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The screenshot shows the Arabian Business.com website interface. At the top, there is a red banner with the site logo and a promotional message: "Your Opportunity to Buy U.S. Foreclosure Properties at a great price." Below the banner, the page is divided into several sections. On the left is a vertical navigation menu with categories like HOME, PROPERTY, JOBS, BLOGS, IN PICTURES, and NEWS. The main content area features an article titled "Egyptian potential" by Roger Field, dated Thursday, 08 April 2010. The article's headline is "Mobile data is set to emerge as key driver for the Egyptian telecom sector, as it reaches a new level of maturity." A photo of Javier Alvarez is included, with a caption stating "Javier Alvarez: Internet remains a key driver in Egyptian telecoms." To the right of the article, there is a "SHARE PRICE CHECK" section with a search box and a "GO" button. Below that is a "RELATED STORIES" section listing "Alcatel-Lucent" and "Enabling growth". On the far right, there is a "MOST POPULAR" section with a list of trending stories, including "Dubai cosmetic surgery imposter wanted by FBI" and "One dead, five injured in Dubai blaze".

Egyptian potential

Javier Alvarez: Internet remains a key driver in Egyptian telecoms.

Mobile data is set to emerge as key driver for the Egyptian telecom sector, as it reaches a new level of maturity.

With three mobile operators, all with 3G networks, serving Egypt's young and fast growing population of almost 79 million people, the country is shaping up as one of the region's more competitive telecom markets.

Even Egypt's fixed network, which is dominated by incumbent operator Telecom Egypt, is showing signs of improvement, with the telecom regulator set to auction two additional "compound" licences this year that will allow the new licencees to offer bundled cable, voice and internet services to residential compounds in the country.

With data increasingly emerging as the main growth area in Egypt's telecoms sector, and with mobile operators at the cutting edge of data provision, telecom growth in Egypt in 2010 will be largely driven by "technological convergence" between the voice and data segments, according to Javier Alvarez, partner at Dubai-based telecom consultancy Delta Partners.

"Operators will strengthen their positioning with enhanced products and service offerings to capture the growth opportunities, especially in the value-added services space," Alvarez says.

Alvarez points to the internet as the key growth driver, with growth expected to outpace the mobile segment with an expected 22% year-on-year subscriber growth in 2010, compared with mobile growth of around 16% as the "market reaches saturation".

The overall growth of Egypt's telecom sector is expected to hover around 5% given the push on data-related service offerings for 2010. "Take-up rate of these offerings will be steep in the short-term and that is positive for the industry," Alvarez says. "However, overall ARPU is expected to decline, but it should be buoyed by data offerings throughout the year."

EBITDA margins will also be sustained in the short-term as operators continue to introduce new data-related VAS offerings but are also expected to decline marginally - by about 1-2% a year - over the coming years, according to Delta Partners.

Mobile growth in 2009 was consistent with the year before, registering a 34% year-on-year growth, compared with 38% in 2008, with total mobile subscribers reaching 55 million, representing a mobile penetration rate of about 65%.

Competition among operators, especially in the post-paid segment, has driven the growth in this sector, and bundled post-paid packages such as Etisalat Misr's Green Line Unlimited offer will drive more innovative pricing in 2010, Alvarez says.

"In 2010, we expect the mobile segment to grow, albeit a slower pace, 16% year-on-year to 64 million subscribers, registering a 75% penetration rate," says Darren Tan, head of Delta Partner's intelligence unit.

He adds that operators are expected to sustain potential ARPU decline by introducing value added services such as premium data offerings and mobile payments. "Although the final framework on mobile banking is yet to be implemented, the opportunity within this segment is attractive. BNP Paribas' anticipation of the Egyptian mobile banking license further underlines this notion," Tan says.

Internet age

Growth of the internet sector has been sustained by data demand and strengthened by an "impending triple-play entrance", according to Tan. By the end of 2009, the internet segment registered a 22% year-on-year subscriber growth, the highest since 2003, reaching 15.3 million at a 20% penetration rate.

This growth rate was primarily driven by further cuts in ADSL tariff plans, which helped boost the number of ADSL subscribers to 1 million. ADSL subscribers are expected to increase by 32% year-on-year in 2010, to 1.3 million. This growth will come mainly at the expense of dial-up users which are expected to decline in the coming years.

