Egypt : Telecommunications Sector Performance under Political Turmoil

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Highlights

- In February 2011, President Mubarak resigned from office under pressure from the international community and protestors, replaced by a provisional military government and then by Muslim Brotherhood elected President Mohamed Morsi in June 2012. Morsi was removed from office by a military coup in July 2013.
- Vodafone Egypt, Mobinil (owned by Orange), and Etisalat Misr are the three mobile telecommunications operators in the country, while Telecom Egypt is the fixed-line incumbent.
- In 2011-2013, the market evolved very rapidly with different responses from the four main telecom operators:
  - Vodafone Egypt overtook Mobinil as the largest operator by subscribers during the crisis.
  - Mobinil focused on keeping their earnings before interest, taxes, depreciation, and amortization (EBITDA) stable, but turned out with the lowest market share
  - Etisalat Misr remained competitive by adjusting price packages for the economic crisis, with its market share in between that of its two mobile competitors.
  - Telecom Egypt performed better than its mobile peers thanks to its monopoly of fiber access and international connectivity; as Internet traffic grew so did TE's revenues. The carrier of carriers' business sustained economic performance while the consumer fixed-line business stagnated.
- The aggregate revenue growth for the three mobile providers fell dramatically during the crisis, but began to rise again in 2013.
- Spikes in mobile Internet data usage helped keep telecom companies afloat and justified further investments in HSPA technology; it proved that during the period of uncertainty consumers valued mobile broadband and kept it while reducing consumption of other items.
- Telecom Egypt is a state-owned land-line provider with a monopoly on the market, aiming to move into the mobile industry via "unified license."

Introduction

This study focuses on the situation in Egypt from January 2011 to the end of 2013, referencing prior years only to use as a comparison to the changes that the political conflict starting in January 2011 caused. Future years are referenced only in speculation to what impact the findings of this study may have.

The effects of the Arab Spring have taken a political, social, and economic toll on the country of Egypt, and by extension, its telecoms sector. Though the industry has been affected by the turmoil, it has remained strong relative to the rest of the economy, continuing its growth path even if at a slower growth than previous to 2011.

The Crisis

The conflict over control of the Egyptian government involves three main groups: the “deep state,” Islamist factions, and various civic organizations. The deep state consists of major military and judicial leaders, along with the military, police, and intelligence forces. The largest Islamist faction is the Muslim Brotherhood. The various civic organizations are led by Egypt’s youth, though most have little to no prior political experience.

President Hosni Mubarak ruled with the support of the deep state for 30 years, from 1981 until 2011. In February 2011, Mubarak resigned from the presidency under enormous pressure from protestors nation-wide. The military held control of the country until June 2012, when Mohamed Morsi, a member of the Muslim Brotherhood, was democratically elected. In July 2013, barely over a year later, Morsi was removed from office via a military coup after failing to unite the country and allowing government functions to deteriorate. Once again, control was returned to the deep state, with Supreme Court Chief Justice Adly Mansour being sworn in as the interim president with military support. A referendum on a revised constitution was held in January 2014, approved by 98.1% of the population. An election in June 2014 elected former military chief Abdel Fattah el-Sisi to the presidency.

The overall economy of Egypt has shifted to the worse due to the crisis. Unemployment rose from 9.4% in 2009 to 13.4% in 2013. Tourism, once an important part of the Egyptian economy, fulfilling 10% of the country’s total GDP, has screeched to a halt, since the country is now considered too volatile a place to visit. Real GDP growth slowed from 5% as of 2010 to 2.1% in 2013. In Quarter 3 2013, Egypt’s national debt increased to 92% of its total GDP and the Central Bank reserves have gone below 20 billion dollars. Despite such challenges, the overall economy is slowly crawling back, even if at significantly slower pace than before the crisis.

Construction and consumer goods and services, including telecommunications, have fared better than most industries. One factor that has led to Egypt’s economic survival is significant aid from the countries of the Gulf Corporation Council (GCC). Saudi Arabia, Kuwait, and the UAE provided a total of 16 billion dollars of aid to Egypt, the equivalent of a significant economic stimulus package. GCC’s aid is equivalent to 6.1% of the total 2012 Egyptian GDP of 260 billion dollars; by comparison, the U.S. 2008 stimulus package was equivalent to 1.9% of GDP.

Impact on Telecommunications Services

As of Q313, the total mobile market penetration in Egypt was 123%, with 20% being mobile broadband subscriptions. There are only 45 million unique subscribers, about half of the population, thus creating room for expansion.

This growth will likely be driven by the youthful demographic, as over half of the population is under 24, with another 15% between 25 and 34. In addition, the low fixed-line penetration and lower broadband user base shows Egypt is ready for mobile growth as the economy recovers. With only barely over seven million landlines, most young subscribers decide to use mobile broadband.

