

CityFibre and Hyperoptic

Update based on latest accounts – material funding still required

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Following the publication of the CityFibre and Hyperoptic 2023 accounts this week which reveals new financial information (even if a little old), so we take this opportunity to refresh how the businesses are faring against each other as two of the UK's largest altnets.

Whilst CityFibre has deployed 4x more capital than Hyperoptic (£4.6bn and £1.1bn respectively), the two operators have achieved broadly similar subscriber numbers and revenues. CityFibre is expected to launch its £1bn accordion facility this month, with some uncertainty as to whether investors will continue to back its suburban network build.

CityFibre funding a key question: CityFibre subscribers almost doubled to 337k in 2023 (174k in 2022). Fibre revenue increased +41% to £71m, although EBITDA AL was broadly unchanged at -£72m (-£77m in 2022). Capex was higher than we expected at £1.0bn, implying an average build cost of £1,000 per premises passed in the year (albeit some of this capex will include preparatory capex for future connections). At end 2023, CityFibre had £137m of cash, with a further £533m at the parent company. The company expects to have fully utilized its current debt and equity funding by mid-2025, with the auditor modifying its language with regard to going concern risk and highlighting uncertainty as to whether the company can raise additional debt financing.

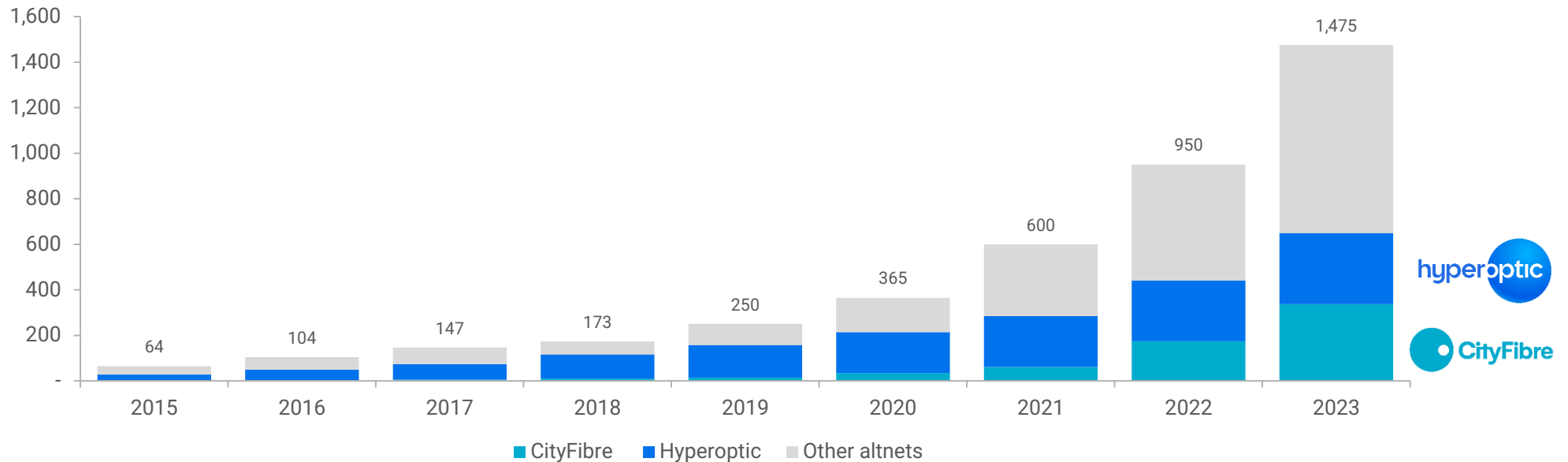
Mixed implications for BT. For BT, financial difficulties of its main wholesale rival would be a mixed blessing. Whilst BT Openreach would likely see near-term support to subscriber numbers, CityFibre's infrastructure won't disappear, and a new refinanced infrastructure owner could price more aggressively to win wholesale share. From a regulatory perspective, any trouble at the largest altnets ahead of the TMR 2026 could result in a more onerous regulatory regime.