In 2010, growth is expected to continue at a similar pace, buoyed by the expected operation of two new triple play licensees by the middle of the year.

"We believe internet users will reach 18.9 million, implying a 24% penetration rate," Tan says. "However, the growth rate will largely be driven by better internet capacity allocation to provide sufficient ADSL capacity at phone exchanges and the alleviation of congestion at certain phone exchanges in Cairo", Tan adds.

Fixing the decline

Even the fixed-line sector, which has been in decline due to competition from the mobile sector, looks set to experience a degree of revival in the coming year as Telecom Egypt looks to offer bundles and the Egyptian regulator offers to new "compound licenses" that will allow for bundled cable, voice and

internet services.

"The negative drop registered in 2009 is expected to reverse through bundling voice with other adjacent services, such as high-speed broadband and IPTV," Alvarez says. "Subscriber growth could reach 5% in 2010 with potential sustained growth in the medium term."

Fixed-line penetration is expected to slow down due to TE's recently-implemented tighter credit policy, which meant that about 2.08 million de-activations were expected in the fixed line segment for 2009. This would have reducing the fixed line subscriber base to 9.62 million, with a 12.5% penetration rate, compared with 11.7 million and 15.5% in 2008, respectively.

Two new triple-play licensees should be operational by mid-2010 and this will drive the potential growth in the fixed segment, according to Delta Partners. By the end of 2010, the fixed-line segment should see a 5% year-on-year growth.

Though TE is expected to remain the operator of choice in 2010, given its extensive and wide network, it will continue to be challenged by mobile operators in the broadband segment. Furthermore, the new triple-play licensees will launch in very limited geographies, so TE's offering in this segment will remain superior. With the anticipated TE North Cable project coming on-stream, the potential wholesale earnings will boost TE's fixed-line revenue for 2010.

Khaled Rabie, country director for Egypt at Nokia Siemens Networks, agrees that fixed services look set to experience some growth, even if mobile will continue to dominate. He says: "Voice will continue to provide the bulk of revenues, however data use is rising quickly, and both fixed and mobile networks will experience an increase in data penetration."

However, he points to some obstacles facing the fixed internet sector, including the phenomenon of people sharing their connections to cut costs. "The revenue potential in these is pretty much affected and hampered by people sharing the same connection, and the ISPs are trying to counter this by limited use packages, with the hope to reduce the sharing," he says.

"By reducing the tariffs - and the NTRA and the government forced the ISPs to do this - this phenomenon started to decline."

Khaled Rabie of Nokia Siemens Networks says convergence is a major trend in Egypt's telecoms sector, with voice and data merging.

Sameh Atallah, CEO of telecom infrastructure specialist Mobiserve, also points to improvements in Egypt's fixed sector. "The fixed ops are dropping their prices dramatically, and they are dropping international rates big time, which is actually giving good incentive to companies to make use of fixed line," he says.

And while Atallah concedes that he can see "no growth in the number of fixed lines", he thinks that some users will start to switch back to fixed line services for international calls and fixed to mobile. "I could see some growth in revenue per subscriber," he says.

Capacity issues

Rabie says that bandwidth capacity in the fixed network also needs to be increased although he adds that there is "a lot of pressure" from the ministry and NTRA for Telecom Egypt to increase capacity and allow more ISPs to have connectivity.

While the NTRA is planning to introduce two new fixed licences, which will only be for limited areas, the dominance of TE Data also appears to be a barrier to growth in the fixed broadband sector. "Most of the last mile unbundling from ISPs is done by Telecom Egypt, and there are areas where the last

mile access does not allow high speed DSL," Rabie says. "Some locations do not have at all connectivity, or have very basic connectivity."

While there are a number of ISPs in Egypt, TE Data retains a "monopoly in fixed voice and data backbone", which constitutes 25-26% of revenue of the market, according to Rabie.

However, the regulator does appear to be moving in the right direction, with two new fixed licenses to be issued this year.

Egypt's telecom regulator, the NTRA, announced last year that it would be offering two licenses to offer fixed line voice, high speed broadband and pay-TV services in select residential compounds. Submissions for the licenses, which are being decided through a beauty contest, are due this month.

At least 18 companies bought bid documents, including Egyptian companies Mobinil, Vodafone Egypt and Orascom Telecom, according to a report from Reuters.

