

Article Name: Regional giant

Link: <http://www.itp.net/584411-regional-giant>

Date: 15 April 2011

Regional giant

Saudi Arabia is yet to realise its full broadband potential



Abu-Aisha says the enterprise sector is the only option for KSA's ISPs

By [Roger Field](#) Published April 15, 2011

With Batelco Group and Kingdom Holding Company (KHC) holding firm with their \$950 million bid for Zain KSA, it is clear that the Saudi Arabian telecom sector remains attractive for investors.

Indeed, despite a mobile penetration rate approaching around 130%, Saudi Arabia is widely viewed as a market that holds huge potential for operators, largely owing to relatively low broadband penetration, which is estimated to be about 12%.

Osama Ghoul, managing partner at Devoteam, a regional technology consultancy, points to the sheer size of the Saudi Arabian market as further evidence of the potential of the market.

"The Saudi market in terms of size represents more than 45%-50% of the telecom market in the region and today there is much competition taking place in terms of services and offers," he says.

Research from Dubai-based Delta Partners also indicates continued strong growth in Saudi Arabia's telecom market. In a recent report, Delta Partners indicated that Saudi Arabia's internet base almost tripled from 3.9 million to 10.2 million users between 2005 until 2009, while the broadband base increased almost ten-fold from 250,000 to 2.3 million users in the same period.

Furthermore, this growth trend is expected to continue over the next five years with around 4 million new internet users and 2.7 million new broadband users expected by 2014, according to Delta Partners.

"In Saudi Arabia, growth of the broadband market will further boost telecom revenues, making data revenues the main growth driver," Delta Partners said.

"This follows the trend of developed markets such as Western Europe, where data has been driving the growth of telecom revenues with voice revenues showing slow or declining growth."

Ghoul adds that Saudi Arabia's overall telecom sector will also experience huge growth in the next seven years, matching a predicted significant increase in the country's population from 26.1 million people in 2009 to 32.6 million in 2018.

"In parallel, telecom revenues will increase from SR53 billion (\$14.1 billion) in 2009 to SR97 billion in 2018," Ghoul says. He adds that this will be accompanied by an increase in investments from some SR19 billion in 2009 to SR63 billion in 2018, with "considerable investments in nationwide fibre networks and 3G/4G and LTE wireless technologies" accounting for the rise.

Taking stock

Saudi Arabia's mobile sector is dominated by incumbent STC and second operator Mobily, which now commands about 40% of the country's overall mobile market and about 75% of the 3G market.

Zain, which paid an eye-watering \$6.1 billion for a combined GSM and 3G licence in 2007, remains some way behind its bigger rivals, but experienced solid growth in the fourth quarter of 2010.

The company, which launched operations in 2008 and has more than 8 million subscribers, said its revenues for the fourth quarter of 2010 increased by 93% to reach SR1.7 billion, compared to about SR895 million for the fourth quarter of 2009.

Meanwhile, Mobily experienced a 39% increase in net income, which reached SR1.4 billion in Q4 2010 compared with SR1 billion for the same period in 2009. Incumbent operator STC posted mixed results for Q4 2010, with a 23% decline in net profit compared with the previous year, owing to a one-off gain in Q4 2009. Indeed, STC's net profit in Q4 was SR2.29 billion (\$610.7 million), although its operating profit rose 15% to SR3.03 billion.

Like most incumbents in the region, STC faces tough competition from its rivals in the fixed and mobile space, although Ghassan Hasbani, CEO, international, STC said the results also reflected investments that are "skewed towards" long-term growth markets, which are mainly overseas.

Broadband investments

With most of the pent-up demand in Saudi Arabia for broadband services, each of the three main mobile operators, as well as fixed line operators Integrated Telecom Company and Atheeb Telecom, have been investing heavily in their networks.

STC invested heavily in its KSA networks last year, deploying a pre-commercial LTE network in major cities, while Mobily awarded Ericsson, Huawei and Nokia Siemens Networks contracts worth \$213 million for a country-wide capacity expansion of its mobile broadband network in November 2010.

But with broadband penetration so low, the country's operators have also been investing in fixed broadband networks. STC launched a FTTH service with speeds of up to 100Mbps in parts of Riyadh, Jeddah, Dammam and Al Madina last year, and Mobily and Zain have both also been investing in fixed infrastructure.

Zain started to build a WiMAX network in 2007, while Mobily's data subsidiary, Bayanat Al Oula, continued to deploy WiMAX infrastructure in Saudi Arabia's cities in 2010. Mobily also shares an extensive fibre network, known as the Saudi Fibre Optic Network, with Bayanat and ITC.

Indeed, ITC said in January that it had signed a SR4 billion (\$1.1 billion) contract with Korea Middle East Engineering Co., or KOMEE, to expand its fibre optics network. KOMEE will expand ITC's network coverage by 10,000 km, according to ITC.

