Africa Market Outlook

Digital services gather momentum
Summary

In brief

This report identifies and analyzes major recent developments in the African telecoms sector and provides strategic recommendations for key players. This latest edition has been updated with 2Q16 market data and new forecasts to 2021.

Ovum view

- **Landmark of 1 billion mobile subscriptions in Africa is fast approaching.** Macroeconomic difficulties and regulatory issues – such as SIM registration drives in a number of countries – held back growth in Africa’s telecoms market in 1H16. Africa is not the untouched telecoms market of a few years ago; the rate of mobile penetration on the continent at the end of June was almost 81% and the number of mobile subscriptions in Africa is expected to reach 1 billion at the end of 2016, according to Ovum’s research.

- **Data growth powers ahead.** Although overall growth has slowed and the industry staples of mobile voice and SMS are set to decline, data revenue in the African telecoms market is growing strongly, driven by the rollout of 3G and 4G networks, the increasing affordability of smartphones, and changing customer behavior. Vodacom Group said its data revenue was up 19.4% year-on-year in 2Q16 and accounted for 34.4% of service revenue.

- **Digital service strategies begin to pay off.** For the past few years, several major operators in Africa have adopted strategies of pursuing diversification and growth in digital services such as digital media, mobile financial services (MFS), and ICT services. There is some evidence that these strategies are paying off; for example, digital services including MFS accounted for about 8% of MTN Group’s revenue in 1H16, according to the company’s reports.

- **Africa’s broadband development continues to lag global standards.** Ovum’s Broadband Development Index, which compares broadband markets globally, shows that Africa is the second-lowest ranked region in the world in terms of its broadband development, despite the big changes that have taken place in its telecoms market in recent years. A combination of economic, infrastructure, and regulatory obstacles continues to hold back progress.

Recommendations

- **Capitalize on prospects for further data growth.** Data access continues to offer robust growth prospects for operators on the continent. Ovum forecasts that non-SMS mobile data revenue in Africa will grow strongly over the next five years from $6.40bn in 2015 to $27.56bn in 2021, a CAGR of 27.6%.

- **Develop your digital strategy.** Some African operators are seeing good results from their efforts to develop digital services. Arguably, African operators are well placed to undertake this kind of diversification because they tend to have stronger brands and larger scale in their local markets than other types of local businesses or their counterparts in other regions. Nevertheless, each operator should think carefully about what type of digital services or diversification is appropriate to its circumstances.
- **Tackle the structural factors causing Africa to trail in broadband.** Regulators, governments, and the industry as a whole should be concerned that Africa’s broadband market is among the least developed in the world. The reasons are varied and complex, but in some cases regulators and other authorities could do more to assign spectrum and licenses that would encourage the rollout of mobile broadband and bring Internet access and relevant data services to underserved audiences.

**Financial outlook**

**Recent results**

MTN Group, Africa’s biggest telecoms operator, has described the series of difficulties that it faced in 1H16 as amounting to a “perfect storm” that affected the company’s financial performance during the period. Among the difficulties that MTN encountered were the huge fine imposed on the company by the Nigerian authorities, the depreciation of local currencies against the US dollar, weak macroeconomic conditions, price competition, and the disconnection of subscriptions to meet regulations on customer registration.

In late 2015, the Nigerian authorities levied a fine of $5.4bn on MTN for delays in disconnecting unregistered subscriptions. However, in June MTN said it had reached an agreement with the Nigerian government to pay NGN330bn ($1.67bn at the then official exchange rate) over three years to settle the matter. The drama over the Nigerian fine shook the company and led to the resignation of Group CEO Sifiso Dabengwa, but the recent settlement with the Nigerian authorities should help to restore stability at MTN. Following the resolution of the dispute with the Nigerian authorities, MTN made a number of management changes, including the appointment of a new group president and CEO, Rob Shuter, who is currently head of Vodafone Europe and due to take up his new post with MTN in 1H17.

Although MTN Group’s reported revenue (in South African Rand) for 1H16 was up by 14% year-on-year to ZAR78.9bn, this increase was largely due to exchange rate movements. MTN said that organic group revenue was up by just 1% year-on-year in 1H16, while organic EBITDA for 1H16 was down by 26% year-on-year and EBITDA margin declined by 6.6% year-on-year to 37.1%. MTN’s reported capex for 1H16 increased by 27% (or by 15% in organic terms) as the Group increased its rollout of 3G and LTE sites in Nigeria and South Africa.