CityFibre and Hyperoptic, the two largest UK altnets

CityFibre and Hyperoptic together account for just under half of total UK altnets subscribers, which we estimate at 1.5m at end 2023. The growth of the altnets continues to pressure the incumbent networks, especially as a number of the altnets have become more price aggressive to fill their existing network capacity. As a result, we expect BT Openreach subscriber losses to worsen this year (see [BT: Revisiting the Openreach story](#), Jul 2024).

UK altnet subscribers

Thousand subscribers

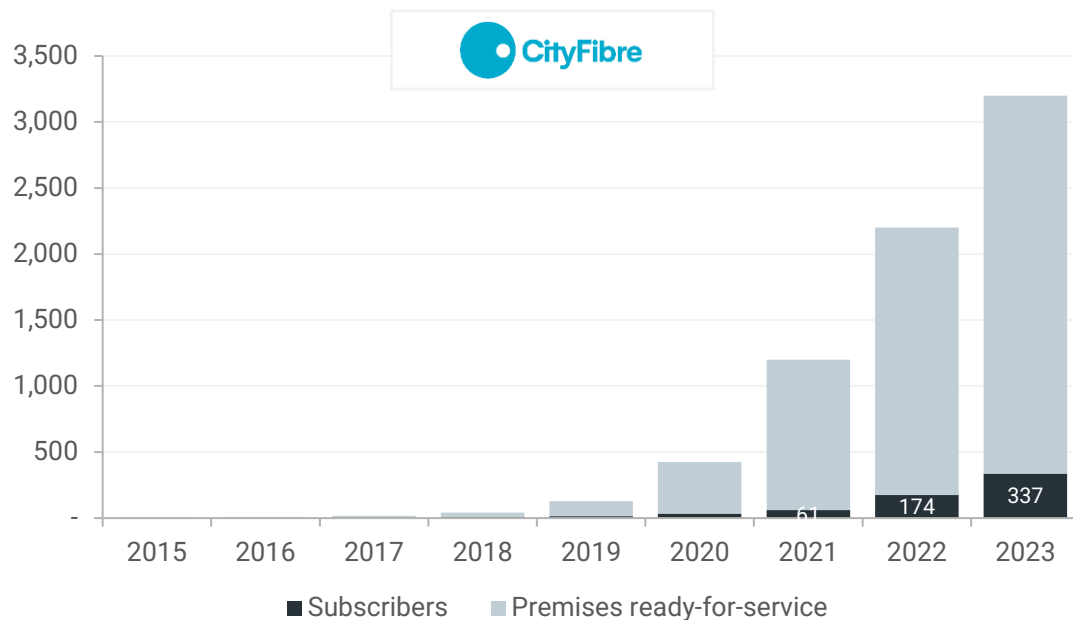


CityFibre has passed 2x more premises, but has ½ the penetration

CityFibre reported 3.2m premises ready-for-service and 337k consumer subscribers at end 2023, implying a penetration of 10%. Hyperoptic has just 1.5m premises passed but has a broadly similar number of subscribers (312k), implying a far higher penetration rate of 21%. CityFibre deploys a wholesale-only model, so is reliant on its retail-partners to add subscribers (primarily Vodafone and TalkTalk).

