

Prospects for consolidation in European telecoms limited



There has been some noise recently about a potential new wave of M&A in European telecoms, but Scope sees little chance of significant further consolidation in Europe.

Cross-border: no synergies

Cross-border mergers between the major established national players are very unlikely as they offer almost no cost savings or cross-selling opportunities, as telecom services are produced and sold locally. An extra minute of mobile voice in a German network cannot be sold to an Italian customer. Additionally, consumer habits vary a lot from one country to another, as illustrated by average data consumption in Finland (23 GB per month) compared to Germany (2 GB per month). And telecom regulation is applied by national regulators, sometimes with very different outcomes, as the European framework is to be applied taking into account the local market conditions.

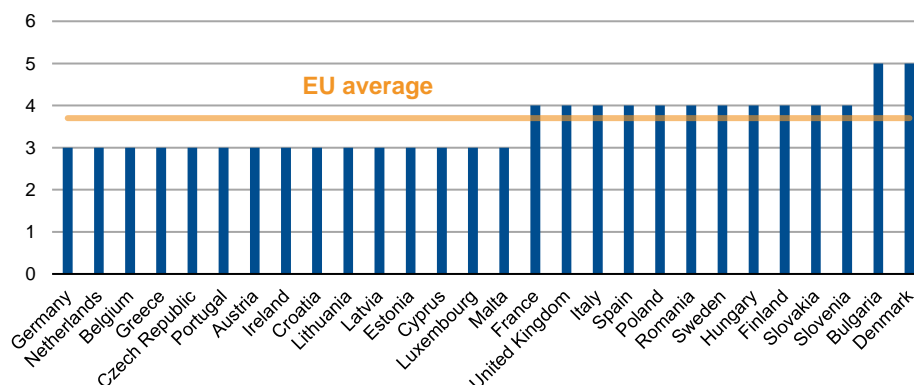
Many operators are still considered strategic national assets and governments are unwilling to see them taken over by foreign companies. The Covid-19 crisis has revealed how important these infrastructures are for each European country. Rumours at the end of 2019 of a merger between Orange and Deutsche Telekom may have reflected the hopes of investment bankers rather than the realistic expectations of management and shareholders.

We note that Telefonica's recent comments about a forthcoming new wave of M&A came at a time where the group is mostly selling assets to deleverage. The recent private equity buyout of MasMovil in Spain cannot be classified as consolidation as none of the buyers are operators in Spain (see table below). Masmovil was originally a mobile virtual network operator (MVNO) and made the rare move of buying Yoigo, the mobile operator and former subsidiary of Telia that had been for sale for years. None of the Spanish mobile operators considered buying the smaller operator.

National mobile consolidation: no real change expected

At the national level, the EC's competition position has been clear: any consolidation that would reduce the number of mobile operators in national markets will be blocked. At the same time, as illustrated by the green light given to the Tele2-T-Mobile merger in the Netherlands, the Commission has demonstrated that its position is far from dogmatic. We do not expect this stance to change in the short to medium term.

Number of mobile operators per country in the EU



Source: Scope analysis. In Bulgaria one operator is in default. In Germany, 1&1 Drillisch not included among active operators.

Analyst

Jacques de Greling
j.degreling@scoperatings.com

Team leader

Olaf Tölke
o.toelke@scoperatings.com

Media

Keith Mullin
k.mullin@scopegroup.com

Scope Ratings GmbH

1 Cour du Havre
 75008 Paris

Phone +33 1 8288 5557

Headquarters

Lennéstraße 5
 10785 Berlin

Phone +49 30 27891 0

Fax +49 30 27891 100

info@scoperatings.com
www.scoperatings.com

Bloomberg: SCOP

Reduction of mobile operators facing regulatory opposition

We note that the May 28 decision by the General Court of the European Union to cancel the Commission veto on the O2 UK/Three merger (2016) has been quickly interpreted as a green light for further national mobile consolidation. First, the Commission can appeal the decision (and we believe it will). This would take about two years so we do not think that the practice could change before the final outcome. Looking at the General Court decision, we note that the court points at insufficient demonstration of several (rather technical) points and does not seem to challenge the spirit of the decision.

