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Telecoms to press the recall button on M&A

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Vodafone might reduce its presence in the Middle East and focus on India and Europe.
Namas Bhojani / Bloomberg

Could this be the year that mergers and acquisitions recover in the telecommunications market?

After the value of telecoms deals in the Middle East declined sharply from 2008 to last year because of the financial crisis, leading investment banking and legal advisers certainly think so.

During the TMT Finance Middle East 2010 conference last month, it was stated that the total value of deals in the Middle East and Africa could reach US\$30 billion (Dh110.18bn) this year.

Which will be the main players in the Middle East to drive the renewed appetite for deal making, and what impact will they have on the overall competitive landscape?

The mobile telecoms industry in the Middle East still shows high potential for organic growth driven mainly by opportunities outside of the traditional voice business.

Broadband connectivity, mobile phone banking and machine-to-machine applications are just some of the short and medium-term growth engines.

On the inorganic front, there are still untapped opportunities for the regional players such as

the third licence in Syria, potential privatisation of the two existing mobile operators in Lebanon and the long-awaited privatisation of Omantel, to name a few.

Consolidation will be another force shaping telecoms competition in the region.

Zain's reference shareholders have recently expressed an interest in exiting in the short term. Batelco could also be an interesting target for the larger regional players looking to increase their footprint, or for an international operator willing to build its presence in the Middle East using an existing platform.

In the medium term, we could see a market dominated by three or four large regional groups concentrating most of the value, similar to what happened in Europe in the late 1990s and early 2000s.

While these regional opportunities could be attractive for local and international players, the larger regional operators such as Etisalat, Qtel and STC will continue to venture outside of the Middle East in search of growth opportunities supporting their ambitions of becoming truly global players.

Etisalat recently invested in India and Sri Lanka, complementing its assets in Pakistan and Afghanistan, and has expressed interest in continuing its expansion into emerging South East Asia, considering attractive markets such as Myanmar, Vietnam, Cambodia and Laos.

North Africa, beyond Egypt, is also an area about which Etisalat has expressed a commitment. STC and Qtel have been less vocal about their expansion intentions, but their international growth record clearly points towards continued international expansion.

STC was first of the big regional players to expand East, buying a stake in Malaysian operator Maxis and later investing in Axis in Indonesia. Those deals gave STC assets in several Asian countries.

Zain, although being among the first operators to aggressively start internationalising, has not divulged growth plans after the divestiture of its African assets and will mostly be guided by the intentions of the current shareholders and their medium-term commitment.

Despite this uncertainty, Zain's ability to be a significant international player again should not be underestimated.

One of the unanswered questions remains whether these regional telecoms groups will complement their portfolios with properties in more mature markets, to benefit from stable cash flows and to mitigate the risk in their overall portfolios.

We could eventually see these regional groups acquiring one of Europe's medium-size operators.

Regardless of which strategy the regional groups pursue, they will need to acquire more delivery skills to ensure they have tight control over the assets, perform according to expectations and translate their growth ambitions into healthy returns to shareholders.

But the Middle East telecoms landscape will not be shaped exclusively by large regional

groups. Several leading global telecoms operators are expected to contribute to the M&A activity in the Middle East as well.

The two global leaders already present in the region, Vodafone and Orange, are expected to adapt diametrically opposed strategies in the Middle East.

Vodafone said it might reduce its presence in the Middle East to focus its activities on Europe, sub-Saharan Africa and India.

The first concrete step in this direction was Vodafone's recent discussions with Telecom Egypt, which was interested in buying Vodafone's 55 per cent stake in Vodafone Egypt.

While these discussions did not lead to a formal offer, they showed Vodafone's willingness to eventually divest its stake.

Orange, on the other hand, is likely to continue its aggressive expansion in emerging markets as it has said it intended to invest €7 billion (Dh32.72bn) in new ventures in the Middle East and Africa over the next three years.

Orange could very well be one of the international operators playing an active role in the Middle East consolidation game.

Although there have not been public statements, other large global operators such as Telefonica and Deutsche Telekom could potentially consider investing in this part of the world as well to complement their current portfolios.

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