

IoT, data and other business services can help South African operators to offset legacy revenue declines

November 2018

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Revenue growth in the South African enterprise market is weak, but there are a number of significant changes afoot. Legacy services are in rapid decline, the take-up of fixed broadband services is growing thanks to improved quality and affordability, and enterprises are increasing their use of IoT and other business services (such as cloud and security).

However, these changes are not leading to strong revenue growth for all operators. Legacy services still account for the majority of spend and their decline will have a considerable impact on overall market revenue growth. Enterprises will increase their spending on other business services, such as cloud and security, by over 7% each year. This will create a significant revenue growth opportunity, but we expect operators to receive only a slim portion of this growth and the market is relatively nascent.

The rapid developments of the market are also affecting the relative performance of the operators. Neotel Liquid Telecom's and Vodacom's enterprise businesses are growing, while the incumbents MTN and Telkom are struggling in the enterprise market.

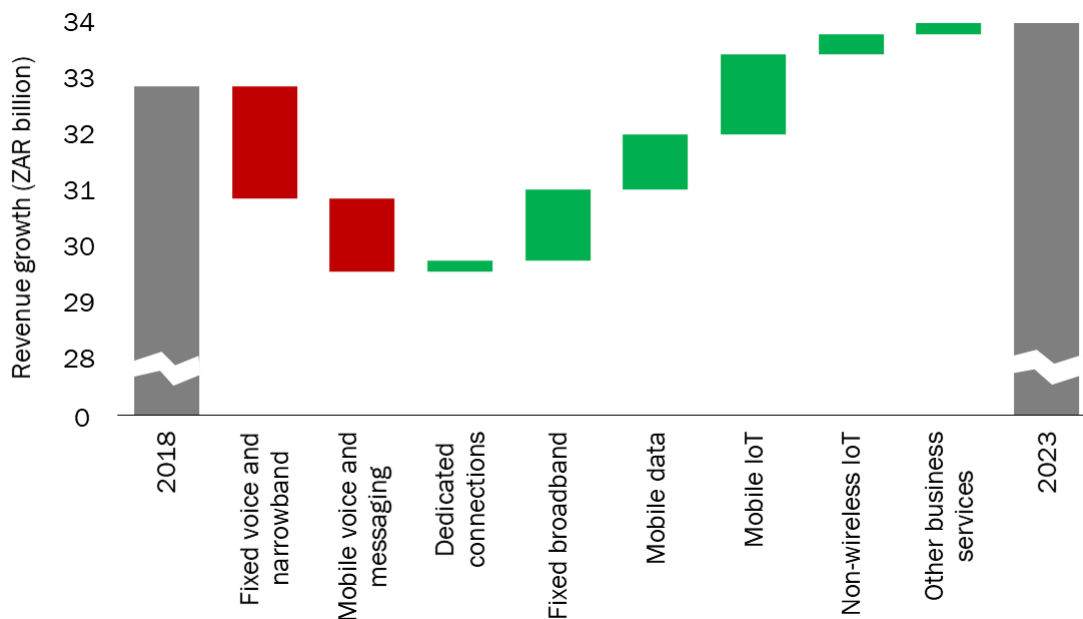
- MTN has a struggling enterprise business. It declined by 14% in the first half of its 2018 financial year and, according to management, MTN has “neglected [its] enterprise business over quite some time”.¹ MTN expects its enterprise business to stabilise and potentially grow in 2019 because it plans to implement a new strategy, including a new management team and investments in data centres.
- Fixed operator Neotel Liquid Telecom does not report figures for its business in South Africa, but is known to be expanding its footprint rapidly throughout the country (and Africa as a whole). It has reportedly [invested ZAR1.3 billion \(USD110 million\) in expanding its data centre business](#) and is one of the leading challengers in the South African fixed services market.
- Telkom reported a 5% decline in enterprise revenue in its 2018 financial year. The total enterprise revenue reported was ZAR18.3 billion (USD1.4 billion), which represents 45% of the total business. A 9% decline in fixed voice revenue and a 7% decline in its managed IT services revenue are the causes of this overall decline. Telkom accounts for most of the fixed voice market in South Africa and is therefore particularly exposed to declines in this market's revenue. Telkom acquired BCX (Business Connexion), a systems integrator and managed service provider, in order to merge its connectivity business with an end-to-end IT service provider. Telkom's enterprise unit has been operating under the BCX brand since early 2017.
- Vodacom reported an 11% increase in its enterprise revenue to ZAR14 billion (USD1.1 billion) in its 2018 financial year. This represents 26% of the total business. Vodacom's expansion into the fixed services market and a growing cloud and hosting portfolio are the causes of this growth. Vodacom's mobile revenue

¹ For further information, please see the transcript of MTN's 2017 annual results call: <https://www.mtn.com/en/investors/financial-reporting/annual-results/Pages/default.aspx>

is flat, but it has a relatively large IoT division, which is growing at 11% year-on-year and generated over ZAR750 million (USD56 million) in its 2018 financial year.