In Europe, where the average number of mobile operators per country is already low (about 3.7, on average), the reduction in the number of mobile operators is also facing opposition from national regulators, as illustrated by OFCOM in the UK, and ComReg in Ireland. The BEREC, which groups all EU regulators, published a report two years ago on previous national mobile mergers (in Austria, Ireland, Germany) with “soft” remedies (i.e. with MVNO) and concluded, in very soft language, that *“This report provides some evidence that, even with such remedies, the studied mergers led to price increases compared to a situation without the mergers in the short to medium run”*.

Margrethe Vestager, Commission Executive Vice President, later added that she supports cross-border consolidation, stressing that Europe still has very national markets. She does not seem to have changed her views, stressing that cross-border deals are welcome. But these kinds of deals provide no synergies, as stated above, and are going down dead ends. Bouygues’ purchase of EIT is a classic purchase of an MVNO by a mobile operator and should not face any opposition from the French competition authority.

Scarce cable assets

Opportunities in national mobile and fixed operators

The only real opportunity lies with the consolidation of national mobile and fixed operators (mostly cable operators), as illustrated by the acquisition of cable operator ONO by Vodafone in Spain, mobile operator Base by cable operator Telenet (Belgium), mobile operator SFR by cable operator Numéricable (France), cable operator Com Hem by mobile and fixed operator Tele2 (Sweden) and, more recently, Vodafone acquiring cable assets from Liberty Media in Europe (Germany, Czech Republic, Hungary and Romania). The proposed merger in the UK between Virgin Media and O2 UK is line with this string of deals and we do expect competition authorities (whether handled by the Competition and Markets Authority in the UK or the European Commission) to oppose the deal.

RECENT TELECOM DEALS

Date	Country	Acquirer	Target	Value	Comment
May 2020	United Kingdom	Virgin Media (Liberty Global)	O2 UK (Telefonica)	O2 UK valued at GBP 12.7bn; Liberty Media at GBP 18.7bn incl. debt	Merger of a cable operator with a mobile operator
May 2020	Spain	Providence, Cinven, KKR	MasMovil, mobile operator created by the takeover by an MVNO of the ailing smaller mobile operator Yoigo (Telia)	EUR 5bn (incl. debt)	Private equity investors buying the smaller telecom operators, as national consolidation is unlikely
June 2020	France	Bouygues Telecom	Eur-Information Telecom (MVNO of Crédit Mutuel, using brands Crédit Mutuel, Auchan, NRJ, CDiscount) with about 2m customers	EUR 530m plus earn-out of EUR 140m-EUR 325m	Last significant MVNO in France

With the small number of independent cable assets remaining now in Europe, after all these deals, we believe that further cable consolidation in Europe is also very limited.

Divesting or selling off emerging markets subsidiaries

More visibility on divestments

Some players will further divest or spin off some of their emerging-market subsidiaries, particularly as these markets are now maturing, illustrated by Orange's recent creation of a common subsidiary regrouping its activities in Africa and the Middle East, paving the way for a possible IPO. Operators are also eager to dispose of infrastructure assets, typically their mobile towers.

Tower or fibre disposals could give some financial flexibility to European telecoms operators in the coming years, depending on how the deals are structured. One of the latest transactions involved Telefonica Deutschland selling about 10,000 towers to Telxius for EUR 1.5bn. These kinds of transactions allow some deleveraging and are thus credit positive. Sale-and-leaseback transactions would see liabilities retained on the telecoms operators' balance sheets. Some transactions might be structured as service agreements rather than operating leases.



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Scope Ratings GmbH

Headquarters Berlin

Lennéstraße 5
D-10785 Berlin

Phone +49 30 27891 0

London

3rd Floor
111 Buckingham Palace Road
London SW1W 0SR

Phone +44 20 3457 0444

Oslo

Haakon VII's gate 6
N-0161 Oslo

Phone +47 21 62 31 42

Frankfurt am Main

Neue Mainzer Straße 66-68
D-60311 Frankfurt am Main

Phone +49 69 66 77 389 0

Madrid

Paseo de la Castellana 95
Edificio Torre Europa
E-28046 Madrid

Phone +34 914 186 973

Paris

1 Cour du Havre
F- 75008 Paris

Phone +33 1 8288 5557

Milan

Via Paleocapa 7
IT-20121 Milan

Phone +39 02 30315 814

info@scoperatings.com
www.scoperatings.com

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Scope Ratings GmbH, Lennéstraße 5, 10785 Berlin, District Court for Berlin (Charlottenburg) HRB 192993 B, Managing Director: Guillaume Jolivet.