



LIGHT AND SHADE IN THE WORLD OF TELECOMS

ASIAN TELECOMS OPERATORS' REVENUES GREW IN 2022 AND 1H 2023, WHILE IN THE REST OF THE WORLD COMPETITIVE DYNAMICS HAVE PUT THE SECTOR UNDER PRESSURE

TIM RANKED 20TH IN THE WORLD FOR REVENUES, 22ND WITHOUT NETCo

Milan, 16 November 2023

The Mediobanca Research Area has presented its annual survey of the largest companies operating in the telecommunications sector in Italy and the world. The survey analyses the data for 1H 2023 and the 2018-22 five-year period of the 32 largest international telecoms operators with turnover of more than €9bn, thirteen of which are headquartered in the EMEA region, twelve in Asia-Pacific, and the other seven in the Americas. The survey also contains a focus on the most recent trends in the Italian market.

The presentation is available for download from www.areastudimediobanca.com.

Two-speed growth in this sector...

In **1H 2023** the aggregate **turnover** posted by the leading global telecommunications operators **grew by 2.4%** compared to 1H 2022. The growth was driven by the Asian companies, which recorded growth of 5.9%, spurred on by the Chinese operators, whose revenues were up 7.1% due to the strengthening of their share of the 5G market and the acceleration of their premiumization strategies. The players located in the EMEA region saw their total sales increase too (up 1.4%), but Europe was virtually stationary with revenues up just 0.6%. The US telecoms by contrast recorded a reduction in total sales of 1.3%.

This uneven situation is also reflected at the geographical level in terms of operating profitability: **EBIT** for 1H 2023 was up **3.2%**, driven by Asia & the Pacific (up 5.6%) and EMEA (up 7.7%), despite the 1.7% contraction reported in the Americas. The European companies reported the highest increase, with EBIT up 10.5%, but this was largely driven by the performance of Deutsche Telekom (up 19%). Excluding the latter, the change would reduce to growth of just 0.3%.

The geopolitical conditions and fears of recession have hampered **investments**, down 2.6% overall, with the largest reductions in the Americas (3.9%) and Europe (5%), despite the latter's need to push on with the **development of 5G**. Against a global average of 17.7%, the 5G penetration rate is highest in the United States (64.8%), after it overtook South Korea (63.3%) in 3Q 2023, followed by Japan (54.6%) and China (52.5%). Europe lags far behind with a penetration rate of just 18.8%: Germany (46.4%) and the United Kingdom (42.9%) lead the way, whereas 5G remains underdeveloped in France (17.3%) and in Spain (19.3%). Italy accounts for just 20% of the total mobile connections, but leads the way by share of the population reached (with 95.8% coverage in September 2023), showing the clear deficit in terms of demand.

In terms of revenues, in 1H 2023 **Deutsche Telekom** dominated the European rankings with €55bn (down 0.9% on 1H 2022), followed by **Vodafone** (€22bn, down 2% on 2022), **Orange** (€21.5bn, up 1.2%), **Telefónica** (€20.2bn, up 3.7%), **BT Group** (€10.3bn, up 2.4%), **Alice** (€8bn, up 0.9% pro forma), and **TIM** (€7.8bn, up 3.8%).

Turning to FY 2022, the **aggregate revenues** posted by the **32 leading global operators** rose by **3.9%** vs 2021, helped by a 7% increase in the sale of devices, and a 4.2% rise in income from services, which offset the 4% drop in revenues from the Media & Entertainment divisions. The Asian telecoms continue to dominate, ending FY 2022 with revenues up 7.3%, while the trend was less pronounced for the groups based in the Americas (up 1.1%) and those based in EMEA (up 2.1%).



The company which topped the world rankings for revenues was US-based group **Verizon** (€128.3bn), with **China Mobile** hot on its heels (revenues of €127.4bn). Behind them come **Deutsche Telekom** of German with €114.2bn (two-thirds of which generated in the United States through its subsidiary T-Mobile) and the other US operator **AT&T** (€113.2bn), which lost its place among the top three following the sale of WarnerMedia in April 2022. The **centrality of the Asian players** is confirmed by the fact that five of them are included in the list of the top ten operators.

