

Sector Update - Telecom



Oman Telecom Sector – Highlights

- Towards liberalization of Oman telecom sector, the regulatory authority has awarded second fixed line license to Nawras and has also appointed six mobile resellers.
- Fixed line segment in Oman has reported a CAGR of 2.4% over 2004-08. Overall penetration levels are at 9.9% levels by end of Q4FY08.
- Growth in fixed line services remains subdued and we expect to see better utility as the focus has shifted from voice to data services like Broadband services.
- As of Dec 2008, Total mobile subscribers stood at 3.219 million, representing penetration levels of 113.9%.
- In mobile segment, we expect the usage to increase on the back of lower tariffs and enhanced services which would support the lower ARPUs going forward
- Introduction of 3G services by Omantel and Nawras would help the customers in using high transmission speeds and also enhanced data services.
- Internet penetration in the Sultanate is very low at 3.2% (end Dec 08) as compared to regional peers, giving enough space for growth going forward.
- The Internet and broadband services in Oman is expected to continue its strong growth going forward

Telecom Sector – Subscribers	2002	2003	2004	2005	2006	2007	2008	CAGR ('02-08)
Total Fixed Line Subscribers	234,000	237,000	249,281	265,237	269,700	268,065	274,178	2.7%
YoY Growth (%)		1.3%	5.2%	6.4%	1.7%	-0.6%	2.3%	
Post Paid - Mobile	220,400	235,662	257,287	253,112	246,117	293,622	324,812	6.7%
Pre Paid - Mobile	243,500	357,791	548,993	1,080,113	1,571,907	2,206,378	2,894,537	51.1%
Total Mobile Subscribers	463,900	593,453	806,280	1,333,225	1,818,024	2,500,000	3,219,349	38.1%
YoY Growth (%)		27.9%	35.9%	65.4%	36.4%	37.5%	28.8%	
- Dial- up subscribers*	-	-	-	41,086	48,684	49,824	55,767	10.7%
- DSL subscribers**	-	-	490	8,125	13,913	18,984	31,635	183.5%
Total Internet Subscribers	48,232	51,769	48,657	49,425	63,839	70,290	89,528	10.9%
YoY Growth (%)		7.3%	-6.0%	1.6%	29.2%	10.1%	27.4%	

Source: TRA, GBCM Research, * CAGR (2005-2008), **CAGR (2004-2008)

Oman Telecom Sector – Moving towards liberalization

Oman's telecom sector has moved towards complete duopoly with Nawras (Omani Qatari Telecommunications Company SAOC) getting the fixed license during 2008. The mobile segment was opened up during March 2005 with introduction of Nawras along with the incumbent Oman Mobile (A subsidiary of Omantel -Oman Telecommunications Company SAOG). Consumers have benefited from effects of competition like lower tariffs and product innovations. While, Mobile segment continues to be the growth segment in the sector, fixed line segment provides challenges in terms of subscriber addition with key focus towards broadband (ADSL) services. In the mobile segment, as of December 2008, Omantel has 1.596 million customers, while Nawras has around 1.5 million customers. In the Fixed line segment, Omantel had 274K subscribers as on 31st December 2008.

Government has ensured the liberalization of the telecom sector in line with World Trade Organization (WTO) agreement and US-Oman FTA (Free Trade Agreement). As part of the same, the Government had earlier initiated process on part-divestment of its stake in Omantel. However with worsening of economic conditions the divestment process was cancelled. Efforts of Telecom Regulatory Authority of the Sultanate are commendable which along with the service providers have been keen towards introduction of new technologies and value added services. We believe moving forward, Oman's Telecom sector is bound to witness change in sectoral dynamics with introduction of Next Generation Networks and IP based networks.

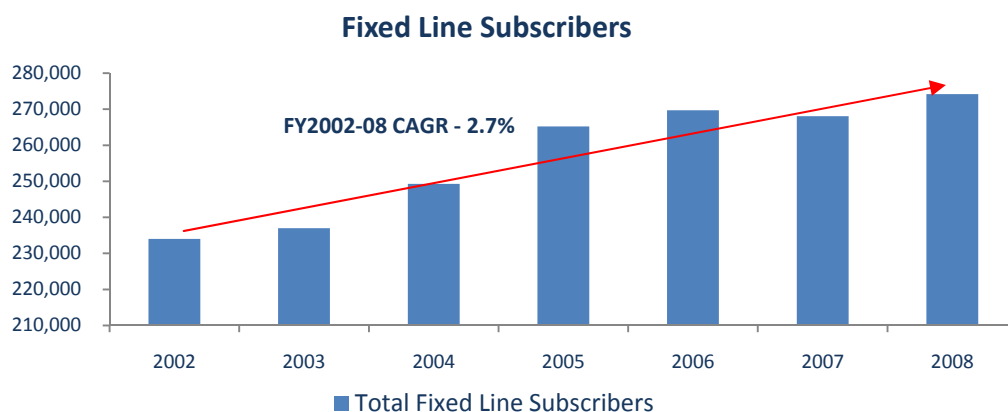
Subdued growth in fixed line segment...

