THINK Economic and Financial Analysis

Telecoms Outlook 2025: A high-frequency future

January 2025

2025 promises to be an exciting year for European telecoms. While some firms still need to lift fibre take-up rates, we expect a higher frequency year ahead of faster 5G services, a steady fibre rollout and fresh opportunities provided by AI and M&A. We don't, however, expect cross-border M&A as advocated for in the Draghi report. The industry should also focus on improving its 5G services while working on a large, longer-term upgrade for 6G

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

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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

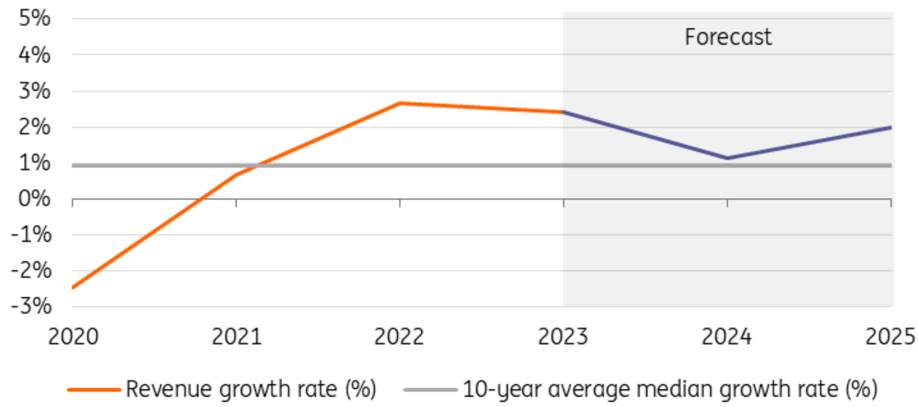
For 2025, we see a more stable operating environment for telecom operators now that many homes are connected with fibre. In many countries, operators have successfully improved their customer retention rates through offering fibre-based fixed-mobile converged (FMC) products.

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

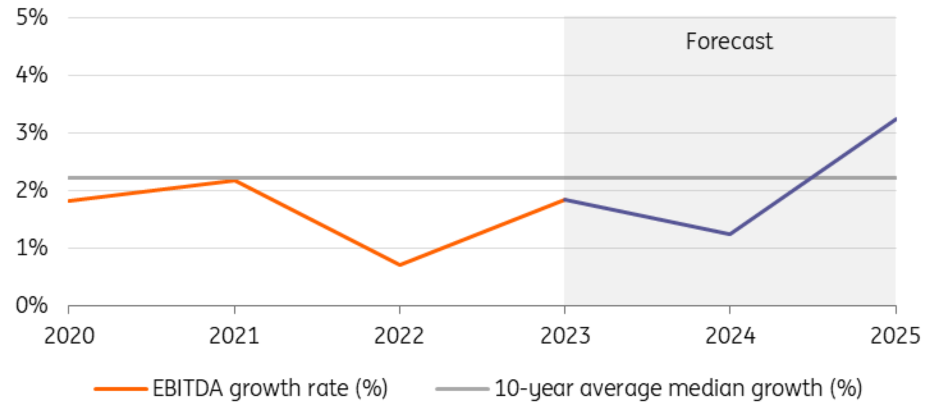
When evaluating telecom profitability for 2025, we expect EBITDA to grow a bit faster than revenue growth. In previous years, higher wage growth and higher energy costs have weighed on profitability and therefore cash generation. Fortunately for companies, wage growth is expected to moderate to c.3% 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

