

## Bharti Infratel: One of the best ways to play the emerging Indian consumer (NSE: INFRATEL)

5/03/2019 | Steven Glass, Pengana Capital Group

- Bharti Infratel operates 92,000 telecom towers in India. By comparison American Tower operates 170,000 towers globally and China Tower operates 1.9 million towers in China.
- Bharti Infratel's customers, which are telecom operators in India, have experienced significant disruption to their industry in the last two years as a result of a deep pocketed and aggressive new entrant, resulting in bankruptcies and consolidation.
- The reduction in demand for telecom towers has resulted in tenancy exits and the average number of tenants on Bharti Infratel's towers have declined significantly from a peak of 2.4 to only 1.9 currently.
- Despite the short-term disruption for Bharti Infratel, the long-term future is bright as telecom operators will need a significant number of additional towers in order to increase their 4G coverage and improve their network.

India's richest man disrupted the Indian telecom market two years ago when his company, Reliance Jio, began offering free voice and data services to everyone for an initial three-month period. This offer was subsequently extended by another three months and Reliance Jio has since been offering the cheapest data plans in the industry and taking significant market share. Many telecom operators went bankrupt or were acquired and this has created some interesting investment opportunities in the Indian telecom sector, one of which is Bharti Infratel.

Bharti Infratel is a telecom tower operator in India. Its core business is building and operating telecom towers, which it leases to the three largest telecom operators in India, namely Bharti Airtel, Reliance Jio and Vodafone Idea. Reliance Jio's entry decimated the Indian telecom sector, from more than ten operators in 2016 to only three major operators remaining. The demand for telecom towers has been severely reduced in the short term but with the merger of Vodafone India and Idea Cellular finally complete, the worst should now be behind Bharti Infratel and tenancies should begin to increase again.

We have identified Bharti Infratel as being a defensive investment with long term growth opportunities and have invested in it for these main reasons:

1. **Continued rollout of 4G** – Mobile data usage has skyrocketed in India since the rollout of 4G in 2016, increasing by more than twenty times over a two-year period. In order to maintain a high level of service as well as increase 4G coverage, the telecom services providers will all need to lease additional telecom towers.
2. **Long-term growth** – China and India both have three major telecom operators and a similar population size. However, India has less than half a million telecom towers while China has around two million telecom towers, which suggests significant long-term growth potential.
3. **Merger** – Bharti Infratel is currently in the process of merging with Indus Towers, the largest telecom tower operator in India. Post-merger, the combined company will have more than 160,000 telecom towers and about 50% market share in terms of tenancies.
4. **Cheap valuation and strong balance sheet** – Bharti Infratel is currently trading on a very attractive valuation having fallen more than 40% from its high in late 2017. Bharti Infratel also has no debt and a more than 4% dividend yield.
5. **Takeover target** – KKR and the Canada Pension Plan Investment Board own 10.3% of Bharti and they have been rumoured to make a bid post-merger. Both Bharti Airtel and Vodafone have appeared keen to dispose their stakes in order to fund their network investment and a deal should be forthcoming as long as the price is right.

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