The fixed line segment in Oman has reported a CAGR of 2.4% over 2004-08. By end of December 2008, the overall fixed line subscribers base stood at 274,178 customers, representing penetration levels of 9.9%. As the general trend in the sector, Oman too is witnessing subdued growth in wire line segment as compared to mobile segment. ARPU in the sector has seen declining trend, reporting an annual drop of 8% since 2005 backed by tariff reduction and lower usage of fixed line vis-a-vis mobile telephony.

Fixed line Subscribers	2004	2005	2006	2007	2008	CAGR ('04-'08)
Post paid subscribers	239,262	233,045	222,809	219,128	220,169	-2.1%
Pre paid subscribers	10,019	25,422	40,061	42,079	47,306	47.4%
Card Pay phone	6,535	6,770	6,830	6,858	6,703	0.6%
Total Fixed Line Subscribers	249,281	265,237	269,700	268,065	274,178	2.4%
YoY Growth (%)	5.2%	6.4%	1.7%	-0.6%	2.3%	
Penetration*	10.3%	10.6%	10.5%	9.8%	9.9%	
ARPU (RO)	27.4	21.2	18.6	16.9	15.2	
Composition among total subs.						
- Post paid subscribers	96.0%	90.2%	84.8%	83.9%	82.3%	
- Pre paid subscribers	4.0%	9.8%	15.2%	16.1%	17.7%	
Source: TRA, GBCM Research, * Penetration rates based on est. FY08 population of 2.825 million						

Omantel, as of now is the sole provider of fixed line services providing national and international voice services, prepaid cards and payphones in the country. The company is moving towards Next Generation Network (NGN) which would help them in the process of delivering quality services. The second fixed line license to Nawras, is expected to increase competition and benefit the customers with better services at competitive prices. We expect this segment to see better utility in the coming years as the focus has been shifted from voice to data services like Internet and Broadband services. Also, the key would be a transformation towards IP based network which we expect would change sectoral dynamics.

The fixed line license includes International Gateway to handle international incoming and outgoing calls. As of now Omantel is having a monopoly in this segment, its competitor in mobile segment – Nawras depends on this gateway to route international calls. We believe with the award of fixed license to Nawras, the company would be keen to have presence in this segment which scales up its value chain.



Source: TRA, GBCM Research

Mobile Segment – the growing Pie

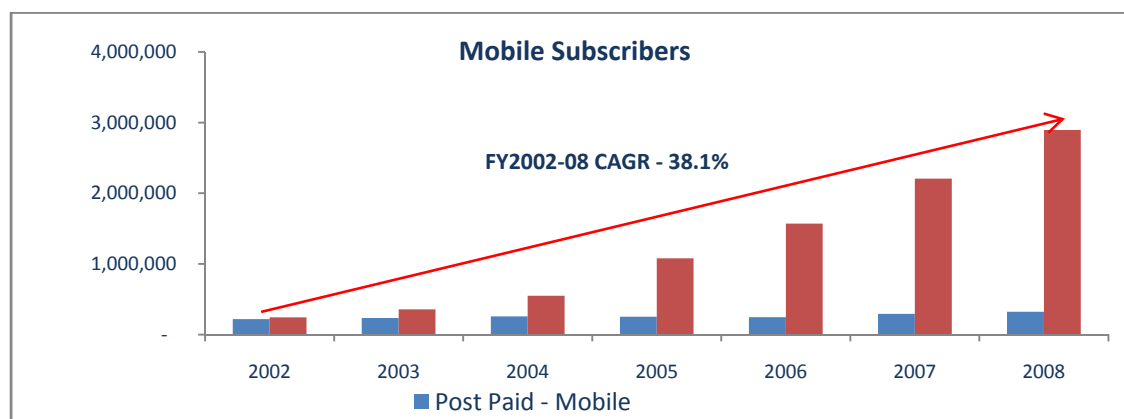
Mobile segment has shown a robust growth with introduction of competition in the mobile segment (Nawras) beginning 2005. The introduction of prepaid services, expansion of network and competitive pricing has helped in the strong growth in mobile subscribers. The prepaid segment has attracted more customers and also has been the strong growth driver, reporting CAGR of 51.1% over 2002-08. During the same period, postpaid customers have reported 6.7% CAGR. Overall growth of mobile subscribers stood at 38.1% CAGR over 2002-08 with 90% of them being registered in prepaid services. By the end of 2008 total mobile subscribers in the Sultanate stood at 3.22 million, representing penetration levels of 114%.

