

TMT growth takes centre stage

We expect solid growth for the European telecom sector in 2025, with some revenue growth and solid EBITDA growth. We expect the capex to sales ratio to remain unchanged compared to 2024 and do not expect major changes to financial policies



We're taking a fairly positive view on telecoms growth for the year ahead

Positive sentiment around telecom sector

As the digital decade progresses, the objective of excellent mobile and fixed networks remains a key policy goal for policymakers and the telecom industry. Many policymakers understand that telecom companies need to be profitable to be able to fund new state of the art networks. As seen in the Draghi report, some are even willing to take a fresh look at regulations. Meanwhile, industry-wide investments in new fibre and 5G networks start yielding returns. We therefore view the sector through a positive lens.

Solid macroeconomic backdrop

A solid macroeconomic environment helps telecom companies to deliver good returns, given the relationship between GDP growth and telecom revenues. Our base case assumes modest economic growth in the eurozone, and this provides a stable operating environment in 2025 for telecom operators. While we do not expect large policy changes to take effect in 2025, it is possible that the investment climate for telecom operators improves as the Draghi report specifically

addresses the challenges of the telecom industry. A more level playing field with technology companies and harmonised regulations across the EU could further improve the outlook for telecom companies.

In some markets, competition has become more rational, removing a strong downward price spiral. Belgium and Portugal are an exception to the rule here, with low price offers from Digi having a disruptive effect. Note that Iliad previously offered attractive low priced products in Italy and France, where it now maintains solid market shares.

Expect growing revenues

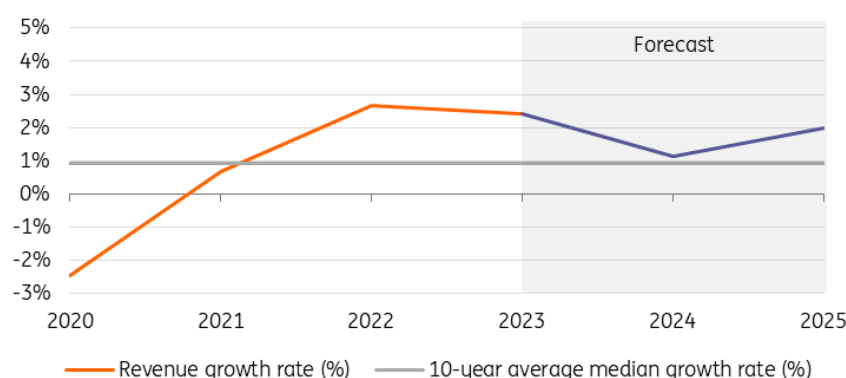
For 2025, we see a more stable operating environment for telecom operators now that many homes are connected with fibre. In many countries, operators have successfully improved their customer retention rates through offering fibre-based fixed-mobile converged (FMC) products.

So far, new 5G services have not really turned into new revenue streams – although fixed wireless access (FWA) products and some Internet of Things (IoT) solutions could be considered exceptions. We expect the biggest revenue uplift from 5G to come after 2025, as not all companies have a 5G core network. Nevertheless, we expect some announcements around services such as artificial intelligence, private networks, network APIs (Application Programming Interfaces), gaming or (emergency) satellite coverage. This could provide an unexpected further boost for revenues. We also expect a renewed discussion on VR/AR, the metaverse and IoT services. Nevertheless, we now expect most new 5G business models only to come in 2026.

As a result of this, we expect at least 2% revenue growth for the European telecom sector in 2025. This is similar to the revenue growth rate in 2024. Note that reported revenue growth was only 1% because of disposals by Vodafone, Telecom Italia and Orange.

