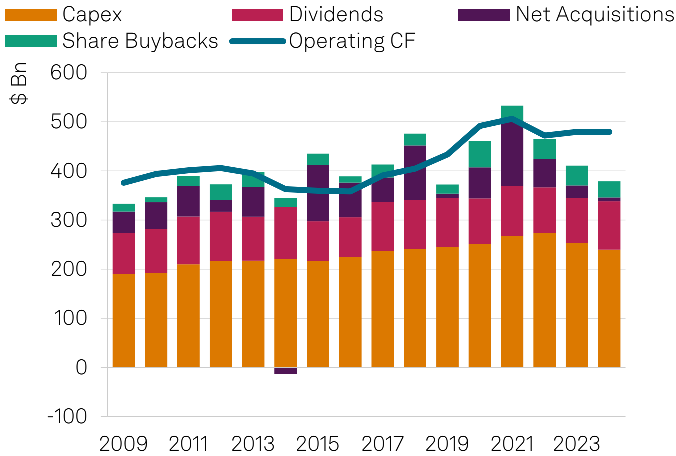


Chart 16

Return on capital employed

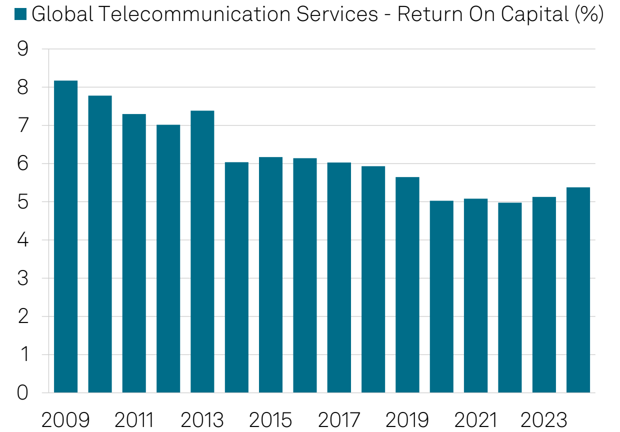


Chart 17

Fixed- versus variable-rate exposure

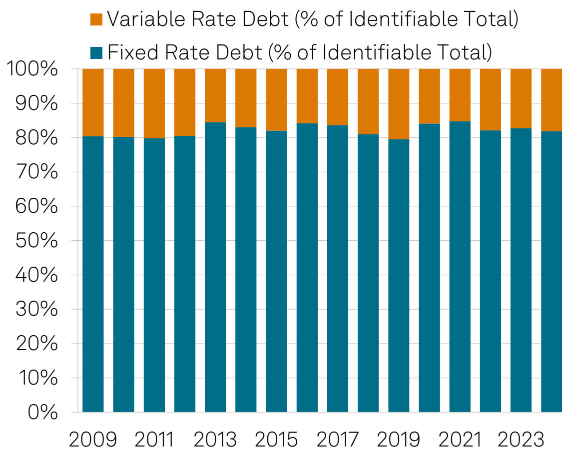


Chart 18

Long-term debt term structure

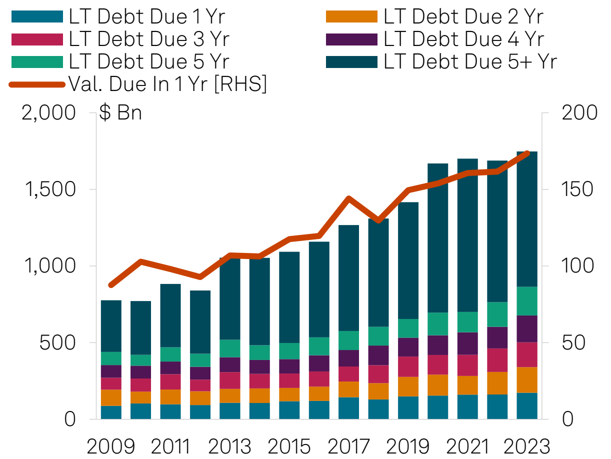


Chart 19

Cash and equivalents / Total assets

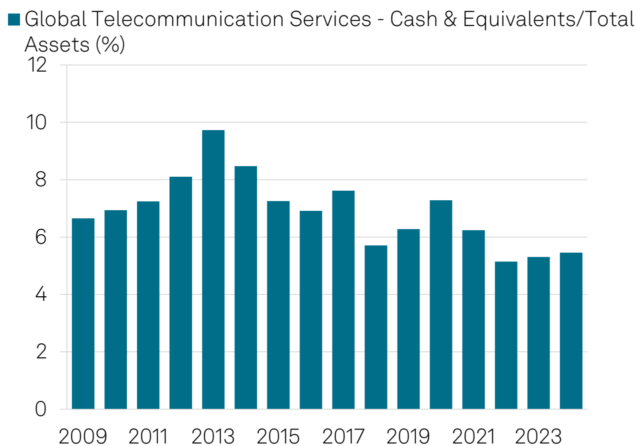
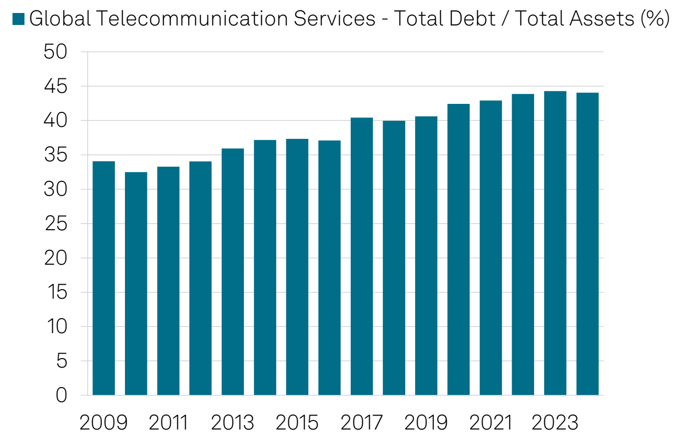


Chart 20

Total debt / Total assets



Source: S&P Capital IQ, S&P Global Ratings calculations. Most recent (2024) figures use the last 12 months' data.

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