At Group level, data revenue continues to grow strongly. MTN said that Group data revenue for 1H16 was up by 32% year-on-year (or 20% in organic terms) and accounted for 25% of total revenue. Voice calling accounted for 67% of MTN Group’s revenue in 1H16, while device sales accounted for 5% and SMS just 2%.

However, data-access revenue at MTN Nigeria in 1H16 was, at ZAR1.6bn, down substantially from the ZAR2.1bn recorded in 1H15, a decline that was due to the Nigerian regulator’s decision to withhold approval for MTN Nigeria’s data pricing. This dispute with the regulator was resolved in May 2016.
Revenue at MTN South Africa was up by 5.1% year-on-year to ZAR19.8bn in 1H16, largely due to the strong growth in data revenue and despite both a 2.6% fall in subscription numbers and competitive and economic pressures.

South Africa based Vodacom Group reported that it had revenue of ZAR19.9bn in 2Q16, an increase of 5.8% year-on-year. Vodacom reported that Group data revenue increased by 19.4% year-on-year to ZAR786m in 2Q16, representing 34.4% of service revenue. The company said it had been able to add almost 1 million subscriptions in South Africa during 2Q16 as a result of improvements to its network and customer service and the introduction of new customer offers such as its personalized Just 4 You plan.

Bharti Airtel said that 2Q16 revenue for its African operations amounted to $935m, slightly down on the previous three quarters but up from $916m in 2Q15 (Airtel’s figures are on a constant currency basis). Airtel Africa’s losses before tax narrowed to $11m in 2Q16.

Millicom reported that the service revenue for its African operations was $221m in 2Q16, up by 9.8% year-on-year. Millicom said its mobile data revenue in Africa was up 33.8% year-on-year, while voice and SMS revenue grew 4.1%.

Orange Group reported that 2Q16 revenue for its Africa and Middle East operations was €1.2bn, an increase of 2.3% year-on-year as growth was constrained by the effect of mobile customer registration initiatives in a number of countries.

Maroc Telecom, which has operations in Morocco, reported that group revenue was up by 3.8% year-on-year to MAD17.6bn in 1H16 on a like-for-like basis. Revenue in Morocco increased by 1.7% while revenue for Maroc Telecom’s non-Morocco operations increased by 10.9%.

See Figure 1 for a comparison of recent revenue and capex performance at Airtel Africa, Millicom’s African operations, and MTN Group.

**Figure 1: Revenue and capex comparison for selected major African operators, 1H15–1H16**

![Revenue and capex comparison for selected major African operators, 1H15–1H16](image)

*MTN figures converted from ZAR to $ at September 26, 2016, exchange rate. MTN Group results include Middle East operations. Millicom’s figures are on a constant currency basis.*
M&A update

In June, Liquid Telecom, which operates fiber networks in 12 countries in southern and eastern Africa, agreed to buy South African fixed-line operator Neotel from India’s Tata Communications for ZAR6.55bn. Liquid said that the transaction would create the largest pan-African broadband network and business-to-business (B2B) telecoms provider. The deal is expected to be completed by the end of the financial year, subject to the approval of the South African authorities. South African empowerment investment group Royal Bafokeng Holdings will take a 30% stake in Neotel as part of the agreement.

Previously, Vodacom had planned to buy Neotel but abandoned that plan in March of this year, citing regulatory difficulties. Vodacom initially offered to buy Neotel for $500m from India’s Tata Communications in 2014, but revised the proposed deal in December 2015 following objections from South Africa’s Competition Commission.

In June, the Tanzanian government signed an agreement with Airtel to recover Airtel’s 35% stake in fixed-line incumbent operator TTCL. The transaction will restore full ownership of TTCL to the Tanzania state. Airtel’s holding in TTCL dates back to a part-privatization of TTCL in 2001.

Also in June, Orange completed the sale of its 70% stake in Telkom Kenya to private equity firm Helios Investment Partners. Orange had previously disposed of its operation in Uganda. However, Orange has increased its already substantial footprint in West and Central Africa, having recently taken over Cellcom Liberia, Millicom’s operation in DRC, and Airtel’s operations in Burkina Faso and Sierra Leone.

