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The first half of 2009 has continued to be a difficult environment for deals, with just 235<sup>1</sup> announced deals down from the 276 deals announced in the second half of 2008 and the 282 deals that were announced in the first half of 2008. However, deal values were higher with four deals greater than US\$1 billion announced compared to three in the second half of 2008 and just two in the first half of the 2008 period, one of which was the restructuring of the Chinese telecommunications sector.

Asia is home to three of the fastest growing telecom markets in the world with India, Indonesia and China all continuing to grow at high double digit rates. Empirical research has shown that the elasticity of demand for basic telecommunications services is low, or put another way, consumers sacrifice a lot in their budgets before they cut their phone bills. This point is evident in the asset betas of Asian telcos which have generally declined during a period when stock markets have experienced considerable turmoil.

Whilst the current economic environment is likely to persist for the next six to 12 months, we see some key themes for transactions:

### Consolidation

Revenue growth and cost management continue to be key issues for telcos. Combined with difficult equity and debt markets, telcos are increasingly looking for opportunities to gather scale and find synergies to enhance their ability to compete. Where balance sheets permit, these opportunities may take the form of acquisitions. Increasingly likely is a trend to consolidate the number three and number four providers in the form of mergers or “joint ventures” like the US\$2.5 billion Vodafone/Hutchison merger announced in February 2009 in Australia.

### Unlocking value in balance sheets

The need to reduce debt levels and realign focus on the core business means that telecom companies are looking at opportunities for segregation of their infrastructure assets, such as mobile towers, from other higher growth parts of the business. An example of this is Tata Tele Services Ltd’s recent hive-off of the passive infrastructure business (comprising approximately 13,000 towers) to its wholly-owned subsidiary, Wireless TT Info Services Limited and subsequent sale of a 49% equity stake to Quippo Telecom Infrastructure India for around US\$800 million in January 2009.

### Growth away from home

As domestic markets mature and growth opportunities at home become fewer, Asian telecom companies are looking outside their home markets for growth opportunities. In May 2009, Bharti Airtel of India and MTN of South Africa announced that their talks were back on track with a mutual acquisition of stakes in each other’s company which could lead to a full-scale merger of the two businesses with a combined market capitalisation of as much as US\$60 billion. In a smaller but still significant deal in April 2009, China Mobile acquired a 12% stake in Taiwan’s Far East Tone for US\$525 million.

### Notes

1. Source: Thomson Financials, based on total infocomm deals announced as of 30 June 2009 for Asia Pacific.

Vietnam is set to become one of Asia's biggest mobile phone markets in the coming years with some analysts predicting 120 million subscribers by 2014. The much awaited privatisation of the four government-owned telcos continues to attract investor interest despite an unclear timetable. In April 2009, the Ministry of Information and Communications issued four 3G licences to Viettel, Vinphone, MobiFon and a consortium between EVN and Hanoi Telecom.

The National Telecommunications Commission of Thailand has also announced it will consider auctioning four 3G 2.1Ghz licenses in September 2009 providing further opportunities for operators to participate in the Thai markets.

#### Content and e-commerce

A combination of technology improvements and the seemingly unstoppable declines in traditional voice Average Revenue Per User (ARPU) are pushing telecom companies to look harder at their content offerings and online opportunities. More than one third of transactions in the first half of 2009 involved content, e-commerce or the acquisition of enabling technology. In June 2009, NTT DoCoMo acquired Oak Lawn Marketing, a provider of e-commerce information services, for US\$307 million. In February 2009, Telstra acquired two businesses in China for approximately US\$155 million: China M, a provider of consumer mobile content, and Sharp Point, a provider of technical services to China Mobile's rapidly growing central music mobile platform. KTF Music Corp. acquired the online music services business of Korea Telecom Freetel in January 2009 in a relatively small deal which is still indicative of the growing appetite of telcos for content.

We also see a strong mobile theme in Asia. For example, China's top three telecommunications operators, China Telecom, China Mobile and China Unicom are expected to invest US\$40 billion in 3G products and network construction from 2009 to 2010. According to the China Internet Network Information Centre, the country's internet users reached 338 million by the first half of this year. Mobile internet users rose 32% in the first half of this year to 155 million, boosted by the launch of 3G services.

#### Next Generation Networks (NGN)

Following close behind the announcements by the governments of Singapore and New Zealand of planned investments in NGNs, the Australian government surprised most commentators in April 2009 by announcing that it is going to form a new company to build and operate a National Broadband Network (NBN) delivering superfast broadband to Australian homes and businesses. The new company will invest up to US\$34 billion building a fibre-to-the-premises (FTTP) network reaching 90% of all Australian homes, schools and workplaces in one of Australia's largest ever infrastructure projects and one of the most ambitious FTTP projects in the world. At the same time the Australian government announced a wide ranging review of the regulatory environment leading to speculation that a more stringent separation of Telstra's wholesale and retail arms may be imposed along with restrictions on Telstra's ownership of cable TV assets, content and potentially wireless spectrum licenses.

The ramifications of the announcements are wide and far reaching for all industry participants, but especially Telstra. We expect that significant M&A opportunities will emerge as details of the NBN implementation plan and new regulatory settings become clearer. ■