



The 5G stock with 100 ways to ride the 5G boom

Sam Volkering, Editor



Dear reader,

In the bonus stock report you recently received, I wrote about **Corero**

Network Security (LSE:CNS).

In that report I sent you a simple picture – a picture that you might have been familiar with, particularly during lockdown.

It was the buffering image that you sometimes see with a streaming service.

It's a different image whether you're on Netflix, Amazon Prime, Disney+, iPlayer or All4. They all look different but they all tell the same story. The service is loading, or these days when you get it, it means the service is not working.

I don't know about you, but I get buffering rage.

These sorts of systems aren't

supposed to go down. They're not supposed to be offline. They must work all the time, on time, otherwise what the heck are we paying our subscription fees for?

The same can be said for your network provider.

Recently I went back to my old house. We had been renting it out and since our tenant left, we've decided to put it on the market. So my wife and I headed back to touch it up, a bit of cosmetic work to make it presentable again.

I quickly forgot that my old house is in a blackspot. That my network connection for my phone is next to useless in that house. And without Wi-Fi in there, I was effectively stuck in a black hole cut off from the global networks I'm almost always connected to otherwise.

And then just yesterday as I was about to go to bed after an

evening of painting, I asked Alexa to "turn off the living room and kitchen". She didn't respond. She just blurted a weird beep at me.

Disgusted with her attitude, I asked again – quite possibly my accent had got in the way of her interpretation of my request.

Again, she just blurted a weird beep at me. And then I noticed the red ring of death circling around the top of the device. That's not what you want to see on your Alexa-enabled devices. It means they're not working for whatever reason.

Usually it means not connected, but anything red and tech related usually equals problems.

And trust me, if you thought buffering rage is bad, smart home rage is worse. Now, I will say I don't have an anger problem. My "rage" is usually constrained to an expletive and then the obligatory



off/on action, which nine out of ten times fixes any issue.

But what you quickly realise is in our connected world, when stuff doesn't work, it's a problem. What happens if your smart locks aren't working? What happens if your smart, connected car isn't connecting? What happens if your network is buggy, constantly down or not delivering the expected speeds you need to operate a business, a livelihood, a household?

The necessity for our high-tech world to just work has never been more crucial. And as technology gets better, even faster connected

It would be like selling a new car without seat belts. Aside from the fact that it would be illegal – who's going to buy a car, let alone use one, without seat belts? Sure it will work just fine, but if you get into trouble, you're stuffed.

With the promise of 5G networks, the economic benefit cannot be underestimated. Research from IHS Markit and Qualcomm Technologies estimates "5G will generate US\$13.2 trillion in sales enablement by 2035".

The research goes on to note,

- *The global 5G value chain will support 22.3 million jobs*

And speaking about the technology, Bob Flanagan, economics consulting director at IHS Markit, said:

"Like electricity and the steam engine before it, IHS Markit views 5G as a catalyst that will thrust mobile technology into the exclusive realm of General-Purpose Technology..."

"The profound effects arising from these innovations range widely, from the positive impacts for human and machine productivity to ultimately elevating the living standards for people around the world."

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and more integrated with everything we do, that need to be always on, always secure and working is more important than ever.

It's why when we look to the future of 5G networks, and then in about a decade 6G networks, and then beyond that 7G, 8G and so on, the importance of security and reliability is a major focus.

As I've said before, having a high-speed, hyper-connected network is pointless unless it is secure, reliable and works as intended. If it's no better than existing networks, if it's not secure enough to trust, then what's the point of it at all?

in 2035. This is 3.4 times as many jobs as a similar level of economic output supports today

- *The global 5G value chain will invest an average of \$235B annually to continue to expand and strengthen the 5G technology base. This figure represents nearly 80% of the total US federal, state and local government spending on transportation infrastructure in 2017*
- *The U.S. is forecasted to lead in cellular R&D and capital expenditures in the 5G mobile value chain with 27% average annual investment, followed closely by China at 26%*

But as you're well aware, this isn't something to dawdle on too long. It's the kind of technology rollout that wait too long and it appears everywhere seemingly overnight. Too many caught up in the false information about 5G will be those people.