Fixed and mobile data services and IoT will be the primary sources of revenue growth in the enterprise market

Figure 1: Change in telecoms operator retail revenue from enterprises by service type, South Africa, 2018–2023



Source: Analysys Mason

Revenue in the South African enterprise market will grow only marginally between 2018 and 2023 (by less than 1% each year), driven by several key, often contrasting, trends.

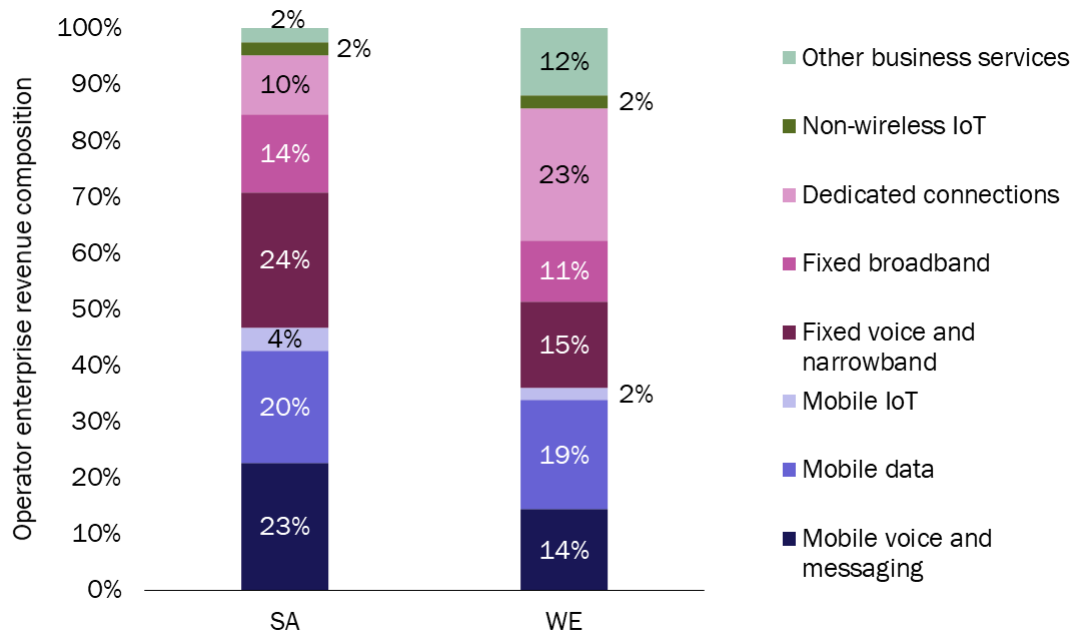
Revenue will be significantly affected by the substantial decline in legacy services, namely fixed voice, narrowband, mobile voice and messaging. Legacy services currently account for 47% of enterprise revenue, but we expect this figure to change significantly in the short term, falling to 35% of the total enterprise revenue by 2023.

The number of fixed broadband connections to enterprises will increase by 7% each year and will reach over 600 000 by 2023. There will also be shifts in use of broadband technology: the number of FTTP/B connections will more than double to 100 000, and vDSL will replace ADSL as the most common broadband access type.

IoT and other business services will be the main drivers of overall revenue growth. We expect that the number of IoT devices on mobile networks will reach 29 million by 2023, resulting in connectivity revenue of almost ZAR3 billion (USD225 million) for operators. The market for other business services, such as cloud and security, will grow at CAGR of 7.4%, and will reach ZAR7 billion (USD 525 million) by 2023.

Poor and limited fixed infrastructure has led to a comparatively large mobile market and limited use of other business services

Figure 2: Operator enterprise revenue composition by type of service, South Africa (SA) and Western Europe (WE), 2018



Source: Analysys Mason

In contrast to enterprises in high-income countries (Figure 2), those in South Africa spend almost as much on mobile services as they do on fixed. Limited access, poor quality and high prices has limited enterprises' use of fixed services in South Africa. Poor fixed infrastructure has also limited enterprises' (particularly small and medium-sized enterprises') use of other business services, such as cloud.

Figure 2 shows that there is considerable scope for South African operators to do more in other business services. Operators in Western Europe generate 12% of their revenue from other business services, indicating operators' potential to expand into this market.

Operators in South Africa have already invested in areas not relating to traditional connectivity services. BCX generates almost 40% of its revenue from managed IT services. Vodacom's acquisition of Stortech provides it with managed cloud services capabilities, and its subsidiary XLink, another acquisition, provides managed IoT solutions. MTN, Neotel Liquid Telecom and Vodacom have all increased their investments into data centres in order to capitalise on the potential in the cloud services market. Further acquisitions in the enterprise market by all operators in 2019 seem likely, [as we have seen elsewhere](#).

Operators in South Africa should increase their investments to capitalise on new growth opportunities

Operators that are still highly dependent on revenue from legacy services face a considerable threat, but there are significant growth opportunities in fixed and mobile data services, IoT and other business services. Making the most of these opportunities will require investment. IoT, next-generation fixed networks and other

businesses services will lead to considerable revenue growth in the enterprise market, but will also require operators to be bold and make the required investments in these markets.