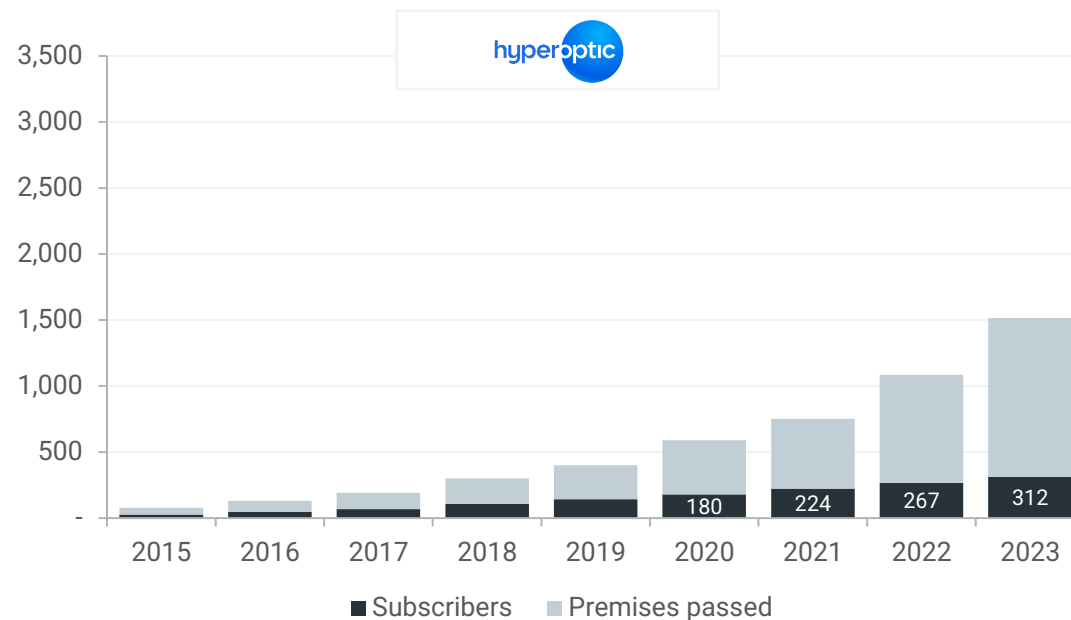
CityFibre premises passed and subscribers

Thousand premises



Hyperoptic premises passed and subscribers

Thousand premises

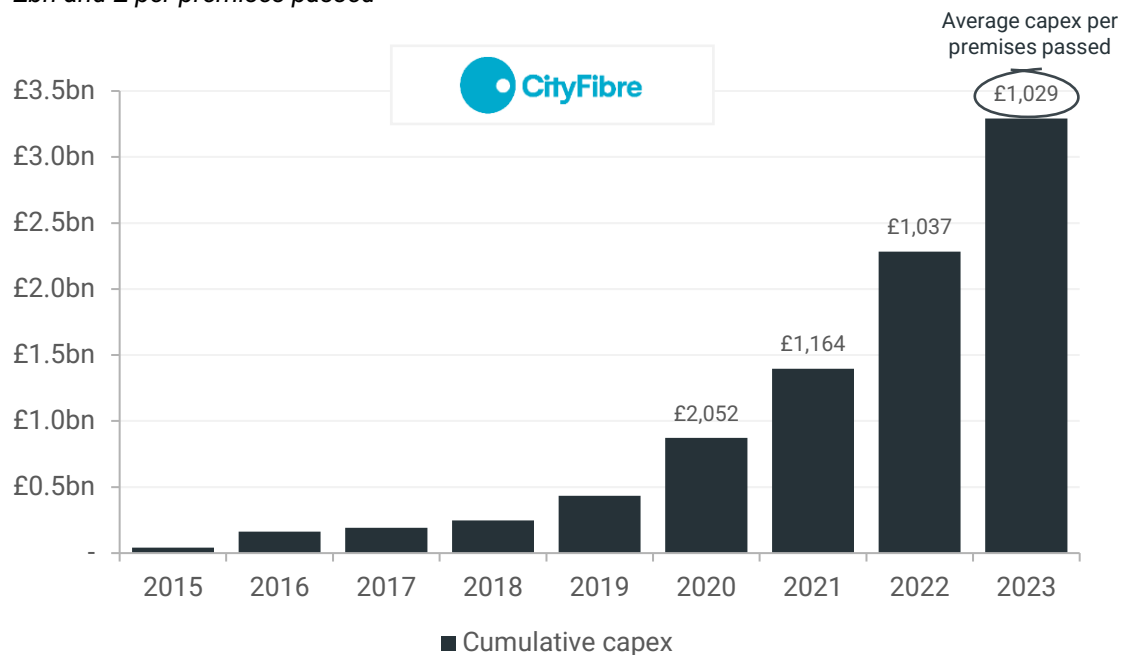


CityFibre has spend 4x more capex, with far higher unit costs

CityFibre reported £1.0bn of capex in 2023, bringing its cumulative capex spend to almost £3.5bn over the last decade, with an average capex per premises passed of £1,000. Hyperoptic has spent a fraction of that capex (just £0.7bn) with an average capex per premises passed below £500. This highlights the relative efficiency of Hyperoptic’s build, focussed on lower-cost MDUs and new-build developments, whereas CityFibre is primarily focussed on suburban areas and has been involved in far more preparatory capex for future network build.