Once you understand the truth and the real potential about 5G and know what the important areas are to focus on, then you see just how much an opportunity 5G will open up to investors.

And I believe that one of the most underappreciated areas of the 5G boom right now is around the security and safety of 5G. That's why I brought you Corero



Network Security, and that's why I'm bringing you this latest recommendation.

Introducing your latest Frontier Tech Investor recommendation...

Spirent Communications plc (LSE:SPT) is a network testing and security company based out of Crawley in West Sussex but with a global footprint in the Americas, Europe and Asia-Pacific regions.

It trades on the London Stock Exchange with a current price (at the time of writing) of 246p and a market cap of approximately £1.5 billion.

Now Spirent is a bit bigger in size than what I'd ideally be looking for in the stocks I bring you now. But even at £1.5 billion, I think there's plenty of space for potential upside as we dig into the 5G boom and these networks deliver on their economic potential.

Spirent is one of the UK's leading companies when it comes to 5G technology. But as I've said before, it's not the first kind of company investors think about when they think 5G.

Most investors will look to hardware or device companies. Security is often just an afterthought. However, it's not an afterthought for the companies that are helping to build out these networks and deliver the 5G-capable devices and experience that 5G promises to the masses.

Spirent is making serious inroads with some of the world's biggest 5G operators to ensure their rollouts of 5G are safe, secure and functional in the way they promise to be.

Spirent's business is categorised under three main areas: Networking & Security, Lifecycle Assurance Services and Connected Devices.

These parts of the business fit together with the overall business model. The first part is helping infrastructure and device providers get their networks and devices ready for market. Hence Spirent assists in the development of these technologies, ensuring they get to market faster and at a more cost-effective economy of scale.

Then as networks and devices are deployed into the market, it provides ongoing services and processes to help the lifecycle of those technologies. This is through cybersecurity, ongoing analysis, troubleshooting and service delivery products, as well as ensuring that the end user experience isn't impacted or plagued with problems and difficulties.

But it's its involvement in the rollout of 5G networks and its range of products and services in security and network testing where I see the big opportunity for Spirent over the coming years.

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promise to be.

In April 2020 Spirent announced key 5G work with China Telecom. Its announcement highlights,

... work with China Telecom on system-wide performance verification and assessment efforts for 5G Standalone (SA) network equipment. China Telecom used Spirent Landslide to rapidly test 5G core network commercial equipment from four vendors, conducting end-to-end system function verification and interoperability. This development marks a critical step forward in the scaled deployment of 5G SA networks.

And even more recently, in June 2020, it announced ongoing work with Rakuten Mobile in Japan:

... today [Spirent] announced its extensive work with Rakuten Mobile, Inc. in support of the operator's current LTE services, planned 5G Non-Standalone (NSA) and Standalone (SA) rollout in Japan for its world-first fully virtualized cloud native mobile network.

Of course these are two of the more recent developments in 5G rollouts for Spirent. In December last year it announced work with China Mobile around the creation of a "realistic 5G device



test system”. This would be to “help compare the performance of new 5G chipsets and consumer smartphones from leading global manufacturers.”

And this had come after it had managed to lock down over 100 5G deals during the 2019 year.

Spirent’s head of 5G, Steve Douglas, said about the over 100 5G deals,

“For as much traction as we’re seeing, this is really just the tip of the iceberg...”

“5G brings with it, as we expected, a host of opportunities

networks. There are “security concerns” about sticking with the Chinese company.

As such, the security of the UK’s 5G networks will be of critical importance, as if China is shifted away from the rollout, you would think they may decide to deploy some serious cyber “testing” of the 5G networks the UK eventually does roll out with.

