



Telecoms in 2018

A special report from The Economist Intelligence Unit

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Telecoms: Throttled?

Mobile subscriptions continue to rise steadily, but the telecoms sector's finances will come under increasing strain in 2018.

According to the GSMA, the number of mobile subscribers reached 5bn in June 2017. As a result, around two-thirds of the world's population now has access to a mobile service. For the global telecommunications industry, this will represent a huge opportunity in 2018. However, the resulting financial strains may also prompt a rethink of strategy and investment priorities.

First, the opportunities. The Economist Intelligence Unit forecasts that in 2018 there will be an average of 113 mobile subscriptions per 100 people in the world's 60 biggest markets. Much of this growth will be driven by the increasing uptake of mobile phones and smartphones in Asia, particularly India, and in the emerging markets of Sub-Saharan Africa, the fastest-growing region worldwide.

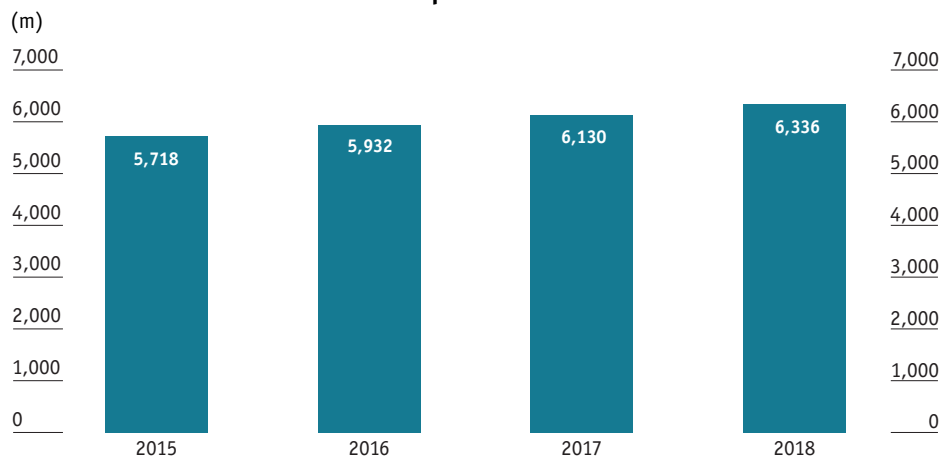
Operators will focus on expanding their footprint in 2018, amplifying mobile coverage and introducing 4G in as many developing countries as possible. In more developed markets, improvements to 4G reliability will be followed by more extensive testing of 5G as the industry works towards full deployment by 2020. The rollout will allow smartphone users to access all manner of online content that can increasingly be used to organise or enhance their lives.

Not everywhere will benefit. In Latin America, for example, exchange-rate fluctuations and low economic growth will continue to force consumers to pare back spending in 2018, pushing down total revenue in US dollar terms for both fixed and mobile telecoms. Data demand remains high, however, and mobile subscription and penetration rates will rise at a steady rate, with the number of mobile subscribers reaching 566m in 2018.

The picture in Asia and Africa will be much brighter as rural populations join urban dwellers in making use of mobile connectivity. Across the Middle East and Africa, the mobile penetration rate will increase from 111 per 100 in 2017 to 115 in 2018, while in Asia it will rise from 101 to 104. Asia, in particular, will move towards more bundled offerings in 2018 as a way of managing large voice and

data volumes. Both regions should see mobile revenue rise, even as fixed-line revenue remains in decline.

Phone numbers: Global mobile subscriptions



Source: The Economist Intelligence Unit.

Margin squeeze

The seemingly insatiable appetite for mobile connectivity has a downside for telecoms companies, however, in that it demands massive capital expenditure. At the same time, increased competition is forcing down prices. This is great news for consumers, who can choose from a range of cheap data-rich packages, but less so for operators, which have to offer more and more discounts or bundled services. As prices fall, average revenue per user (ARPU) suffers. In 2018 we expect ARPU across our 60 markets to fall by 2.3% for mobile operators, and by 11.5% for fixed line.

ARPU can recover in time, at least in the mobile sector, but part of the problem for operators is the blurring of the boundaries between telecoms companies and IT. The days when operators could rely on revenue from a reliable voice and SMS service are long gone. Competition from over-the-top (OTT) providers such as WhatsApp, Skype and Netflix has backed the telecoms sector into a corner. Now it faces a new challenge from app developers, whose business interests are expanding rapidly.