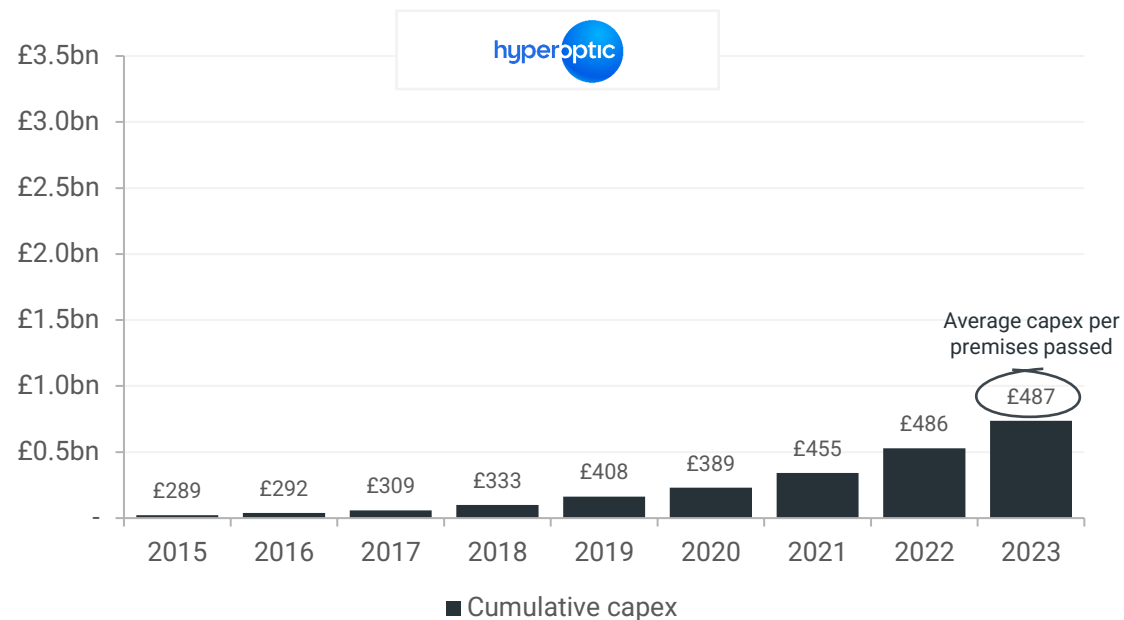
CityFibre cumulative and unit capex

£bn and £ per premises passed



Hyperoptic cumulative and unit capex

£bn and £ per premises passed

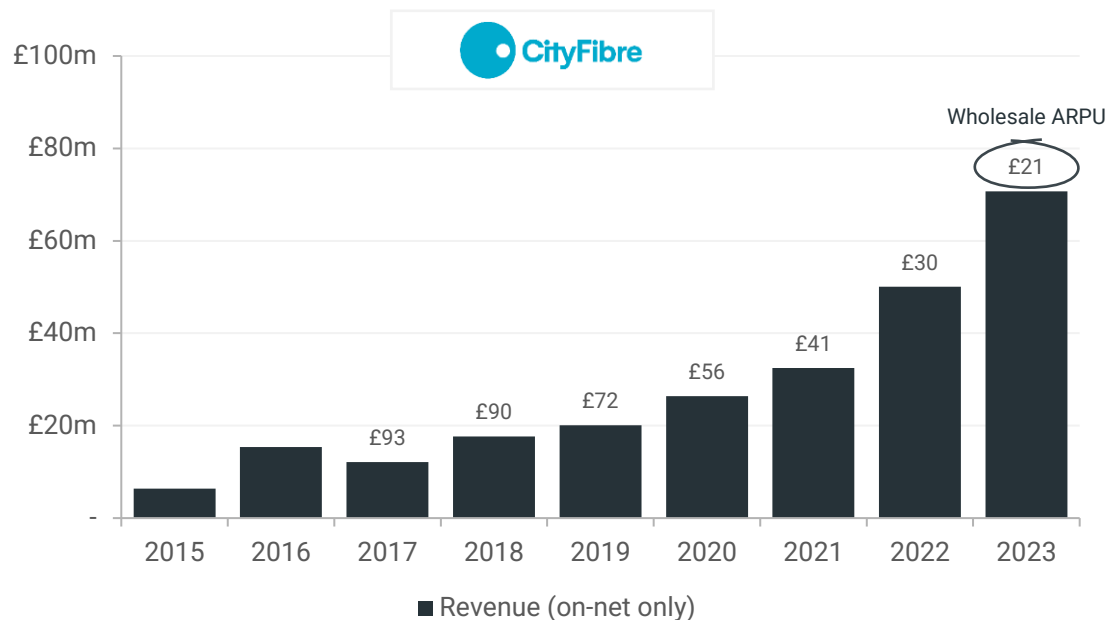


CityFibre generates lower revenue, on a lower (wholesale) ARPU

CityFibre reported 2023 revenue of £100m, of which £71m relates to their fibre network. CityFibre’s average revenue per subscriber has declined in recent years as their focus has moved from enterprise customers to residential wholesale. CityFibre’s blended ARPU was c.£21/m in 2023, and we estimate that the pure residential wholesale ARPU is c.£15/m. Hyperoptic reported 2023 revenue of £93m, with its residential retail ARPU remaining broadly stable at £27/m.