We believe the actual mobile penetration to be lower due to the accounting of the dormant or inactive subscribers (25%-27%) and dual SIM card users. Industry interactions indicate wide range of estimation, both in terms of inactive subscribers and dual SIM card users. However, we believe the constitution of inactive subscribers to be on the higher side, as the sector has seen a host of new developments in terms of product structuring in the recent past.

Mobile Subscribers	2002	2003	2004	2005	2006	2007	2008	CAGR (2002-08)
Post Paid	220,400	235,662	257,287	253,112	246,117	293,622	324,812	6.7%
Pre Paid	243,500	357,791	548,993	1,080,113	1,571,907	2,206,378	2,894,537	51.1%
Total Mobile Subscribers	463,900	593,453	806,280	1,333,225	1,818,024	2,500,000	3,219,349	38.1%
YoY Growth (%)		27.9%	35.9%	65.4%	36.4%	37.5%	28.8%	
Penetration	18.3%	25.4%	33.4%	53.1%	70.5%	91.1%	113.9%	
ARPU (RO)		17.4	17.4	12.5	12.6	11.7		
Composition among total subs.								
- Post paid subscribers			31.9%	19.0%	13.5%	11.7%	10.1%	
- Pre paid subscribers			68.1%	81.0%	86.5%	88.3%	89.9%	
Source: TRA, GBCM Research, * Penetration rates based on est. FY08 population of 2.825 million								

Competition in the sector has led to drop in ARPU levels from RO 17.4 in 2004 to RO 11.7 in 2007. Recently the trend has been introduction of low entry barriers in the prepaid segment through low value refills and call packages. Impact of lower tariffs has improved the MOU (Minutes of usage) and penetration levels which is visible from revenue growth of Oman Mobile. Meanwhile, figures for Nawras are not available.

Backed by the launch of more innovative and value added services in this segment, we believe the healthy growth to continue in the coming years. The introduction of 3G services by Omantel and Nawras would help the customers in using high transmission speeds and also enhanced data services. We expect the MoU to increase on the back of lower tariffs and enhanced services, while the value added services like internet usage, data services etc would support the ARPUs going forward.



Source: TRA, GBCM Research

Mobile Resellers – A win-win proposition...

Towards boosting the demand for basic mobile services, TRA has issued Class II licenses to six companies (FY2008) who would act as resellers of mobile services in the Sultanate. Omantel has already signed up with two for the mobile resellers namely Renna and FRIENDi, who are expected to commence operations soon. The resellers have plans to target new customer segments and also offer innovative services which would create a win-win situation for the host operator, the reseller and the subscribers.

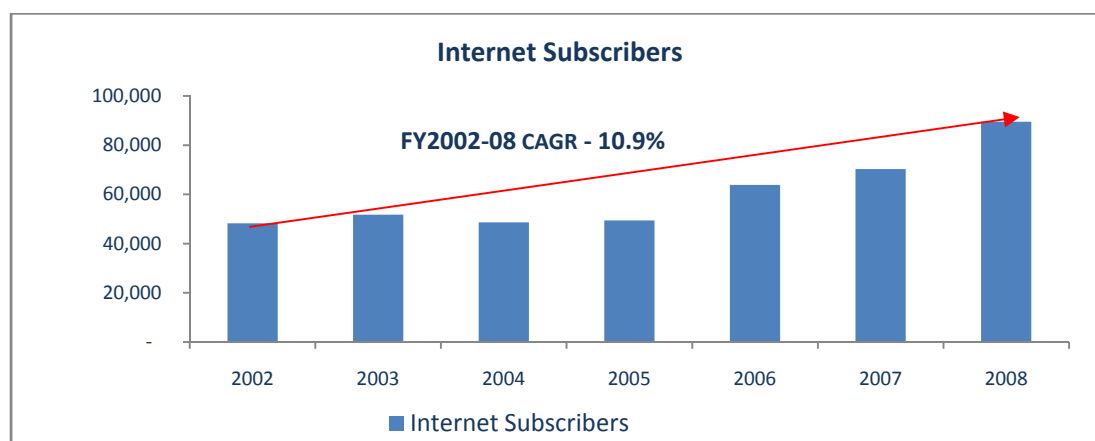
Potential growth triggers from Internet and data services...

