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Telco KPIS: 4q09 Analysis

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Abstracts

Revenue growth continues to slow

Of our sample group of 22 of the world's largest telcos, a growing number experienced revenue declines when comparing 4Q09 with 4Q08. From nine operators in the sample, this has expanded to 13. Average revenue growth for the group was 0.4%, but this figure is held up by the Chinese operators (China Mobile and China Telecom), and Verizon's acquisition of Alltel, without which average revenues would have declined by 1.6%.

Fixed revenues continue to decline for most of the operators in our sample (with a handful of exceptions), but this is an expected, albeit unwelcome trend. The worrying development surrounds mobile revenue growth, which averaged a mere 0.6% year-on-year, down 3.6 percentage points when compared with 3Q09.

Cost cutting delivering increased profitability, particularly for some mature market operators

This trend of revenue decline is driving many telcos, particularly those in mature markets, to cut costs in order to maintain profitability. However, average opex growth for the operators covered in this report rose 3% during 4Q09 (year-on-year), driven in part by some of the high-growth emerging market operators which have seen their opex increase at a faster rate even than revenues.

However, this skews the fact that some operators are keeping a tight rein on costs. BT, KPN, Telecom Italia, and TeliaSonera successfully reduced opex at a faster rate than their respective revenue declines, thereby increasing their overall profitability. In addition, a handful of those operators that experienced revenue growth (including America Movil, Deutsche Telekom, and Etisalat) prudently managed to keep opex

growth in check.

Capital expenditure was the low-hanging fruit for several operators to control costs

Average capital intensity declined two percentage points to 20% in 4Q09 from 22% in 4Q08. For the majority of operators, capex either remained flat or declined marginally. However, for a number of emerging market players, such as Bharti Airtel, America Movil, MTS, and China Telecom, capex declined significantly due to the completion of the current phase of investments in network expansion and deployment.

Consolidation on the horizon?

Many of the telcos in our sample group are experiencing declining revenues for both fixed and increasingly mobile services. If this trend continues, it will eventually drive consolidation in a number of markets, as smaller telcos look to either increase scale or exit, and larger telcos look to arrest their decline through M&A. A good example of this is the recently announced merger of CenturyTel and Qwest in the US. Another driver of M&A lies in the fact that a number of telcos have increased their cash balances substantially (in response to the economic downturn and the credit crunch), while also paying down their debt, leaving them in an improved position to consider large-scale investments.

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