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SECTOR COMMENT
27 June 2022

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Telecommunications – Europe

Belgium's 5G auction will boost competition but new entrants face execution risk

On 21 June, the Belgian Institute for Postal Services and Telecommunications (BIPT), the Belgian telecoms regulator, announced results of the main phase of the spectrum auction that started on 1 June. The regulator auctioned frequencies for 5G in the 700 megahertz (MHz) and 3,600 MHz bands and 2G and 3G spectrum at 900 MHz, 1,800 MHz and 2,100 MHz for a period of 20 years (except the 3,600 MHz which expires 2040). Two new telecom operators – Citymesh NV, part of Belgian-headquartered IT group Cegeka, and Network Research Belgium – acquired spectrum for the first time. Citymesh was bidding as a joint venture (51%/49%) with Romania-based Digi Communications N.V. (Ba3 review for downgrade). The regulator had cleared five entrants to the auction in March, including the three existing operators, after the government said it would encourage a new market entrant to increase competition.

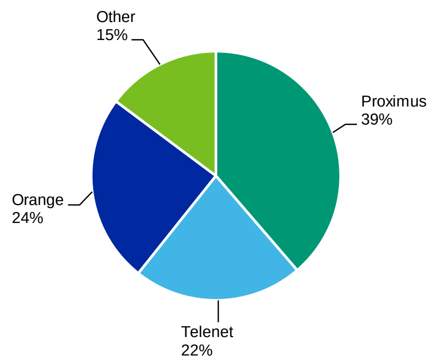
The auction result is credit negative for incumbent Belgian mobile operators Proximus SA de droit public (A1 stable), Telenet Group Holding NV (Ba3 stable) and Orange Belgium, which is majority owned by Orange (Baa1 stable) because competition in the Belgian mobile market will likely increase, with Citymesh focusing on the business-to-business (B2B) mobile segment while Digi will focus on the consumer segment. Citymesh has previously delivered mobile services to the B2B market in Belgium. However, with the acquisition of the additional 5G spectrum, Citymesh will be able to operate a new nationwide mobile network. Digi will address the Belgian mobile consumer market. Digi has expanded aggressively outside of its domestic market in Romania, having entered the Spanish and the Italian markets as a mobile virtual network operator (MVNO). Digi also acquired spectrum in the Portuguese market in 2021. The other new entrant, Network Research Belgium, a niche B2B operator, only acquired 20 MHz of the 3,600 GHz band, which does not change the competitive landscape significantly.

Competition in Belgium's mobile market was more benign than elsewhere in Europe because there were only three main operators before this auction (Exhibit 1). As a result, it has been a market that generated higher average revenue per user (ARPU) than some other European countries. Markets with four or more operators historically tend to be highly competitive, reflected by faster declines in ARPU.

Exhibit 1

Belgium's mobile market has been dominated by three operators – Proximus, Orange Belgium and Telenet – with a tail of relatively small MVNOs

Mobile market shares in Belgium based on number of subscribers as of March 2021



Source: Moody's Investors Service estimates

We expect that Digi will act as a disrupter in the Belgian mobile market based on its successful track record in Spain, where the company started operations in 2008. Digi Spain reported around 3.0 million mobile customers, a gain of 27% year over year, and 480,000 broadband customers as of the end of 2021, adding 275,000 clients during the year. In addition, this development in Belgium runs counter to that seen for instance in the Netherlands, where operators have benefited after consolidation reduced the number of operators to three from four following the merger of T-Mobile Netherlands and Tele 2 Netherlands, rated under WP/AP Telecom Holdings III B.V. (B2 stable).