As noted in Spirent’s First Quarter Trading Update from this year,

... we have also been appointed as adviser to the UK government’s 5G security working group to help develop

Of note was the recent announcement it has been appointed as an “Authorised Test Lab” for Amazon Alexa built-in devices.

The announcement explains,

As an Authorized Test Lab, Spirent will work directly with manufacturers at its state-of-the-art lab facility in Maryland, USA to provide a range of audio and acoustic test services for Alexa Built-in products seeking certification from Amazon.

Maybe it can help the next generation of Alexa devices understand “Australian” a little better...

... if Douglas is right, and this is the tip of the iceberg, then we would expect Spirent to have a bumper few years as 5G rollouts really start to gather speed.

The point here is that the world’s biggest companies, biggest mobile and network operators are turning to Spirent to help them with everything from 5G networks to a world of connected, enabled, smart devices.

and our focus is on staying several steps ahead with the testing, assurance and security solutions that help our customers confidently go to market at scale.”

Clearly the 5G opportunity for Spirent is huge. And if Douglas is right, and this is the tip of the iceberg, then we would expect Spirent to have a bumper few years as 5G rollouts really start to gather speed.

What’s also interesting about this opportunity is its involvement with the UK’s 5G networks. It’s widely expected the UK is going to move away from using Huawei technology in its own 5G

policy and set standards.

I believe that one sentence speaks volumes as to the importance that Spirent will have in the security and surety of the UK’s 5G networks going forward. As well as having ties with Chinese 5G operators, I think Spirent is uniquely placed with a foot in either camp (so to speak) as 5G networks roll out around the world.

While 5G is a huge opportunity for Spirent, it’s also important to know that a company this size is also progressing with other opportunities in the products and services it delivers.

And for a company with a market cap of just £1.5 billion, while it’s seen great growth over the last few years, I still think it’s underappreciated by the market and for the full potential of what 5G will bring to the global economy and to a company like Spirent.

Risks and financials

Spirent will be releasing its half-year results for the six months ended 30 June 2020 on 6 August 2020. So we’ve got a few weeks before that drops.

You would expect the half-year results not to be an improvement



on the corresponding period from the year before. But it may surprise the market when those results drop.

The information we do have available is the first quarter trading update from 15 April. And it's not too bad reading. It explains that in the first quarter, revenues were actually up 12% from the year prior.

And it noted the continuation of strong momentum into the second quarter. As the company is somewhat tethered now to the potential and rollout of 5G networks, this is keeping it pressing forward as these technologies aren't being withheld or slowed down by regions across the world.

Spirent also noted that as of 31 March 2020 it had a cash balance of \$208 million, hence it decided to pay out the final dividend as announced previously. Considering the dire state of some companies during the first half of the year, it's some testament to the strength of Spirent to pay out that dividend.

And that's the thing about this company: it's financially sound, it's grown revenues and is a profitable company that pays a dividend.

Over the last three years it's consistently grown revenue, adjusted earnings per share, operating profit and increased its dividend.

In the full year for 2019 it improved before-tax profit by 46% compared to 2018. What I

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like about its 2019 year is that its network and security division made up 64% of its revenue base. Furthermore, 53% came from the Americas and 37% from Asia Pacific.

We see its Asia Pacific region as a growth opportunity as well as the European market. It's got a strong established base in the US and I see that continuing. And work like the Amazon announcement also reaffirms its ability to generate opportunity from other business divisions.

But I think the growth will continue to come from 5G, in all regions, but there's plenty of scope in Asia Pacific.

Of course, we must be considerate of the risks here as well.

Firstly, it's important to note that while Spirent said momentum was building into Q2, that may have fallen away as the lockdown went into full effect in March, April, May and June. Only recently, long after that trading update, has the world started to edge out of it.

And some regions are heading back into lockdown conditions. So, we shouldn't get too excited about the half-year results. They may disappoint, and that may drag back the stock price if it's not great reading.

While its products and services are clearly beneficial to network operators and device manufacturers, technology risk is always key with companies like this.