As of Dec 2008, the total internet subscribers in Oman stood at 89,528 representing a growth of 10.9% CAGR over 2002-08. Overall internet penetration in the Sultanate is low at 3.2% (end Dec 08) as compared to regional peers, giving enough space for growth going forward. The presence of favourable demographics (young population) and increase in the penetration of personal computing in the country would lead to the strong growth in Internet and broadband services. This sector is expected to be the future growth driver for the country with the strong commitment from the Government/ TRA towards the development of this segment.

Internet Subscribers	2002	2003	2004	2005	2006	2007	2008	CAGR (2002-08)
Dial- up subscribers				41,086	48,684	49,824	55,767	
DSL subscribers			490	8,125	13,913	18,984	31,635	
Leased Line Subscribers				214	246	289	812	
Others					996	1,193	1,314	
Internet Subscribers	48,232	51,769	48,657	49,425	63,839	70,290	89,528	10.9%
YoY Growth (%)		7.3%	-6.0%	1.6%	29.2%	10.1%	27.4%	
Penetration		2.0%	2.0%	2.0%	2.5%	2.6%	3.2%	
ARPU (RO)				32.9	29.3	31.1		

Source: TRA, GBCM Research, * Penetration rates based on est. FY08 population of 2.825 million

Omantel is the sole provider of broadband and internet data services in the country. The presence of higher traffic and monopoly nature of business has led to the presence of high ARPU (above RO 30) levels in this segment. TRA has recognized the importance of broadband penetration in the country and has been devising strategy to introduce competition in this segment. With its fixed line licence, Nawras is planning to build latest technology infrastructure like fibre optic network, WiMax etc., to provide broadband and other internet telecommunications to the customers. This would result in the reduction in prices and also better broadband delivery mechanism. However, the internet and data services segment which operates under high margins is expected to report strong growth going forward.



Source: TRA, GBCM Research

Regulatory changes towards development...

Towards regulating the competition in the Industry, TRA adopts two approaches for regulating the tariff competition in the fixed and mobile segment. In fixed segment the tariff is regulated using a price cap regime (maximum price), while in the mobile segment TRA follows a more flexible approach towards reducing prices and improving service quality. The regulatory body has also introduced the mobile number portability which has encouraged competition in the Industry, improving quality of service and introduction of competitive tariffs. In addition to this, TRA has a set of parameters to measure the Quality of service which in turn has helped the quality of telecom services in Oman to become globally competitive. Towards Universal Service Obligation (USO), TRA is in the process of identifying the basic requirements in the Sultanate thereby ensuring access of communication services to all at affordable prices.

Innovative technologies to drive growth...

The Introduction of Next Generation Network by Omantel is expected to provide the basic infrastructure in transforming into broadband information network capable of supporting next generation converged services. The launch of Third generation (3G) technologies by both Omantel and Nawras, would lead to the introduction of wide range innovative functions and data services. TRA is planning for the introduction of Wi-Max technology which would provide high speed broadband connectivity used for services like video telephony, video conferencing, video on demand and IPTV. Considering the presence of high costs in international calls, TRA is in the process of making VoIP an eye-catching alternative. TRA is planning for the development of long term view of VoIP and also increased liberalization in long distance calls.

Sector Outlook

Oman telecom market is entering the next phase of growth with the announcement of more liberalization measures by the Government of Oman. Towards liberalization, TRA has done the introduction of a new player in fixed line business, appointment of mobile resellers and plans of introduce more players in internet services. The liberalization of the fixed line segment in this fiscal year is expected to enhance competition thereby lowering tariff and introduction of competitive offering to the customers. TRA is the process of introduction of new wireless technologies in Oman telecom sector which could in turn provide high quality services to the subscribers in the country.

Though the penetration levels have reached around 114% levels in the mobile segment, we expect the growth to continue on the back of introduction of competitive offerings and the increased usage of data services. The appointment of mobile resellers is expected to increase the service offering through introduction of value added and innovative service offerings. The internet and broadband services in Oman is expected to continue its strong growth with the major investment of Omantel coming up in the migration of the existing network to a Next Generation Network. The increasing penetration levels in this segment along with the presence of higher ARPUs could act as a cushion to the lower growth in mobile and fixed line segment going forward.



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