

Telecommunications

Competition could still hamper favorable trends

This report does not constitute a rating action.

What's changed?

Growth trends have broadly improved on the back of robust data demand, moderate competition, and premium fiber and 5G products. Removing mergers and acquisitions (M&A) distortion, we expect organic topline revenue growth to average 2% annually (up from 1% previously), and a cumulative 2% adjusted EBITDA margin growth through 2026.

Capital expenditure (capex) declines will improve free operating cash flow in markets where fiber rollouts are near completion and initial 5G coverage has been established. We expect capex intensity to decrease by 0.5% annually to average 16% by 2026.

Moderating inflation removes a key tailwind for telecom revenue growth, and some operators in the U.K. are shifting to fixed price hikes. While originally driven by calls for customer price certainty, a successful shift to scheduled contract increases could create a more sustainable impetus for revenue growth, if broadly adopted.

What to look out for?

Competition may recalibrate. M&A activity has completed in Spain (MasOrange), and is pending in Italy (FastWeb-Vodafone), and in the U.K. (Vodafone-Three). Alternative networks are also beginning to rationalize in the U.K. This, combined with eased wholesale regulation and tighter financing for aggressive challengers, could improve competitive structures in three of Europe's largest and two of its toughest markets.

Regulators will set limits. Telecoms have long argued for consolidation and lighter-touch regulation, and recent decisions are incrementally positive for them. The next key ruling will be on the Vodafone-Three merger in October. However, another four-to-three merger could garner regulator pushback in our view, especially given reduced network competition and no obvious recipient of remedies.

Financial policy will be a key credit driver. As cash flow and financial flexibility improve for many operators, the credit effect will depend on how management teams prioritize debt reduction, accelerated investment, M&A, and shareholder returns. These choices will be key for highly leveraged speculative-grade telcos facing refinancing at higher rates.

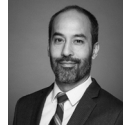
What are the key risks around the baseline?

The intensification of competition remains a key risk. It has eroded more-for-more strategies, and pressured pricing, topline revenue, and 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.

Fiber network provider (netco) spinoffs could materially erode our assessment of business strength. The completion of Telecom Italia (TIM)'s netco spinoff (Optics Bidco) marks the first major incumbent's fixed network divestment in Europe, and we lowered TIM's business risk profile by a category. Though not our base-case expectation, other telecoms could also undertake spinoffs to reduce debt, fund shareholder returns, respond to long-term commoditization of fiber, or in the hopes of lightening the regulatory burden that comes with wholesale market power.

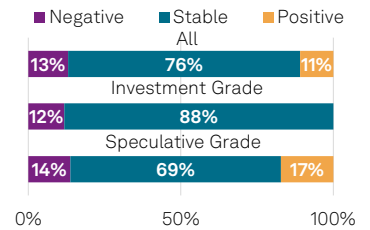
Mark Habib

Paris
mark.habib@spglobal.com
+33 1 4420 6736



Rating Trends

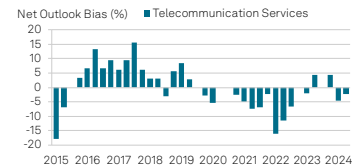
Outlook Distribution



Ratings Statistics (YTD)*

	IG	SG	All
Ratings	17	29	46
Downgrades	0	4	4
Upgrades	1	4	5

Ratings Outlook Net Bias



Sector Forecasts (Median)

2024	IG	SG
Revenue growth (Y/Y%)	-0.7	1.8
EBITDA growth (Y/Y%)	-0.3	2.9
EBITDA margin (%)	38.2	40.5
Capex growth (Y/Y%)	-6.7	-0.8
Debt/EBITDA (x)	2.6	5.0
FFO/Debt (%)	30.4	12.5
FOCF/Debt (%)	14.2	3.0

All data as of end-June 2024.

* Year-to-date. Current ratings only.

Related Research

- [European Telecoms: Sector Outlook And Hot Topics](#), July 18, 2024
- [Rated GCC Telcos Reinvent Themselves As Techcos](#), March 19, 2024
- [Shedding Light On Fiber Project Financing In Europe](#), March 19, 2024
- [Industry Credit Outlook 2024: Telecoms](#), Jan. 9, 2024