

QUARTERLY REPORT ON TELECOM MARKET - 2008

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The government has planned to present a consolidated telecom policy in early 2009, the two policies of telecom sector namely, mobile and fixed line would expire this year and the third telecom policy relating to Broadband would expire in 2009. The government has also planned to increase software exports up to \$5 billion by the end of 2010. The current level of software export was about \$50 million per annum.

The Competitiveness Support Fund (CSF) released the 'WEF Global Information Technology Report 2007-2008'. The report ranks Pakistan 89th out of 127 countries in terms of nation's preparedness to effectively promote business, improve investment climate and develop infrastructure.

Due to levy of sales tax on computers and related accessories in the 2006-07 budget, the total import of PCs and servers in the country was 630,000 units, which dropped to 149,000 units at the end of 2007, thus registering a decline of 40 percent.

Chairman PTA said that the process of awarding the licenses would be completed by the end of this year. He also said that Mobile banking and mobile commerce would be next step in telecom. The first International Mobile Commerce Conference in Karachi organized by PTA and Total Communications. PTA has directed the Callmate Telecom Company Limited to clear half of Rs 132 million dues within six months otherwise its license will be terminated. The total payable dues are Rs 132,996,701 against the company.

The Supreme Court of Pakistan, through a constitutional petition, was moved against the privatization of the PTCL and several other steps taken by the Etisalat Group, the buyer of the company. The Auditor General of Pakistan has pointed out that delayed privatization of PTCL, reasoning its value plummeted from \$8 billion to \$2 billion.

PTCL won the Best Banking Technology Award and the Best Stall Award at the Pakistan Banking Expo 2008. Omantel and Worldcall Telecom Limited announced finalization of acquisition by the former of majority stake in the latter. Under the deal, Omantel is acquiring 488.8 million (65 percent of available) shares of Worldcall. Of this, 451.2 million shares are from sponsors while 37.5 million are being purchased from the public through the securities markets. NetSol Technologies Ltd has won 8th Teradata National IT Excellence Award in the field of software exports for the year 2006.

Nokia inaugurated its regional office in Karachi, and US Ambassador to Pakistan termed the launch of Apple Computers in Lahore as a big achievement. Ericsson brings 3G Taking You Forward Roadshow in Pakistan.

MOBILE SERVICES

The unstoppable escalation in subscribers seems to halt here, as the growth rate has declined to 21% approx. The rate of growth has slowed, 1.3 million sims were added in June, compared with the average of around 2 million per month from Jan - May of '08. Thanks to political uncertainty, inflation rate, judges and list goes on...

A total of Rs235, 613 million in revenue was generated by the telecom industry in 2007 which had a major impact on the economy of Pakistan. The sector is also currently contributing 2 per cent out of the 7 per cent of GDP and in 2006-07; more than \$1,824 million were invested in Pakistan into the telecom industry through FDI, making it a major driver of economic growth.

PTA has deposited more than Rs 50 billion in exchequer besides 291 million dollars as license fees while mobile phone companies are depositing more than Rs 101 million annually as direct taxes.

In 2007, telecom remains the sole sector within the economy to have received such a substantial investment, making it 35 per cent of the overall FDI in the country. But FDI declined sharply during the third quarter of current fiscal from 290.4 million dollars in the second quarter to 156.6 million dollars in the third quarter and stood at 810 million dollars for the nine month of current fiscal.

Nonetheless, despite all the above mentioned facts, one has to acknowledge the growth in telecom sector, while you read this Market update, a new subscription will increase the cellular mobile density in Pakistan, which is 54.7% with the figures of more than 86 million subscribers (PTA Report) in June 2008. Addition of total Cellular Subscribers in each company are:

Month	Mobilink	Ufone	Telenor	Warid	Zong
May	22,973	260,967	517,905	354,085	515336
June	73,766	300,016	284,115	375,180	288,659

The mobile subscriber numbers for last few months tell an interesting story. Zong and Telenor have been growing at a brisk pace, at the expense of Mobilink and Ufone. Take a look at the April to May changes. Mobilink's share of market is down to 37%.

But in June, Warid fought back by adding the largest number of subscribers. Telenor and Zong seem to be losing some steam after a few months of high subscriber intake. Mobilink continues at sluggish pace. Ufone and Telenor numbers remain extremely close to each other.