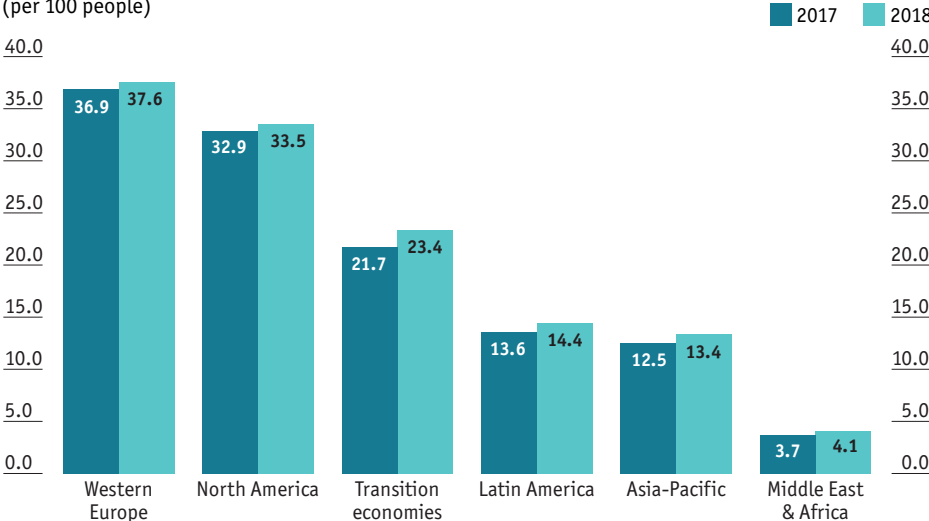
In 2018 operators will have to adapt to this new ecosystem. They will need to develop more partnerships with OTT players, offer new differentiated OTT services and enable a wider range of mobile applications. They will also need to build greater flexibility in backhaul infrastructure by maximising the potential of software-defined networking (SDN) and network functions virtualisation (NFV). Even so, they will remain vulnerable to takeovers from internet players such as Facebook and Google, in a trend that will challenge net neutrality rules.

More positively, 2018 will see the continued growth of Internet of Things (IoT)

technologies, with the launch of new devices that rely on continuous connectivity. For some companies, this will open up new revenue streams. Increased use of big data analytics and cloud computing will drive the development of smart homes, autonomous vehicles and improvements to commercial operations. There will be disagreements over technology standards, particularly for connected vehicles, as telecoms operators and carmakers jostle for market space. All this, however, will underscore the need to invest heavily in fast and reliable connectivity.

On line: Broadband penetration

(per 100 people)



* Fixed broadband only
Source: The Economist Intelligence Unit.

EU rules OK

As always, regulation will affect how quickly operators can roll out infrastructure and restrict their room for manoeuvre as they compete and consolidate. In Europe, for example, the elimination of EU roaming charges will bite further into the margins of telecoms companies in 2018. Beyond 2018, however, roaming revenue could recover as consumers become used to using mobile services abroad, boosting demand.

Meanwhile, the EU’s competition commissioner, Margrethe Vestager, will continue to scrutinise merger and acquisition (M&A) proposals closely in order to protect consumer choice and ensure a competitive environment. Indeed, in early October 2017 the European Parliament dashed operators’ hopes that it was shifting towards “light-touch” regulation when it backtracked from earlier deregulation proposals. Although the parliament acknowledged the need to encourage investment in 5G, it limited the regulatory benefits enjoyed by operators that team up to deliver next-generation connectivity. It also voted to ensure that regulators are given greater powers to tackle “joint dominance” and oligopolistic behaviour.

In the US, however, deregulation is gathering pace. In October the head of the Federal Communications Commission, Ajit Pai, explicitly stated that the commission's aim is to "eliminate, as much as we can, government regulation of the telecommunications marketplace". The process of dismantling Obama-era net neutrality regulations, for example, has already begun, and a repeal of the rules could come as early as December 2017. Were net neutrality to be overturned, it could allow companies such as Verizon and AT&T to reassert their dominance in a market that is already narrowing.

In developing markets, meanwhile, rapid market growth will not prevent competition from becoming intense, sometimes forcing regulators to intervene. In Mexico, regulators will continue to try to rein back America Movil, whose takeover of Telmex has given it around two-thirds of the mobile market. In India, Reliance Jio will continue to unsettle the sector by forcing its competitors to match its slew of free and low-cost packages. Regulators will monitor the situation closely, in a bid to ensure that there is no predatory pricing. However, in 2018 Jio's growth is more likely to be stopped by a long-rumoured merger between Vodafone and Idea Cellular, which may even stop Jio in its tracks.

As a result of these pressures, telecoms companies will struggle to benefit from the growth in connectivity in 2018. While subscriber numbers will continue to rise, we expect total telecoms revenue in the 60 biggest markets to fall by 2% in US dollar terms, to US\$1.2trn. This will largely reflect a 3% rise in telecoms investment as operators spend money on connectivity, which they hope will pay off in the longer term.

What to watch for

- **AI future:** In October Google's artificial intelligence (AI) unit, DeepMind, unveiled a program called AlphaGo, which can master the complex Chinese game of Go in just three days. Hailed as a breakthrough in AI engineering, AlphaGo's advanced neural network forms part of Google's plan to put itself on an "AI first" footing. In 2018 DeepMind will take a lead in embedding AI capability in all Google products and services, but others

will not be far behind. Indeed, every new upmarket smartphone may well have an AI chip before the year is out.