Additionally, in 2015 Orange increased its stake in Moroccan operator Meditel from 40% to 49% and is expected to rebrand Meditel as Orange by the end of 2016. Orange rebranded its Egyptian subsidiary Mobinil under the Orange brand in March 2016.

In May, the UAE’s Etisalat Group said it had agreed to sell its 92.3% stake in Sudanese operator Canar to Zain Sudan for AED349.6m ($95.2m). However, in June Etisalat said that Sudan’s Bank of Khartoum, which had a 3.7% stake in Canar, had exercised its right of first refusal and would instead be the buyer of Etisalat’s holding in Canar.

In November 2015, Telkom SA held talks with Oger Telecom about buying Oger’s South African operation Cell C, the country’s No. 3 mobile operator, but the talks were called off shortly afterwards as Telkom and Cell C failed to agree on a price.

Also in 2015, MTN acquired Nigerian CDMA operator Visafone for ZAR3.4bn, largely so that it can use Visafone’s allocation of 800MHz spectrum for the deployment of LTE.

There has also been some consolidation among African telecoms towers companies, with IHS saying in March that it would buy around 1,200 towers from Helios Towers Nigeria. In June, Eaton Towers said it had agreed to sell its portfolio of 300 towers in South Africa to the local subsidiary of American Towers Corporation.

Revenue forecast

According to Ovum forecasts, total mobile revenue for Africa will rise from $55.55bn in 2015 to $69.67bn in 2021, a CAGR of 3.8% (see Figure 2). Mobile voice revenue on the continent will decline over the forecast period, from $43.26bn in 2015 to $36.37bn in 2021. But mobile data revenue is
expected to grow strongly, from $6.40bn in 2015 to $27.56bn in 2021, a CAGR of 27.6%. Ovum forecasts that data services will account for 39.6% of total mobile revenue in Africa in 2021.

**Figure 2: Africa mobile revenue forecast, 2015–21**

![Graph showing mobile revenue forecast from 2015 to 2021, with voice, data, and SMS revenues indicated. CAGR from 2015 to 2021 is 3.8%.]

Source: Ovum

**Fixed and mobile market assessment**

**Recent results**

There were 962.29 million mobile subscriptions in Africa at end-2Q16, and the number of mobile subscriptions on the continent will cross the 1 billion mark during the second half of 2016 and reach 1.02 billion at the end of this year, according to Ovum research. But the rate of growth in the Africa mobile market is tending to slow; the number of mobile subscriptions in Africa increased by 9.91% over the year to end-2014, but by 7.63% over the year to end-2015 (Figure 3). The average rate of mobile penetration on the continent was 80.73% at end-2Q16.
Nigeria has the largest mobile market in Africa in terms of subscriptions, with 150.22 million mobile subscriptions at end-2Q16, up from 147.94 million a year earlier. MTN Nigeria is the largest operator both in Nigeria and on the continent, with 58.98 million subscriptions at end-2Q16 (Table 1). However, MTN Nigeria’s subscription count is down from a peak of 62.81 million at end-2Q15, largely as a result of disconnections made by MTN to comply with SIM registration requirements in Nigeria.

After Nigeria, Africa’s biggest mobile markets by subscriptions are Egypt, South Africa, Algeria, and Morocco.

