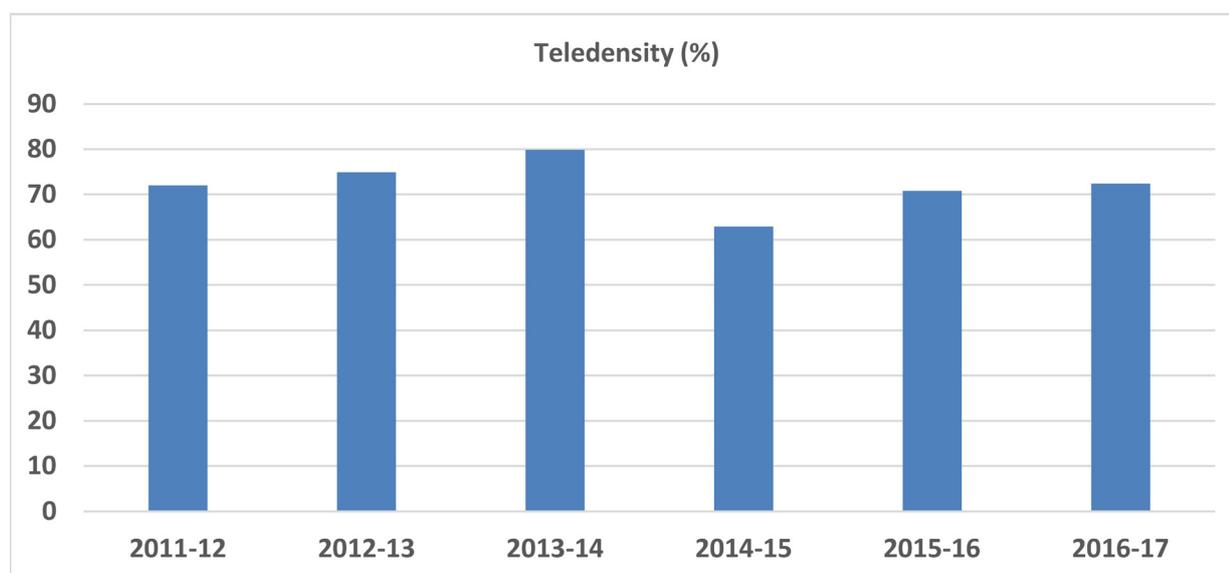


Telecom Industry

OCTOBER 2017

INDUSTRY OVERVIEW

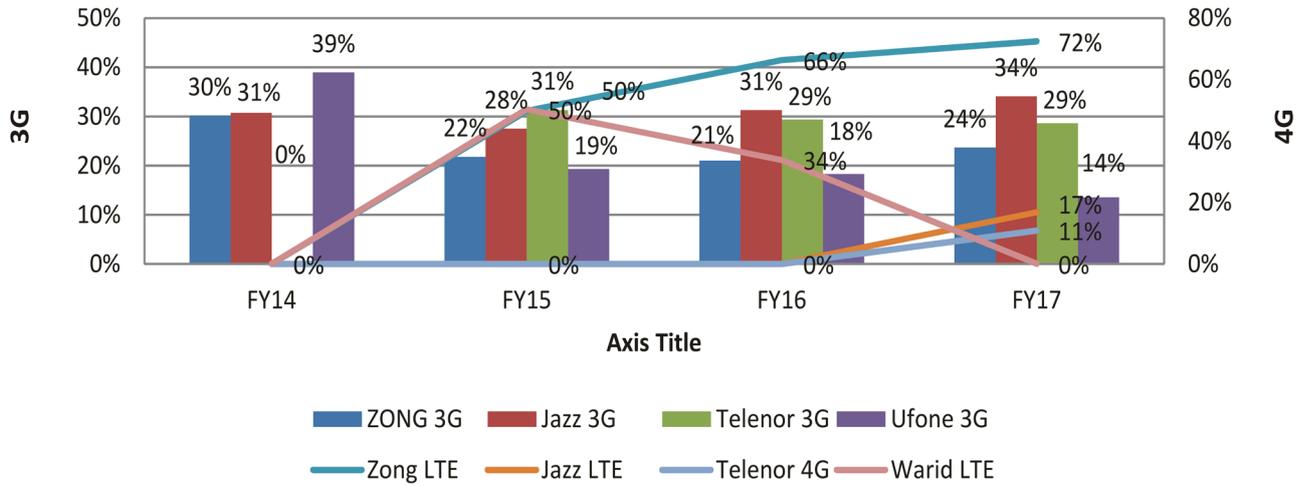
Pakistan has been one of the fastest growing cellular markets. The country's teledensity increased from 6.3% in FY04 to a high of 79.9% in FY14. Subsequently, following government's Biometric Verification System drive, cellular companies encountered loss in subscriber base, with teledensity declining by around 21% to 62.9% by end-FY15. During the last two years, cellular companies have been able to partly recoup decline in subscriber base with about 140 million subscribers by Aug-17 having a total teledensity of 71.8%.



