



Brandes

analyzes:

Telecoms: Toll Roads in a World of Exploding Traffic

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Why aren't investors dialed-in to today's Telecom opportunity?

Statistics reflect escalating global demand for web-based technologies. Investors looking to profit from this trend have focused on cell phone and tablet manufacturers, internet search engine providers, and, more recently, social media companies. Telecommunications companies have been largely overlooked – yet they provide the essential infrastructure for voice and data transmission.

What are the misconceptions that have kept investors out of telecoms?

1. DECLINING USE OF LAND-LINES

In reality, most of the decline has been for in-home use, which has become a very small part of telecom companies' overall revenue stream. Businesses still need reliable fixed lines and we anticipate this revenue will grow as the economy improves and unemployment declines.

2. SUBSCRIBER GROWTH FOR WIRELESS HAS PEAKED

While subscriber growth has leveled off somewhat in developed countries, growth remains strong in emerging markets.

3. POSSIBLE INCREASED CAPITAL EXPENDITURE

Prices for network equipment have come down drastically. Furthermore, today's networks are built to handle more traffic with less hardware.

Rising sales of smart phones and tablets have contributed to a 200% increase in mobile broadband use in 2009.¹

More than 7 trillion text messages are forecast to be sent in 2011, up from 1 trillion in 2005.²

¹Cisco Visual Networking Index: Global Mobile Data Traffic Forecast Update, 2010-2015. 2/2/11. http://www.cisco.com/en/US/solutions/collateral/ns341/ns525/ns537/ns705/ns827/white_paper_c11-520862.pdf

²<http://www.mobilemarketer.com/cms/news/research/8631.html> and <http://www.gsmworld.com/about-us/history.htm>

The Case for Telecoms

GROWTH POTENTIAL

In our view, future wealth creation for the telecom operators will result from the growing demand for data. Telecom companies will benefit from this growth because they typically own the “pipes” through which all of this data flows.

MARKET TRENDS

- Growing worldwide sales of smart phones, tablets, and other web-enabled devices
- Increased use of video conferencing, VoIP (Voice over Internet Protocol), e-mail, VPN (Virtual Private Network) office access, web-browsing, and by peer-to-peer businesses
- Transitioning to electronic web-based data storage (medical records, government filings, etc.)
- Proliferation of streaming video, on-line gaming, Facebook, Twitter, and Skype

ATTRACTIVE VALUATIONS

Diversified telecom companies are trading at lower price/earnings ratios than the MSCI World and S&P 500 indices; these stocks are currently available at a reasonable price, and are poised to grow over the long term.

	MSCI World Index	MSCI World Diversified Telecom Industry	S&P 500 Index	S&P 500 Diversified Telecom Industry
Price / Earnings	12.2x	10.1x	12.2x	11.0x

Source: MSCI & S&P via FactSet as of September 30, 2011. Past performance is not a guarantee of future results.

HEALTHY DIVIDENDS

Telecom companies typically generate large cash flow streams and can afford to pay healthy dividends. Diversified telecom dividends are multiples higher than the index.

	MSCI World Index	MSCI Diversified Telecom Industry	S&P 500 Index	S&P 500 Diversified Telecom Industry
Dividend Yield	3.1%	7.1%	2.3%	6.1%

Source: MSCI & S&P via FactSet as of September 30, 2011. Past performance is not a guarantee of future results.

Overall, we believe the market will eventually get the wake-up call and recognize that telecom companies are far from shrinking – in fact they’re building out the toll roads for an explosive growth in data traffic. In the meantime, the Brandes portfolios have the potential to benefit from the strong revenue streams, healthy balance sheets, and high dividends coming out of the Telecom sector.

³Sandvine “Global Internet Phenomena Report.” Spring 2011.

Consumers in North America downloading or watching movies online now account for nearly 30% of internet traffic between 8 p.m. and 10 p.m. each night.³

Dividend Yield: Total annual dividend divided by the market price of the investment.

Price-to-Earning: Price per share divided by earnings per share.

The MSCI World Index with net dividends is an unmanaged, free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets. As of May 27, 2010 the MSCI World Index consisted of 24 developed market country indices. This index includes dividends and distributions net of withholding taxes, but does not reflect fees, brokerage commissions, or other expenses of investing.

The MSCI World Diversified Telecommunication Services is a free float weighted, sub-industry equity index.

The S&P 500 Index with gross dividends is an unmanaged, market capitalization weighted index that measures the equity performance of 500 leading companies in leading industries of the U.S. economy. The index includes 500 leading companies in leading industries of the U.S. economy, capturing 75% coverage of U.S. equities. This index includes dividends and distributions, but does not reflect fees, brokerage commissions, withholding taxes, or other expenses of investing.

The S&P 500 Diversified Telecommunication Services Index is a capitalization-weighted, sub-industry index.

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