The €1.2 billion of spectrum auction proceeds exceeded the entry price set before the start of the auction by €469 million. Proximus acquired 170 MHz of spectrum and spent €491 million, while Orange Belgium and Telenet acquired 150 MHz each and spent €322 million and €264 million, respectively. The Citymesh/Digi JV acquired 80 MHz for €114 million, while NRB spent €11 million on 20 MHz (Exhibits 2 and 3). Citymesh and Digi's spectrum acquisition comes with population coverage obligations of 30% after three years, 70% after six years and 99.5% after eight years. This coverage can be achieved either through the rollout of a fresh network or by sharing existing operators' networks under bilateral agreements, or via a mix of the two. The regulator can impose national roaming on the existing operators if an agreement between Citymesh and an existing operator cannot be achieved in reasonable time. However, there is an obligation for the newcomers to cover first 20% of the country before they can make use of national roaming agreements to offer nationwide mobile services. We note that despite its successful acquisition of spectrum, the Citymesh/Digi JV will be subject to execution risk and the roll-out of a nationwide network will require significant capital expenditure to be deployed in a relatively short period of time. Additionally the competitive position of the JV will be limited by the smaller amount of spectrum acquired compared with the existing operators.

Exhibit 2

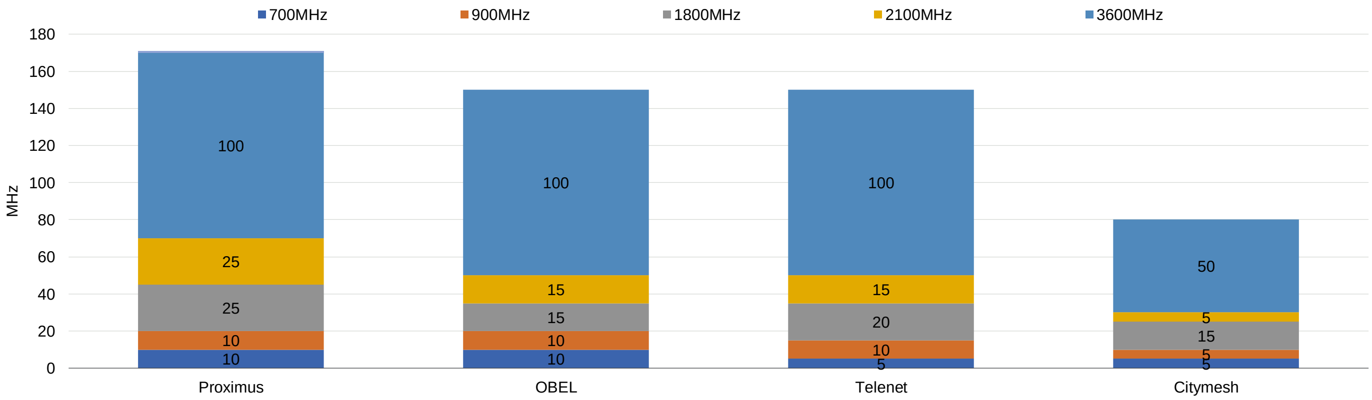
Proximus paid the highest amounts across the different spectrum bands

Overview of Belgian spectrum auction results

	Proximus	Orange Belgium	Telenet	Citymesh	NRB
700 MHz Band					
Total MHz	10	10	5	5	0
% Total MHz	33%	33%	17%	17%	0%
Price to be paid (€ millions)	122.9	122.9	21.3	19.3	0.0
Price per MHz/population (€)	1.06	1.06	0.37	0.33	0.00
900 MHz Band					
Total MHz	10	10	10	5	0
% Total MHz	29%	29%	29%	14%	0%
Price to be paid (€ millions)	57.4	56.7	57.4	28.0	0.0
Price per MHz/population (€)	0.49	0.49	0.49	0.48	0.00
1800 MHz Band					
Total MHz	25	15	20	15	0
% Total MHz	33%	20%	27%	20%	0%
Price to be paid (€ millions)	109.9	27.0	69.4	27.0	0.0
Price per MHz/population (€)	0.38	0.16	0.30	0.16	0.00
2100 MHz Band					
Total MHz	25	15	15	5	0
% Total MHz	42%	25%	25%	8%	0%
Price to be paid (€ millions)	144.6	60.0	60.4	9.0	0.0
Price per MHz/population (€)	0.50	0.34	0.35	0.16	0.00
3600 MHz Band					
Total MHz	100	100	100	50	20
% Total MHz	27%	27%	27%	14%	5%
Price to be paid (€ millions)	56.3	54.9	55.8	31.0	11.0
Price per MHz/population (€)	0.05	0.05	0.05	0.05	0.05
Total price to be paid (€ millions)	**491.1**	**321.5**	**264.3**	**114.3**	**11.0**