The project, which started in February, will be implemented in four phases, and follows the completion of the Saudi national fibre network, a 16,000km network that was built over a four year period to connect Saudi Arabia's main cities and provinces.

Meanwhile, Atheeb Telecom, which launched its fixed line service using WiMAX technology in 2008, hired network vendor ZTE last month to deploy a fibre-optic network in key Saudi Arabian cities. Riyadh will be the first city to benefit from the network, which will include FTTH and fibre-to-the-business services.

Ghoul says that through a combination of public and private investment, it is expected that 56% of all KSA premises will be passed by fibre by 2018. "Local loop unbundling based services will penetrate to reach 40% of KSA households for 2018, and high speed provisioning for KSA premises will be attained by 70% of all KSA premises by 2018," he says. "That will be 4G, fibre, all types of technology. The availability of high speed broadband will cover around 70%."

With these huge investments in their networks, and given the fact that Saudi Arabia has two strong fixed line networks from STC and ITC, and a fast developing fixed network from Atheeb Telecom, it is easy to question why the country's broadband penetration remains so.

"There were issues in the fixed-line broadband deployment because if you look at the history of what has happened over the last six or seven years, you had the monopoly of STC and then you started introducing data service licences and mobile licences," Ghoul says. "The data service licence was obtained by two companies who started developing their infrastructure to offer that and down the road a full-fixed licence was given to three companies.

"Several other challenges were related to regulation and the unbundling challenge in the market and the fact that it was always a challenge to find the right positioning for the fixed broadband operators."

Ghoul also points to a lack of local Arabic content as a factor that has contributed to the relatively low broadband penetration. "It is all about the ability to provide the right services to your clients and a major portion of that is content availability, and that has always been a challenge in the Arab world. We are moving to a better situation but we still have challenges in that regard."

Haitham Abu-Aisha, CEO of Sahara Net, a Saudi Arabian ISP that focuses on the enterprise sector, adds that while Saudi Arabia has an "excellent network of fibre", the country lacks sufficient last-mile access.

"Backbone is important but without last mile you can't reach your customers, your cash-cow," he says. "[The industry] needs to work hard on the last mile which covers the untapped markets in the Kingdom and that would help the broadband licencees in the Kingdom," he adds.

With Saudi Arabia's fixed operators having invested so much in their networks, Ghoul sees a clear trend towards operators offering new services such as triple play for consumers. He also sees a clear focus from operators on the enterprise sector.

"Telco operators started to realise that actually the margins are with the small and medium size companies, that is why today they are moving towards that. "In terms of enterprise, the business establishments will increase from 165,000 to 300,000 in Saudi Arabia in the next five to six years. That represents a major untapped potential that the operators are moving to," Ghoul says.

ISP focus

As Saudi Arabia's internet sector has started to undergo a growth surge, the ISP sector has experienced consolidation. Ghoul says that a few years ago there were between 20 and 30 dedicated ISPs, although there are now only about four to five. Abu-Aisha is well aware of the importance of the enterprise sector for ISPs, and spearheaded the company's move in this direction.

"One of the major shifts started three years back and that was the shift from household customers to business customers. We managed to shift business customers from 30% to over 85% and it is still growing," he says.

"ISPs are no longer interested in the household market. Incumbents have monopolised the market with saturated services in all flavours. Therefore, ISPs are geared toward business and education sectors with value added services."

Another significant change at Sahara Net was a shift from selling "raw bandwidth" to selling a complete solution that includes network optimisation, security and application hosting, Abu-Aisha says.

He adds that ISPs and broadband users in Saudi Arabia would benefit from bit stream access, which is not yet available in the country. "If it happens it will massively increase broadband penetration. The copper network can easily go up to 20Mbps. Maybe this will not be sufficient in the future, but it is good for now," he says.

Laurent Marini, vice president, corporate and carrier, ITC, agrees that last-mile fixed access is lacking at the moment, but he adds that the situation is being addressed.

"What is extremely challenging is to roll out last mile, due to the size of the country. The investment is huge for licencees, with either fibre or wireless solutions. Looking at covering the whole Kingdom is financially not a viable option for all licenced operators," he says.

He adds that if operators were unable to agree on a model for co-investment or infrastructure sharing, it could lead to a "shrinking" of the market for service providers.

"It will simply lead to another round of consolidation with licenced operators disappearing into bigger operations," he says.

"No infrastructure sharing would ultimately result in a limited service offering in the market. There is a need to address this market challenge, i.e. providing a cost effective infrastructure down to the local access for service providers in order to drive the market on a service offering rather than on a coverage duty. Service providers are today looking for partnership, the regulator is best placed to help them in structuring those new ventures," he adds.