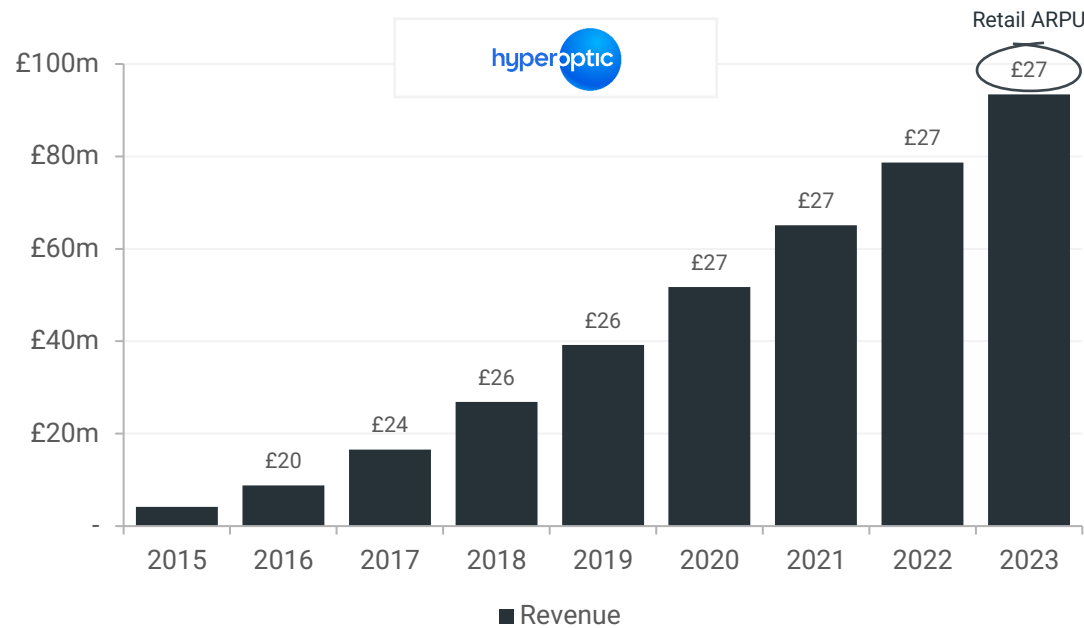
CityFibre revenue and ARPU

£m and £/m per subscriber



Hyperoptic revenue and ARPU

