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M&A Activity (Telecommunications Infrastructure) in Asia Pacific: Opportunities and Resilience

Introduction and Background: M&A Trends

M&A has experienced a global slowdown, owing to trade uncertainties, geopolitical challenges and fears of a global recession, with Baker McKenzie’s Global Transactions Forecast predicting that M&A value will fall globally from USD $2.8 trillion in 2019 to USD $2.1 trillion in 2020.[[1]](#_ftn1)

And Asia Pacific is no outlier to this, with China seeing a huge drop in outbound deals owing to government restrictions on outward investment.

Bloomberg data reveals that Chinese outbound M&A totaled USD $35 billion in the first half of 2019,[[2]](#_ftn2) a 75% decrease since 2016,[[3]](#_ftn3) and overall M&A deal value dropped by 18% to USD $264 billion in the same period,[[4]](#_ftn4) which was the largest single-period decline in the past 10 years.[[5]](#_ftn5)

Despite this, global M&A activity in telecommunications infrastructure is showing resilience, with no signs of slowing down soon. In the second quarter of 2019, the aggregate deal value of TMT M&A globally reached USD $194 billion,[[6]](#_ftn6) with 32 mega deals (deals worth more than USD $1 billion), 60% more than 2018 and in Q3 of 2019,[[7]](#_ftn7) the TMT sector boasted the highest M&A volume.

This is thanks to the digital transformation. With the emergence of new technology that is heavily reliant on connectivity, and the integration of digital services, many industries are, and will be, dependent on the infrastructure delivered by telecoms companies.

We will therefore see digital disruption continue to provide opportunities in infrastructure M&A for telecom companies.

Telecommunications Infrastructure M&A: Threats and Resilience

Threat: Increased Government Scrutiny

However, the industry is not free from threat. Government scrutiny, particularly of Chinese investment in the UK, EU and US, is taking its toll on M&A activity.

In light of rising national protectionism, national security aspects of foreign takeovers are higher on government agendas, illustrated by the actions taken by the US government against Huawei and ZTE equipment, with the US Federal Communications Commission (**FCC**) most recently voting unanimously (on 22 November 2019) to ban Huawei and ZTE equipment in projects paid for by the FCCs Universal Service Fund (**USF**).[[8]](#_ftn8)

Accordingly, we have seen a sharp drop in Chinese acquirers in the US, particularly notable against the highs of 2016.

The impacts of this increased scrutiny have been felt in Asia Pacific, where we have seen M&A in telecommunications infrastructure hindered.

Notably, we saw the cancellation of the US $580 million sale of Xcerra, a US semiconductor company, to Hubei Xinyan Equity Investment Partnership in 2018, following concerns that regulatory approval of the merger was highly unlikely. Later that year, Qualcomm Inc. then walked away from a USD $44 billion deal to buy NXP Semiconductors, a deal which would have been the biggest semiconductor takeover globally, after failing to secure Chinese regulatory approval.

Resilience: Increased Competition

Despite regulatory concerns, increased competition and digital disruption are driving M&A activity in telecommunications infrastructure.

As regards to competition, not only are telecom companies battling market saturation (notably in Singapore and Malaysia), but they are also facing the threat of core services being eroded by OTT services, as increasingly consumers are choosing OTT applications over more traditional means of communication (SMS and landlines) and this is pushing telecoms companies into a struggle for customers.

We have also seen the supply of network infrastructure impacted in Asia Pacific. For example in India, Reliance Jio Infocomm (**Jio**) built its own mobile network infrastructure, and in Japan, Rakuten, who started offering mobile services using NTT DoCoMo’s network in 2014, began building its own network infrastructure this year.

These threats have been driving M&A activity infrastructure deals by telecoms companies.

This is mainly owing to the fact that telecoms companies are facing slimming opportunities for profitable growth and given that infrastructure businesses are on average showing three to four times the earnings of sales and service businesses,[[9]](#_ftn9) infrastructure deals enable telecoms companies to generate funds to invest in network upgrades, which is crucial in the race for 5G.

And 5G is also significantly impacting how telecoms companies are structuring infrastructure deals. The emerging trend is that deals are being constructed in such a way as to allow companies to retain control of the infrastructure assets, while at the same time maximising financial gains.

And keeping control over infrastructure will be vital in remaining competitive in the shift to 5G.

