

Disruption amplifies digital irreversibly

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- We expect demand for telecom services in MENA to remain above pre-pandemic lockdown levels once the emergency strictures are lifted, creating opportunities for new entrants.
- Many platforms for work, social discourse and entertainment have gained popularity during the lockdowns. Full development, however, is still being restrained by government rules, despite some relaxing of restrictions.
- Pressure for further liberalisation will persist, but we expect governments to keep some limitations to protect their majority-owned operators as well as maintain a certain level of internet censorship.

Telecom proving more essential during COVID

Lockdowns appear to have jolted laggards amongst MENA firms to accelerate the pace of new technology adoption and rapidly adopt digital approaches to their products and services. It is simply a game of survival. We look this week at how telecommunications and online platforms are growing, and at both the potential and limitations embedded in the region's economic, governmental and investment climates.

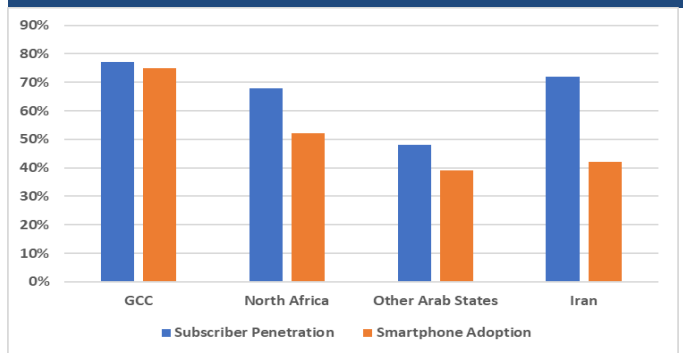
- Demand for telecommunication services has been increasing accompanied by high mobile penetration and greater internet accessibility. It has been pushed even further by pandemic lockdowns. This is unlikely to change when the pandemic crisis passes.
 - Nearly half of MENA has a mobile penetration rate of 70% or more versus 66% globally. The GCC leads the region in terms of subscriber penetration.
 - The percentage of the MENA population connected by mobile to the internet grew from 29% in 2014 to 40% in 2019. Growth potential can be seen in the 49% of the region's population that lives within the footprint of mobile broadband but is not yet using it.
 - There are also significant growth opportunities in frontier markets, where subscriber penetration rates remain below 50%. These countries include Syria, Iraq, Sudan, Palestine, Yemen, Sudan and Djibouti.
- The millions now working from home across MENA to prevent the spread of COVID-19 have prompted a sharp rise in demand for telecommunication services.
 - The UAE reported a 40% increase in fixed traffic during the first few days of the outbreak.¹
 - Jordan announced a 31% increase in data traffic over the 4G network.
 - In Saudi Arabia there has been a 33% rise in data traffic over fixed and mobile networks.²

¹ Fixed traffic refers to traffic from residential and commercial subscribers to ISPs, cable companies, and other service providers.

² Mobile network traffic refers to traffic from cell phone towers and providers.

³ Arabia Monitor; GSMA.

Figure 1 - The Mobile Market in Numbers (%)³



- In Morocco, an increase of at least 50% in data traffic in H1 2020 is expected in comparison with an already high 37% rise in H1 2019.
- The big question is what will happen to this demand when the lockdowns end. We believe that though it could initially fall back, it will remain above pre-COVID levels.
 - But a prolonged decline in international, domestic, and even local travel will impact companies' satellite mobility applications, roaming services, and revenue linked to equipment sales.
 - While these business lines make up a smaller fraction of the sector overall, companies with outsized exposure to them could suffer.

Mobile data consumption in MENA will also grow rapidly, underpinned by increased smartphone adoption and availability of high-speed networks.

- Significant investments by operators have accelerated 4G coverage in recent years and will remain the main driver of operator capex in the near term, opening the door for new operators as well as existing players.
- 5G services have also become a reality in MENA. As of October 2019, 10 operators had launched commercial 5G services in the GCC. Non-GCC countries are expected to follow this year with trials and commercial launches
 - GCC countries will have the highest levels of 5G penetration -- 16% by 2025, significantly exceeding the global average by 0.6%. This would take the MENA region to 6% of total global 5G mobile connections (45 million connections), in comparison with 20% of the world's population.
 - 5G will play a pivotal role in the development of smart cities. From Neom in Saudi Arabia to Egypt's yet-to-be-named new capital city, 5G is expected to enable artificial intelligence and the internet of things (IoT) as well as other transformative technologies.⁴
 - We expect to see a number of local firms take advantage of this growth area in the coming few years, possibly alone and possibly in conjunction with US, Chinese and European companies.
 - Regionally, for example, Kuwait's Zain Group already covers 95% of Kuwait's populated area with commercial 5G, while Zain Saudi Arabia is constructing 2,000 towers in 20 cities.

⁴ IoT is a system of interrelated computing devices combined with mechanical and digital machines provided with unique identifiers. Together these can transfer data over a network without requiring human-to-human or human-to-computer interaction.

