COVID-19's Impact on the Global Telecommunications Industry

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The COVID-19 pandemic—perhaps more than any other event in human history—has demonstrated the critical importance that telecommunications infrastructure plays in keeping businesses, governments, and societies connected and running. Because of the economic and social disruption caused by the pandemic, people across the globe rely on technology for information, for social distancing, and working from home.

The telecommunications sector has seen tremendous technological advances over the past few decades, with mobility, broadband, and internet services growing in capability and reach across the globe. The International Telecommunication Union (ITU) estimates that there were over 4 billion internet users at the end of 2019, of which over 3 billion users are in developing countries. However, in spite of progress in access to internet and mobile services, many people and businesses remain disconnected. Globally, 3 billion citizens remain unconnected. And in Africa, only 294 million have internet access out of a population exceeding 1 billion. IFC supports projects that bridge these gaps.

SECTOR BACKGROUND

The telecommunications services industry consists of digital infrastructure (such as fiber, telecommunications towers, active networks, and data centers), operators (mobile and fixed broadband, data centers, and cloud computing), and applications (broadband connections, telephony, video, e-commerce, and others). The sector holds promising opportunities for private sector investors.

The sector has remained "mission-critical" to keep economies moving under the lockdown in at least three different ways:

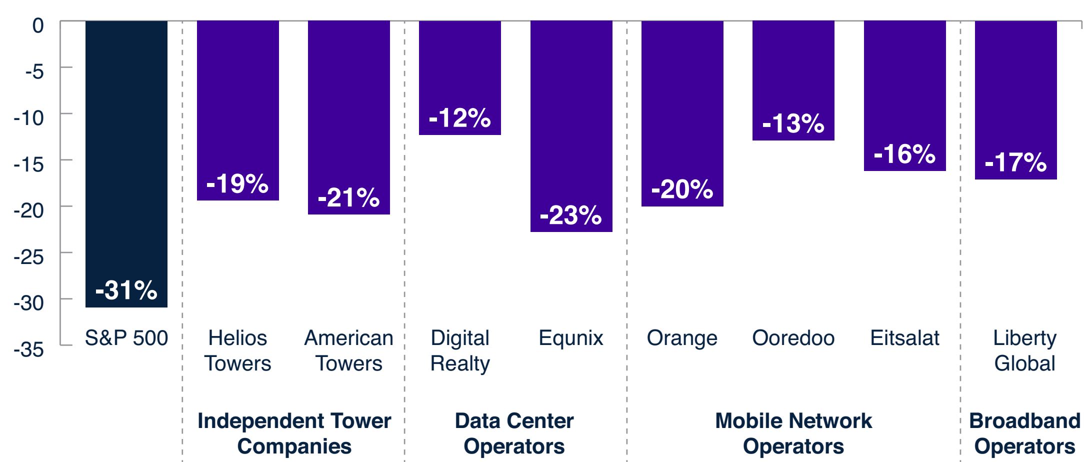
1. Providing business-critical connectivity and resiliency;
2. Facilitating work-from-home arrangements;
3. Keeping individuals and societies connected and informed, with access to medical, financial, commercial, and other essential services during mandated social isolation.

COVID-19'S IMPACTS ON THE SECTOR

Many telecom players—from broadband to mobile to data center operators—have benefitted from a surge in the traffic of data and voice. As a result, the telecom sector is performing well compared to other infrastructure sub-sectors.

In sharp contrast to many other industries, the telecommunication sector has been generally exempted from major COVID-19-related restrictions, such as stay-at-home orders and quarantine requirements, as it is recognized as an essential service. Some telecom companies have been strengthened by the short-term spike in data traffic and increased use of broadband services, as more people are working from home and rely on video conferencing to hold meetings. Traffic growth has, in fact, demonstrated increased reliance on connectivity and digital services. As a result, the telecom sector has remained acyclical relative to the S&P 500 throughout the crisis, as shown below:

PERFORMANCE OF KEY GLOBAL TELECOM PLAYERS VERSUS THE S&P 500 DURING THE COVID-19 PANDEMIC



Source: S&P Capital IQ.
Note: Based on the difference between the closing prices on February 21, 2020, when the stock market was first impacted by the pandemic, and March 20, 2020, when the stock market started to stabilize; all data retrieved from S&P Capital IQ.

