

Telcos pay 5G price: higher debt, lower margins in 2022

Investments have surged since COVID, putting some telcos in tough spot: need to manage higher debt as interest rates rise and new revenues fail to appear

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Summary

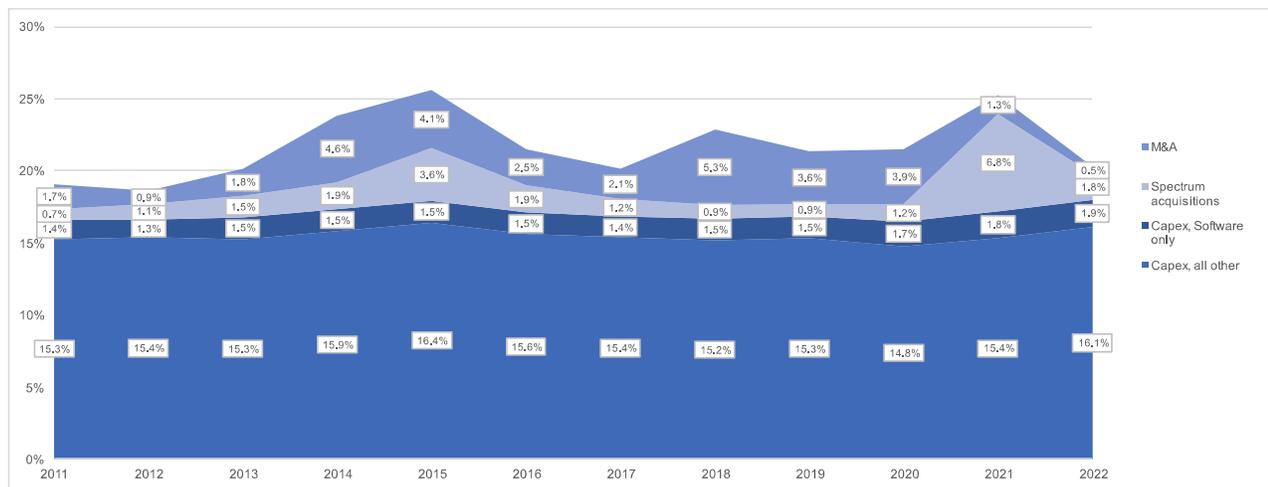
This brief report presents data aimed at shedding light on the following question: can telcos afford to pay for their future investment needs? The report considers debt, cash, and margin metrics, for the industry overall and for specific key players. It also speculates how 2022 trends may impact 2023 and beyond, in a rising interest rate climate. A number of large telcos have high debt, low margins, and/or weak top line growth, and may have to curtail spending in 2023-4 in order to cope with this reality.

Telcos have spent big on capex, spectrum and M&A in last 2 years

MTN Consulting publishes a detailed review of telco financials each quarter. The [most recently published](#) covered the year-end 2022 (4Q22) period. Most of the metrics we track are assessed quarterly. For a large subset of telcos, we also review certain metrics once a year, as part of the 4Q data collection process. These metrics include spectrum acquisition, M&A spending, and others included in this report.

Figure 1 shows several categories of telco investments as a percentage of revenues. As shown, the sum total of capex, spectrum acquisitions and M&A spend exceeded 25% of revenues in 2021, around the same level as 2014-15 when 4G auctions were conducted.

Figure 1: Telco investments by type, 2011-22, as a % of revenues



Source: MTN Consulting

In 2022, telcos invested \$322.1B in total capex. That's a bit less than 2021's result of \$326.9B. However, capex as a percentage of revenues rose in 2022 to 18.1%, the highest figure in more than a decade. The need to buildout 5G networks is the primary driver behind this surge.

On an annual basis, we break out software capex separately from all other capex. One reason for this is to track the extent to which telco cloud spending is being recorded in capex, as opposed to opex; the accounting rules are subject to interpretation, and few telcos break out the data publicly. Evidence to date suggests telcos are burying lots of their cloud spend in opex. MTN Consulting [estimates](#) that telcos spent \$4.5B on cloud and other services from Amazon, Alphabet, and Microsoft, combined; that's up 71% from 2021. No such growth is apparent in the telco figures for software capex, though. Software capex as a %