

Why 2025 won't prove a transformative year for telecom M&A

After an eventful 2024, we aren't expecting an overly transformative year ahead for M&A in the telecom space. We also don't foresee the creation of a pan-European telecom operator despite recommendations along these lines in the Draghi report. Still, look out for a number of smaller transactions, involving private equity, tower companies, and fibre assets. A likely acquirer of assets is Iliad, while BT, Vodafone or Liberty Global may look to sell



Source: Vodafone is one of a few operators likely to take the opportunity to sell real assets when attractive offers arrive

No transformative telecom M&A in 2025

We do not see scope for further cross-border consolidation of European telecom markets in 2025. We also see limited room for consolidation within European countries. In previous years, we held a positive view on consolidation in Spain, Italy, and the UK. Now that transformative M&A has materialised in these countries, the scope for in-market consolidation is limited.

As mentioned above, we do also not foresee cross-border M&A among European telecom

operators in 2025. This is despite a desire for larger European operators from European policymakers, as articulated in the Draghi report. The main reason for this is a lack of cost synergies, while historically, managerial and regulatory complexities made it difficult for Vodafone and others to reap benefits from its scale as a pan-European telecom operator.

For example, Deutsche Telekom has other priorities than growing its European scale. Another large operator, Orange, is expected to focus on its French and Belgium markets while managing its joint venture, MasOrange, in Spain. BT and Telefonica do not have the financial muscle to acquire others and could even become M&A targets, although this looks like a long-shot expectation for now.

M&A transactions involving telecom operators are still possible

Despite our muted expectations for further consolidation, we would welcome consolidation in France. Altice France needs to repair its balance sheet, while the domestic telecom market is competitive. However, Orange is probably too large to acquire a competitor, and the owners of the other businesses were not able to agree a deal in the past. In Italy, further consolidation looks remote.

Nevertheless, given that the Italian market will have four mobile operators following the merger between FastWeb and Vodafone Italia, the remaining companies will probably advocate for further consolidation in the country. However, this will likely be subject to strong remedies given the tough Italian telecom regulator. Nevertheless, there remains a possibility that CK Hutchison Group Telecom would be willing to sell WindTre in Italy to Iliad at the right price. We also would not be surprised if CK Hutchison were to sell some smaller operations in Europe to private equity or through an IPO. The same holds true for a few other operators.

Some companies in acquisition mode, others look for divestments

The recent Sunrise IPO in Switzerland is an important milestone for European M&A in the TMT space. Now that the IPO market is open, it'll be easier for other telecom operators to divest smaller operations, and the Sunrise transaction also provides a relevant price point. We will discuss a few companies that may look to spin out smaller operations, such as Liberty Global, Vodafone, Hutchison, and Telenor.

If the sale of Sunrise is an indicator for its strategy, Liberty Global will likely take other attractive offers for its assets (or equity stakes) to prop up its share price. Patrick Drahi may look for disposals in Portugal or France, as mentioned above, while the most obvious M&A transaction for Telenor would be to sell (part of) its shareholding in its two large Asian joint ventures, its companies in Pakistan and Bangladesh, or its other smaller portfolio companies consisting of adjacent businesses. Vodafone also owns many smaller operations as well as an equity stake in VodafoneZiggo that it may look to monetise, while Telia, for instance, could sell a small operation such as Telia Latvia or its TV business.

Apart from divesting smaller subsidiaries, companies with a relatively high debt load will likely take the opportunity to sell infrastructure assets when attractive offers arrive. This applies to companies such as Telefonica, BT and Proximus. But Telenor and Liberty Global may also divest (non-core) assets if the price is right. We will come to this below. We do expect most telecom operators to maintain solid investment spending. In doing so, they build the assets that could be

sold later.

Apart from the most likely sellers, a few telecom operators have previously taken the opportunity to make acquisitions and we expect them to continue to do so. Examples include telecom operators from the Middle East, such as Saudi Telecom and Emirates Telecommunications Group. But we also expect Iliad to be more of an acquirer of telecom assets than a seller. Finally, we expect Virgin Media O2 to look for smaller scale fibre operators in the UK.

The ownership of joint ventures may change

Today, larger telecom operators often offer both fixed and mobile services. To enable this, joint ventures were created, combining broadband and mobile telecom companies. As a result of these transactions, there will be quite a few telecom companies in Europe with two large shareholders – the most notable being VodafoneZiggo, Virgin Media O2, MasOrange and VodafoneThree.