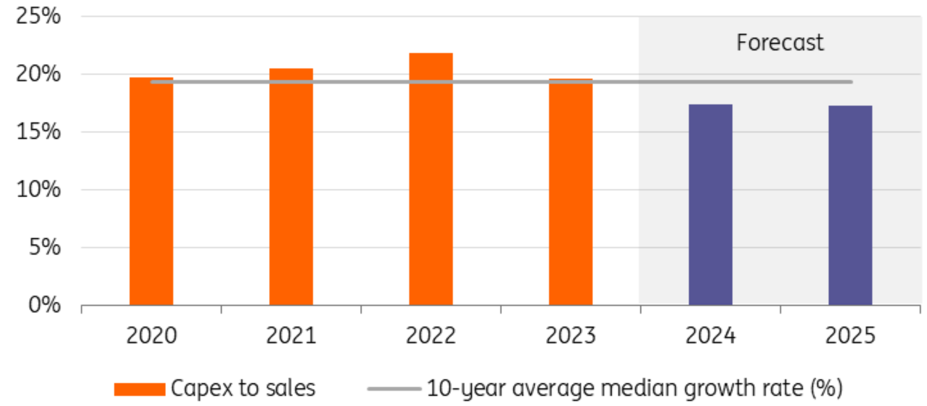
No material decline expected in capital expenditures

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.

Increasing fibre take-up rate most important challenge for telecoms

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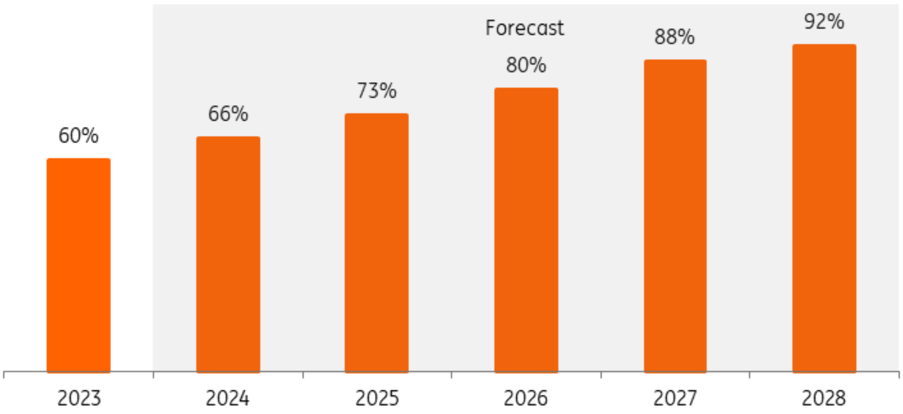
The European fibre rollout is steadily progressing, but the key challenge for European telecoms now will be increasing the take-up rate and maximising the return on investments

20,000 lowlight, fibre-optic stemmed light bulbs make up the Field of Light art installation in Devon, UK

European fibre rollout is progressing swiftly

The transition from copper and DSL to fibre networks is of vital importance for digital economies. Not only is fibre more energy efficient than previous networks, but it's also the backbone of smart cities, the internet of things (IoT), and emerging industries such as fintech. Because of these benefits, the EU’s Digital Decade goals and large investments in networks, the European fibre rollout is progressing at pace. While there are a few laggards (e.g., Belgium, Greece and the Czech Republic), we expect fibre penetration rates to pass 90% in 2028 in the EU27 and the UK. This expectation is based on the pace of the rollout in recent years and investments made by telecoms across the EU.

Percentage of homes passed will pass 90% in 2028



Source: FTTH Council Europe; ING Calculations

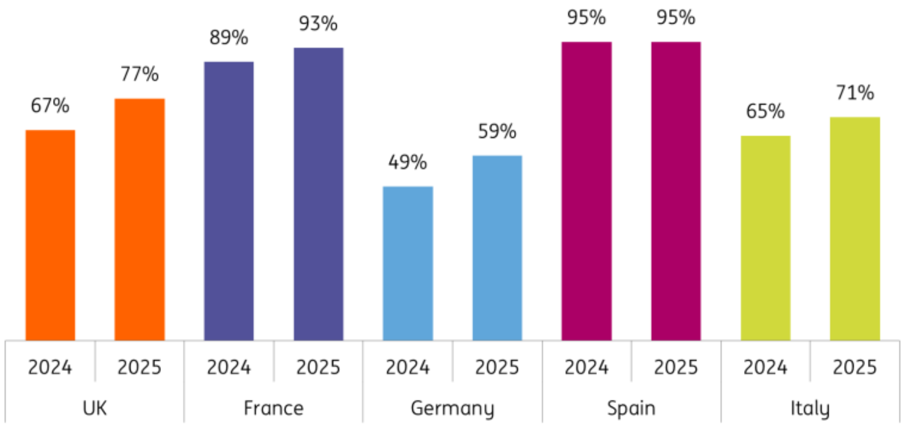
Five largest economies are sprinting towards Digital Decade goals