Expect revenue growth for 2025

Median revenue growth of 16 European telecom operators



Source: Refinitiv, ING

EBITDA growth should be robust in 2025

When evaluating telecom profitability for 2025, we expect EBITDA to grow a bit faster than revenue growth. In previous years, higher wage growth and higher energy costs have weighed on profitability and therefore cash generation. Fortunately for companies, wage growth is expected to

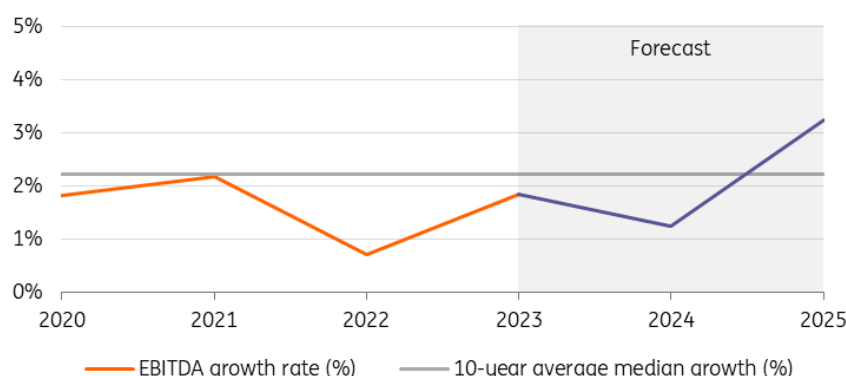
moderate to c.3% during 2025 (according to the European Central Bank). We expect companies to be able to manage the impact from higher wages through cost savings initiatives – something they have done throughout the years.

AI could potentially help with this. When evaluating AI use cases, there appear to be benefits for telecom operators on the cost side, and they can look towards efficiency gains – especially in fields such as customer service, networks, and administrative support roles. If AI becomes highly successful at enhancing productivity, EBITDA could grow faster than our expectations.

Taking the above into account, we expect EBITDA to grow a bit faster than revenues at a low-single digit growth rate. Note that some companies even aim for almost mid-single digit growth rates. Others, such as Proximus, may feel the heat of stronger competition and will probably not grow EBITDA.

EBITDA growth could accelerate in 2025

Median EBITDA growth 16 European telecom operators



Source: Refinitiv, ING

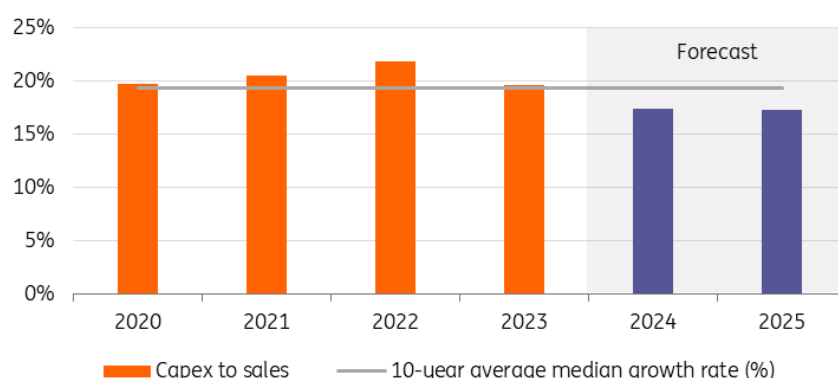
No material decline expected in capital expenditures

We've been seeing investments in nationwide fibre grids for many years now, but this will likely come to an end in the not-so-distant future. Indeed, for companies like Telefonica, we expect capex to be relatively low as their remaining efforts to connect more homes is undertaken together with others. Nevertheless, in many markets we still see a substantial need for investments in new fibre grids.

The need to achieve better geographic coverage for 5G networks also requires further investments. The same holds true for investments into 5G core networks, investment in energy saving equipment and investments into AI solutions. This leads us to our expectation that capex will grow in line with revenues, with a capex to sales ratio of 17%.

Capital expenditures not yet coming down in 2025

Median capital expenditures 16 European telecom operators



Source: Refinitiv, ING

Don't expect any significant changes to financial policy

We do not expect large changes to financial policies in 2025. The main risk is that operators themselves change their (financial) policies because they feel the need to reward shareholders. We have also seen examples where companies have tolerated higher leverage to maintain shareholder rewards after EBITDA declines. This remains a possibility for companies in a competitive environment, such as Proximus. However, the era of cheap money is over – and that may also be a reason for companies to follow more prudent financial policies. In general, we do not foresee large changes to financial leverage, also given the solid outlook for EBITDA. Overall, we expect to see a stable European telecom market in 2025.

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