The progress of network vulnerabilities and security flaws are difficult to keep on top of and maintain systems to prevent attacks or downtime from happening.

Staying in front of these problems is difficult and the protection is not always 100% effective and efficient. While I don't expect great failure of Spirent's technologies, we also have to be aware that the loss of deals with major operators may occur if the technology suite doesn't work as intended, and it's this loss of deals that could drag the stock back.

On that subject, it continues to make note of its growth and deal flow. Slowing down of this, or loss of contracts, partnerships or deals, will also have a negative impact on the stock price.

Deal flow and ongoing market announcements around these will be important in ensuring shareholder value is delivered.

Of course, the wider geopolitical risks of tensions between countries like the US, China, the UK and Europe are always a



factor for a global company like Spirent. There's no way to really predict what either or all will do, and how that could play out on the ability to make deals and operate in the various regions.

But the more aggressive these countries get towards each other can have a negative impact on a stock that as I say, has a foot in each camp.

Considering these risks, I still believe Spirent to be an outstanding pure play into the 5G boom that could deliver huge upside, even for a company as sizeable as Spirent.

Buying instructions

Spirent Communications PLC (LSE:SPT) is traded on the London Stock Exchange with a market cap

of around £1.5 billion and a stock price of 246p.

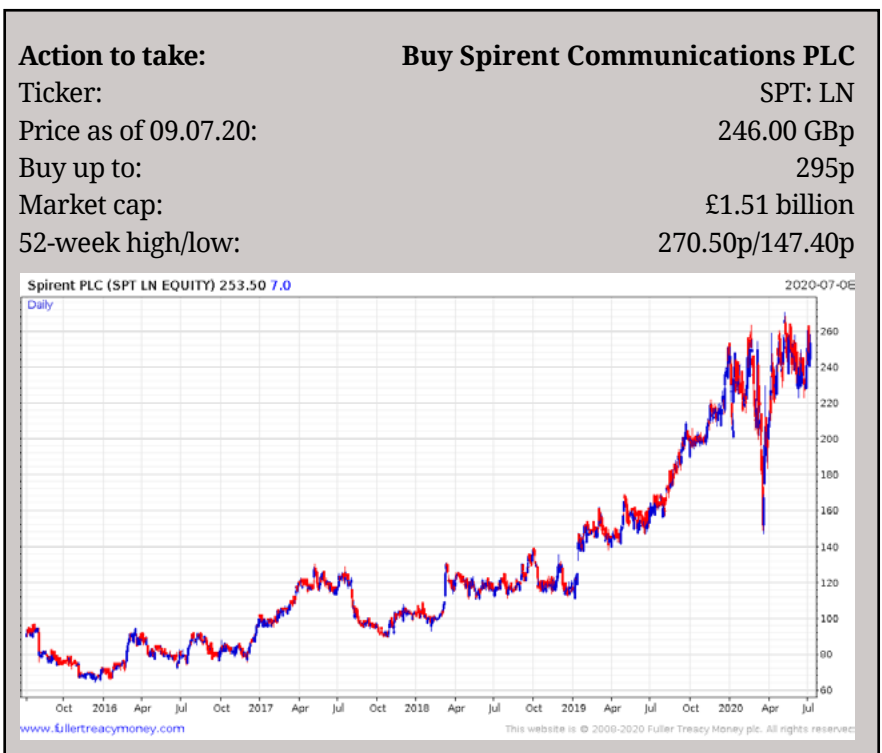
Average daily volumes are around 1.2 million, which means this is a liquid stock that you shouldn't have trouble getting an order into the market for.

Still, it's important to stick to our buy-up-to prices and should the stock spike over the buy-up-to, I advise to wait it out for a more suitable entry point once the initial bidding dies down.

Action to take: BUY Spirent Communications PLC (LSE:SPT) current price 246p, buy-up-to 295p. We recommend using a trailing stop/loss conditional order on the stock set at 40% below your entry price.

Regards,

Sam Volkering
Editor, *Frontier Tech Investor*



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