The five largest European economies are currently on track to meet their connectivity goals – as we predicted last year – as a result of significant investments. Spain and France are nearing a complete fibre rollout, and the UK and Germany have accelerated theirs.

Germany, in particular, has made great strides forwards. It was a laggard in 2022 with just 24% of homes passed, but we expect German fibre rollout to hit 59% at the end of this year. Only Italy is progressing slightly slower than we expected, but we believe it will gradually move towards a completed fibre rollout before the end of the decade.

Coverage rate expected to grow steadily in five largest European economies

Forecasted percentage of homes with access to fibre



Source: SIX

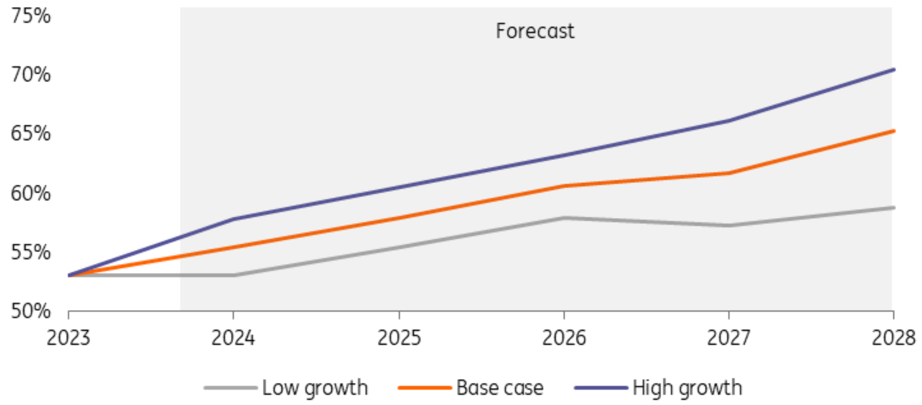
Not rollout, but fibre take-up biggest challenge facing telecoms

The most important challenge for telecoms currently is not the fibre rollout itself, but rather increasing the rather disappointing take-up rate. In 2023, just over half of all households in the EU27 and UK opted for a fibre connection when it was available (FTTH Council Europe), which was a 1.3 percentage point increase from 2022. Given the sizeable investments in networks, this number needs to increase quicker. However, we think this will prove difficult.

We believe that a significant reason for customers' reluctance to switch to fibre is their satisfaction with existing services from incumbent providers offering fast solutions based on xDSL and coax technologies. Increasing the take-up is therefore a particular concern for smaller, greenfield, fibre operators. Many current users are bound by existing contract terms, or find the transition to fibre optics inconvenient due to factors such as the need for new equipment, the hassle of changing email addresses, or the loss of media formats that come with current offerings. This inertia creates a barrier to adoption, even when fibre might offer superior performance. We therefore expect the take-up to increase slowly to 65% in 2028.

In our base case scenario take-up rate is expected to increase to 65% in 2028

Three scenarios for fibre take-up rate



Source: ING

Three scenarios for take-up rates

In recent years, more homes have been connected to fibre in the EU27 and the UK than new people have subscribed to fibre. Therefore, take-up rates as a percentage of subscribed homes have grown relatively slowly. In our base case, we see the roll-out slowing down in 2027 and 2028 as the growth of subscribers steadily continues. In our high growth scenario, additional growth is achieved through marketing campaigns and new offerings; in our low growth scenario, the roll-out continues at pace in 2027 and 2028 but consumer inertia slows growth in the number of subscribers.

