Industry Top Trends Update

Telecommunications

Resilient to COVID-19, but sector growth remains stagnant

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What's changed post-COVID?

Pockets of weakness will test resilience. We took COVID-19-related negative actions on about 11% of EMEA telcos, driven by lower sovereign rating caps and weaker expected financials. We forecast the biggest 2020 revenue hit will be from low-margin equipment sales, and the largest effect on earnings will come from lower SME spending and roaming. Telcos with outsized mobility and media exposure will also suffer.

Demand spiked, revenues didn't. Network usage was up 50%-100% in most markets during quarantines, supporting the sector. But the unmetered nature of fixed-line broadband left issuers little ability to monetize outside of business spending on secure remote connectivity and modest consumer upgrades.

Cash impact is manageable. With a few notable exceptions, we expect reduced 2020 capex and, in some cases, dividend cuts will offset the cash impact of lower funds from operations to support stable credit ratios.

What is the likely path to recovery?

Investment in home broadband. We expect issuers will accelerate fiber rollouts over the next two-to-three years, extending customer upgrade prospects. This may be partly financed by a slower 5G spend, which remains hampered by spectrum and handset delays, low short-term commercial prospects, and Huawei uncertainty.

Asset sales will continue. We expect more infrastructure sales, supported by investor access to capital markets, high valuations, and telcos' appetite to improve balance sheets and financial flexibility.

Supportive government policy. The strategic importance of telecom networks rose during quarantines, and we expect more accommodative fiber regulation and spectrum pricing to encourage investment. Tolerance for M&A is also likely be retested after the EU General Court overturned the European Commission's 2016 decision to block consolidation in the U.K.

What are the key risks around the baseline?

Deeper recession. Although benefiting from utility-like demand characteristics, bad debt and reduced corporate spending on telecom services will hit operators. We assume an average B2B revenue growth impact in the mid-to-high single digits for 2020, but uncertainty remains subject to the depth and duration of the recession.

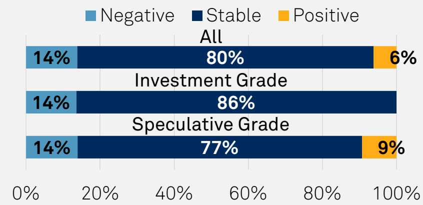
Price erosion. Competitive markets could face weaker consumer prospects if high unemployment and low consumer spending increase demand elasticity. Low-price value challengers may have a window to grow market share, reigniting price competition after reduced churn rates during quarantines.

Sovereign ratings pressure. Recession-hit governments, particularly in MEA, could weigh on telcos via sovereign rating caps, or, in isolated cases, through increased demands to extract value from relatively healthy sectors to shore-up fiscal budgets.

Latest Related Research

- COVID-19: EMEA Telecoms Will Prevail, But Not Completely Unscathed, April 6, 2020

Outlook Distribution



Ratings Statistics (YTD)

	IG	SG	All
Ratings	22	44	66
Downgrades	1	5	6
Upgrades	0	0	0

Ratings data as of end-June, 2020

COVID-19 Heat Map

Telecommunications	
COVID-19, Recession, and O&G Impact	Low
Potential Negative Long-Term Industry Disruption	--

2020 Estimates v. 2019		
Revenue Decline	**EBITDA Decline**	**Incremental Borrowings**
0% to 5%	**0% to 10%**	**5% to 10%**

2021 Estimates v. 2019	
Revenue Decline	**EBITDA Decline**
≥ 2019	**≥ 2019**