The number of cell phone subscribers' grew at the pace of 1.5 percent in June to 88 million, as compare to 1.96 percent to 8.67 million in May 08 and 3.0 percent in April 85.0 million subscribers.

	Mobilink	Telenor	Ufone	Warid	Zong	Instaphone	Total
Apr-2008	31,935,624	17,323,169	17,539,457	14,760,593	3,146,763	321,204*	85,026,810
May-2008	31,958,597	17,841,074	17,800,424	15,114,678	3,662,099	321,204*	86,698,076
June-2008	32,032,363	18,125,189	18,100,440	15,489,858	3,950,758	321,204*	88,019,812

* Instaphone Data Apr-08

Let's look at these companies, what they were doing from last three months:

Mobilink

Rumor is that Vodafone might take charge of Mobilink, as the management of Mobilink shows great interest to sell it off. This might not be a bad decision because cellular market in Pakistan has matured and maximum Mobilink can do is to play defensive.

Mobilink has launched WiMAX from the first of July, 2008 in Karachi, and planning to launch other metros by the end of this year, with the brand name **Mobilink Infinity**. Mobilink is expected to receive shipment of Zyxel CPEs by Q4 with shipment volumes likely to reach 30,000-50,000 units.

Following are the details.

1. Built-in wi-fi for indoor & Outdoor CPE.
2. Unlimited Download / upload for 3 months.
3. Free Call on any mobilink numbers.
4. Providing ZyXeL (Equipment CPE Alcatel) to customers.

Tariffs are as follows:

Upfront costs	Actual cost	Special offer
CPE	12,000	6,000
Installation charges	2,000	Free
Security deposit	2,000	2,000

* Special offer is valid till Sept 30, 2008

Monthly tariffs	256 kbps	512 kbps	1 Mbps
Unlimited data & voice	799	999	1199

Mobilink is offering very competitive monthly tariffs when considering that PTCL is offering 1 Mbps at 2000. Mobilink is offering 1 Mbps at PTCL's tariff for 512 kbps at 1200, but CPE cost is still very high for common people, reasoning slow penetration.

Mobilink will equip 160 APIS systems at 30 railway stations nationwide which will display the arrival and departure timings of all up and down trains including the status of delayed trains.

Standard & Poor's (S&P) Rating Services, the world's foremost source of credit ratings, has acknowledged Mobilink's strong market position.

Ufone

There is a rumor in market that DoCoMo will enter into Pakistani market through Etisalat controlled Ufone, as they announced some serious partnership talks with Middle East's telecom carriers including Etisalat, and Saudi Telecom.

Even with the subscriber base of more than 15 million, it looks that Ufone is not standing on strong grounds financially, as she signed Rs 4.5 billion Syndicated Term Loan Facility agreement with NBP and HBL.

Ufone launches different packages and different services to keep her alive during last 3 months. She has launched UExcel, a program for undergrad students in collaboration with the School of Leadership (SoL), UStocks mobile stock information service, offering Al-Jazeera news service, launched BlackBerry service, launched connection and handset bundle. But none of these offers stop them to fall at number 3 from 2.

Telenor

With the splendid growth and numbers growing to 18,125,189, Telenor is amazingly grabbing the market slowly. Right now they are at number 2 position as compare to warid (number 4), though they both started their operation in Pakistan almost together. It has been also said that Telenor has the best HR among all the telecom companies.

Telenor Pakistan has recorded impressive results increasing the revenue by 80% compared to the same period in 2007.

Warid

Warid fought back by adding the largest number of subscribers of 375,180 in June with the total of 15,489,858. Warid telecom has signed a contract with Emitec Mobile Solutions (EMS) for end-to-end Blackberry support.

Warid Telecom Pakistan plans \$5 billion investment to improve its services in the country, total investment in Pakistan will touch \$1.5 billion by the end of this year while the company will further increase its investment in the telecom sector by \$1 billion by the end of 2009. Company has also changed the logo.

Warid Telecom awarded a \$300 million contract to Sweden's Ericson to expand and upgrade its GSM/GPRS network in Pakistan, and announced its commercial launch with AeroMobile an in-flight connectivity solution provider partnered with Emirates Airlines. Warid has started LBS services.

