Most Gulf-based telecoms groups reported strong performances in 2018 despite persistent challenges

April 2019

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Etisalat, STC and Zain telecoms groups have reported increased revenue in 2018 compared to 2017 despite intensified competition, higher taxation, exposure to weak foreign exchange rates and the weakening of the demand for telecoms services as a result of challenging economic conditions (see Figure 1). On the other hand, Ooredoo experienced a fall in revenue because its subscriber numbers declined in Indonesia.

This comment examines the financial performance of these four groups in 2018 and is based on our regularly updated *Middle East and North Africa telecoms operator revenue tracker*.

Figure 1: Operational and financial KPIs for Etisalat, Ooredoo, STC and Zain, 2018

Groups	Number of countries of operation	Number of fixed and mobile subscribers in million (year-on-year growth)	Revenue (LCU and USD billion) and year-on-year growth	EBITDA margin
Etisalat	15	141 (+1%)	AED52.4 (USD14.3) / +1%	49%
Ooredoo	10	115 (–30%)	QAR29.9 (USD8.2) / –8%	41%
STC	6	Not available	SAR52.1 (USD13.9) / +3%	38%
Zain	8	49 (+5%)	USD4.4 / +28%	39%

Source: Analysys Mason

Etisalat achieved strong profitability growth thanks to its international portfolio of investments

Etisalat Group combines operations in mature markets (Saudi Arabia and the UAE) and investments in emerging markets (mainly Egypt, north and west Africa and Pakistan). The group's revenue was boosted in 2018 thanks to a strong contribution from its subsidiaries in Africa and Saudi Arabia. This was offset by modest growth in the UAE and currency devaluation in Pakistan.

Etisalat achieved the highest EBITDA margin of the four groups thanks to the strong performance of its companies outside the UAE. It has also merged its operation in Sri Lanka with CK Hutchison and sold its 28% shareholding in satellite operator, Thuraya, as part of a portfolio rationalisation strategy. In the UAE, where it experienced a decline in mobile revenue, it is reinforcing its business capabilities and offerings. For example, it partnered with Microsoft and Sage to deliver cloud solutions and launched 'Hello Business Hub' to support start-ups and small and medium-sized businesses (SMBs).

Etisalat will start implementing its 'NEXT' strategy in 2019 focusing on accelerating revenue growth from digital services, enhancing efficiency and improving sales and support digital channels.

Ooredoo's performance was affected by mandatory SIM registration in Indonesia, its biggest market by subscribers

Ooredoo operates in a mix of mature telecoms markets (Bahrain, Kuwait and Qatar), as well as countries with growth potential (Algeria, Indonesia and Tunisia). The Middle East region contributed to 60% of the group's revenue in 2018, followed by Asia (26%) and North Africa (14%).

Ooredoo faced increased pressure on voice revenue and was exposed to weak foreign exchange rates in emerging markets in addition to a 30% decrease in the number of mobile subscribers in Indonesia due to mandatory SIM registration. This was somewhat offset by subscriber growth in Iraq, Kuwait, Myanmar, Palestine and Tunisia, as well as a strong revenue contribution from Kuwait and Qatar.

Mobile data accounted for more than 47% of total revenue and has increased by 47% in 2018 year-on-year reflecting significant demand from consumer and enterprise customers. In Qatar**,** it launched commercial testing for 5G-based services for a limited group of subscribers in May 2018, and in Kuwait, it introduced the first multi-play package, 'Shamel Home', which combined fixed–wireless broadband and shared voice, messaging and data allowances. The package also included free access to OTT video streaming service, iflix.

Ooredoo aspires to become a 'digital enabler' and move beyond traditional services through partnerships with ICT and OTT players. As part of this strategy, the company introduced a group-wide transformation programme called 'Get Digital' in 2018, which resulted in a push to digitalise customer touch points.

STC managed to reverse the downward revenue trend despite recent challenges in its domestic market

STC operates in Bahrain, Kuwait and Saudi Arabia, and has minority shares in Maxis (Malaysia). STC is the strategic partner of the Saudi government to support the country's two development programmes: Vision 2030 and National Transformation Plan 2020, which aim to develop industries that are not in the oil sector.

The group's revenue, 76% of which came from Saudi Arabia, increased by 3% in 2018. STC managed to steer its domestic operation to stability and increase profitability thanks to the improved Saudi economy and despite the departure of millions of expatriates since 2017, the liberalisation of the VoIP market and the introduction of VAT in 2018.

STC has been mandated by the Saudi government (its main shareholder) to significantly increase its revenue in the next 3 years. To this end, it has set up a USD500 million capital fund, Saudi Technology Ventures, to invest in start-ups. It also expanded its portfolio of digital services. For example, it announced STC Pay, a mobile payment and remittance platform, and introduced its own OTT video platform, Jawwy TV in 2018. It also plans to open 12 new data centres within the next 3 years to support its digital ambitions.

The consolidation of Zain Saudi Arabia into the group's results helped to boost its financial KPIs

Zain has operations across the Middle East and Africa. Kuwait is its most profitable operation and the highest ARPU generator. Zain Group started to treat Zain Saudi Arabia as a subsidiary following the group's increased stake in the local operator in July 2018 This injected an additional USD1.1 billion in revenue into the group, and improved its EBITDA and market capitalisation.

Data was the main driver of growth with a reported 71% increase in non-messaging and non-VAS data revenue, representing a third of the group's total revenue in 2018. Zain is keen to continue to increase non-voice revenue and invested USD750 million in network expansion and 4G/5G upgrades including fibre roll-out, and additional spectrum in Saudi Arabia. It launched a pre-5G fixed–wireless service as a fibre alternative in Kuwait, an API platform to facilitate digital partnerships across its footprint, and zBot, an AI-driven customer support service in Bahrain and Kuwait.

The positive financial performance of Gulf-based telecoms groups will help them to progress their transformation plans to become world-class digital service enablers. However, they will need to balance their mandate to support their governments' national digitalisation plans with the business imperative to increase shareholder value by remaining competitive and capitalising on opportunities in digital services. All of that must be achieved against the backdrop of persistent challenging economic, competitive and regulatory conditions in the region.