M&A Asia Pacific: Communications Infrastructure

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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)

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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)

    i. Qualcomm Inc. walked away from USD $44 billion deal to purchase NXP Semiconductors (2018)

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Telecommunications Infrastructure M&A: Resilience

- Increased Competition
- Digital disruption

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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

  i. India – Reliance Jio Infocomm (Jio) built its own mobile network infrastructure

  i. Japan – Rakuten began building its own network infrastructure this year

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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

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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)

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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

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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