She is offering free McDonald meal with top up, coping Vodafone's campaign (SMS Lounge) in Germany.

Zong

China mobile company has invested \$721 million in telecom sector in Pakistan during 2007 and it would further invest \$7 million in Pakistan this year. Touching the 4 million figures, Zong is

doing ATL and BTL activities extensively. Trying to make service and rates as simple as possible, they are relying on simple formula to enter in the Red Ocean, i-e, low price, extensive advertising and far-reaching distribution channels.

Zong is covering the cities of Gilgit, Hunza, Skardu, Besharn and Sust. It has added over 2000 sites since its launch and the network cell sites have grown from about 900 to over 3000 today. By the end of 2009, the cell sites are targeted to grow to over 10,000.

Instaphone

One thing which I want to say, Insta is history and this should be the destiny of any company, doing business unethically.

FL & WLL SERVICES

Fixed line subscribers are lessening from 5.2 million to 4.5 million in less than two year period time (despite the other facts key contributor is PTCL for this declining trend), current fixed line density is 2.8% from 3.39% in 2006.

Fixed Line Subscribers

	PTCL	NTC	Brain Limited	World Call	Union Communication	Naya Tel	Total
2006	5,128,442	92,163	5,880	13,327	200	-	5,240,012
Dec-2007	4,597,279	106,336	7,376	10,008	3,500	13,500	4,737,999
Mar-2008	4,405,161	103,059	7,376	11,347	3,500	13,500	4,543,943

Wireless Local Loop Subscribers are increasing, again only PTCL's graph is showing downward trend. Wireless Local Loop (WLL) is growing at a rate of about 100 per cent per annum with quarterly addition of around 0.14 million subscriber on an average. The teledensity of this wireless service has now reached 1.4 per cent and it is expected that by the mid 2009 the WLL operators will be able to provide coverage in all major areas of the country.

Wireless Local Loop Subscribers

Year	PTCL	TeleCard	World Call	Great Bear	Burraq	Wateen	Mytel	Total
Dec-2007	1,237,424	455,391	375,455	54,909	-	4,100	-	2,127,279
May-2008	1,245,639	501,680	468,335	53,461	388	16,704	140	2,286,347

PTCL and the Universal Service Fund (USF) have signed an agreement of Rs 324 million to provide fixed line telephone connections in the remote areas of Balochistan.

PTA has increased Approved Settlement Rate (ASR) by 100 per cent, which would make calling to Pakistan more expensive. "The authority has decided to revise the ASR for long distance and international (LDI) operators at \$0.10 from \$0.05 per minute."

PTA issued 23 licenses to 14 telecom operators for providing fixed line as well as other telecommunication services in Azad Kashmir (AJK) and Northern Areas.

This is for the first time that private telecom operators have been allowed to provide fixed line as well as Wireless Local Loop (WLL), Long Distance and International (LDI) and Class Value Added Services (Voice) (CVAS) licenses

BROADBAND SERVICES

2008 is a banner year for broadband market in Pakistan. Though the figures are not encouraging but the prediction of penetration of broadband is very positive. Let's look around what has happened in last three months.

Government has given consideration to over linking Pakistan with China, India, Afghanistan and Iran through fibre optic connection.

Mobilink has started WiMAX services in Karachi, and planning to launch other metros by the end of this year. Though it is a soft launch and Mobilink do not want to create hype until they develop full confidence on WiMAX technology.

Wateen will start her re-launch phase soon, and currently in a process to overcome her technical flaws. All she did is to bring 'Ramchand Pakistani' movie to the big screen in a nationwide launch. Activated customer base is approx 25,000.

Employee's of PTCL has become the pain for etisalat. The tussle among them is reasoning behind the lost revenue, high churn rate of customers, one of the newspapers claimed that PTCL broadband is losing 100 customers on daily basis.

PTCL would launch IPTV service in which three-in-one facilities would be provided to consumers including almost 150 TV channels, broadband DSL internet connection and landline telephone. Installation of machinery is underway for the project.

"PTCL has also introduced a device, EVDO which would offer broadband wireless connections to the laptop users.

British Telecom (BT) and One Tel signed a contract for VSAT services. These services will cater to the corporate sector and the portfolio will extend in the coming months.