Over the last several years, Pakistan telecom market has attracted considerable foreign direct investment with net FDI of US\$ 0.25b during FY16 translating into telecom share of 13% in total FDI. With the advent of 3G/4G services in Pakistan, new avenues of telecom activities have opened that cellular operators can utilize to provide innovative services, generate revenues and stabilize their market position. Additionally, with continuous investments by some of the world's telecom giants including VEON (formerly VimpleCom), Telenor and China Mobile, coupled with introduction of new value added services and increased coverage areas, helped in sector growth. However, after years of exponential growth, cellular industry continues to face increasing challenges in the shape of market consolidation and price competition. However, cellular market penetration is expected to continue with the advent of next generation network services.

According to Pakistan Telecommunication Authority (PTA), subscribers for Next Generation Mobile Services (NGMS) including 3G, 4G and 4GLTE technology services have crossed 44 million in Aug'17 since the launch of these services in FY14. Among NGMS, 3G subscribers account for the largest share of 85%, however, 4G subscribers have also grown considerably particularly in the recent past. Jazz (formerly Mobilink) has maintained its leading position with 14.4 million 3G/4G LTE subscribers with the acquisition of Warid in Jan'17 and attaining market share of 32% for NGMS subscribers. Though Telenor had the second highest subscribers since the launch of NGMS, it was surpassed by Zong in Jan'17. Zong has 3G/4G license since the launch of NGMS technology in the country. Zong has the largest 4G subscriber base and it is gaining market share; 3G/4G market share of Zong was 30% for NGMS subscribers in Aug'17. To remain competitive, Telenor had also acquired 4G license in Jun'16 while its 3G/4G market share stood at 26% in Aug'17. Unlike peers, Ufone has experienced considerable attrition in market share.

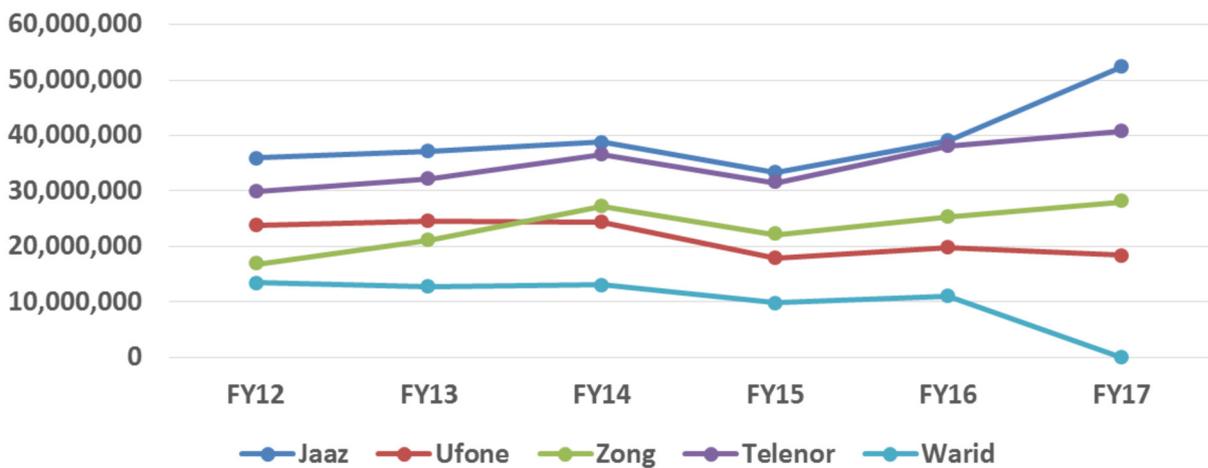
Market Share of 3G/4G Operators



With the advent of NGMS technology, preference for 2G cellular services has been declining with total net deletions of about 6 million subscribers during FY17 for the industry. Nevertheless, 2G subscriptions still account for 68% of the total cellular industry with 95.5m subscribers.

Annual cellular mobile density increased, though modestly, from 69.1% at end-FY16 to 70.3% in Aug'17 with 139.97 million cellular subscribers. Jazz continued to dominate the total cellular market with its share increasing from 29.4% in FY16 to 37.7% in Aug'17 (post Warid acquisition). With the acquisition of Warid, Jazz has established an access to the superior 4GLTE technology platform, and has also managed to increase its lead, which has previously been shrinking. Telenor remains the second largest cellular operator with market share of 28.9% in Aug'17. During FY17, Zong has managed to increase its market share from 19% to 20.3% while Ufone's market share has declined from 14.9% in FY16 to 13.2% in Aug'17.

Market Share of Cellular Operators



In the latest budget, custom duty on smart/android phones has been reduced by 35% with Rs. 650 per set to encourage usage. Additionally, withholding income tax and excise duties on mobile calls have been reduced from 14.5% and 18.5% to 12.5% and 17%, respectively which is likely to bode well for the telecom sector.

Analysts Contacts



Maimoon Rasheed

Director

maimoon@jcrvis.com.pk