- **Cyber-security:** In October Yahoo revealed that a customer data breach had affected all of its accounts. In 2018 cyber-security will be among the top concerns for companies and regulators, particularly when it comes to IoT-related deployment. With cybercrime increasingly about financial gain, banks will become more directly involved in identity verification, while the use of blockchain technologies will spread. Businesses are also at risk from governments, such as that in China, whose cyber-security and censorship laws could hinder trade and foreign direct investment.
- **Stressed debt:** In April 2017 the Reserve Bank of India (the country's central bank) cautioned against commercial banks providing loans to the Indian telecoms sector, where tough competition has strained company finances badly. Banks such as the State Bank of India have already had to introduce additional provisioning measures to guard against bad debts. Unless market competition eases quickly in 2018, telecoms companies warn that debt levels may rise by another 15%, taking them to three times their 2015 level and leading to as many as 150,000 job cuts.

Company plans for 2018

- **9mobile:** Nigeria's troubled mobile operator, 9mobile, previously known as Etisalat Nigeria, will strive for a new beginning in 2018. A consortium of banks is looking for a buyer for the company, which has failed to repay debt worth about US\$1.2bn. Vodacom, Virgin Mobile and Bua Group are reportedly interested in a deal.
- **Apple:** Apple will move to set up retail outlets in India in 2018 to cement its position in the second-largest smartphone market in the world. The country in which the iPhone-maker started assembling some of its products is in the process of reviewing Apple's application for tax breaks. Apple products are currently sold in India by authorised resellers.
- **Bharti Airtel:** After going on an acquisition spree this year, India's Bharti Airtel will have its work cut out in 2018. The company will focus on clearing regulatory hurdles and completing its planned takeover of the

mobile phone business of Tata Teleservices, as well as that of the Indian unit of Norway's Telenor.

- **Google:** In 2018 Google will increase its focus on its hardware business, positioning itself as a strong contender against smartphone-makers such as Apple and Samsung. The company took a step in that direction this year by taking over the Pixel smartphone division from HTC Corp, its manufacturing partner.
- **Huawei:** China's Huawei seems poised to offer a fair bit of competition to smartphone giants Apple and Samsung in 2018. It accounted for 11.3% of the global market in the second quarter of 2017, with Apple at 12%. Huawei expects the Mate 10 series of smartphones, launched in October, to offer strong competition to Apple's iPhone 8.
- **Telekom Austria.** Telekom Austria plans to unite its businesses across eight markets under its A1 brand. The company will finish launching the A1 brand in all its markets in 2018 in order to complete the rebranding initiative. This move is likely to affect the operator's finances in the first quarter of the next fiscal year.
- **TPG Telecom Ltd:** TPG Telecom, an Australian internet provider, plans to roll out a mobile network in Singapore by December 2018. The operator, which bid successfully for 4G spectrum in Singapore in 2016, plans to invest US\$150m-200m in the Asian country over the next two years.
- **Verizon:** Verizon will embark on a cost-cutting spree in 2018 to meet its target of saving US\$10bn by 2021. The US mobile operator will also reduce its operational and capital expenditure to fund dividend payments in 2022.
- **Vivendi:** In the midst of a lot of controversy surrounding its investments in Italy, Vivendi will see increased intervention from a concerned government. Soon after the French company had appointed a former executive as the CEO of Telecom Italia, the Italian government ordered it to appoint Italian citizens to oversee all strategic decisions.
- **Vodacom:** Vodacom, the largest mobile operator in South Africa, has set its sights on launching a 5G network by 2020. In 2018 it will increase investments in infrastructure to expand its 4G coverage across the entire country. It has invested more than US\$2.4bn in the country over the past four years.

2018 calendar: Telecoms

January

- 26: Nokia reports 2017 results
- 28: International Exhibition of Internet of Things, Riyadh, Saudi Arabia
- 29: Samsung reports 2017 results
- 31: Elisa reports 2017 results

February

- 6: Millicom reports 2017 results
- 14: America Movil reports 2017 results
- February 26-March 1: Mobile World Congress, Barcelona, Spain

March

- 19-20: Telecoms World Asia, Bangkok, Thailand
- 21-22: IoT Asia 2018, Singapore

April

- 10-11: Gigabit Access, Brussels, Belgium
- 20: Verizon reports Q1 2018 results
- 20: Nokia reports Q1 2018 results
- 25: Ericsson reports Q1 2018 results
- 25: Etisalat reports Q1 2018 results
- 28: IoT Expo, London, UK

May

- 11: Deutsche Telekom reports Q1 2018 results
- 23: Vodafone reports Q4 2018 results

July

- 18: Ericsson reports Q2 2018 results
- 27: Verizon reports Q2 2018 results

August

- 6: Saudi Telecom reports half-year 2018 results

September

- 18-20: 2018 NORDUnet Conference, Elsinore, Denmark

October

- 30: Ericsson reports Q3 2018 results
- October 31-November 1: Total Telecom Congress, London, UK

December

- 9: Deutsche Telekom reports Q3 2018 results
- 14: Vodafone reports half-year 2018 results

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