The technology, media, and telecom (TMT) sector, however, is not isolated from short- or medium-term disruptions. General macroeconomic impacts, restrictions in distribution of airtime, and demand shortfalls from the bottom of the pyramid are beginning to have an effect.

To find out what impact COVID-19 has had on the TMT sector—and the implications for future business—IFC interviewed 20 of its telecom partners and clients. Specifically, we looked at short- and medium-term impacts across four key elements of the value chain: network buildout, operation and maintenance, service commercialization, and financing. Our findings are as follows:

NETWORK & FACILITY CONSTRUCTION

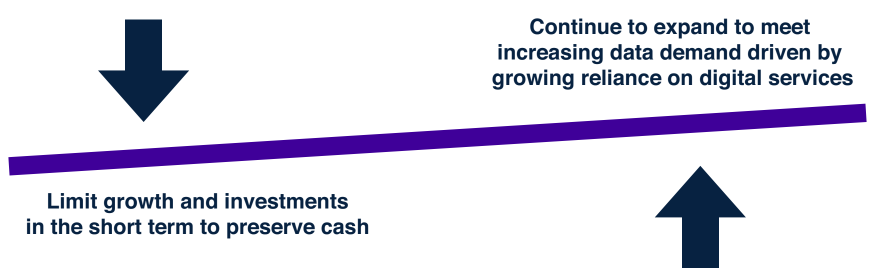
Short-term construction is generally exempted from containment measures. Given the critical nature of telecommunications, many of our clients in developing countries are permitted to carry out construction. Some of our eastern European clients report a more favorable construction environment than usual due to a surge of available workers.

Short-term supply disruptions are expected to recede in the second half of 2020. The risk of further delays in shipments of network equipment is considered small.

Some clients may voluntarily suspend construction due to supply chain disruptions. A lack of materials and equipment—particularly those imported from China—has prompted some clients to suspend new construction. However, affected clients are well-stocked on critical inventory. They estimate that 70–80 percent of Chinese suppliers have resumed to usual operations and are optimistic that construction can resume within 2–4 weeks.

Resolution of service-level agreements (SLAs) affected by production delays still unclear. The construction cuts and delays are impacting SLAs and delivery timelines. Clients may commit to upholding offtake obligations and request compensations for delays. Alternatively, they may agree with wholesale infrastructure companies to postpone the delivery timeline or even cancel partially constructed projects. In most cases, the impact will be a change in the delivery schedule without significant penalties.

Growth-stage clients are most impacted. IFC clients that rely on significant construction for revenue growth are most impacted. For clients not currently undergoing large-scale construction projects or having a diverse revenue base, such disruption is very limited.



OPERATIONS AND MAINTENANCE

Operations and maintenance remain largely uninterrupted. No extended period of interruption was reported by clients, who are generally confident about continuing normal service levels and operational performance. Governments across emerging markets typically allow suppliers to continue with maintenance work because of the need for connectivity during the quarantine. Most clients are well-stocked on critical inventory, which protects them from supply chain disruptions. However, if containment measures—namely, lockdowns—continue or escalate in some emerging markets beyond July 2020, our clients' ability to maintain network quality may be compromised.

Service levels are not experiencing significant disturbances. Most clients have effective business continuity plans, effective operational procedures, and supply agreements for key processes. As a result, operational performance is normal, with service levels exceeding 99.95 percent.

Contingency plans enable firms to manage spiked demand during the quarantine. The data load challenge has generally been manageable. As people move away from city centers amid the work-from-home arrangement, data density has become more scattered, and thus networks have become less congested. If demand exceeds capacities, our telecom clients have the option to request over-the-top service providers (OTTs) to throttle usage, reduce speed, and lower qualities to ensure service levels.

SERVICE COMMERCIALIZATION

Telecom demand spikes are leading to short-term revenue upticks. Our operator clients—including mobile network operators (MNOs) and internet service providers (ISPs)—are experiencing an uptick in revenue from increased usage. This benefit is shared across the telecom value chain. None of our infrastructure clients reported termination of major customer contracts due to COVID-19 despite furloughs and temporary closing of businesses.

