



Credit crunch mania

Everybody is talking about it – it's the credit crunch. Hysteria over the effect that sub-prime mortgage lending in the United States is spreading, affecting financial markets across the globe. Is this taking its toll on the satellite industry and how are the satellite businesses in Asia coping? Satellite Evolution takes a look.

We've been talking about it, hearing about it and waiting for the impact of it for a few months now. Yes, the so-called 'credit crunch' has sparked off a range of reactions around the world and we are often hearing talk on the news of the 'R' word. Will it happen? Won't it happen? Are we standing on the edge of an abyss? Really?

One thing is for sure. There is something going on. So where did this crunch begin? In layman's terms, a rise in the amount of US homeowners defaulting on their mortgage payments forced the US central banks to raise cash injections which in turn, has heightened fears that global economic growth will suffer a considerable slowdown. The shockwaves have reverberated around the world and the nervousness has been reflected in the stock markets and through the banks that are being hit. The UK bank Northern Rock has been nationalised by the government after it fell to its knees when the money markets stopped lending it money due to the crisis in the US sub-prime mortgage market, leaving the tax payers to foot the bill. Not a good state of affairs.

Volatile market

2007 was a strong year for the satellite industry and produced good growth and emerging systems and services. The question is whether this growth and strength can be maintained this year. The Satellite 2008 Conference in February looked in detail at the financial state of the industry and several participants from major investment banks gave their point of view. There was agreement across the board that there was considerable market uncertainty and that there have been a great deal of changes occur since last year. These changes seem to have impacted on the smaller players in the industry and also on regional markets. However there is also considerable optimism that the markets will recover and that the volatility that we are experiencing at present will stabilise by Q2 of 2008. Optimistic perhaps, but some analysts feel that the whole situation has been overblown and that the climate of fear that this has created is a result of hysteria. The public and private funding required for the satellite industry is there. However, there is no liquidity in the credit market, no willing-



ness to invest. This is a knock-on effect of the US sub-prime issue.

It seems that 2008 will be a tough year for the majority of companies in the satellite industry. However, interest in hedge funds continues to grow. Hedge funds are investment vehicles that pursue absolute returns on their underlying investments. The hedge funds require the investor to be in constant contact with CEOs and top management so that they are kept in touch with exactly what is going on within any company.

Areas of growth for 2008

So if the satellite industry is to ride out the impending storm, where is the growth going to come from and what new areas? Principal areas earmarked for growth include:

- HDTV;
- MSS/ATC;
- Comms-on-the-Move;
- FSS;
- Satellite Broadband;
- Emerging market FSS and DTH;
- Geospatial applications; and
- Mobile convergence – cellphones.

In 2007, the Fixed Satellite Service market performed best and was up 19 percent in 2007. Inmarsat saw great performance. However, the Digital Audio Radio market was the worst performer and Worldspace suffered as a result. The long and drawn out merger between XM and Sirius has played a large part in the scepticism. However, there is now more optimism that the merger will eventually go through. In terms of Mobile Satellite Services support was given by Harbinger who increased its stake in Inmarsat, Skyterra and Terrestar. Also in 2007, there was a great deal of merger and acquisition activity that occurred both before and after the credit crunch. Deals in 2007 were transformational and there was a huge availability of capital. However, it seems that a 'faultline' appeared in August 2007 after which these huge deals would no longer happen. The order of the day will now be smaller, incremental deals enabling the smaller players to combine resources and acquire.

Satellite broadband

Satellite broadband took off in the consumer market in 2007 and is now a proven commercial success thanks to HughesNet and Wildblue. Broadband has reached 50 percent penetration in the US market

and there are still 20 million underserved homes there. The demand in the rural market is huge, especially in under-developed countries all over the world and this will be the key for the success of satellite broadband in 2008.

Entertainment on the move

The demand for satellite radio in vehicles via S-band is on the up and is expected to represent a significant trend in the market this year. Satellite radio providers are forming partnerships with vehicle manufacturers to fit satellite radio as standard. This is a response to the large emerging market that for mobile entertainment. Consumers want to enjoy high quality entertainment wherever they are. The convergence of services onto mobile phones is also expected to be significant and to convert from a niche to mass-market application and satellite players have the advantage. They have both spectrum in S-band and their assets – the satellites. To succeed, companies must fine-tune their infrastructure and technology, they must forge new distribution partnerships, to introduce competitive pricing, to deliver and have access to the right content and execute effective marketing and customer care.

A matter of time

It remains for the industry to wait and see how the impact of the credit crunch will play out. There are two conflicting arguments evident at the moment from those who say that the whole saga is just part of the ebb and flow of finance and that this is merely a bump in the road that will be over sooner than we think. On the other hand, there is a camp that sees this as being a sustained problem that will lead to a recession that will hit the global economy with significant fallout. Whichever way the financial tides turn, the satellite industry should weather the storm.

A strong year in 2007 helped to bolster confidence and the fact that deals were still going through after the initial crunch had taken place in August 2007 surely must bode well. Capital will obviously not be readily available but in the last five years satellite investment has really come into its own. It is true that the larger companies should sustain their value while the smaller players may struggle more but if the companies, big or small, can show a strong history and excellent customer relations – a strong foundation – then that is what investors are looking for. 2008 will be a very challenging year in terms of satellite finance but the industry has coped with worse and come out the other side. It is this determination that will help the satellite industry weather this storm as well. ■



SatTV

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