### Table 1: Top ten African operators by mobile subscriptions, 2Q16

<table>
<thead>
<tr>
<th>Operator</th>
<th>Country</th>
<th>Mobile subscriptions, end-2Q16 (millions)</th>
<th>Share of country’s mobile subscriptions, end-2Q16 (%)</th>
<th>Mobile broadband subscriptions, end-2Q16 (millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>MTN</td>
<td>Nigeria</td>
<td>58.98</td>
<td>39.26</td>
<td>12.89</td>
</tr>
<tr>
<td>Ethio Telecom</td>
<td>Ethiopia</td>
<td>45.99</td>
<td>100.00</td>
<td>6.54</td>
</tr>
<tr>
<td>Vodafone</td>
<td>Egypt</td>
<td>39.04</td>
<td>40.77</td>
<td>12.10</td>
</tr>
<tr>
<td>Vodacom</td>
<td>South Africa</td>
<td>37.63</td>
<td>40.62</td>
<td>16.30</td>
</tr>
<tr>
<td>Globacom</td>
<td>Nigeria</td>
<td>36.32</td>
<td>24.18</td>
<td>13.06</td>
</tr>
<tr>
<td>Orange</td>
<td>Egypt</td>
<td>33.64</td>
<td>35.13</td>
<td>9.08</td>
</tr>
<tr>
<td>Airtel</td>
<td>Nigeria</td>
<td>31.98</td>
<td>21.29</td>
<td>10.09</td>
</tr>
<tr>
<td>MTN</td>
<td>South Africa</td>
<td>29.81</td>
<td>32.18</td>
<td>16.97</td>
</tr>
<tr>
<td>Safaricom</td>
<td>Kenya</td>
<td>25.62</td>
<td>68.52</td>
<td>6.35</td>
</tr>
<tr>
<td>Etisalat</td>
<td>Egypt</td>
<td>23.08</td>
<td>24.10</td>
<td>3.30</td>
</tr>
</tbody>
</table>

Note: Mobile broadband is comprised of W-CDMA, HSPA, and LTE.

Source: Ovum
Broadband development

The Africa region ranks second lowest in the world in terms of its overall (combined fixed and mobile) broadband development, according to Ovum's Broadband Development Index (BDI) which measures how different countries and regions are adopting high-speed broadband networks (Figure 4).

Africa had a combined (fixed and mobile) BDI score of 232 at the end of 2015, with Central & Southern Asia being the only region to record a lower score. In Ovum's BDI, each country or region is awarded a score out of 500 for its mobile broadband development, and a score out of 500 for its fixed broadband development, to give a combined BDI score out of 1,000.

Mauritius is the highest-ranked country in Africa in the BDI, with a score of 279 out of 1,000 at end-2015. The next-highest-ranked African countries are South Africa, Tunisia, Algeria, and Namibia.

**Figure 4: Ovum Broadband Development Index ranking by global subregion, 2015**

Africa's fixed broadband market is particularly poorly developed, and Africa's fixed BDI score of 106 at end-2015 is the lowest among world regions. Within Africa, fixed broadband development is a little more advanced in South Africa and in northern Africa than in much of the rest of the continent (Figure 5).
Africa does a little better in terms of its mobile broadband development, with a mobile BDI of 126 at end-2015 (Figure 6).
Broadband outlook

Ovum expects the take-up of mobile broadband to grow strongly on the continent over the coming years as African operators expand their 3G and 4G networks and as smartphones become increasingly affordable. At the end of 2021, there will be 1.33 billion mobile subscriptions on the continent, of which 3G connections will account for 64.9% and LTE for 11.8% (Figure 7).

Recent developments in mobile broadband on the continent include the following:

- In September, Algeria’s telecoms regulator approved the award of LTE licenses to the country’s three mobile operators, Mobilis, Djezzy, and Ooredoo. Djezzy and Mobilis launched LTE services in early October.
In August, Telecom Egypt was awarded a license to operate a mobile LTE service in Egypt. However, Egypt’s three existing mobile operators – Etisalat, Orange, and Vodafone – did not participate in the LTE tender.

At end-June, MTN said its Nigerian unit had won an auction for a 10-year license for frequency in the 2.6GHz band for LTE services. MTN said it would roll out LTE across Nigeria, starting in Abuja and Lagos.

In June, Vodacom launched LTE in Tanzania.

Tunisia’s three mobile operators launched LTE at the start of May.

Zain Sudan launched LTE in April.

**Figure 7: Africa mobile subscription forecasts by technology, 2016–21**

The number of fixed broadband connections on the continent is also expected to increase strongly over the coming years, albeit from a very low base. The number of fixed broadband connections in Africa will rise from 13.78 million at end-2016 to 19.97 million at end-2021, according to Ovum’s forecasts (Figure 8). The number of both fixed-LTE (categorized as part of “Other” in Figure 8) and FTTx connections will increase markedly over the next five years, but DSL will remain the largest fixed broadband technology on the continent, accounting for 70.7% of African fixed broadband connections in 2021.

