Telecoms: time to convey confidence to the market
Sebastián Muriel
Senior Manager of Telecommunications at PwC
29/11/04

According to a report on the telecommunications market published recently by the European Commission, the mobile communications sector shows good prospects of growth. In fact, all the indicators seem to suggest that the industry is in a position to seek higher growth, through the innovation of services, that will give a return on investments. So, many of the big European telecoms have taken to paying out dividends again or to doing so for the first time. But are they making profit on UMTS already? Hardly. In fact, it is too soon to read signs of profitability in 3G. Today, voice makes up more than 80% of operators’ income, but what stands out is the tendency over the last few years that points to greater average revenue per user (ARPU) as a result of the increase in data turnover, inevitably, through the widespread adoption of third generation mobiles. The fact is that this is still in on hold: only 40% of operators with 3G licences sell these services, with barely 2.6 million customers in the European Union.

In Spain the situation is similar to that in other European countries: 5 million people use the mobile for information, e-mail downloads and alerts. In other words, not just for speaking. But only a few thousands use the full G3 services and no significant demand is expected until well into next year. What is stopping them? Apart from the usual circumstances (cover, interoperability, cost of service, the price of the phones themselves, etc.), innovative services like the ones analysed here are only commercially developed when the pool of subscribers is large enough to actually use them. Once this point has been reached, the business will grow exponentially; but the operators must somehow manage to get users not to ask themselves whether their interlocutor has a phone with enough specifications to receive a photo or video. In an attempt to accelerate this process, operators are investing almost 600 million euros this year in major publicity campaigns and promotions that help the user try out some of these new services (such as videocall conference); and they have allotted nearly 1,000 millions annually to

Highlights

1 In 2000 none of the big operators wanted to be left without their third generation UMTS licence. For that privilege they paid out more than 120,000 million euros. Most of the telecommunications companies had to offset their debt with cost-cutting measures and improve their bottom line by selling off assets.

2 According to IDC, the consulting firm, Spain will have about 630,000 UMTS subscribers in 2005, while this figure could rise to 12 million users by 2008. The forecast for 2004, however, is somewhat dismal: Arthur D. Little estimates that by the end of this year there will be fewer than 5,000 people using this technology.

3 In spite of the show rollout of 3G there are several operators willing to pay out large amounts of capital. Vodafone bid for the American ATT Wireless (which eventually went to Cingular) and is now interested in the French SFR; Swisscom and Austria Telecom are fighting it out for 55% of the Czech Cesky Telecom, while Deutsche Telekom have just bought PTC, the leading Polish mobile phone operator. Telefonica Moviles, who have denied being interested in the British mmO2, bought the Latin American Bellsouth a few months ago.

4 In all, telecommunications operators will set aside 23,500 million euros to remunerate their shareholders, of which some 14,000 millions will be in dividends. Telefonica leads the profitability ranking per dividend (7%) followed by British Telecom (4.72%) and Portugal Telecom (3.94%). These figures contrast with the average profitability for the sector in 2003, which was 2.2%.
subsidize new mobile phones.

While we are waiting for the results of the investments in 3G (unthinkable for at least a year), we must understand the cautious movements of the operators to see that in most cases they are the result of a desire to convey confidence to shareholders and show financial health. Vodafone has announced double dividends in the face of a slight fall in sales, which is the first time this has happened in the history of the company.

In short, the new policies of remuneration to shareholders, together with other formulae such as buying back shares, only strengthen the message of calm that all the European operators want to convey to the market, while waiting for the 3G profits to take off.