Continuous growth and business development are uncertain in the foreseeable future. The lockdown has affected the movement of salespeople and distributors, significantly increasing the difficulties for new business development. Some operators are reporting reductions in retail revenue as points of sale for prepaid services are shut down, although some sales were recouped through online channels. Additionally, due to the slowdown of the global economy, most of our clients' business customers are reluctant to commit to new contracts or purchase handsets.

The general creditworthiness of customers has declined. As a result of the lockdown, most high-value enterprise customers—including schools, universities, hotels, restaurants, and offices—have stopped operations and face liquidity challenges. Some customers—particularly small and medium businesses—have requested a temporary suspension of services, rebates, discounts, or payment holidays.

Revenues may decline due to reduced economic activity in the medium term. Because customers generally prioritize telecom services over other expenses, the potential decline in telecom services is expected to be lower than other discretionary spending.

FINANCING

Foreign exchange (FX) carries the most direct financial risk. COVID-19 and the recent decline in oil prices are putting pressure on emerging market currencies and economic growth. However, most clients have not seen solvency risks triggered by currency depreciation thus far. Neither did they encounter significant issues on the conversion of local currency to meet payment obligations offshore. MNOs will feel the FX impact immediately as their revenues are denominated in local currencies. Other clients, such as tower and data center companies, mostly have five to ten-year contracts denominated in hard currencies, but are exposed to FX risk indirectly through the creditworthiness of their MNO clients. Clients also expect significant FX effects on the price of imported network equipment.

Efforts to raise capital may be delayed. Companies raising private capital are considering options to avoid drops in valuations related to uncertainties. Merger and acquisitions (M&A) activities have also stalled as buyers have become increasingly prudent in using cash.

Uncertain The outlook in the bond market is uncertain. Some of our clients have reported difficulties accessing bond markets, especially firms that are non-investment grade.

RESPONSE TO THE CRISIS

In the face of the uncertain future, our clients are trying to strike a balance between expanding to meet higher demand in the short-term and preserving cash to weather a protracted economic downturn.

Amid uncertainties, clients have mixed sentiments about new deployment for network and facility construction. Most clients have already purchased and shipped additional equipment to construction sites. However, some clients are expected to be prudent, slowing down deployments in response to uncertainties. Others see the demand spikes as new opportunities for growth. This latter group has reported more confirmed orders over the past few weeks and plans to capitalize on the opportunity to exceed their business plan for 2020, making the most of depleted labor prices.

Lower-income customer groups, who are experiencing the most damage, are expected to reduce or stop purchasing airtime and data bundles. However, the increased consumption by higher-income customer groups, mainly driven by higher data consumption, may partially offset the decline in the bottom segment.

MNOs are reluctant to commit to new wholesale contracts with infrastructure operators. Infrastructure operators such as tower companies and energy service companies (ESCOs) may see a drop in new MNO contracts. Their MNO clients will likely become less willing to take risks on network expansion or continuing switchover of 3G equipment to 4G, and pause any consideration of 5G deployments.

MNOs facing issues with collections from business and consumer customers are likely to request a delay in payments to their infrastructure services. Clients anticipate payment delays from an average of 45 days to up to 90 or 120 days. This creates the need for additional working capital.

Industry consolidation and capital raise may intensify in the long term. Some clients have pointed out the potential for industry consolidation in the longer term and expect M&As to ramp up, starting from the second half of 2020.

GOING FORWARD AND IFC SUPPORT

An extended pandemic will have an increasing impact on the global economy, affecting the financial health of consumers and businesses and hence long-term demand. Mobile and broadband operators with strong exposure to retail consumers may suffer more in the short term, but the damage will eventually have an impact throughout the value chain. The impact will hinge on how long the lockdown will last.

Most clients expressed confidence in managing the pandemic. Notwithstanding, some have expressed concern for the medium term if the pandemic persists, and have asked for support from IFC.

In response, IFC is in the process of accelerating investments in excess of $400 million to support our existing clients in the telecommunications sector. The financing will be utilized to address working capital requirements, refinance debt maturing in the short term and support network expansion through long grace periods and tenors. IFC's support of the telecommunications sector is part of IFC's $8 billion in fast-track financing. Of this, the Real Sector Crisis Response Facility is providing $2 billion to support clients in the infrastructure, manufacturing, agriculture, and services industries, including TMT.

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