Fibre operators need more time before the cash flow jaws open

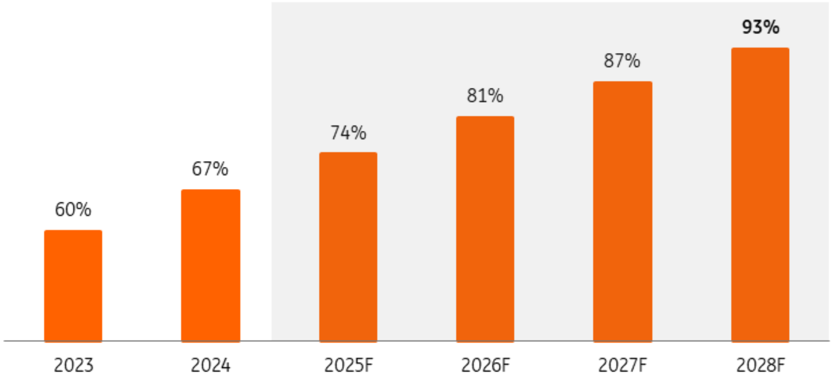
Plans for Europe's digital decade include widespread fibre availability by 2028. Fibre will likely pass through more than 80% of homes in 2026, but connecting the remaining areas will be costly. Customers also do not appear eager to adopt the new technology, making full fibre coverage increasingly unappealing

Fibre is to become widely available by 2028 and pass through more than 80% of homes in 2026

81% of Europeans will have access to fibre in 2026

The fibre rollout is well underway in most European countries, including the UK. We continue to hold the view that by 2028, more than 90% of European households will have fibre access. As we'll show below, this is driven by strong efforts in some of the larger European countries. However, in many other regions, we expect the fibre rollout to come to a halt in the coming years, as it becomes increasingly costly to connect the remaining homes.

Fibre networks expected to pass through 90% of homes in 2028

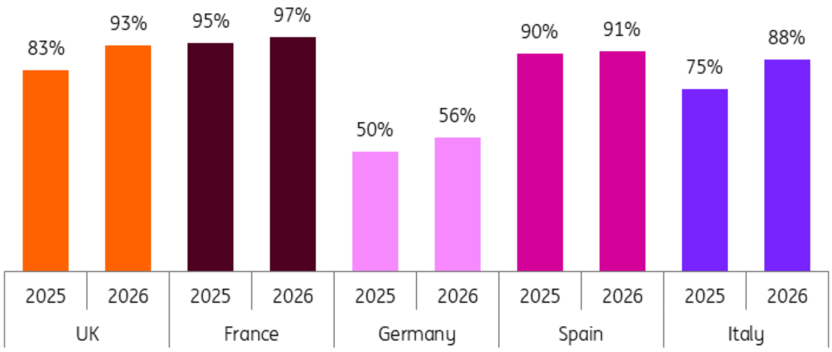


Source: FTTH Council, ING

Last year, we wrote that countries such as Italy and the UK would have to take significant steps to achieve more than 90% fibre coverage. They are succeeding, and we expect fibre coverage in most large European economies to reach 80% in 2026.

The notable exception is Germany. We estimate that by the end of 2025, only about 50% of households will have fibre coverage. This isn't certain, though, as Deutsche Telekom notes that the take-up rate in Germany remains low. Increasing the take-up rate remains a key challenge in many European countries, including the Netherlands, the UK, and Belgium.