Recent fixed-broadband developments include the following:

- In September, Vodafone and Afrimax said they would launch LTE services in Cameroon’s two biggest cities, Douala and Yaoundé, under the Vodafone Cameroon brand. Vodafone and Afrimax have already launched LTE services in Uganda and Zambia through a partnership between the two companies that was unveiled in 2014.
- Also in Zambia, iWayAfrica launched FTTH/B services in May, in addition to its existing satellite broadband services.
- In South Africa, incumbent operator Telkom said in June that it would partner with wholesale provider Vumatel to sell fiber services based on Vumatel’s fiber infrastructure. Telkom said
that its own fiber network passes 81,000 homes at present and that it aims to pass 1 million homes with fiber by 2018. Mobile operators MTN and Vodacom have also launched FTTH services.

- In June, Maroc Telecom launched FTTH services in major cities in Morocco.
- In October 2015, Liquid Telecom launched a wholesale FTTH and FTTB network in Rwanda. Liquid is primarily a wholesale provider with fiber networks across southern and eastern Africa but it has also launched a retail brand, Hai, through which it is selling FTTH and FTTB services in Kenya and Zambia. Liquid announced in June 2016 that it has agreed to buy South Africa fixed operator, Neotel (see “M&A update”).

**Figure 8: Africa fixed broadband subscription forecasts by technology, 2016–21**

![Figure 8: Africa fixed broadband subscription forecasts by technology, 2016–21](image)

**Vendor deals**

LTE work accounted for a substantial part of the vendor contracts awarded in Africa in 9M16, such as the LTE network contracts between Ericsson and Airtel Zambia, ZTE and Airtel Uganda, and Huawei and Nigeria’s Intercellular – all signed in March (Table 2).

**Table 2: Selected telecoms vendor contracts in Africa, 9M16**

<table>
<thead>
<tr>
<th>Country/region</th>
<th>Customer</th>
<th>Vendor</th>
<th>Deal date</th>
<th>Deal segment/summary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Egypt</td>
<td>Orange</td>
<td>Nokia</td>
<td>September 2016</td>
<td>Deployment of Nokia’s One-NDS subscriber data management platform</td>
</tr>
<tr>
<td>Nigeria</td>
<td>Airtel</td>
<td>Ericsson</td>
<td>May 2016</td>
<td>Ericsson Radio System for mobile broadband</td>
</tr>
<tr>
<td>Rwanda</td>
<td>Government of Rwanda</td>
<td>Ericsson</td>
<td>May 2016</td>
<td>Switch to connect financial and payments systems</td>
</tr>
</tbody>
</table>

*Continued on next page.*
### Table 2: Selected telecoms vendor contracts in Africa, 9M16 (cont.)

