

COVID-19: Gulf-based MNOs should protect their high-value customer bases, but run the risk of eroding value

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Gulf-based mobile operators' June 2020 results show that the COVID-19 outbreak severely affected their performance. Most of them experienced a significant decline in their revenue and number of subscribers, but the impact on ARPU was mixed. The prepaid segment was particularly badly hit because foreign workers make up a large proportion of the region's population and are the first to be affected by economic disruption.

This comment analyses the effect of COVID-19 on Gulf-based operators' operational and financial KPIs during the first half of 2020.

Operators reported a significant contraction of their subscriber base, mostly due to the disconnection of expats' prepaid plans

The Gulf region is more exposed to the impact of COVID-19 than other regions because of its economy's strong dependency on foreign workers. The telecoms sector is usually relatively resilient during economic downturns, but the departure of expats is having a large effect.

All of the benchmarked mobile operators in the region reported a decline in the total number of subscribers during the first half of 2020.¹ Operators in Kuwait, Oman and the UAE were the worst performers, and EITC (du; UAE) and stc (Kuwait) recorded the largest decline in the number of subscribers (Figure 1).

- **Kuwait.** Zain controls more than 40% of the prepaid market, and it recorded the biggest prepaid net losses in the country in 2Q 2020 following two consecutive growth quarters. The postpaid segment returned to growth (in terms of the number of subscribers) in June 2020 after two quarters of decline, which suggests that some high-value prepaid customers switched to postpaid plans. Ooredoo performed well in recent quarters but saw similar losses to Zain in the prepaid segment. However, it managed to offset them with stronger gains in postpaid subscriber numbers. stc has been losing subscriber market share in recent years and the COVID-19 crisis has worsened its position; it had some of the worst results in the region during 1H 2020.
- **Oman.** Ooredoo reported a slight acceleration in the contraction of its prepaid base in 2Q 2020 (it has been on a steep downward trend since June 2019). Its postpaid user base continued to grow during 1H 2020, but at a slower rate than in 2019 when it was offering very appealing discounts for new subscribers. Omantel had not released its results at the time of writing.
- **UAE.** Etisalat's number of prepaid subscribers fell by 10% in 2Q 2020 after having been stable since the beginning of 2019. However, the number of postpaid subscribers grew during this period and this momentum has helped to limit the number of disconnections in 2Q 2020. du has been losing customers

¹ We have only included operators in Kuwait, Oman, Qatar, Saudi Arabia and the UAE that had reported the number of mobile subscribers, revenue and ARPU in 2Q 2020 by 5 August 2020.

since the beginning of 2018, and the pandemic intensified the contraction in 2020 due to the operator’s high exposure to low-value prepaid customers.

Figure 1: Year-on-year (YoY) and quarter-on-quarter (QoQ) growth in the number of mobile subscribers, June 2020, select operators in the Gulf region

Country	Operator	Total mobile subscribers		Prepaid subscribers		Postpaid subscribers	
		YoY (%)	QoQ (%)	YoY (%)	QoQ (%)	YoY (%)	QoQ (%)
Kuwait	Ooredoo	-5%	-7%	-13%	-15%	7%	3%
Kuwait	stc	-18%	-14%	n/d	n/d	n/d	n/d
Kuwait	Zain	-7%	-10%	-11%	-17%	1%	3%
Oman	Ooredoo	-17%	-9%	-21%	-10%	25%	2%
Qatar	Ooredoo	2%	2%	1%	3%	5%	0%
Qatar	Vodafone	-6%	-5%	n/d	n/d	n/d	n/d
Saudi Arabia	Zain	-14%	-5%	-31%	-12%	0%	-1%
UAE	EITC	-20%	-14%	n/d	n/d	n/d	n/d
UAE	Etisalat	-6%	-8%	-9%	-10%	6%	-1%

Source: operators’ financial reports

Most operators reported a strong decline in revenue as a result of the COVID-19 outbreak, but the impact on ARPU was less clear

The reduction in the number of low-value subscribers will have contributed to an increase in ARPU, but this was offset by several measures triggered by the pandemic, including the waiving of some usage charges and a step-up in promotional activity. Operators were also affected by a reduction in discretionary spend prompted by the weakening economic outlook (Figure 2).

Figure 2: Year-on-year (YoY) growth in mobile revenue and ARPU, and the change compared to the 4Q 2019 results, June 2020, select operators in the Gulf region

Country	Operator	Mobile revenue		ARPU	
		YoY (%)	Change compared to 4Q 2019 (%)	YoY (%)	Change compared to 4Q 2019 (%)
Kuwait	Ooredoo	-16%	-21%	-5%	3%
Kuwait	stc	-23%	-28%	n/d	n/d
Kuwait	Zain	-10%	-12%	-19%	-19%
Qatar	Ooredoo	n/d	n/d	-9%	-5%
Qatar	Vodafone	1%	-7%	-2%	-3%
Saudi Arabia	Zain	-8%	-15%	5%	5%
UAE	EITC	-23%	-17%	0%	-7%
UAE	Etisalat	-17%	-17%	-15%	-15%

Source: operators’ financial reports

Incumbents were more affected than challengers as they tend to have a higher proportion of higher-value customers, and these users have reduced their spending due to movement restrictions and the ensuing economic slowdown.

- **Zain (Kuwait)** has the highest ARPU in the market, and was more exposed than Ooredoo to the fall in usage and spending from Kuwaiti consumers, businesses and public sector institutions (segments that Zain dominates) as a result of the long lockdown. This led to a significant decline in ARPU during the first half of 2020, thereby undoing Zain's efforts to stabilise ARPU over the last 2 years.
- **Etisalat's** ARPU has been relatively stable since the beginning of 2018, and was 20% higher than that of du (on average) in 2018 and 2019. However, low usage by its remaining prepaid users (Etisalat controls nearly 60% of the prepaid market) and a reduction in spending from its large base of private and public enterprise employees caused its ARPU to converge with du's in June 2020 for the first time. du's ARPU was largely unaffected by the COVID-19 crisis thanks to the operator's growing postpaid subscriber market share (growing since 2Q 2019).

Operators in Qatar fared better than those in other countries. Subscriber numbers stayed relatively stable since the outbreak of COVID-19, and operators have even reported growth in their subscriber bases since May 2020. Promotions for postpaid tariffs appear to have contributed to the slight ARPU decline. The full economic impact of the pandemic is still unfolding, as government-funded entities were instructed in June to reduce the proportion of non-Qatari workers and to refrain from hiring expats.

There is a risk that increased price competition will further erode market value

Mobile operators are likely to experience a continued contraction of their subscriber base and an erosion of their revenue for a few more months as more expats leave and social distancing measures are retained. Operators' priority should be to retain their remaining subscribers as much as possible.

Operators may be tempted to adopt a more-ambitious strategy to gain shares in a shrinking market, especially with the expected departure of more expats, and we have already observed such moves in Kuwait and Qatar with 5G price reductions. However, they should be aware that such strategies come with a risk of revived price competition and value erosion. They should therefore focus on retaining their high-value customers and investing in protecting (or better, increasing) spending in order to avoid exacerbating the negative effect that the pandemic has already had on ARPU.