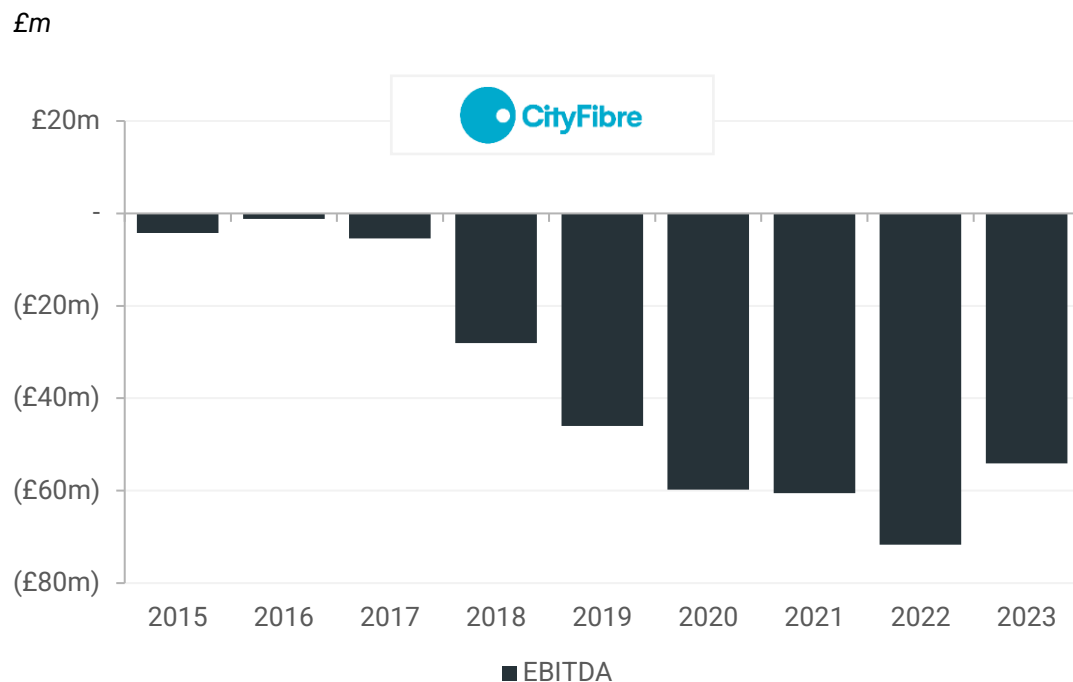
£m and £/m per subscriber



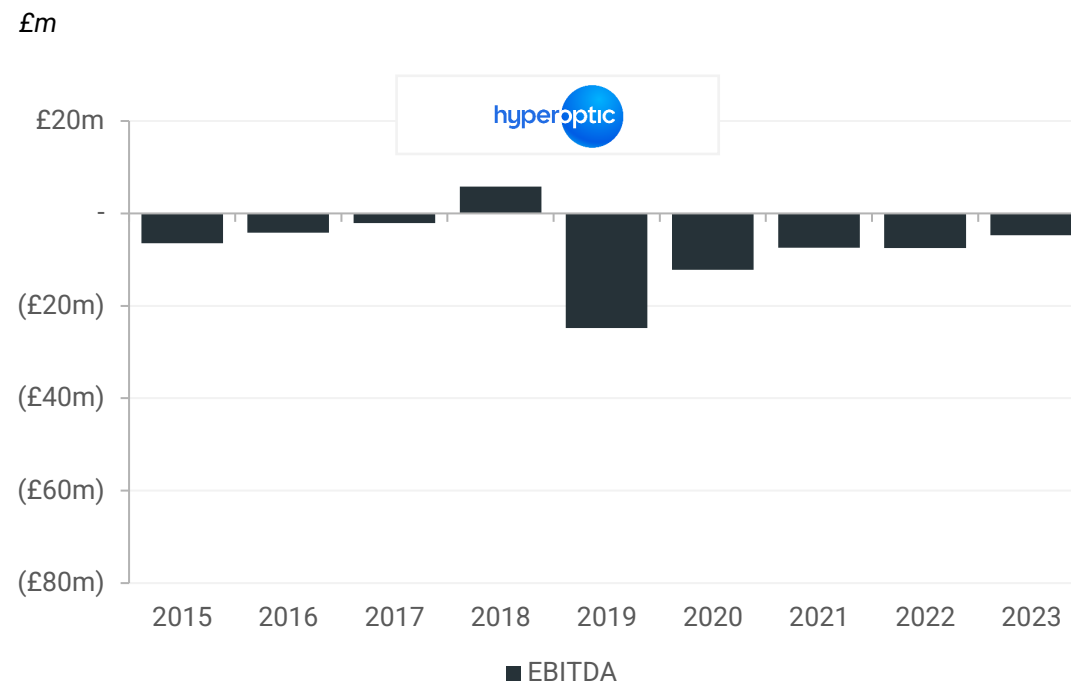
Longer-term EBITDA margins still unclear