<table>
<thead>
<tr>
<th>Country/region</th>
<th>Customer</th>
<th>Vendor</th>
<th>Deal date</th>
<th>Deal segment/summary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ghana</td>
<td>MTN</td>
<td>Ericsson</td>
<td>May 2016</td>
<td>Deployment of LTE network</td>
</tr>
<tr>
<td>Namibia</td>
<td>Paratus Telecom</td>
<td>Sandvine</td>
<td>April 2016</td>
<td>OSS/BSS</td>
</tr>
<tr>
<td>Namibia</td>
<td>MTC Namibia</td>
<td>Huawei</td>
<td>April 2016</td>
<td>4G/LTE wireless (LTE-Advanced trial)</td>
</tr>
<tr>
<td>Egypt</td>
<td>Orange</td>
<td>NEC</td>
<td>April 2016</td>
<td>Wireless transport</td>
</tr>
<tr>
<td>Kenya</td>
<td>Government of Kenya</td>
<td>Huawei</td>
<td>April 2016</td>
<td>Train-to-ground communications system for Mombasa–Nairobi railway line, including GSM/GPRS/EDGE and 4G/LTE wireless networks, switching &amp; routing, OSS</td>
</tr>
<tr>
<td>Nigeria</td>
<td>Bitflux Communications</td>
<td>Alepo</td>
<td>March 2016</td>
<td>BSS</td>
</tr>
<tr>
<td>Egypt</td>
<td>Etisalat Misr</td>
<td>Huawei</td>
<td>March 2016</td>
<td>Wireless transport</td>
</tr>
<tr>
<td>Ethiopia</td>
<td>Ethio Telecom</td>
<td>ZTEsoft</td>
<td>March 2016</td>
<td>OSS, security</td>
</tr>
<tr>
<td>Zambia</td>
<td>Airtel Zambia</td>
<td>Ericsson</td>
<td>March 2016</td>
<td>Radio access, 4G/LTE, network rollout, network consulting</td>
</tr>
<tr>
<td>Burundi</td>
<td>Econet</td>
<td>ZTEsoft</td>
<td>March 2016</td>
<td>OSS/BSS</td>
</tr>
<tr>
<td>Uganda</td>
<td>Airtel Uganda</td>
<td>ZTE</td>
<td>March 2016</td>
<td>4G/LTE network rollout</td>
</tr>
<tr>
<td>Nigeria</td>
<td>Intercellular</td>
<td>Huawei</td>
<td>March 2016</td>
<td>4G/LTE network rollout</td>
</tr>
<tr>
<td>Ghana, Lesotho, Mozambique</td>
<td>Vodafone</td>
<td>HomeSend</td>
<td>February 2016</td>
<td>Mobile payments, deployment of m-pesa service in new markets</td>
</tr>
<tr>
<td>Djibouti</td>
<td>Djibouti Telecom</td>
<td>eServGlobal</td>
<td>February 2016</td>
<td>Mobile payments</td>
</tr>
<tr>
<td>Somalia</td>
<td>Somcable</td>
<td>Airspan, Alepo</td>
<td>January 2016</td>
<td>4G/LTE network deployment and BSS for fixed-wireless and mobile broadband services</td>
</tr>
</tbody>
</table>

Source: Vendors, Ovum

### New growth strategies

As Africa’s telecoms markets become more competitive and mature while the industry’s traditional staple of mobile voice declines, operators on the continent are increasingly seeking to develop new services that they hope will generate the next wave of growth.

A large part of that growth will come from providing data access, but African operators are also increasingly developing additional offerings such as digital media, mobile financial services (MFS), and ICT services. Some operators are also investing in sectors that are seen as being related to telecoms, such as e-commerce.
Digital service strategies

MTN introduced its Bold New Digital World strategy in 2012, putting digital services at the forefront of its plans. And MTN Group’s results for 1H16 show that data accounted for 25% of its total revenue in the six-month period, a rise of 32% year-on-year in reported terms. MTN also set out a breakdown of its data revenue by category, showing that data access accounted for 58% of data revenue, digital services for 26%, mobile financial services (MFS) for 6%, ICT for 6%, and value-added services (VAS) for 4%. MTN said that the revenue contribution from digital services had increased, though it did not quantify that increase.

According to MTN, its brand, scale, and customer base are helping it to develop its digital service businesses, which include digital media, e-commerce, and MFS. MTN says it has become one of the largest distributors of digital music in Africa, and it also recently launched a gaming service, Games Club.

MTN is doing particularly well with digital services in Nigeria, where its digital revenue amounted to ZAR2.9bn in 1H16, up from ZAR1.7bn a year earlier (even though, as mentioned earlier, MTN’s data-access revenue was hit in 1H16 because the regulator withheld pricing approvals). By comparison, MTN South Africa’s digital revenues for 1H16 were ZAR914m.

In MFS developments, the number of registered users of the MTN Mobile Money service at end-June 2016 was up by 5% year-on-year to 36.5 million across 15 countries. MTN’s revenues from MFS amounted to ZAR1.3bn in 1H16, an increase of almost 41% year-on-year.

Orange Group said in its results for its African and Middle East operations in 2Q16 that revenue from its Orange Money service was up by 51% year-on-year while data revenue was up 43% year-on-year, partly as a result of smartphone penetration increasing by nine percentage points to reach 17%.

Millicom reported that its revenue from MFS in Africa in 2Q16 was $25m, an increase of 33.1% year-on-year. MFS now account for about 11% of Millicom’s service revenues in Africa.

However, the growth in MFS is not uniform. Both MTN and Vodacom recently closed their MFS schemes in South Africa. For Vodacom, it was the second time that the company had withdrawn its MFS service in South Africa. Operators have struggled to make a success of MFS in South Africa because access to conventional financial services is higher than it is in much of the rest of sub-Saharan Africa and South African banks have been active in developing and promoting their own mobile services.