Smaller and big telecoms face different challenges

Large, established telecom providers have a distinct advantage in transitioning their existing customer base to new technologies. When they upgrade their networks, they can incentivise their customers to make use of it. However, these incumbents face challenges in maintaining a nationwide service offering. Fibre networks in many regions are now rolled out by competing providers – unlike their older nationwide copper networks, which they owned and operated. In many countries, the fibre network of the incumbent therefore no longer covers the whole country.

Nevertheless, smaller telecom challengers also face structural disadvantages in promoting fibre adoption. Their limited scale reduces the ability to compete effectively, and the lack of a strong brand and a limited choice for ancillary (media) products makes it difficult to compete with larger operators. And now that interest rates are up, these companies are challenged to spend extensive amounts on the acquisition of new customers or further network upgrades.

Three strategies to accelerate fibre take-up

Fortunately, there are a few strategies that telecom companies employ to increase take-up rates. First, they use data to identify areas with high potential penetration and low deployment costs to optimise investment decisions.

Second, network operators can market their products locally. Given the hyperlocal nature of telecom competition, providers can employ hyper-personalised targeting and conversion strategies. This way, a local brand may be able to compete with a nationwide brand.

Third, the ability to offer bundled services is very important, as they offer good value to customers and favourable economics to operators. Verizon, for example, observed that customers bundling wireless service with fibre optic service had a 50% lower churn rate – the rate at which customers cease doing business with a company – compared to wireless-only customers. But customers may also appreciate the ability to source multiple products from one vendor, like, linear TV, and (streaming) media bundles offering movies, sports, news and other entertainment. Other services are also appreciated, such as W-Fi equipment and network security options. When competitors offer such services under a strong brand name, it's relatively difficult to gain a large regional market share.

Returns likely to differ

In short, the European telecom sector is moving closer to achieving complete fibre coverage, thanks to substantial public and private investments. However, increasing take-up rates and garnering a return on investments might be easier for incumbents with recognisable brand names. Meanwhile, the telecom market continues to evolve towards a more fragmented and competitive landscape, which means that telecoms need to prioritise connectivity solutions through data, strategic planning, bundled services and focused marketing.

5G: Overpromised, underdelivered?

The telecom sector has yet to deliver on lofty promises about 5G. 5G stand-alone network capacity is growing and trials for new services are underway. For now, the sector must focus on delivering 5G services that truly make a difference while working on a large, longer-term update for 6G

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We think it's crucial that the 5G experience is perfected to meet consumer demands before the industry shifts its attention to 6G

5G still holds promise, but needs to deliver better services

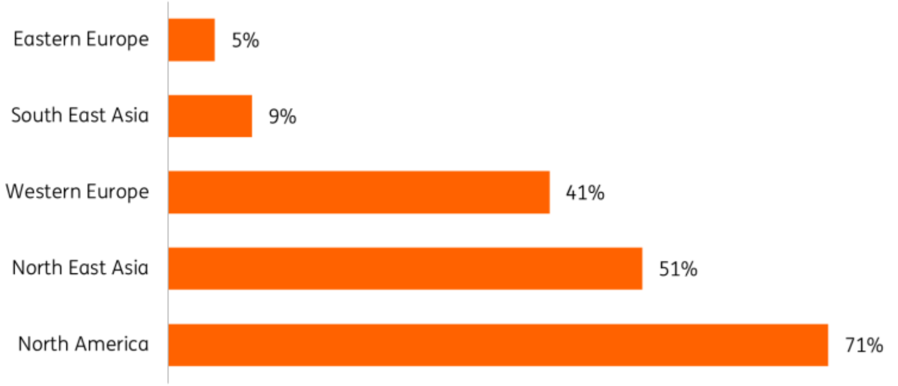
Shortly before the launch of 5G, many telecoms promised vastly superior speeds that would unlock technological innovations in a plethora of economic domains outside of telecoms. A few years on, data heavy use cases such as smart cities, connected vehicles and immersive augmented reality are yet to come to fruition. Even though 5G benefits have been relatively slow to materialise, the telecom sector is now moving towards 5G standalone (SA) standards to unlock innovative use cases. In 2024, 47 operators in Europe offered commercial 5G services on SA networks (according to the GSMA).