However, the companies that win the licenses will only be able to offer a service that is far more limited than Telecom Egypt's offering. Firstly, the new licenses are limited to residential compounds of no more than 10,000 units, according to the NTRA.

Converged offering

The trend towards convergence has also been played out through consolidation in Egypt's telecoms sector, with a number of acquisitions by the country's leading players, particularly with mobile operators acquiring ISPs, according to Rabie.

Indeed, in the past couple of years, Etisalat Misr has acquired two ISPs, Nile On Line and EGYNet, while Vodafone Egypt acquired ISP Raya Telecom, and Telecom Egypt already owns TE Data, the leading ISP in the country.

Furthermore, Egyptian daily newspaper Al Mal recently reported that Mobinil was planning to acquire the ISP arm of LINKdotNET for some EGP600 million (\$110.26 million).

Rabie adds that there also appears to be a trend of convergence between Egypt's ICT and media sectors as operators look at ways to decrease the rate of ARPU decline and reduce churn.

"There are a lot of discussions on the regulator side as well as on the operator side on convergence between ICT to offer packages that include video streaming and pay TV type packages," he says, adding that TE Data has already started offering broadcast football games over DSL, while Vodafone Egypt has an IPTV application that can be accessed by mobile broadband.

A proposed license for a second fixed line operator was launched last year, but the plan was postponed as the financial crisis limited the amount of foreign investment the license might have attracted, according to Rabie.

Mobile data

Meanwhile, the mobile data sector also faces some barriers to growth, including the cost of data packages and handsets. But as the market develops, Rabie expects to see prices fall and mobile data use grow.

Mobiserve's Atallah is optimistic about the mobile sector, and also impressed with the progress that the three operators have made. "Egypt has three very strong players between Mobinil, Vodafone Egypt and Etisalat. They all have the latest technology on hand and have the latest 3G technology. I don't think Egypt needs a fourth mobile operator right now."

He adds that 3G is growing steadily, with the operators now offering 3G across most of the country. "We used to cover 3G just in the cities, but now it is everywhere. There was a strong need for more 3G because of a lack of fixed infrastructure."

Furthermore, Atallah also sees continued strong growth of 3G in the coming years. "People need data," he says. "I see it growing and the revenue per subscriber growing faster than voice."

Daniel Kolski, marketing and solutions head, Alcatel-Lucent Middle East and Africa also thinks there will be a continuous growth in broadband, but particularly wireless broadband in areas where DSL is not yet available.

"We see a big appetite from the end user to get connected to the internet, and not only in Egypt but all across the Middle East and Africa, a cheaper availability of PCs, 3G USB dongles and so on are leading to a big increase.

"There is a big appetite for broadband whether fixed or wireless, whatever is available. There is big competition between the players."

Mobiserve has also been working on numerous upgrade projects for Egypt's operators, which also points to growing demand for data services. This is a trend that has also been recognised by Alcatel-Lucent's Kolski.

He said that Alcatel-Lucent has been working on "gateways and backbone projects, and enhancing mobile backhaul." The vendor recently introduced a new microwave-based point-to-point technology to connect base stations to the core network, which boosts efficiency, particularly when there is more data traffic.

Mobile data

Meanwhile, Chinese vendor Huawei said it continues to see growth within the all-IP environments including UMTS, HSPA and LTE, and fixed network from access to core. The company added that another growing area is terminals, including devices for mobile broadband, handsets, FMC terminals and also video conferencing solutions.

Egypt's broadband sector will also be bolstered by undersea cables, according to Kolski. He points out that there are a number of submarine cables being deployed that will be in operation in the next two years. "That will have a big impact on the growth of the broadband in general because a lot of the internet traffic is going abroad and until now, people were relying on very expensive satellite connectivity.

"The arrival of new submarine cables will be a benefit for backbone infrastructure across the continent. It will help to decrease prices and allow operators to offer competitive deals to end users, giving affordable broadband services for businesses and residential users."

Kolski adds that Alcatel-Lucent has also been working on mobile advertising projects with operators in Egypt, indicating a trend of operators looking to secure new revenue streams as traditional voice revenues continue to decline.

"Operators need to find new sources of revenue and this means opening up the network to the developer community so that they can monetise the assets, to bring content and application providers to use some of the network capabilities."