Resilience: Digital Disruption

The second big driver of M&A activity in telecommunications infrastructure is digital disruption.

Digital disruption is undoubtedly a threat to telecoms companies, but it also brings numerous opportunities for them in dealmaking, thanks to 5G’s reliance on the infrastructure that telecoms companies can provide.

And this is particularly impactful in Asia Pacific, where 5G is predicated to have a staggering impact, with the region set to lead in in subscriptions, with notable locations to watch being South Korea, Japan and China, where 5G subscriptions are set to make up 56%, 48% and 29% of total mobile subscriptions in each country respectively by 2025.

Accordingly, we seen strong infrastructure-driven M&A activity as telecoms companies seek to secure market positions in the 5G race, with fibres, towers and data centres being the most active sub-sectors.

1. **Fibres**

* The global fibre optic cable market is expected to reach USD $11.67 billion by 2025 and Asia Pacific is one of highest revenue generating regions and the fastest growing market.[[10]](#_ftn10)
* This is unsurprising given consumer demand for high-speed connectivity is increasing and investors are therefore looking to companies that have important fibre optic networks deployed in profitable areas as they look to increase their fibre footprints to capitalise on growing demand.
* Fibre optic providers are therefore attractive acquisition targets and we are seeing more deals from providers looking to enhance their infrastructure. Notably, just last month Asia Pacific saw a significant deal, II-VI’s USD $3.2 billion acquisition of Finisar Corporation, creating one of the world’s largest optics and photonics companies.

1. **Towers**

* Thanks to smartphones, growing subscribers and increasing data usage by consumers, there has been high levels of M&A activity in this sub-sector also, particularly in emerging markets in Asia Pacific. Notably, Edotco’s acquisition of an 80% stake in Tanjung Digital (June 2018), thereby expanding their presence into Kedah (Malaysia) and in December 2018, the acquisition of 325 towers in Cambodia from South East Asia Telecom.
* In July of this year, a significant deal was also made by Brookfield Asset Management in the acquisition of Reliance Industries telecom tower portfolio, made up for 175,000 telecom towers, for USD $3.6 billion, India’s largest ever infrastructure deal.
* Vietnam has seen significant activity in the towers sector also. Malaysia’s OCK Group acquired Southeast Asia Telecommunications Holdings (**SEATH**) and their 1,938 towers for USD $50 million, one of the largest transactions in the tower market in Vietnam.
* OCK also expressed an interest to explore further acquisitions,[[11]](#_ftn11) which is unsurprising given the fragmented state of the sector, which mainly comprised of a number of small, unsophisticated tower companies (**towerco**).
* Tower operators are also widening their M&A focus and looking to companies that hold significant complementary communication assets in order to seek innovation. For example, edge computing, data centre interconnectivity, fiber optic and small cell technology, and this will be even more strategically important in the next few years.

1. **Data Centres**

* Data centre M&A deals have also seen considerable activity, with deals up 18% from the first half of 2018 and deals expected to increase over the next five years.[[12]](#_ftn12)
* Changing business models, mainly the trend of enterprises increasingly not wanting to own or operate their own data centres, has been fueling dealmaking, with data centre operators scaling up through acquisitions.
* This is particularly true in China, where, with the growing demand for data storage and processing, we have seen a number of small-scale acquisitions of internet data centres.
* Chinese companies have also increasingly been involved in the construction of data centres in Belt and Road Initiative (**BRI**) emerging markets, notably China Mobile International’s (**CMI**) partnership with Djibouti Data Centre in 2017, to facilitate its global network expansion, and just this year, CMI launched its Singapore data centre, which connects directly to CMI’s local ring in Singapore and Asia Pacific submarine systems, helping to meet the demand of consumers.
* Indeed, Singapore has emerged as the most robust market for data centres in Asia Pacific, thanks to its network infrastructure and connectivity to major markets.
* Hong Kong meanwhile is rivaling Singapore and South Korea. The end of 2018 saw SUNeVision’s HKD $5.46 billion acquisition of a data centre site in Tseung Kwan O, and despite the limited land, Hong Kong’s colocation data centre market is expected to double by 2023[[13]](#_ftn13), with many multinational corporations headquartering in Hong Kong over rival locations.

Telecommunications Infrastructure M&A Impacts, Opportunities and Future Activity:

As a result of the surge in telecommunications infrastructure M&A, knock-on effects are and will be felt by other sectors and new opportunities are developing.