We are now slowly seeing the first applications of private 5G networks, which offers customers enhanced control and more secure networks – but also provides telecoms with a new revenue opportunity. The same can be said for network slicing. While still in its infancy, allowing multiple virtual networks to be created on a shared physical infrastructure offers telecoms the opportunity to be more flexible and customise network slices according to bandwidth, security and latency requirements.

5G subscriptions will keep growing

At the end of last year, roughly 25% of all mobile subscriptions globally were 5G subscriptions (the GSMA, Ericsson). This percentage will keep growing over the coming years. Ericsson expects 5G subscriptions to grow with as much as 20% per year and overtake the number of 4G subscription as early as 2027. This is necessary as subscriptions in Europe have been underwhelming in the first years of 5G availability, and as a result, return on investment has been modest. However, penetration differs widely per region. At the end of last year, North America had the highest percentage of 5G subscribers at 71%, whereas Eastern Europe has very few 5G subscribers at only 5%.

Penetration rates of 5G differ widely across regions
Percentage of 5G subscribers per region

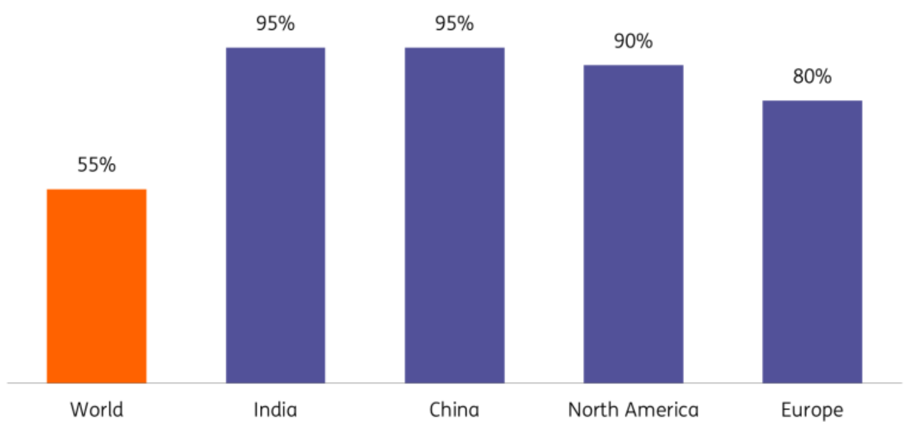


Source: Ericsson

Providing nationwide coverage will prove challenging

As mentioned, 25% of all mobile connections globally are 5G connections, yet 34% of data traffic comes from 5G subscriptions. This means that, on average, people with a 5G subscription are power users of their mobile connections. Data use is expected to continue to grow over the coming years in all areas of the world. However, of the global population, about 55% is covered by 5G coverage whereas 85% of the world is covered with 4G. In many countries, the key challenge for telecoms is therefore achieving nationwide 5G coverage. For vast areas in particular, one major question lingers: is the investment worth it? Even excluding these kinds of areas, telecom operators in many countries outside North America and Europe face a significant infrastructural challenge in extending 5G coverage to more people across the globe.

Just over half of the world is covered by 5G
Population coverage in percentages



Source: GSA, Ericsson

5G value should be delivered before the focus shifts to 6G

It is important that the telecom industry focuses on delivering the full value of 5G before shifting its attention to 6G. This involves ensuring that the monetisation of 5G is fully realised and allowing telecom operators to recoup their investments. Moreover, telecom companies face significant costs with each generational leap, and customers are unlikely to embrace 6G if their 5G experience falls short of expectations. It's therefore crucial to perfect the 5G experience, ensuring robust, reliable, and widespread coverage that meets consumer demands.