Telcos target e-commerce

Africa’s small but growing e-commerce market has also attracted the interest of several of the major telcos. MTN said that its e-commerce joint ventures Africa Internet Holdings (AIH) and Middle East Internet Holdings (MEIH), which run e-commerce businesses in Africa and the Middle East respectively, continue to show good growth despite the economic slowdown in Nigeria. AIH had 3 million customers and 2.5 million transactions in 1H16, according to MTN.

Nevertheless, MTN’s Digital Group businesses (the biggest of which are AIH and MEIH) are loss-making, and the losses for this group have increased over the past year, from ZAR324m in 1H15 to ZAR494m in 1H16.
AIH was founded in 2012 by Rocket Internet, the Berlin-based technology incubator, in partnership with Millicom. MTN first took a stake in AIH in 2014, and in March of this year it made a further investment, participating in a $326m funding round alongside Goldman Sachs and the French insurance group AXA. In April, Orange said that it would make a €75m investment in AIH. Orange also said that it would form partnerships with AIH ventures that would help it to market Orange products and services over the Internet.

In June 2016, AIH, which is also known as Africa Internet Group, rebranded itself under the name of its first and best-known e-commerce service, Jumia, which sells fashion and consumer electronics in several African markets.

Earlier this year, MTN added to its e-commerce interests by acquiring a 37% stake in Travelstart, an Africa-focused online travel agency, in partnership with technology investor Amadeus Capital.

**M2M/IoT**

Big operators on the continent say they also see growth potential in machine-to-machine (M2M) and the Internet of Things (IoT), even though development in these sectors is very limited at present in sub-Saharan Africa beyond South Africa. In mid-2015, MTN launched what it said would be a pan-African IoT platform and an M2M SIM card in partnership with ZTE. In 1H16 MTN extended its IoT platform to Ghana and Cameroon.

Vodacom reported that it had 2.26 million IoT connections in South Africa at end-1Q16, an increase of 28.2% year-on-year. (Vodacom uses the term IoT instead of M2M.) But Vodacom has far fewer IoT connections in its non-SA markets (DRC, Lesotho, Mozambique, Tanzania). As a further part of Vodacom’s M2M/IoT strategy, the company has increased its stake in XLink, a South African M2M business, from 35% when XLink was founded in 2007 to 74% at present.

Currently, M2M systems are being used in Africa for the billing of utility services, for automation and monitoring in heavy industry and mining, to address safety and security concerns, and to enable commerce. M2M is also being used in Africa in the conservation and tourism sectors for wildlife tracking.

Ovum believes that the utility sector offers the biggest opportunity among industry verticals in Africa for growth in M2M connections, particularly for services such as prepaid electricity and smart metering. However, M2M services for the retail sector, mainly for payments, are expected to be more profitable.

**ICT services**

Most major operators in Africa are aiming to expand in the enterprise market. For example, MTN said in its Annual Report for 2015 that it aims to increase its revenue from enterprises by 30% year-on-year over the coming three to five years. As part of its efforts to achieve that target, MTN is relying on new products such as its MTN Business Cloud offering, which is based on the Windows Azure Pack technologies, as well as on cloud-based software for SMEs. MTN has also extended the coverage of its MPLS network.

Orange Group said its B2B revenue in Africa and the Middle East increased by 8% year-on-year in 2Q16. At Maroc Telecom, much of the focus has been on the growth opportunities in Morocco for mobile data (Maroc Telecom is expanding its LTE coverage in Morocco) and fixed broadband.
However, Maroc Telecom has also launched ICT services recently; notable launches in September include the MT Cloud data hosting service and the Google Apps for Work software service.

**Telco-OTT partnerships**

Recent partnerships between operators and OTTs in Africa include Airtel Nigeria’s launch of Facebook’s Free Basics service in May (Table 3). Airtel said in November 2015 that it would roll out Free Basics across all of its African operations. The Free Basics service allows customers of partner operators – Airtel in this case – to access a number of Internet services without incurring data charges.

In October, Facebook said that Kenya and Tunisia would be among the first five country markets in which it would launch its Messenger Lite app, which is designed for basic Android smartphones.