Sources: BIPT and Moody's Investors Service

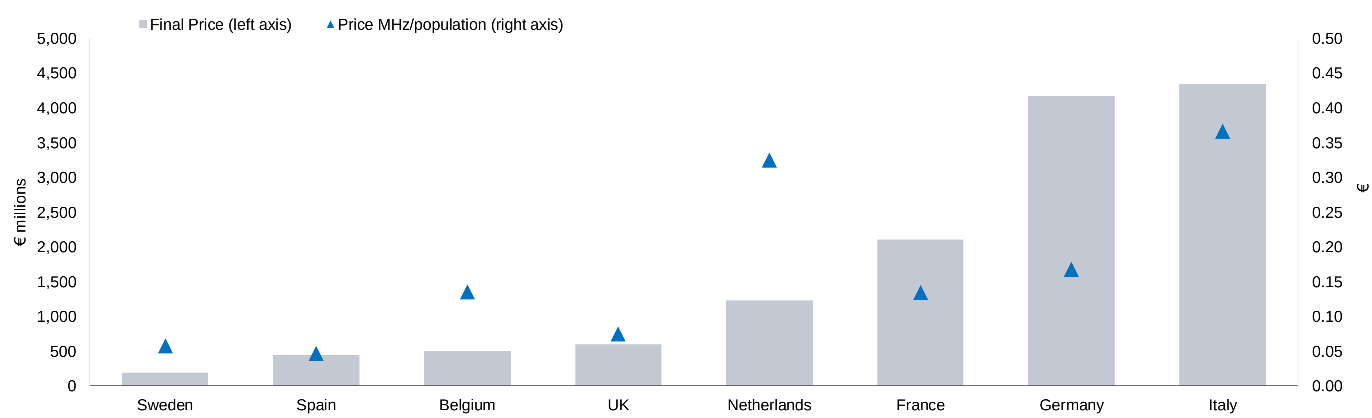
Exhibit 3
Belgian existing operators' spectrum position is balanced
Belgian spectrum ownership and distribution pro forma for latest spectrum auction



Sources: BIPT and Moody's Investors Service

In comparison with other 5G auctions in the European telecom sector, the Belgian spectrum auction ended in the middle of the price range at around €0.135 per MHz per capita, similar to that achieved in France and Germany (Exhibit 4). This is two to three times more expensive than Spain, Sweden and the UK, but two to five times cheaper than the Netherlands and Italy. The amount to be paid for the spectrum auction is manageable for the Belgian operators. Telenet generated €745 million in proceeds from the disposal of its tower infrastructure to DigitalBridge in March 2022. The company indicated that it intends to initially retain the net proceeds from the transaction, awaiting the achievement of certain accretive strategic transactions, including amongst others the NetCo JV with Fluvius System Operator CV (A3 Stable) and the upcoming multiband spectrum auction.

Exhibit 4
The price outcome of the Belgian 5G auction is in line with France and Germany
Pricing of selected 5G auctions across Western Europe



Sources: National regulators' data and Moody's Investors Service calculations

Moody's related publications

Sector Comment:

» Telecommunications – Global: 5G is not yet a game changer for the telecoms sector, 17 March 2022

» Telecommunications – UK: UK spectrum auction results are credit positive for UK mobile network operators, 22 March 2021

» Telecommunications – France: French spectrum auction is credit neutral: reduced uncertainty offsets high price, 2 October 2020

» Telecommunications – Germany: Outcome of long-running spectrum auction in Germany is credit negative for telecoms operators, 13 June 2019

Outlook:

» Telecommunications – EMEA: Outlook remains negative: revenue growth tightly constrained by structural challenges, 14 October 2021

REPORT NUMBER 1332907

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