

Industry Observer: Market Talk on Telecom Restructuring

Wednesday, 26 March 2008

From January to February of 2008, the talk about the telecommunication restructuring spread like wildfire fast in the market, and the more widespread the gossip was going on in the market, the more likely it seemed to be true. According to the market talk, China Tietong would be merged into China Mobile and China Unicom's CDMA and GSM networks would be spun off. The CDMA network would be merged into China Telecom, while the other would be incorporated into China Netcom to form a new China Unicom. Consequently, the existing five telecom operators (China Mobile, China Unicom, China Telecom, China Netcom and China Tietong) would be transformed into three big ones with full-service operation.

Source SINA Corporation

In fact, the latest market talk on telecom restructuring plan of creating three telecom giants out of five telecom operators is nothing new and very similar to the widespread rumor in 2004 about China Unicom splitting to create three out of six telecom operators. This is just another version of the previous rumors of telecom restructuring. Only the content of rumor has some changes, but the way of propagating and press speculation are almost the same. Generally, such news is released firstly by investment banks and securities traders and then all kinds of media follow suit to make ballyhoo. After that, some experts will stand out to express their opinions and the gossip usually ends up with nothing definite.

Gossips of Telecom Restructuring

Jan. 2008

March, 2005

Nov. 2004

May 2004

Solution of "Three plus One";

Gossip of merger of six firms into one

Gossip of merger of six firms into one

Rumor of merger of four firms into two

New solution: turning six operators into three plus one

China Unicom's CDMA & GSM networks will be split, CDMA will be merged into China Telecom, GSM will be merged into China Netcom to form a new China Unicom

China Tietong will be merged into China Mobile

Telecom restructuring plan was finalized with the industry divided into three parts

tChina Mobile
+ China Satcom
= China Mobile;

splitting China Unicom C & G networks and
splitting China Tietong into North Tietong & South Tietong; C network of China Unicom + China Telecom + North Tietong = China Telecom

vG network of China Unicom +
China Netcom
+ South Tietong
= China Unicom

China Mobile taking over China Tietong & China Satcom to have one national fixed line network.

China Unicom will be divided into 3 parts:

C network goes to China Netcom;

G network goes to China Telecom;

China Netcom's

PSTN & long-

Distance network will be divided into Northern part & Southern part.

China Netcom & China Mobile to be merged into one;

China Telecom & China Unicom to be merge into one;

To create a telecom market competed by two super telecom operators

Source ResearchInChina

Looking back on the restructuring history of China telecom industry, telecom restructuring can only be decided at the top meetings. Therefore, we are very suspicious of the authenticity of this restructuring. The specific reasons are as follows:

1. China's economy will focus on the reconstruction after the snow disaster in the near future. It is not suitable at the moment to have telecom restructuring, which will be not good to recovery of economic development after the snow disaster, including recovery of telecom infrastructure.

2. This year, China's economy will lay emphasis on curbing the rise of CPI and preventing the sharp inflation and economic soft-landing, which will be followed by the optimization of market competition and the adjustment of industrial structure.

3. Chinese government is going to form a new cabinet. So it is not logical for it to make a hasty decision on such an important issue at the moment. It is impossible that solutions are worked out by the current government, but will be implemented by the next government.

Meanwhile, we deem that the best solution to China's telecom restructuring should be the mode of "3+1=4", that is, the six operators are merged into three full-service operators and one proprietary network operator. And four 3G licenses should be issued and four 3G brands should be built. The specific solutions are as follows:

Table: "3+1=4" Solution of Telecom Restructuring

Operators before restructuring

Restructuring

3G network

China Mobile

China Mobile + China Tietong = a new China Mobile

TD

China Telecom

Unchanged

TD

China Unicom

China Unicom and China Netcom merge into one through exchanging their equity, retaining their respective brands and running CDMA and WCDMA. China Unicom + China Netcom = a new operator

CDMA of China Unicom

China Netcom

WCDMA of China Netcom

China Tietong

To be acquired and die out

/

China Satcom

Independent

proprietary network

Advantages and disadvantages of "3+1=4" solution

Advantages

Disadvantages

1. Creation of three big operators with full-service.
2. Low cost for restructuring and less impact on each operator.
3. To accomplish restructuring by market-oriented means of issuing 3G licenses and trying to avoid the administrative intervention.
4. To avoid the failure in network operation and the overlapping construction of infrastructure caused by the China Unicom splitting.
5. China Telecom and China Mobile follow suit to build TD, which will not only decentralize the operation risks, but also promote the development of 3G industry, thus reducing operation risks of TD itself greatly at the same time.

6. The competition between two TD operators may bring more abundant telecom service to the consumers.
 7. Merger of China Unicom and China Netcom by equity exchange can be carried out in an easier way, which can ensure their maximum independence and help them retain their own advantages in forming an alliance.
 8. To retain the brand of China Netcom and ensure the effective usage of the previous investment, meanwhile, to make best use of WCDMA market.
 9. Three full-service operators would run four 3G networks and four telecom brands, which is good to achieve the effective competition of China telecom market.
 10. To ensure the steady development of each company and avoid the large-scale lay-offs.
1. Normally it takes some time for senior executives in these telecom firms to adapt themselves to the changes caused by the restructuring.
 2. The merger of China Unicom and China Netcom will affect the capital market to some extent.
 3. It is a little difficult to allot assets and benefits.

Source ResearchInChina

Table: Market Structure after Restructuring by the Mode of "3+1=4";

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