Transactions & Restructuring Telco-Tracker: Issue #5

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- The 2010 FIFA World Cup was the largest single sporting event in the world with a *cumulative* audience of more that 2.6 billion people
- Games were made available online, via cell phones and the internet by several global broadcasting companies, giving the games more major sporting event yet. Games online coverage than any were also shown on 3DTV around the globe, sparking a popular medium to watch live sport and TV
- MTN was an official sponsor of the 2010 FIFA World Cup, having invested R450-million on World Cup-related infrastructure
- Telkom provided the fixed-line telecommunications backbone for the 2010 FIFA World Cup
- As a result of the vuvuzelas increasing noise levels in the stadiums, mobile operators saw an increase in SMS traffic as opposed to cell phone calls. Vodacom highlighted that about 600-million SMSs were sent during this time, with traffic on a single base station, in some cases, having increased by more than 500%, compared with before the tournament started
- A vuvuzela application was available for iPhone since the start of the tournament

Advisory watch

Thank you to Dapo Okubadejo, Partner & Head, Financial Advisory Services (T&R) in Nigeria, to Kunle Oriola and to Lawrence Amadi Manager, ITA Advisory for your contribution.

For more insights on telecoms in Nigeria please contact Dapo at Dapo.Okubadejo@ng.kpmg.com *or any of the teleco team members*

A local perspective on the Nigerian telecoms market

With over 77 million active mobile subscribers serviced by 10 mobile operators and a market penetration of only 56%, one would say that the Nigeria telecoms market is still a gold mine...and rightly so. In this issue, we get a local perspective from our Nigerian colleagues.

Interest in Nigeria

In the last decade, private investment in telecoms has grown from US$50million in 1999 to US$18billion at the end of 2009[1]

Q. How intense has the interest been from international players for Nigerian telecom assets?

KO: The recent auction of 75% equity stake in NITEL evidenced intense interest from international players/bidders. A number of international players have expressed interest in providing co-location services.

LA: Most of the telecom players are home grown/indigenous entities. Whilst there are interests from international players, Nigerian entrepreneurs seem reluctant to dilute ownership making it a difficult market to enter into for acquisitive companies. Bharti Airtel recently completed its US$10.7 billion acquisition of most of Zain's African assets despite ongoing dispute over the management & ownership structure of Zain.(US$8.3 billion immediately, US$0.7 billion after one year and US$1.7 billion to clear Zain's debt).

Convergence

Q. *Has there been any evidence of "convergence" whereby data, voice and media players are coming together?*

KO: Over the last four years, GSM companies have embarked on aggressive acquisition of ISP/broadband companies to offer data and media services. Additional bandwidth with the arrival of the Glo-1 and Main One cables is expected to reduce internet tariffs and result in consolidation among the smaller ISPs and create greater demand for data services.

M&A activity

As at the end of April 2010, MTN, Globacom and Zain collectively had 64.7million subscribers (84%) of the total subscriber base.

Q. Do you envisage M&A activity in 2010, and if so, can you identify possible acquirers and target companies?

KO: It is expected that mobile operators will diversify their revenue sources by focusing on the delivery of data services as continued declining ARPU makes the mobile market less attractive. Speculations are rising on the issuance of the 4G licence by the regulator following similar initiatives by Angola and Ghana. It is also expected that M&A transactions will commence between GSM and CDMA operators in order to increase market share and service offerings.

LA: Consolidation is likely and possibly regional/cross border transactions might emanate, with Nigerian telecoms companies venturing out of the shores of the country.

Regulation

The regulator, the Nigeria Communications Commission ("NCC") has enforced lower interconnect tariffs, SIM card registration is now a requirement and number portability is expected from the end of September 2010.

Q. *How will Nigeria's regulatory environment change the competitive landscape within the sector for 2010?*

KO: The regulatory environment has been relatively stable. SIM card registration commenced in May 2010 with all the GSM operators actively involved.

The appointment of a new Executive Vice Chairman of the NCC, Ikemefuna Juwa, may affect NCC's strategic direction. The expected implementation of number portability will allow free choice for consumers and increase the level of competition.

Data sources NCC, thefreelibrary.com and www.zaingroup.com

So, what are the opportunities for Advisory

Growth in Nigeria's telecoms market will be propelled by several factors which include; new entrants, consolidation, the launch of mobile value-added and broadband services, the introduction of mobile number portability and mobile termination rate cuts.

Based on the expected growth and characteristics of the market, the envisaged advisory opportunities include:

- *M & A advisory services* driven by among other reasons, consolidation by CDMA operators and general diversification by operators. Nigeria offers a unified license that allows for a converged service offering.

- Closely linked to M&A is *valuation services* driven by local and regional acquisitions and capital raising. Players such as Starcomms and Globacom Nigeria are viewed as acquisitive and on an expansion drive.

- *Revenue assurance advisory* due to the change in telecom business models as operators diversify their service offering and expand into new service lines.

- The changes in regulatory landscape will trigger the need for *regulatory advisory services.*