Additionally, Myanmar, one of the remaining undeveloped telecommunications markets in Asia Pacific, has seen staggering levels of economic growth in recent years, and many opportunities are, and will continue to open up thanks to the pressing need for development of communications infrastructure.

Cyber Security

A notable impact is on cybersecurity M&A activity.

As we move into this new era of connectivity, we expect to see cyber security companies becoming increasingly valuable M&A targets and acquisitions aimed at gaining cyber security specialists, skillsets and talent.

This is owing to the fact that companies are relying more and more on cloud-operated infrastructure and security is becoming even more pivotal to securing an infrastructure deal.

We have already seen this emerging in Asia Pacific with Korea SK Telecom’s USD $1.2 billion acquisition of ADT Caps in May 2018, the second largest security firm in South Korea, and the Hong Kong Broadband Network’s (**HKBN**) USD $50 million acquisition of Jardine One Solution (**JOS**) Holdings, which includes JOS subsidiary, Adura Cyber Security.

Satellites

Satellites are readily becoming a larger part of telecommunications infrastructure owing to their ability to reach out to remote regions and locations where terrestrial infrastructure is either insufficient or economically unfeasible, but they are set to play an even bigger role with the rollout of 5G and the IoT, which may otherwise be hindered by limited terrestrial networks.

We may therefore expect increased M&A activity, particularly acquisitions of innovative startups and those that can offer viable infrastructure.

We have already seen a range of activity in this sector in the past few years. Notably, in 2015, Speedcast International acquired ST Teleport, enhancing their capabilities in Singapore, thanks to ST Teleport’s hybrid satellite-fibre infrastructure that supports access to more than 22 satellites. Tatwah Smartech has also made a number of significant deals in satellite infrastructure, including a MYR 975 million partnership deal with ASN Satellites for a 49% stake and a partnership agreement and USD $30 million investment in SupremeSAT.

Notably, investment in satellite services has the potential to flourish in Myanmar. This is mainly due to a lack of well-connected grid infrastructure, the difficult terrains making it expensive to deploy fibre or cable networks, and ultimately, the reliable connectivity that satellites can provide.

This is particularly true given the innovative adaption of nano-satellites for telecommunications, that are a more affordable option compared to standard communications satellites, and Sky and Space Global (**SAS**) is one such company aiming to make these operational by 2020.

Myanmar

Speaking of Myanmar, it is one of the fastest growing telecommunications markets in Asia Pacific, with huge opportunities in the coming years.

In fact, we have already seen a huge amount of activity in telecommunications infrastructure, particularly towers, thanks to the rapid economic growth requiring urgent strengthening of communications infrastructure, and the passage of the Telecommunications Law (**the Telecom Law)** in October 2013, in an effort to open the country up to foreign investment.

The Telecom Law sets out the licensing regime for both local and foreign licensees, the regulation of telecommunications equipment and the regulation of prices and competition, and by January 2017, Myanmar’s Ministry of Transport and Communications (**MCIT**) had awarded the fourth telecoms license to a joint venture between Hanoi-based Viettel and two local Myanmar companies.

The Myanmar Companies Law then came into force in August 2018, igniting investor interest in Myanmar, particularly owing to “local” companies being re-defined to include up to 35% foreign ownership.

Given the passage of these laws, combined with rapid economic growth and mobile phone penetration now exceeding 90%, compared to only 10% in 2014, it is not surprising that we have similarly seen a surge in dealmaking, as companies look to gain a strategic foothold in this rapidly developing market.

In March 2014, Ericsson was awarded a 5-year contract to support Telenor’s nationwide mobile network rollout, and just prior to that, Ericsson was also awarded a frame agreement to supply radio-access network (**RAN**) and other related services to a large portion of Telenor’s network in Myanmar. Later that year, Myanma Posts and Telecommunications (**MPT**) signed a joint operating agreement with Japanese telco, KDDI, to combat increased competition.

And as for the tower sector, 2015 saw Edotco acquire a 75% controlling stake in Digicel MTC, and the acquisition of 1,250 towers.

And there is little indication that dealmaking is slowing. Just last month (14 November 2019), Sojitz acquired a 12.5% stake in Edotco Myanmar, a strategic move by Sojitz to capture a slice of a market where demand for faster and more reliable connectivity is expected to surge.

