T-Mobile / Sprint: There Is Only One Thing We Need To Know Tomorrow…

July 24, 2019 by Jonathan Chaplin

Is DISH for real?! That's the whole thing. The only thing that really matters. For everyone concerned. Here is how we are thinking about it…

What we know so far

We are working off the assumption that the press reporting today around deal terms is more-or-less accurate. Broad brushstrokes:

- 9MM prepaid subs
- MVNO for 7 years
- 14MHz of 800MHz band spectrum
- eSIM support
- $1.4BN due now for prepaid subs; $3.6BN due in three years for spectrum when spectrum cleared
- No change to net synergy guidance of $43BN
- No change to Sprint consideration

We are also working off the assumption that the press reports that the DOJ will approve a deal that includes the above conditions is also correct.

The big question is: what impact does DISH have on market shares and market pricing?

To determine that we, and the rest of the market, and the state AGs, and eventually the court, will be trying to determine how probable it is that DISH will successfully deploy their spectrum, and fill it. The more probable it is, based on the specifics of the deal, the more DISH will trade up and the more AT&T and Verizon will trade down. T-Mobile may trade in the same direction as AT&T and Verizon at first, but this might be a mistake. It should probably trade with DISH. Here is how we get there…

The market believes that DISH could have a valuable business…

Based on the 20 calls and dozens of emails we have processed over last three days, we believe the market is willing to accept DISH can have a valuable business if their spectrum is deployed. There hasn't been much dispute about our network cost estimates and capacity analysis. We have seen this view reflected in DISH stock; it has traded up from $35 to $42 as it has become increasingly clear that they are planning to build (and not planning to sell).

…but the market doubts whether DISH is committed and whether they will be successful

The controversy around DISH is around 1) whether DISH really intends to build this time; 2) the likelihood that they will be successful deploying the spectrum and 3) the likelihood that they will be successful filling the capacity, once built. While all three are controversial, the first two issues are most controversial. Most clients we have spoken with are willing to accept that if DISH deploys a network with very cheap capacity, there will be takers.

The market believes a new, low cost network is bad for the carriers

The market believes, correctly, that a new network with a low unit cost is bad for the rest of the wireless industry. We have seen that reflected in the selloff at AT&T and Verizon as DISH has been trading up.

If the deal terms make it very likely that the network will be deployed, DISH will trade up and carriers will trade down. If there is little to compel DISH to build, and little to give the market confidence they will succeed, the opposite is true.

It gets more interesting with T-Mobile (and Sprint).

The market may initially reward or punish the stock along with the other carriers, but the market is making a mistake. Investors wrongly believe that if the DOJ approves the deal, it will definitely close. They underestimate the odds of the states winning in court.

The strength of the states case depends in large part on how credible DISH is as a new entrant. If there is nothing compelling DISH to build, the states will have a good argument: “we are trusting the competitiveness of the market on the promises of a guy who hasn’t kept promises or met commitments for years?!”

If the states can’t make that argument, because DISH is somehow compelled to build, the odds of the states winning drops and the odds of the deal closing go up, perhaps dramatically.

We believe T-Mobile (and Sprint) gain more from the deal closing than they lose from DISH entering the market. We think most investors concur. If correct, T-Mobile benefits from a “real” DISH.

Network sharing (or hosting) may matter more than anything else to the market, and the court’s, perception of DISH’s chances of success

If DISH and T-Mobile strike a deal in which T-Mobile is committed to deploying DISH’s spectrum, then the risk around DISH’s willingness to build and a successful deployment should be largely addressed.

If the agreement extends to T-Mobile managing DISH’s network once built, then the prospects of DISH’s success go up further. If T-Mobile and DISH share infrastructure and costs, whether passive or active or both, it drives up DISH’s prospects of success still further.

There will be some lingering doubt about DISH’s ability to fill the network, but these doubts are less critical to how the stocks trade in the aftermath of the announcement, and there is no way of settling this definitively until the spectrum is deployed.

DISH can still be successful without network sharing

Our initial analysis around DISH’s network economics assumed they built and operated their own network (see report HERE and conference call replay HERE). They should be able to deploy a network with a disruptive cost structure without any help from T-Mobile. We think they should find the capital to do it without network sharing or network hosting.

DISH's business would be worth more if they share costs with T-Mobile (also covered in the report; Slides 16-19). Perhaps more importantly, at least tomorrow, the value that the equity markets will be willing to give to DISH upfront will be higher if they have a network sharing deal. The court is probably willing to give credit to whatever the market is willing to give credit to, in their analysis of DISH's prospects as "the fourth carrier".

As Blair has said (LINK), the best indicator of what the court decides might be the move in AT&T and Verizon's stocks (they will be inversely correlated with the odds of DISH's success). It isn't a perfect indicator; the court may choose to show deference to the expert agencies and not look too closely at the odds of DISH's success. It is safe to say that an adverse reaction in the carriers' stocks is helpful to the companies' prospects of seeing this deal close.