This also means that in the years to come, the standard setter 3GPP will conduct a study to evaluate the needs and use cases of a 6G standard. We think that such a standard should offer clear benefits to consumers. Otherwise, they become a marketing gimmick, and customers are left in doubt as to what it is they are paying for. We argue that it needs to be a relatively big upgrade, and that it doesn't matter if in turn it takes time before we get there.

The Draghi Report: The Good, the Bad and the Ugly

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The Draghi report underlines the need for a strong European telecom sector. The report is right in arguing that the sector needs avenues towards better profitability in order to achieve this. However, its proposal on cross-border mergers misses the mark

Mario Draghi, former President of the European Central Bank, unveils his report on Europe's competitiveness to Ursula von der Leyen, President of the European Commission.

Financial situation of telecoms necessitates change

The Draghi report specifically addresses the challenges of the telecom industry. Although we do not expect large policy changes to take effect in 2025, it is possible that the investment climate for telecom operators improves in the longer term as a result of the report. Over the past few decades, European telecom companies have seen their creditworthiness deteriorate. This was due to increased competition and a patchwork of strict national and supranational regulations that focused on lowering consumer prices. As we are no longer in a low interest rate environment, expect more focus among telecoms to improve their finances. Recently we have seen severe financial stress at Altice France, and Telecom Italia being broken up due to financial considerations.

The four most important recommendations in the Draghi report

Against this backdrop, the Draghi report argues that EU telecoms do not have the financial resources to keep up with the investments made by their Asian and American counterparts. In order to resolve this problem, Draghi makes five key recommendations for the future of European telecoms. First, the report argues that consolidation of the telecom sector needs to be encouraged. Second, it proposes to shift the focus of competition enforcement (i) away from consumer prices and put increasing focus on innovation, and (ii) towards incorporating security and resilience criteria into competition assessments. Third, it proposes so-called 'ex-post regulation' which enables the regulator to intervene only when necessary. Fourth, it proposes state aid for projects of common European interest.

In our view, the Draghi report contains both good and bad proposals for the telecom sector, but it also reveals an ugly truth about the current situation of many European telcos.

The Good: Need for better profitability and a level playing field with tech

The Draghi report is spot on when it argues for improving the financial position of telecoms. Whereas the relentless focus on consumer prices was warranted a couple of decades ago, today future network investments require better profitability. One of the ways this could be achieved through regulation is by creating a more level playing field with technology companies. Telecom companies are required to uphold strict privacy standards and have limited capabilities regarding customer data usage. This stands in stark contrast to online call and messaging services offered by technology companies. Orange France, for example, recently received a fine for marketing via customer emails. Regulators need to find a way to treat both sectors the same way while preferably enhancing the protection of privacy. Moreover, Draghi's proposed ex-post regulation could be a way in which some of the regulatory pressure is removed from the sector. Eventually all of this could be good news for the creditworthiness of telecoms and their capacity to invest in networks and new products.

The Bad: Cross-border mergers

While the Draghi report makes a strong case for improving the telecom sector's financial health, its proposal on cross-border mergers is not as convincing. The argument that mergers will create stronger European telecom players sounds good in theory, as larger companies benefit from economies of scale. They have more means to invest in R&D and have procurement benefits. But in practice, benefits have not always been delivered, as the recent break-up of Vodafone shows. Even if consolidation happens, the benefits remain questionable. As history shows, to manage their operations in many countries, multinational telecom operators must establish a strong local presence. This facilitates local marketing efforts but reduces economies of scale. Also, scale economies are often achieved through other means, such as outsourcing (with the drawback of making the company dependent on the outsourcing partner). Will cross-border mergers promote the technological innovation Europe needs? In its current state, this part of the report fails to answer that question and does not offer a comprehensive solution to the current 5G investment gap with Asian countries.