One of the unknowns is where terminal EBITDA margins for fibre challengers should settle out. Conventional wisdom would suggest that wholesale fibre networks should be able to reach very high EBITDA margins >70%, and a retail fibre challenger should have lower EBITDA margins of c.30-40%. However, at this stage the confidence in reaching these higher levels is be stretched, as neither Hyperoptic nor Cityfibre have yet reported positive EBITDA (even though both are suggesting they should now be reaching breakeven in 2024).

CityFibre EBITDA



Hyperoptic EBITDA



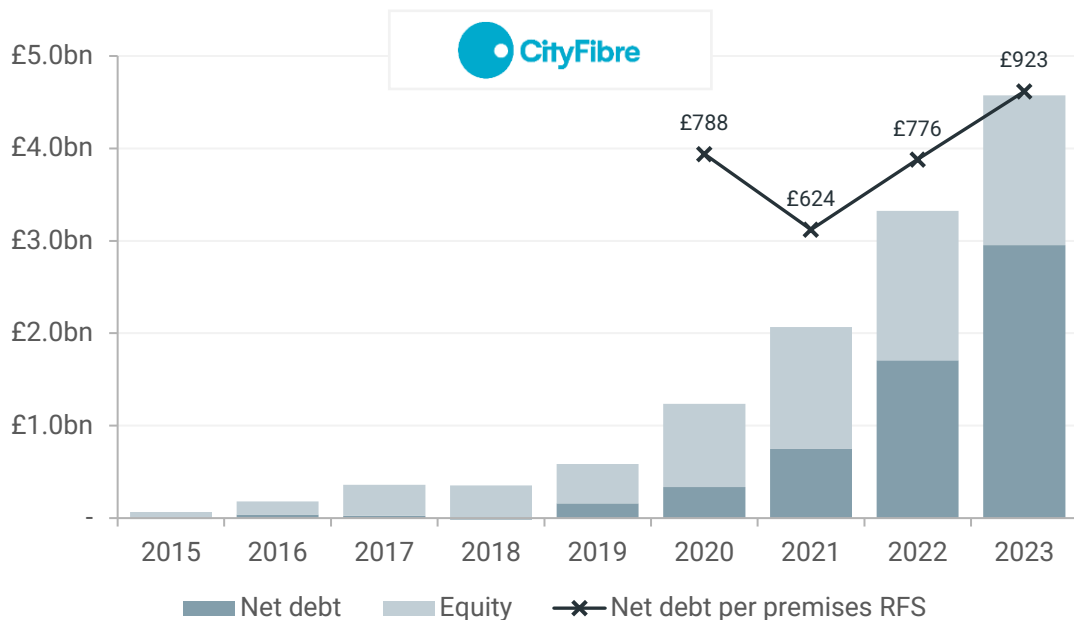
Hyperoptic network deployment almost entirely debt-funded

CityFibre (the operating company) did not draw down on any additional equity funding in 2023, albeit the parent company raised c.£300m in early 2023 from the sale of convertible shares to Mubadala, but that cash has remained at the parent company. Therefore reported net debt increased by +£1.2bn to £3.0bn. Debt funding now accounts for 2/3 of CityFibre's capital mix.

