

Lower energy prices provide a tailwind for telecom operators

Telecom operators face a brighter financial outlook in 2024. Last year, many felt the impact of higher energy prices, which they had largely hedged at high levels in 2022, to guarantee supply. As energy prices have since come down, the declining costs of energy could provide some tailwind to margins



The effect of higher energy prices on telecoms

Providing the infrastructure for phone calls, online gaming, and video conferencing is an energy-intensive business. It is no surprise, then, that the telecoms sector accounts for roughly 2% of global energy consumption. Because energy is an important cost component for telecoms, they were mostly (roughly 90%) hedged when energy prices shot up in 2022 and early 2023. However, hedging in 2022 was more expensive than in previous years. Moreover, energy prices in Europe are likely to remain above their levels before the war in Ukraine.

Historically, the price of wholesale electricity has been roughly €40/MWh. Electricity, in turn, is often generated from natural gas, which has historically been priced around €20/MWh. As you can see below, gas prices have come down and have stabilised since their peak in 2022. This means that telecom operators will feel the tailwind of lower energy prices in 2024 compared to 2023. Gas

prices are chosen because regional electricity markets in Europe all have their own characteristics, while European gas markets are deep and better reflect price trends.

Gas prices have declined since 2022's peak

3-month forward gas price in euros per megawatt hour (expected prices in orange)



Source: Refinitiv, Endex

Telecoms' financial outlook is positive despite margin pressures

The rise in energy costs placed upward pressure on many telecoms cost bases in 2023. Rising wages also played a part; as the cost of living increased strongly, so too did wages. Yet, in this challenging environment, most telecoms have managed to increase revenue through somewhat higher prices. Cost efficiency measures countered part of the cost increase. These two measures combined mitigated inflationary pressures for telecoms.

For 2024, the financial outlook of telecoms is more positive. The headwinds from energy costs and wage increases will likely ease. Furthermore, many telecoms will continue to cut costs, for example through the decommissioning of their copper networks. This leaves open the possibility for increased profitability in 2024.

Telecoms have procured a lot of sustainable energy, but 5G could offer challenges

The telecom sector also procures a very significant amount of green energy. So much so that, according to a report by Oliver Wyman, telecom operators are ahead of plan in greening their operations. On average, telecom operators use 11% more sustainable energy than other companies in countries where they are located. In procuring a substantial amount of green energy, telecoms further hedge themselves from higher energy prices.

Tele2, Telia and Deutsche Telekom are leading the sustainability charge. They managed to cut their Scope 1 and 2 emissions between 2016 and 2021 by 99, 96, and 93%, respectively. They, and other telecoms, made their businesses more sustainable through the procurement of sustainable energy. In addition, they decommissioned copper networks and moved to much more energy-efficient fibre networks.

However, the 5G rollout could offer challenges. 5G requires more cell towers than 4G to offer higher speeds, meaning the network likely requires somewhat more energy. There might be smart

ways to offset possible higher energy use of 5G, and telecoms will likely procure enough sustainable energy. Moreover, telecoms have managed to make their Scope 1 and 2 emissions sustainable with remarkable speed. However, Scope 3 emissions are roughly 70% of telecoms' supply chain emissions. This stems mostly from the manufacturers of networks, networking equipment and the supply of products such as mobile phones.

Given the fact that the telecom sector is making important strides in the green transition, we expect them to face these challenges head on while the volatility of energy prices should recede compared to 2022.

Author

Diederik Stadig

Sector Economist, TMT & Healthcare

diederik.stadig@ing.com

Jan Frederik Slijkerman

Senior Sector Strategist, TMT

jan.frederik.slijkerman@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.