Only days later (20 November 2019), Sojitz signed an agreement with MPT to upgrade the communications infrastructure connecting the four major cities (Nay Pyi Taw, Yangon, Mandalay and Thilawa Special Economic Zone), a project estimated to be worth USD $62 million[[14]](#_ftn14). This is set to have an astounding impact, with communications capacity to more than triple, and notably, support the development of 5G services.

And the adoption of 5G is actively being strived towards. In May of this year, Ooredoo and ZTE signed a Memorandum of Understanding (MoU) enabling them to collaborate on 5G adoption in Myanmar, with expected deployment in two to three years.

Ultimately, is clear that companies are actively pursuing the opportunities that the rapid growth in Myanmar is presenting for telecommunications infrastructure and we expect this to continue in the next decade, however there is much that remains to be done, demonstrated as Myanmar continues to rank low (165th out of 190) in ease of doing business, according to the World Bank 2020 Doing Business rankings.

Therefore, in order to fully embrace the M&A opportunities in this sector, we will need to see the Myanmar government work to improve investor confidence and tackle the problem of lengthy delays for regulatory approval.

Conclusion and Final Thoughts

In summary, despite global slowdown of M&A, dealmaking sentiment in telecommunications infrastructure has been relatively resilient.

We have seen digital disruption and competition driving M&A activity in this sector, despite telecoms companies being disrupted themselves, and the rollout of 5G and IoT connected devices is a signal that this surge in dealmaking is likely to continue, with opportunities resultantly emerging for cybersecurity firms and satellite communication companies (**SatComs**).

Myanmar also holds numerous opportunities for investment in telecommunications infrastructure thanks to the economic growth it has been experiencing. And the focus on building up infrastructure is likely to continue, given the opportunities it provides for businesses in a range of sectors.

Ultimately, it is clear that despite economic and geopolitical uncertainties plaguing dealmaking, telecommunications infrastructure has escaped *more* than relatively unscathed.

[[1]](#_ftnref1) Baker McKenzie, Global Transactions Forecast 2020: Powering Through the Downturn, 14 October 2019. Available at: <https://www.bakermckenzie.com/en/insight/publications/2019/10/global-transactions-forecast-2020>

[[2]](#_ftnref2) Bloomberg, Chinese Outbound M&A Plummets as Trade War Keeps Companies at Home, 5 July 2019. Available at: <https://www.bloomberg.com/news/articles/2019-07-04/china-outbound-m-a-plummets-as-trade-war-keeps-companies-at-home>

[[3]](#_ftnref3) Ibid.

[[4]](#_ftnref4) PwC, M&A 2019 Mid-year Review and Outlook, August 2019. Available at: <https://www.pwccn.com/en/deals/publications/ma-2019-mid-year-review-and-outlook.pdf>

[[5]](#_ftnref5) Ibid.

[[6]](#_ftnref6) KPMG, TMT Quarter 2 - 2019 Global Industry Update. Available at: <https://corporatefinance.kpmg.us/insights/tmt-q2-2019-update.html>

[[7]](#_ftnref7) Ibid.

[[8]](#_ftnref8) See: <https://www.reuters.com/article/us-usa-china-huawei-tech/u-s-agency-votes-5-0-to-bar-chinas-huawei-zte-from-government-subsidy-program-idUSKBN1XW1TC>

[[9]](#_ftnref9) Bain and Company, The New Age of Scale, Scope and Infrastructure in Telecom M&A, 2019. Available at: <https://www.bain.com/contentassets/fdeb608657d94369bffa61cacf680037/bain_brief_the_new_age_of_scale_in_telecom_m_a.pdf>

[[10]](#_ftnref10) Report Ocean, “Global Fiber Optic Cable Market Research Report – Forecast to 2025”.

[[11]](#_ftnref11) Interview with OCK Group founder, Sam Ooi: <https://www.towerxchange.com/ock-groups-vision-to-build-a-pan-asian-tower-company/>

[[12]](#_ftnref12) Synergy Research Group, Data Centre M&A Deal Volume on Track for Another Record Year, 15 August 2019

[[13]](#_ftnref13) See: <https://www.datacenterknowledge.com/asia-pacific/hong-kong-s-cloud-data-center-boom>

[[14]](#_ftnref14) See: <https://www.telecompaper.com/news/mpt-inks-deal-with-japans-sojitz-for-network-upgrade-project-in-myanmar--1317478>

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