TIM ranked twentieth, having been overtaken by Bharti Airtel of India, but would be in 22nd place with estimated revenues of €13.5bn if the operations of **NetCo** are excluded (NetCo is the company to which the Italian incumbent is set to spin off its fixed line network and wholesale services). Through the sale of NetCo, TIM's borrowings are estimated to reduce by €14.2bn, taking its financial leverage ratio to below 100%. This new structure should align the Italian incumbent with the best European practices, removing the restrictions that currently hamper its growth potential, in terms of non-core operations and strategic developments that require huge investments.

The **industrial profitability** of the global telecoms recovered slightly between 2018 and 2022, reflecting an Ebit margin of 15.5%, 40 bps higher than the 15.1% reported in 2018. The top-ranking companies in Europe for profitability were: **Telenor**, with an Ebit margin of 21.7%), **Swisscom** (18.3%), and **BT Group** (15.4%). **Bharti Airtel** of India had the highest industrial margins of the leading international operators, with an Ebit margin of 25.3%, followed by **BCE** of Canada (22.4%) and US-based group **Verizon** (22.2%). On the balance-sheet side, at European level **Swisscom** of Switzerland has the most solid financial structure (with a net debt/net equity ratio of 70.8%), followed by **Vodafone** with 103%; **TIM** is above the European average of 157.9% with 169.2%; while the companies with the lowest equity levels were **Deutsche Telekom** (173.9%), **Telenor** (191%), and **Altice**, with the latter reporting negative net equity.

...but the Italian market is the fastest-shrinking in Europe

The European telecommunications sector reported a timid improvement in 2022, but not Italy. The leading market in Europe is Germany, with revenues of €59.1bn (up 1.3% on 2021), followed by France (€36.7bn; up 1.8%), the United Kingdom (€36bn, net of the sale of devices, for which no figures are available; up 2.7%), and Spain (€30bn; up 0.6%); Italy ranks fifth with €26.9bn, down 3.3% on 2021 and down 13.8% in 5Y, in both cases the largest reductions in Europe.

If we extend the comparison back as far as 2010, in Italy revenues from telecoms operations have **decreased by approx. €15bn** (an average annual reduction of 3.7%), with the mobile network hit hardest (down 5.1%) rather than the fixed line network (down 2.4%). These trends have been influenced by a number of variables. These include **the effects of regulation**, with mobile termination rates constantly reducing (in Italy they have decreased from €0.76 in 2020, to €0.67 in 2021, €0.55 in 2022, and €0.4 in 2023), and **competitive pressures**, which in Italy have caused the most pronounced cuts in the prices of telephony services (down 17.6%, compared to an average European-wide reduction of 3.2% in the 2018-22 five-year period).

But if inflation has reached record high levels everywhere in 2022-23, phone tariffs in Italy have remained basically flat, despite no shortage of attempts to introduce mechanisms that would adjust monthly payments to the increases in prices, for new contracts in particular.

In 2022 mobile virtual network operators (MVNO) and infrastructure players' second brands have continued their strategy of increasing data volumes included in their product offering for the same prices, and in some cases launching promotions with even lower prices. These considerations all account for the reduction in revenues, against a backdrop of continually increasing traffic volumes and roaming income recovering as international tourism has picked up once again.

In **1H 2023** the leading Italian operators' domestic revenues were stationary (declining by a mere 0.1%), with the mobile segment continuing its downward trend (down 3.9%), and fixed



line telephony improving (up 3%). The reduction in turnover remains concentrated in the mobile divisions of the three main players: **TIM** (down 6.4%), **Wind Tre** (down 6.1%), and **Vodafone** (down 5.7%), for an aggregate reduction of €286m. **Iliad Italia** continues to grow (up 12.2% on 1H 2022), with the Italian subsidiary of the French telecoms operator having extended its product offering to include fixed line telephony since January 2022. **PosteMobile** (up 4.5%) and **Fastweb** (up 4.3%) have also posted increases.