Germany is holding back the overall coverage rate for Europe



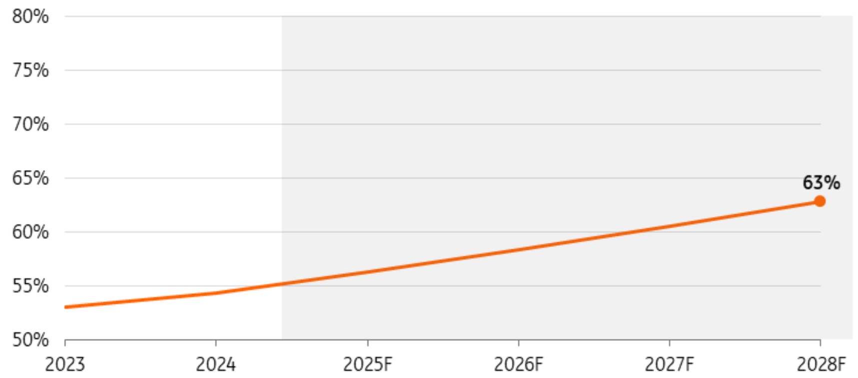
Source: FTTH Council, ING

Cable remains a competitive technology

Let's discuss one explanation for the slow improvement in take-up rates. We expect the take-up rate to be around 58% in 2026 and 63% in 2028, as can be seen in the figure below. The slow improvement shows it is difficult to quickly fill the network with customers, because of technical and regulatory challenges, but also because of competition. Interestingly, what Germany, the UK, the Netherlands, and Belgium have in common is a strong cable operator. In our view, cable technologies remain competitive with new fibre technologies. Customer churn will be low if hybrid fixed-coaxial (HFC) networks offer high speeds and customers are satisfied with their bundles.

Greenfield operators then face a difficult challenge in growing their market share. They may capture a high market share among switching customers, but overall growth remains low if only a few customers switch to a new operator each year. Countries such as Spain, Portugal and France are leading in fibre take-up rate. Interestingly, these are countries in which cable operators moved to fibre technology.

We expect a 63% take-up rate by 2028



Source: FTTH Council, ING

Keeping customers happy is the key to success

Incumbent telecom operators are facing increasing competition from alternative fibre networks (Altnets). Examples of affected companies are BT and VodafoneZiggo. VodafoneZiggo's strategy focuses on customer satisfaction through faster speeds, an indoor Wi-Fi guarantee, competitively priced mobile plans, and excellent customer service. Added perks include free movies, media and sports packages, and a mobile app.

This offering is difficult for smaller companies to replicate. So, this means Altnets must focus on the value segment. Yet this has the disadvantage of lower profitability, which may not always match the roll-out costs of a superior technology. Companies such as KPN and Orange are, therefore, well-positioned to monetise their fibre rollouts in 2026. They combine market share with attractive packages and their own networks.

New fibre networks face challenges

The challenge described above is also evident in financial markets. Investors are concerned about a tough pricing environment for broadband products. Looking at the UK, BT offers a promotion for its copper customers switching to fibre. According to Virgin Media O2, Sky and Vodafone in the UK offer 1GB fibre for only £21 per month.

Altnets struggles to grow revenue because they face difficulty with increasing take-up rates. This comes at a time when they often still need money to cover network expansion projects. Many Altnets remain in the construction phase. As a result, EBITDA growth is sometimes subdued. This brings valuation challenges and complicates M&A.

It is somewhat more difficult to calculate the enterprise value of a company with negative free cash flows, as there is more uncertainty about future cash flows. This may also explain why we hear few incidences of M&A and network consolidation. We do read stories of owners investing new capital in their businesses, as they remain confident that value will be created in the future. However, sometimes the capital injection is accompanied by a new business plan that includes a delay in new-build projects.

The focus is now on cash generation, as the era of cheap, QE money is over. Notable companies in the news negotiating new finance packages include CityFibre, Open Fibre, ODF, and Northern Fibre in Germany.

Scaled back roll-out plans will be executed with focus on customer growth

We still maintain that fibre is a superior technology, and is good for European customers and businesses to upgrade to future-proof technologies. However, we have observed that the rollout is slowing, with scaled-back business plans and a stronger focus on customer growth. It will, therefore, take a little bit more time before the cash flow jaws open. That is to say, it takes time to accelerate top-line growth and reduce capital spending.

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