M&A Asia Pacific: Communications Infrastructure

4 December 2019
I. Introduction and Background
Introduction and Background – Global M&A

- M&A has experienced a global slowdown owing to:
  
  i. Trade uncertainties;
  
  ii. Geopolitical challenges; and
  
  iii. Fears of a global recession

- M&A value is expected to fall globally from USD $2.8 trillion (2019) to USD $2.1 trillion (2020) (Baker McKenzie, Global Transactions Forecast 2020)
Introduction and Background (cont.) – Asia Pacific M&A

• M&A in Asia Pacific has also slowed

• Chinese outbound M&A has decreased 75% since 2016

• Overall Chinese M&A has dropped 18% to USD $264 billion (PwC M&A 2019 Mid-Year Review and Outlook)
Introduction and Background (cont.) – M&A Telecommunications Infrastructure

• M&A in the TMT sector is showing resilience

• Q2 2019 – Global TMT deal value increased 60% from 2018 to USD $194 billion (KPMG TMT Quarter 2 – 2019 Global Industry Update)

• What is the reason for this?

  • The digital transformation – reliance of new technology on infrastructure delivered by telecoms companies
II. Telecommunications Infrastructure M&A: Threats and Resilience
Threat: Increased Government Scrutiny

- National politics are impacting the regulatory environment

- USA: FCC voted unanimously to ban Huawei and ZTE equipment in projects funded by the USF (22 November 2019)

- Accordingly, we have seen a sharp drop in Chinese acquirers in the US
Threat: Increased Government Scrutiny (cont.)

- Notable impacts on dealmaking in Asia Pacific:
  
  i. Cancellation of USD $580 million sale of Xcerra to Hubei Xinyan Equity Investment Partnership (2018)

  ii. Qualcomm Inc. walked away from USD $44 billion deal to purchase NXP Semiconductors (2018)
Telecommunications Infrastructure M&A: Resilience

- Increased Competition
- Digital disruption
Increased Competition

- Telecom companies are battling with market saturation, particularly in Singapore and Malaysia
- Core services are being eroded by OTT services
- Supply of network infrastructure is being impacted
  - India – Reliance Jio Infocomm (Jio) built its own mobile network infrastructure
  - Japan – Rakuten began building its own network infrastructure this year
Increased Competition (cont.)

- Telecoms companies are facing slimming opportunities for profitable growth and this is driving M&A in this sector.

- Infrastructure businesses are seeing earnings three to four times that of sales and service businesses.

- Opportunity for telecoms companies to use infrastructure deals to generate funds to invest in network upgrades.
Increased Competition (cont.)

- 5G is impacting how these deals are structured

- Emerging trend is that companies are retaining control over infrastructure assets, while also maximising financial gains

- Retention of control is strategically important in the shift to 5G
Digital Disruption

- Digital disruption is both a threat and an opportunity for telecoms companies

- Opportunities in dealmaking thanks to 5G reliance on the infrastructure that telecoms companies can provide

- Mainly seeing dealmaking opportunities in:
  - i. Fibres
  - ii. Towers
  - iii. Data Centres
Fibres

- The global fibre optic cable market is expected to reach USD $11.67 billion by 2025 (Report Ocean, Global Fibre Optic Cable Market Research Report – Forecast to 2025)

- Asia Pacific is one of the highest revenue generating regions and fastest growing market
  - Increasing consumer demand for high-speed connectivity

- What does this mean for dealmaking?
  - Investors are increasingly looking for companies that have fibre optic networks deployed in profitable regions
  - Fibre optic providers are attractive acquisition targets

- Notable deal: II-VI’s USD $3.2 billion acquisition of Finisar
Towers

• Smartphones, growing subscribers and increasing data usage driving M&A activity, particularly in emerging markets in Asia Pacific
  • Malaysia – Edotco expanded into Kedah with the acquisition of an 80% stake in Tanjung Digital (June 2018)
  • Cambodia – Edotco acquired 325 towers from South East Asia Telecom (December 2018)
  • India – Brookfield Asset Management acquired Reliance Industries telecom tower portfolio (175,000 towers) for USD $3.6 billion
  • Vietnam – OCK acquired SEATH and 1,938 towers for USD $50 million

• Widening focus – tower operators looking to companies that hold complementary communication assets (edge computing, data centres, small cell tech)
Data Centres

- Data centre deals are up 18% from the first half of 2018 (Synergy Research Group, Data Centre M&A Deal Volume 2019)

- Changing business models – enterprises increasingly do not want to own or operate their own data centres

- Impact: Data centre operators scaling up through acquisitions
Data Centres (cont.)

- Mainland China: A number of small-scale acquisitions and involvement in construction of data centres:
  - CMI partnership with Djibouti Data Centre (2017)
  - CMI launch of Singapore Data Centre

- Hong Kong: SUNeVision's HKD $5.46 billion acquisition of a data centre site in Tseung Kwan O (2018)
III. Telecommunications Infrastructure M&A: Impacts, Opportunities and Future Activity
Cyber Security

- Cyber Security M&A will be impacted by surging numbers of telecommunications infrastructure deals
  - Cyber security companies more attractive acquisition targets
  - Acquisitions to gain cyber security specialists, skillsets and talent

- Why?
  - More companies are relying on cloud-operated infrastructure
  - Security is becoming more vital in securing infrastructure deals

- Notable deals in Asia Pacific:
  - Korea SK Telecom acquired ADT Caps for USD $1.2 billion (May 2018)
  - Hong Kong Broadband Network acquired Jardine One Solution Holdings (including subsidiary Adura Cyber Security) for USD $50 million
Satellites

- Satellites are becoming a larger part of telecommunications infrastructure
- Expect to see more M&A activity as can reach out to remote regions – particularly important with rollout of 5G and IoT connected devices
- Expect more acquisitions of innovative startups and those that can offer viable infrastructure
- Activity so far:
  - Speedcast International acquired ST Teleport (2015)
  - Tatwah Smartech entered into a partnership with ASN Satellites giving them a 49% stake in a deal worth MYR 975 million
  - Tatwah Smartech partnership agreement and USD $30 million investment in SupremeSAT
Satellites (cont.)

- Satellite services have the potential to flourish in Myanmar owing to:
  - Lack of well-connected grid infrastructure
  - Difficult terrains
  - Reliable connectivity that satellites can provide

- Nano-satellites – an affordable option
Myanmar

- One of the fastest growing telecommunications markets in Asia Pacific

- Increased activity owing to:
  - Economic growth
  - The Telecommunications Law
  - Myanmar Companies Law
Myanmar (cont.)

- Deal activity:
  - Ericsson 5-year contract to support Telenor’s mobile network rollout
  - Ericsson frame agreement to supply RAN and other services to Telenor’s network
  - MPT joint operating agreement with KDDI
  - Sojitz acquisition of 12.5% stake in Edotco Myanmar
  - Sojitz agreement with MPT to connect 4 major cities
  - Ooredoo and ZTE Memorandum of Understanding to collaborate on 5G
Myanmar (cont.)

- 165th out of 190 economies for ease of doing business (World Bank 2020 Doing Business Rankings)

- What remains to be done?
  - Improve investor confidence
  - Tackle problems of lengthy delays for regulatory approval
IV. Summary and Final Thoughts
Summary

- Despite global slowdown of M&A, dealmaking in telecommunications infrastructure has been relatively resilient
- Digital disruption and competition are driving dealmaking in this sector
- Development of 5G and increased IoT connectivity indicates dealmaking is likely to continue to surge
- Opportunities exist for cybersecurity firms and satellite communication companies
- Myanmar growth and opportunities