

Thyra's Heydorn brings insights from the Mobile World Congress - sees problems ahead for Ericsson

Stockholm (HedgeNordic) - Inge Heydorn (*pictured*), telecom specialist and portfolio manager of the Swedish market neutral tech-focused hedge fund Thyra Hedge, returns from the Mobile World Congress in Barcelona with some interesting reflections. Those were shared with news channel EFN TV on Thursday.

According to Heydorn, the trends currently seen within the telecommunications industry relate to 5G, artificial intelligence, virtual reality and smart cars, trends around which all the large telecommunications companies are consolidating at the moment.

However, Heydorn highlights that there are very few product launches that relate to these trends:

"I have been to this fair now for the last 15 years and this year was probably the most disappointing when it comes to new product launches. The companies' communication was more or less exclusively focused on what will happen in 2019 -2020. The industry is suffering from weak growth within mobile phones and networks so there is a clear focus on longer term trends that can bring the industry back into growth mode."

Regarding the trend towards 5G, meaning the next generation mobile networks, Heydorn is sceptical that Swedish telecommunications giant Ericsson will be a significant beneficiary of the new standard.

"First of all, the standard is not set yet, this will be done in 2019, so the products that will benefit from 5G will not do so until 2019-2020. I see the 5G transition as a much less important one compared to the 3G and 4G transitions. 5G brings more speed to the networks allowing for more applications but builds on the same infrastructure. There is not going to be any major extensions to the networks in terms of geographical coverage so I do not expect more money coming into the system from previously non-covered areas", Heydorn says.

Regarding the massive growth in smart phone traffic and the need for networks to provide infrastructure to support this growth, Heydorn says that most of it relates to hotspots where we need temporary connections, such as wifi. However, for users outside of central areas, the 3G networks still work as a good enough solution. He does not see 5G as a major game changer compared to 4G in central areas with a lot of data traffic, this is bad news for hardware providers such as Ericsson, he argues.

With regards to applications, video is the area that is projected the strongest growth for the coming 6 years. However, Heydorn do not see a massive need to upgrade the networks broadly to support this growth, again it is selected areas that will require more speed. He also says that the big winners on video are social networks such as Facebook while operators, being the end clients to Ericsson, will not be profiting massively from the growth in video traffic.

When it comes to Ericsson as a company, Heydorn argues that it will be difficult to turn the company around.

“Ericsson comes from a hardware radio base station background, which is where most of the money has been earned historically. As new technologies such as 5G are being rolled out, there is not going to be as many stations out there. For Ericsson to compete within software, that requires a whole different skill set, other products, other type of clients and will introduce new competitors.”

Heydorn remains sceptical to the Swedish communications giant.

“I see this as a difficult turnaround case, it is very hard to know where the company will be positioned in the future, I would not like to be in Ericsson’s clothes right now, trying to figure out the future strategy for the company”, Heydorn concludes.