We expect that the ownership of these companies will change at some point. For example, Telefonica will likely be a seller of its stake in Virgin Media O2 once there is clarity on the strategy and value of its network assets (including Nexfibre). Orange is likely interested in gaining full control over MasOrange in a few years' time, while Vodafone will most likely end up being the only owner of the company that will be created through the merger between Vodafone UK and Three UK.

But these are not the only telecom joint ventures in Europe. Over time, many fibre joint ventures have been set up between incumbent telecom operators and equity investors in order to enable the fibre roll out. Examples include Glaspoort in the Netherlands, Unifiber in Belgium, Deutsche Glasfaser, Unsere Grüne Glasfaser and GlasfaserPlus in Germany, XPFibre in France, Telenor Fiber in Norway, and Bluevia Fibra in Spain. Telecom operators may look to buy out their private equity partners, at some point in time.

Also of interest is that some fibre networks are merging. Recently, a joint venture between the fibre networks of MasOrange and Vodafone Spain was announced, and the potential merger between Optics Bidco and Openfiber in Italy remains a possibility. In the UK and elsewhere, there are many (smaller) fibre networks that could merge. The need for consolidation is likely to accelerate now that the era of cheap money is over and network utilisation becomes more important. A high utilisation rate can be achieved more easily from larger incumbent networks.

We may see more network carve-outs

Besides the creation of joint ventures to enable the fibre rollout, some telecom operators have also split into a network entity and a customer service entity. In Denmark, Nuuday and TDC Net are now two separate companies, and the same holds true for Telecom Italia and Optics Bidco in Italy. This carving out of networks assets is likely a prelude to other deals. We expect another network separation taking place in Belgium with Telenet selling its network.

But Virgin Media O2 is also a potential seller of its network asset. Meanwhile, according to our thinking, Nuuday could still be sold at some point, and Bloomberg reports that private equity is interested in an acquisition of Telecom Italia. Nevertheless, we expect sales proceeds for asset light service companies, such as Telecom Italia, to be lower than for companies with network assets. Generally speaking, we are not a fan of asset light companies, as they have lower recovery values but also a competitive moat that is weaker than that of integrated companies.

Other transactions to expect

Infrastructure assets likely remain attractive for investors, and we expect that some telecom operators will continue to look selling some of these – e.g., towers, subsea cables, data centres or software companies.

There are many potential developments in the tower space. It is likely that Vantage Towers will sell its Spanish operations, and American Tower, TOTEM and Cellnex are all potential buyers as they already have operations in Spain.

Many telecom operators have sold (a stake in) their tower portfolios to private equity firms, including Vodafone, Telefonica, Deutsche Telekom, Virgin Media O2 and Telecom Italia as well as others. Cellnex has also teamed up with private equity to provide capital for tower portfolios. It is likely that some of these private equity stakes come to the market, given that many private equity firms have set a fixed investment horizon.

There are still many other telecom companies that have kept their tower portfolios, such as Telenor, BT, and Orange. These are not the most likely sellers of towers in 2025, but we're not excluding the possibility.

Data centres are another asset class that could be sold. Some telecom operators already have sold data centres, such as Altice France, Telefonica and more recently BT. Interestingly, Deutsche Telekom, Telenor and Swisscom are looking to invest in this space, with a focus on either the European cloud or artificial intelligence (AI) infrastructures. We expect interesting developments in this space in 2025.

Finally, telecom companies may look to sell their enterprise solutions arms, such as Telecom Italia's TIM Enterprise, (parts of) Proximus International, Deutsche Telekom's T-Systems, or their submarine cables, such as Sparkle, for which Telecom Italia already has received a bid.

Some telecom operators are likely sellers of assets

When evaluating the above, one should conclude that telecom operators are more likely sellers of infrastructure assets than acquirers of business. Nevertheless, we do expect all telecom operators to maintain solid investment spending. In doing so, they build assets that could be sold later.

However, the near-term take away should also be that there are a few operators that are most likely to sell assets. Companies with a relatively high debt load will likely take the opportunity to sell real assets when attractive offers arrive. These companies include the likes of Telefonica, BT and Proximus. But Telenor and Liberty Global may also divest (non-core) assets – if the price is attractive – to propel their equity value.

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