Hyperoptic continues to be almost entirely debt-funded, with net debt increasing by +£0.3bn to £1.0bn in 2023 (relative to just £61m of invested equity capital). For Hyperoptic, their net debt per premise passed is at £659, vs. Cityfibre at a higher £923, despite the higher use of equity funding.

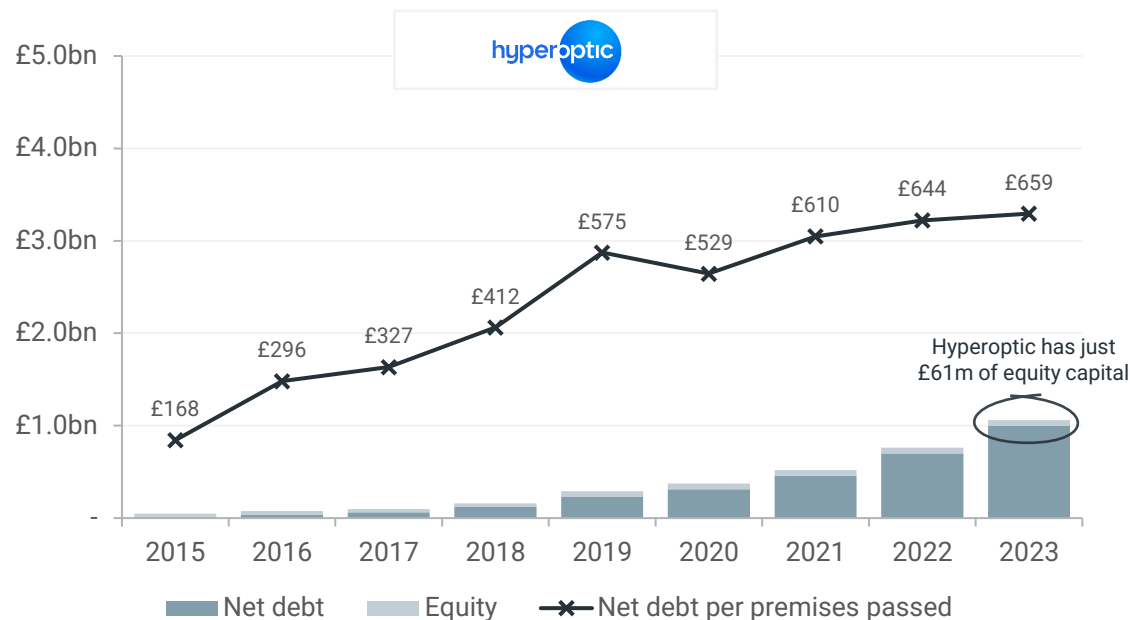
CityFibre capital structure

£bn and £ per premises passed



Hyperoptic capital structure

£bn and £ per premises passed



CityFibre upcoming debt raise critical

CityFibre is reportedly launching its £1bn accordion debt raise this month, although there is uncertainty as to whether this will be possible, particularly given we understand that the syndication of the initial debt facility is still ongoing.

CityFibre's accounts include new text, which was not present in 2022, highlighting the risk to the business if this debt raise is not successful (below). The parent company has £533m of cash and has committed to support CityFibre over the next 12 months.

Meanwhile, Hyperoptic continues to demonstrate its ability to raise debt financing, raising £255m this year, most recently from UKIB in July ([LINK](#)).

CityFibre new 'going concern' text

As the Group and Company are reliant on securing further external funding which is not guaranteed, **a material uncertainty exists which may cast significant doubt on the ability of the Group and Company to continue as a going concern** and as a result they may be unable to realise their assets and discharge their liabilities in the normal course of business. The financial statements for the Group and Company are prepared on a going concern basis, with the identification of this material uncertainty, but the Directors have a reasonable expectation that the Group can continue in operation and meet its liabilities as they fall due.

The ultimate parent company, Connect Infrastructure Topco Limited, **has confirmed it will continue to provide financial support to the Group** and Company to such levels as to enable the Group and Company to be able to pay its debts as and when they fall due for payment, for at least 12 months from the approval of these financial statements.

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