In March, Vodafone Egypt said that 1 million books had been downloaded from its book-download app, Kotobi (Arabic for “My books”), since the service was launched two years earlier. The Kotobi service has 450,000 registered users, Vodafone said.

**Table 3: Africa content and app launches, 1H16**

<table>
<thead>
<tr>
<th>Deal/launch date</th>
<th>Country</th>
<th>Telco</th>
<th>Content/app provider or service</th>
<th>Summary</th>
</tr>
</thead>
<tbody>
<tr>
<td>May 2016</td>
<td>Nigeria</td>
<td>Airtel</td>
<td>Facebook – Free Basics</td>
<td>Airtel launches Facebook’s Free Basics in Nigeria; Airtel said in November 2015 that it would launch Free Basics in all of its African markets</td>
</tr>
<tr>
<td>February 2016</td>
<td>South Africa</td>
<td>MTN South Africa</td>
<td>Sony Music</td>
<td>Deal will give MTN customers access to ring-back tones from Sony’s local and international artists</td>
</tr>
<tr>
<td>February 2016</td>
<td>Tanzania</td>
<td>Tigo Tanzania</td>
<td>WhatsApp</td>
<td>Tigo Tanzania offers access to WhatsApp at no extra charge for customers on weekly or monthly data packages</td>
</tr>
</tbody>
</table>

Source: Ovum

Publication Date: November 2016
Appendix

Methodology

This report is based on the statistics about African telecoms markets that are available in Ovum’s databases, including the World Cellular Information Service (WCIS), World Broadband Information Service (WBIS), World Telecoms Financial Benchmarks (WTFB), and Broadband Development Index (BDI). The report also draws on other reports about Africa that are published on Ovum’s Knowledge Center – see the further reading list below – as well as on operator, regulator, vendor, and media reports.

Further reading

*Industrial Internet of Things Arrives in Africa*, TE0005-000817 (May 2016)
“Orange invests in Africa online services platform,” TE0005-000811 (April 2016)
*Broadband Development Index*, PT0042-000001 (February 2016)
*MTN Enterprise Update*, TE0005-000788 (February 2016)
*Vodafone Enterprise Africa: Advanced Services on a Mobile Foundation*, TE0005-000780 (January 2016)
*Connecting the Unconnected: Data monetization holds the key to Facebook’s Free Basics initiative*, TE0009-001478 (November 2015)
*Digital Operator Profile: MTN’s “Bold, New Digital World,”* TE0009-001352 (October 2014)
*Digital Operator Profile: Millicom*, TE0009-001296 (June 2014)

Author

Matthew Reed, Practice Leader, Middle East and Africa

matthew.reed@ovum.com

Ovum Consulting

We hope that this analysis will help you make informed and imaginative business decisions. If you have further requirements, Ovum’s consulting team may be able to help you. For more information about Ovum’s consulting capabilities, please contact us directly at consulting@ovum.com.

Copyright notice and disclaimer

The contents of this product are protected by international copyright laws, database rights and other intellectual property rights. The owner of these rights is Informa Telecoms and Media Limited, our affiliates or other third party licensors. All product and company names and logos contained within or appearing on this product are the trademarks, service marks or trading names of their respective owners, including Informa Telecoms and Media Limited. This product may not be copied, reproduced,
distributed or transmitted in any form or by any means without the prior permission of Informa Telecoms and Media Limited.

Whilst reasonable efforts have been made to ensure that the information and content of this product was correct as at the date of first publication, neither Informa Telecoms and Media Limited nor any person engaged or employed by Informa Telecoms and Media Limited accepts any liability for any errors, omissions or other inaccuracies. Readers should independently verify any facts and figures as no liability can be accepted in this regard – readers assume full responsibility and risk accordingly for their use of such information and content.

Any views and/or opinions expressed in this product by individual authors or contributors are their personal views and/or opinions and do not necessarily reflect the views and/or opinions of Informa Telecoms and Media Limited.
CONTACT US
www.ovum.com
analystsupport@ovum.com

INTERNATIONAL OFFICES
Beijing
Dubai
Hong Kong
Hyderabad
Johannesburg
London
Melbourne
New York
San Francisco
Sao Paulo
Tokyo