Comparison between the aggregate accounts of the eleven leading Italian operators (with a minimum turnover of €60m and representative of approx. **95.5%** of the total market recorded by Agcom) and the big players based in the EMEA region shows that the 2018-22 five-year period. For the Italian market, the reduction in turnover and rising costs resulted in an **EBIT margin of 1.2% in 2022** (14.5% in 2018), compared with 14.3% for the EMEA region giants (13.4% in 2018). The return on capital invested has also followed a similar trajectory, with the aggregate ROI posted by the Italian telecoms operators declining from 6.2% in 2018 to 0.5% in 2022 (compared to 6.9% for the EMEA region in 2022), and at all times below the cost of capital during the five years, which was estimated at 7.6% in 2022.

Given that the ROI levels being below the cost of capital for a prolonged period of time could be a disincentive to the Mobile Network Operators (MNO) to plan new investments, it seems more urgent than ever to take advantage of the benefits offered by the EU Recovery Fund being fully operational, which has earmarked a total of €49.8bn for the Italian telecommunications sector to fund the country's informatization, the digitalization of the public administration, and to develop the 5G and satellite ultra-broadband networks.

The leading Italian operators in 2022

The Italian telecommunications market is one of the most highly fragmented and competitive in Europe. At year-end 2022 there were five MNOs and 20 MVNOs, plus numerous operators active in fixed line telephony, with the addition of new players such as Iliad, Sky Italia, Virgin Fibra and most recently Enel Fibra. Also in Italy, the merger between Tiscali and the retail activities of Linkem (now Tessellis) in August 2022 is the first sign of **sector consolidation**, even though it still hardly comparable to what is happening elsewhere in Europe. The need to achieve scale in order to address the need for long-term investments in infrastructure, coupled with profitability levels that are not always adequate, is effectively redefining the sector boundaries. In this respect it is sufficient to mention the Spanish and the UK market, the former with the announced merger between Orange Spain and Masmovil (the second and fourth largest mobile operators) and with Vodafone announcing the sale of its Spanish activities in October 2023, a deal which came shortly after the announced merger of its UK activities with those of Three UK (owned by CK Hutchison Tel.).

In 2022 **TIM** (Italian activities) ranked first by revenues (€11.9bn; down 5.2% on 2021), ahead of **Vodafone** (€4.8bn; down 4.3%), **Wind Tre** (€4.2bn; down 5.6%) and **Fastweb** (€2.5bn; up 3.7%), with **Iliad** in fifth place (€0.9bn; up 15.9%). Excluding the start-ups (Iliad and Open Fiber) and the smaller operators, in the 2018-22 five-year period Fastweb was the only company that grew (up 17.4%), while the top three players all reported approx. 20% reductions, with the main difficulties concentrated in the consumer segment.

In a scenario where margins are generally reducing, **Fastweb** reported the highest Ebit margin in 2022 (9.2%), while the deteriorations by Vodafone, Wind Tre and TIM were due to the fact that the reduction in revenues was higher than the contraction in costs. These results are impacted by the competitive scenario, with repercussions for the customer base and ARPU levels, both of which are declining.

Italy and the infrastructure gap

As part of the European Gigabyte Society project, the European Commission has set the ambitious objective of reaching all European families in populated areas with fibre optic internet and 5G mobile coverage by 2030. In January 2022, the European Telecommunications



Network Operators' Association (ETNO) estimated that further investments of €150bn were needed at continental level for the complete launch of 5G, plus a further €150bn to update the fixed infrastructure to bring fibre to the home (FTTH) in Europe.

Italy has made up some ground in the European benchmarking **connectivity**, with high speed network coverage rising to 53.7% of resident households in 2022 (from 33.7% in 2020) compared with a European average of 73.4%. In Italy fixed line broadband >100 Mbps coverage is now 59.6%, higher than the European average (55.1%) and up there with Germany (38.5%) and France (51.4%). However, France leads the way when it comes to 1 Gbps lines (39.9% of households, compared to a European average of 13.8% and 13.4% for Italy).

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