Teralight Ltd, a Dubai based management consulting and telecommunications technology and Services Company launched Inmarsat's satellite based advanced broadband services in Pakistan.

INTERNET			
	Dial-Up		DSL
	Users (M)	Growth Rate (%)	Subscribers
Dec-2007	3.5	46	128,689
Mar-2008	3.5	0	130,218

As per my knowledge, numbers have reached about 200,000 now.

3G Situation in Pakistan

PTA chairman has declared umpteenth times to put up for sale of 3G license later this year, but all the key cellular companies are opposing it. But the peril is still on companies because if PTA offers the license (first offer will be given to existing players) and they refuse to pay hefty amount for the license, PTA will sell the license to any other giants like Orange, Vodafone and MTN etc. lets see who wins, PTA or cellular companies influential power.

According to **Mobilink's presentation on 3G:**

Pakistan Mobile Data Subscriptions is Disappointing

- Nominal GPRS subscriptions in the industry
- ARPU uplift from these subscriptions is negligible
- Multimode (GSM/UMTS) handsets are still costly
 - GSM market exploded due to economies of scale in the hand sets
 - GSM hand set is available as low as \$25
- Small percentage of 3G capable hand sets in the market
- 3G non-voice mobile revenues are expected to be negligible

Availability of Regional Content

- Low literacy in Pakistan
- No content available in local/regional languages
 - Limits the usage
 - No mass appeal
- Regional content stimulated growth in European markets
 - Downloads in Danish, French and German languages
 - Local customized content for easy uptake

Finding the Rationale

- Pakistan is a low priced voice dominated market
 - Industry is building voice capacity rather than enhanced capability
- Operators require an environment with:
 - Stable prices
 - Business case while launching new products and services
 - Supply demand gap
- Data revenue potential does not justify move to 3G

Initially 3G will be deployed as hotspot and shall offer similar services to the customer as WLL (WiMAX)

- WLL (WiMAX) spectrum was auctioned in Pakistan at nominal prices
 - Costs < \$1 M per license for all telecom regions
 - Operators delivering voice and high speed data services over WiMax in various

- regions
 - KTR, ITR, LTR etc
 - Extremely low price/bit for the operator
- Initially 3G benefits will be similar to WLL (WiMAX) offering
 - Each metro can be converted to one large 3G hotspot
 - 3G directly competes with the WiMAX business in the metropolitan cities
 - Initially both technologies will offer same value to the customer as broadband services
 - WiMAX → CPE (Laptops, PCs)
 - 3G → Modems, PCMCIA cards, USB dongles (Laptops and PCs)
 - Broadband @ home and office
- 3G spectrum cost should be similar to that of the WiMAX spectrum fee

3G investments required

- Spectrum forms part of investment for an operator to roll out a 3G network
- Five operators can be expected to invest over a billion dollars on initial launch
- More cell sites would be required to support higher data rates
- Local content development is an uphill task
- Question remains, 'how do we monetize 3G investments?'
- Over \$ 1 billion in infrastructure and no payback in sight

Recommendation

Option 1

- Defer the allotment of spectrum for another 1-2 years (as per our recommendation May 2007)

Option 2

- Award 5Mhz of 3G spectrum to all MNOs at nominal cost (similar to WiMAX spectrum fee)
 - Incentive to build and grow 3G services
 - Justify high capex on roll outs
 - Technology proliferation
 - Affordable 3G services for masses
- Allocation of additional 3G spectrum at a subsequent date
 - Operators, keen to expand on 3G portfolio, can bid
 - Market foundation is laid
 - Business case for further investments

Strengthen operator capability to offer better QoS and advanced services

Note:

Data and information has been taken / extracted from the following sources:

- <http://www.pta.gov.pk/>
- <http://www.businessrecorder.com.pk/>
- <http://www.thenews.com.pk/>
- <http://www.ispak.com.pk/>

- <http://www.pakobserver.net/>
- <http://www.dawn.com.pk>
- <http://teabreak.pk/?s=Telecom>
- <http://netxpress.com.pk/>
- <http://www.apnatime.com/>
- <http://www.itworldpk.com/>
- <http://greenwhite.org/category/telecom/>
- <http://groups.google.com/group/telecom-grid-pakistan>
- <http://telecompk.net/>
- <http://www.wimax.pk>