The Ugly: Financial Pressure and Managing Digital Infrastructure

The Draghi report reveals a deeper, underlying issue within the European Telecom sector. Europe's struggle to manage its own digital infrastructure. At a time when Europe's digital networks require substantial investment, the focus on improving telecom profitability is crucial. However, efforts to increase efficiency and lower cost bases have led to increased outside hiring of equipment and technical services. The continent's inability to compete in global software markets exacerbates the problem. The wide availability of local knowledge on telecom networks should be a key policy target, building on European successes such as Ericsson and Nokia.

Conclusion

Draghi's call for consolidation is rooted in the belief that larger telecom players will have the financial muscle to accelerate investments and improve technological sovereignty. While achieving economies of scale is beneficial for the financial position of telecoms, it is far from a silver bullet. Europe must do more to strengthen its position in digital innovation, software development, and network management. Although consolidation alone will not resolve the competitive disadvantage that European telecom companies face, European telecoms should rally behind the Draghi report to push for welcome changes in telecom regulation.

How AI could drive growth in European telecoms

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Telecom companies have a good track record with automating services. AI offers an opening for automating customer service, as well as new opportunities for capex optimisation. In addition to cost-saving possibilities, there could be also opportunities for telecoms on the revenue side

AI's dual ability to reduce costs and enhance revenue opportunities makes it an important opportunity for telecom operators

A multitude of applications

Recent artificial intelligence (AI) developments have jumpstarted change in many sectors of the economy. The telecom sector is no exception, where much of the initial impact has been seen in customer service. However, AI is now increasingly being used for network efficiency, predictive maintenance, and smarter capital expenditure (capex) strategies. This transition is very welcome as telecom operators face increasing pressure to improve margins and reduce operational costs. The dual role of AI in enhancing operational efficiency while unlocking cost reductions makes it an essential tool for European telecom operators.

Customer service

Customer service is perhaps the most well-known use case of generative AI in recent years. This is no different for telecoms; European telecom operators are already making significant strides forward with implementing AI for customer service. Generative AI for customer service enables not only cost savings but also the personalisation of services, as AI systems process large volumes of customer data. This allows operators to offer hyper-personalised services. By analysing user behaviour, AI can suggest tailored plans, add-ons, and solutions that meet individual needs. Swisscom, for instance, uses AI analytics to predict customer preferences and deliver tailored offerings (e.g., for their mobile subscription plans). In addition, offering personalised service also enables cross- and upselling by telecoms. This is where AI's predictive analytics come in handy.

AI-driven capex optimisation

Capital expenditure remains a significant challenge for telecom operators, especially as the creditworthiness of telecoms has decreased over recent decades. In 2024, capex by European telecoms was roughly €50 billion. As 5G and fibre rollouts continue, capex expenditures will remain significant over the coming years and AI could aid telecoms with optimising these costs.

Firstly, we believe that AI will help with predictive maintenance. Traditionally, operators rely on periodic maintenance schedules, which can lead to either overspending or unexpected downtime. AI-driven predictive maintenance solves this issue by analysing real-time data from network equipment. Deutsche Telekom, for example, uses AI to predict hardware failures before they occur. By leveraging machine learning algorithms, operators can replace equipment only when necessary, significantly reducing maintenance costs and downtime.

Secondly, AI can aid telecoms with more efficient planning of network expansions. Through machine learning models traffic patterns, user behaviour, and infrastructure performance can be analysed to identify areas that require investment. This, in turn, ensures smarter capex allocation.

The future of AI in telecom

AI's dual ability to reduce costs and enhance revenue opportunities makes it an important opportunity for telecom operators. European operators with a clear AI strategy – like Deutsche Telekom and Swisscom – are well-positioned to lead this transformation. As AI adoption scales up, telecom companies could improve their bottom lines and create innovative services that redefine customer experiences. In a rapidly evolving digital landscape, AI is more than just a tool for cost reduction – it could be one of the foundations for smarter networks and sustainable growth.

Telecom M&A not expected to be transformative in 2025

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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

Vodafone 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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