Aggregate Demand

Overall, the aggregate revenue of the three mobile operators shows how the industry has been, and will continue to be, resilient. The largest revenue decline occurred after Mubarak's resignation, allowing the 14% revenue growth in Q410 to fall to 2% in Q111. By the time Morsi was elected president in Q212, rate of mobile revenue growth had gone back up to 10%. With a continuing upward trend and more aid from the GCC, and the President Sisi aiming at economic stability, it seems the mobile industry will continue to grow.

Mobile broadband in Egypt is still incipient, only having been launched in 2007. The peak of new connections was in Q410 at 240% growth quarter on quarter, dipping to about 120% in Q411, after Mubarak's resignation, staying above that level since then. Despite this decline, broadband connections have still been doubling annually, and data use per subscriber (and thus ARPU) has seen significant growth.

Because of this increase in data use and mobile broadband connections, data traffic has skyrocketed, bringing year-on-year (YoY) revenue growth back to 10% to 15% by Q213, almost to its pre-crisis values, despite the fact that unique mobile subscribers growth dropped from the pre-crisis level of 19% to 5% in Q213. Despite having lesser growth in mobile users, having more broadband connections transferring more data has made up for these losses, justifying recent capital investments in HSPA infrastructure and contributing to the resilience of the mobile industry.

Competition Dynamics

The political and economic circumstances of recent years have caused a shift in the strategies of the three mobile operators and incumbent Telecom Egypt. Mobinil avoided getting involved in a price war by focusing on value-based strategy, keeping earnings before interest, taxes, depreciation, and amortization (EBITDA) stable at about 45%. Vodafone sacrificed these margins, allowing its EBITDA to fall below 30%, to gain more market share, allowing it to surpassing Mobinil in Q310 to become the market leader in number of subscribers and total revenue. Part of this success came from the growth of HSPA and a dramatic data use increase. Etisalat Misr realized “subscribers became more price conscious,” as CEO Abdullah al-Abdooli explains, leading to the creation of price-competitive packages in 2012, though in 2013, their goals shifted to improving profitability. The operator has also faced challenges due to a decline in tourism, seeing a 50% decline in foreign visitor roaming revenues in 2011.

There have also been significant ownership changes. Orange completed its purchase of 94% of Mobinil, eliminating Orascom, the Egyptian multinational company that previously had a stake in Mobinil. Vodafone Egypt is also owned externally, with 44% of it under the control of the state-owned landline provider Telecom Egypt. Misr is fully owned by UAE-based Etisalat Group.

Telecom Egypt (TE) is an 80% state-owned, 20% free float fixed-line incumbent that has survived this crisis with great success, though not due to their fixed-line consumer services. Firstly, TE owns 44.97% of Vodafone Egypt, allowing them to benefit from that mobile company’s successes. Secondly, TE is the only provider for fixed-line voice telecommunication, giving it an effective monopoly on the market, as well as a monopoly on wholesale broadband backhaul capacity and long haul communications. As mobile operators implement 3G, they must buy their backhaul capacity from TE, just as they must use TE’s international gateway monopoly. Though TE’s fixed line penetration growth has flattened, it has survived due to its data services, despite suffering at the hands of the country’s turmoil. Even with these successes, TE found more volatility during the crisis than other operators, encountering deep dips during key moments such as the resignation of Mubarak (Q111) and election of Morsi (Q212).

With the decline of fixed-line business, TE is planning for the future by proposing the use of “unified license” for all operators. Essentially, this would allow the current mobile operators to offer fixed-line services and, more importantly, for TE to offer mobile services, initially via a MVNO model. However, with mobile services on the rise and fixed-line demand declining, this would clearly benefit TE more than the mobile operators. There is a fear that these “unified license” could be used by TE to help strengthen its monopoly on the telecommunications industry in Egypt. Mobile operators have signaled their intention to challenge such a move.

Conclusion

In many ways, the Arab Spring was fueled by telecommunications. The ability for cellular mobile devices to record and send video and social network posts across Egypt created a window of direct access to the protests repressed by Mubarak, Morsi, and the military-supported government. The ease of access to information provided by mobile data services likewise allowed the international community to have better visibility of Egypt's struggle and thus apply pressure to its government. These services also allow communication and planning to occur to organize protests. Telecommunications, in many ways, was at the heart of the Arab Spring, even if it did not cause it.

These innovations in technology are helping citizens hold their governments accountable for their actions. A viral video can cause great political impact. With the majority of Egypt's population in their youth, a generation more tech-savvy and with larger willingness to pay for data-consumption than the past, mobile broadband has become an essential good to be prioritized even in moments of economic difficult.

With Abdel Fattah el-Sisi in office and a new constitution in place, it seems as if the turmoil in Egypt has subsided, for now. But as seen with the removal of Morsi, that peace is never certain, as Egypt's political structure remains fractured. At any rate, data services will be an important part of Egypt's future. Telecom Egypt's monopoly of fiber access and an international gateway could have far-reaching economic and political implications as telecom policy seems to be shifting to privilege the state-owned company.

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