Persian potential

By Roger Field CommsMEA on Sunday, April 12, 2009

Iran's telecoms sector offers huge potential for operators, but also brings its share of risks.

Just a few years ago, Iran's telecoms sector was considered a regional laggard, with just the state owned operator TCI running fixed and mobile networks in a country with more than 60 million people and one of the lowest mobile penetration rates in the region.

Despite the government's efforts to start liberalising the telecoms sector back in 2004, operators' general perceptions of the market worsened after Turkcell, which had been the government's first choice to back Iran's first private GSM operation, was forced to abandon talks in 2005 following disagreements with the government.
The incident served to highlight some of the biggest hurdles facing foreign operators interested in entering the market, including the need to pay a large revenue share to the government, and the fact that the foreign company would be limited to owning a maximum of 49% of the enterprise, with the majority share being held by an Iranian entity, regardless of which party held management control.

But these issues did little to dent MTN's enthusiasm for the Iranian market, and the South African operator took Turkcell's place to become the first foreign telco to launch operations in Iran in 2006, after it bought a 49% share in Irancell for US$382 million.

Since then, MTN Irancell has performed strongly, gaining more than 16 million subscribers and a market share of 37% by the end of 2008, up from 23% at the end of 2007, according to the company's full year results for 2008. In comparison, MCI, the mobile arm of the state run operator TCI, has about 30 million subscribers, giving it roughly three quarters of the market, according to Mauricio Franca, partner with consultancy firm Delta Partners.

Milan Sallaba, partner, Oliver Wyman, says that the performance of MTN Irancell, which intends to gain an additional 6 million subscribers by December 2009, has revealed just how vulnerable the fully government-owned incumbent TCI has proven to be to competition.

The Iranian market looks set to become more competitive after a consortium led by Etisalat won Iran's third mobile licence, to provide 2G and 3G services, in January 2009. The consortium, which is 49% owned by Etisalat, and includes Taameen Telecom, a company owned by the Iranian Social Security Organization (SSO), paid an upfront fee of EUR 300 million (US $402.1 million) for the licence, and expects to start operations in the second half of the year.

In an interview with news agency Reuters in January, Jamal Al Jarwan, CEO of Etisalat International Investments said that the consortium plans to invest about US$1 billion in Iran's telecoms infrastructure and that it intends to target 1 million subscribers in its first year of operations.

While TCI may have lost ground to MTN Irancell in the last couple of years, the incumbent operator may yet become more efficient in the coming years, with the government planning to relinquish some control and part privatise the company.

"One of the most important developments in 2008 was the announcement by TCI that a number of foreign operators had expressed an interest in acquiring its shares once the government sells off part of its interest in the operator," says Ihab Ghattas, Huawei Technologies' assistant president, Middle East region.

"In 2009 we expect to see this privatisation commencing and also the auctioning of a new mobile license to be some of the biggest catalysts for growth in Iran's telecommunications industry."

Open potential

While the entry of Etisalat is certain to drive further competition in Iran, the market is far from saturated and holds plenty of potential, and the country looks set to become a regional telecoms powerhouse.

Iran overtook Saudi Arabia in 2007 to become the Gulf region's biggest telecom market by subscriber numbers. The country gained 21 million mobile subscribers in 2008, and now has an estimated total of some 47 million subscribers, and a penetration rate in the "high 60 range" according to Sallaba.

"The country is enjoying a huge growth spurt as regards mobile usage," he says. "This effectively translates into a penetration growth of approximately 30% over population in one year." He adds that if conditions remain stable, Oliver Wyman expects double digit growth rates to continue for the next three years at least.

The main driver of growth last year was prepaid subscriptions, which accounted for more than 60% of total subscribers at year end 2008, compared to less than 30% of all subscriptions at the end of 2006.

Franca adds that most industry insiders think that 100% penetration will be achieved in about five years, giving plenty of room for the three main operators to continue to grow their businesses.

Despite this market potential, Etisalat will have to perform strongly given the sum it paid for the licence and the revenue share it will have to pay the government, according to Jawad Abbassi, founder and general manager of Arab Advisors Group. However, he thinks the company is well placed to achieve its aims.

"It is entering a major market and it really has to excel in penetrating the market, gaining market share and being operationally efficient. Given their experience, they are well positioned to do that," he adds.

Iran also looks to be a good strategic fit for Etisalat. The country is just across the Arabian Gulf from Etisalat's home turf of the UAE, and both countries are major trading partners.

"There is already a cultural affinity, they know about the market well and that is why they wanted to go there," Abbassi says. "If you look at where the UAE is, it makes sense to be in Iran because they are already in Saudi Arabia, UAE and Egypt. From Egypt you cross the Red Sea and you are in Saudi Arabia, cross the Gulf and you are in Iran, and Pakistan is a neighbour of Iran too, so they will have continuous coverage."

Furthermore, about 450,000 Iranians are estimated to be resident in the UAE, offering Etisalat potentially strong revenues from roaming. Even if Etisalat opts to offer its customers roaming rates at the regular local rate, similar to Zain's "One Network", it would almost certainly benefit from additional calling time and customer retention. Such an offer would also be a major draw for Iranians who live in the UAE, visit the country regularly, or do business in the country.

"If you shatter the roaming charges barrier, the chances are that users will keep their mobile on and they will actually gain through the additional calls made inside the country," Abbassi says. "They will also gain through better customer experience and increased customer loyalty."

Broadband potential

Another area of potential is broadband, and this is could also lead to greater differentiation between the three main mobile operators. Indeed, Etisalat is the only operator in Iran with a 3G licence, which also features an exclusivity period of three years.

Franca believes the 3G licence offers Etisalat a strong opportunity to differentiate itself, largely because Iran is "very much a fashion country" and also because there is a high demand for broadband. He adds that a lot of younger people use 3G phones, even though 3G services are not yet available. "They have it because it is a status symbol," he says.

"Iran is a very special market because Etisalat will have a monopoly on 3G for the time being, so you could expect Etisalat to have an interesting ARPU if they play well. The young population is very big so there is a lot of potential for broadband and it is too expensive."

Etisalat will, however, face competition from WiMAX operations. MTN Irancell recently acquired a WiMAX licnece, as did MTCE, a mobile operator in the Isfahan province of Iran. Two other companies, Paya Communication Ind, and Iran Mobin Consortium won WiMAX licenses for all regions. Furthermore, the country is already home to three WiMAX operators: Pars-Online, Laser Telecom and Datak.