

The new gold rush for 5G

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5G is becoming the new gold rush for investors. The supertechnology will make the Internet 20 times faster and will pave the way for a new wave of innovation in many sectors, from autonomous transport and robotics to artificial intelligence and telemedicine, to name but a few. There is a formidable boom on the horizon which will change how we work and spend our free time. Investment company Neuberger Berman, which has a fund dedicated to it, estimates that 5G's impact on the global economy in terms of new goods and services will be 13,200 billion dollars by 2035, with over 22 million extra jobs.

Where should we look? China and the United States are already up to speed with the development, while Europe has lagged behind; only now is it stepping on the 5G accelerator with services and infrastructure. Ericsson predicts that coverage in Europe will grow from around 1% of mobile subscriptions across the continent in 2020, to 55% in the next five years. Credit Suisse calculates that there will be 2.5 billion users globally by 2024 (15 million in Italy) with total revenues of 383 billion dollars for the telecommunications sector alone.

But which securities will be key? The generation jump, which requires new infrastructure but will also lead to entirely new functions and services, offers opportunities for growth across the entire value chain. In the

first instance, there will undoubtedly be the telephone companies. "They have been competing for years, especially on the European market", says Andrea Scauri, Equity Manager Italy for Lemanik. "Now, the development of 5G could prove to be a genuine turning point that will allow them to counter the drop in profitability". It means more profits thanks to higher prices.

In this sector, the first indications are coming in from Asia, where 5G has been in place for a year and a half. "Here we are seeing a healthy acceptance of 5G telephone plans at higher prices, while spending on investments has remained within the limits of the budget", explains Andrea Scauri. "This should all translate to a significant increase in the estimated return on invested capital, in particular for the Korean and Chinese operators that are further ahead in this type of process". The expert explains that even now, these telecom companies are recording an increase of up to 30% in average revenues per user. In terms of individual securities, the most relevant names in 5G are represented by the main Asian operators that are now riding the wave of the fifth generation of Internet.

Outside Asia, all eyes are on the United States. "In North America we can see opportunities in T-Mobile thanks to the potential increases in market shares that the company will gain thanks to the advent of 5G, while for similar reasons the focus in Europe is on Deutsche Telekom".

Firms operating in 5G infrastructure are also the centre of attention. "In Europe, the decision to exclude China's Huawei from the 5G network first in the UK, then in Germany, Italy and the Nordic countries, has created additional growth opportunities for European companies like Sweden's Ericsson, that are now able to gain market shares", says Gianmarco Rania, Head of Equities at Banor Capital. The companies cited by the expert also include Prysmian, world leader in the production of cables and at the forefront of fibre optic development. "In Italy, we find Inwit very interesting, an equity story [sic] that operates in 5G infrastructure, but which is dealing with a significant discount despite the ground already gained", adds Andrea Scauri. Inwit gained [...]

The race for 5G is an opportunity, but there is no shortage of risks. Credit Suisse has shone a light on the telecom sector, underlining that the Internet of the future does not yet have its killer application to promote its mass adoption, as was the case of streaming media for the adoption of 4G, for instance. As a result, the expected growth in turnover for the 2019-24 period could be limited to just 1.3% per annum in the sector. This helps to explain the scant performance of telecom shares at the start of the year. The high-paying dividend is nevertheless attractive. According to the Swiss company, Vivo in Brazil, Orange and Tef Deutschland in Europe, alongside HKT Trust, China Mobile and PT Telkom in Asia offer a return on dividends exceeding 6.0% per annum.

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