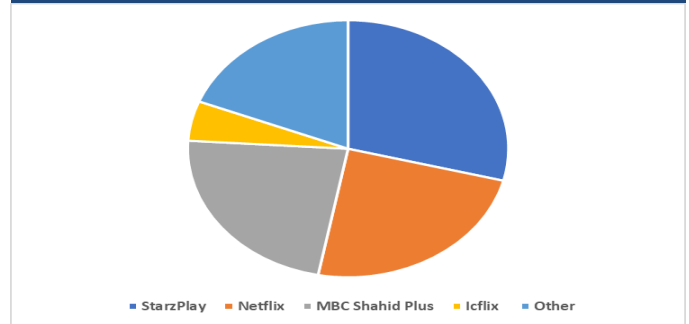
- Foreign companies are bound to take interest. Sweden's Ericsson is working with Dubai's Etisalat, Saudi Arabia's STC and Qatar's Ooredoo.
 - o Such opportunities are FDI and co-investment drivers.

Middle East operators embrace app opps

With the lockdown, numerous local platforms for entertainment (gaming and film streaming), retail services and communications have gained popularity, opening doors to new investment opportunities. Full development will now push the envelope of government constraints and antiquated rules, despite some relaxing of restrictions, thereby presenting a new challenge to regional policy makers to actually “walk the talk” of their various Visions.

- Services allowing for remote meetings have surged and are being used by businesses and education professionals.
 - Emirates Integrated Telecommunications Company, rebranded as Du, reported a 200% increase in use of its meeting streaming offerings, including US-based Zoom, since the onset of the outbreak.
- Entertainment and movie streaming apps are also becoming more popular and show great potential.
 - UAE-based E-vision announced a strategic partnership with Etisalat Misr to launch Etisalat TV, an app housing English and Arabic movies, series and Ramadan productions across smart devices.
 - StarzPlay -- a UAE-owned subscription video-on-demand service and Netflix rival in the region -- now has one million subscribers in MENA.
 - o It secured the first sports streaming event in MENA -- with a market share of 29%. When launched out of Dubai in 2014, it raised USD 125M in funding.
- MENA revenues are expected to reach USD 2.1B in 2024 from USD 1.5B in 2018, representing 2.4% of the global video on demand market.
- We believe this demand for online streaming subscriptions will continue, with major opportunities for investors and new players:
 - Regardless of the pandemic, people in parts of the MENA region were known for their high daily count of hours watching TV. They have increasingly been shifting towards subscription video-on-demand.
 - Between 2013 and 2019, the number of people watching mainstream television dropped from 98% to 86% in MENA. By 2025, it is expected that demand for online streaming subscriptions will overtake satellite-based pay TV such as Egypt's NileSat.
 - A growth area is for online platforms to offer original content for Arab audiences, as well as providing local currency payment options and establishing distribution deals with regional pay-TV.
 - From outside the region, Netflix is already doing so with series such as the Jordanian supernatural drama “Jinn” and Lebanon's money-hunting “Dollar”. This has contributed to placing Netflix second in MENA with market share of 24%, just below StarzPlay which also offers Arabic shows.

Figure 2 - Market share of Selected SVOD Services in MENA⁵



- o Disney+ which was initially unavailable in MENA due to geoblocking is now been screened in the region via telecommunication and pay TV operators such as OSN to grab market share.
- Much of the demand for streaming services is coming from the UAE and Saudi Arabia which together account for 49% of total subscriptions in MENA.
 - o This may prompt firms and investors to start from these countries and then deliver their products in other parts of the region.

There are barriers to growth, however, mainly from government restrictions based on protectionism and, in some cases, social control. The pandemic has eased this somewhat, with a loosening of rules.

- Public telecommunication service operations in the UAE are restricted to two national operators -- Du and Etisalat. Bahrain, Iran, Saudi Arabia, Qatar and many others also limit foreign equity shares in mobile companies -- ranging as high as 70%.
- But the needs of people under pandemic lockdown mean that a number restrictions are being eased, such as bans on specific voice applications/tools. Some households are also receiving free mobile data allowances
 - On 20 March, Dubai's Etisalat lifted the ban on video meeting services Zoom, Microsoft Teams, Blackboard and CloudTalk for everyone.
 - Residents both within the UAE and other GCC states have also started calling for further easing of restrictions on free internet calls.
 - Skype, WhatsApp, and FaceTime, all of which have posted double-digit global usage growth rates since the lockdowns, for instance, remain blocked.
 - On 18 March, both Etisalat and Du started providing free mobile data allowances to households that do not have fixed internet connectivity.
 - Oman's TRA has also allowed the use of certain VoIP apps such as Skype for Business, Google Meet, WebEX and Zoom.
- Such restrictions are unlikely to return after the pandemic, especially as pressure for further liberalisation persist, but we expect governments to keep some limitations to protect their majority owned operators as well as to maintain a certain level of internet censorship.
- The pressure is on because the genie is out of the bottle. Stay tuned for the remainder of our series on how the lockdowns will transform the MENA region. This is no different than the transformative impact of the Arab Spring, nor more temporary.

⁵ Arabia Monitor.

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