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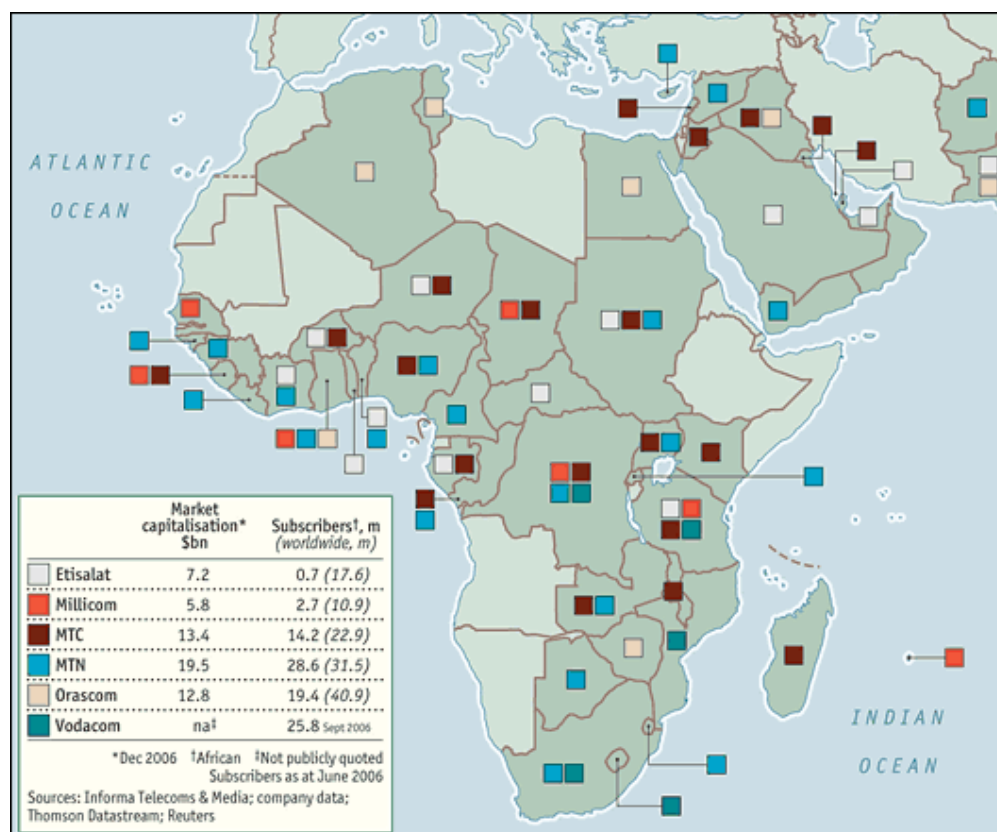
BUSINESS

Mobile telecoms

Out of Africa

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A new kind of telecoms operator is evolving in Africa and the Middle East



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THAT mobile phones are transforming economic and social life in Africa is now widely understood. Less well known are the companies that are leading the charge. Following a flurry of deals over the past 18 months, five African and Middle Eastern operators are now vying for supremacy. These regional powerhouses have worked out how to earn princely sums in the world's poorest places. So far they have mostly been too busy signing up new subscribers to compete vigorously with each other. But that is now starting to change, and the industry is preparing for a round of consolidation as the operators start to attack each other's markets.

The five big operators are MTN of South Africa, MTC of Kuwait, Egypt's Orascom, Etisalat of the

United Arab Emirates (UAE) and Vodacom, an Anglo-South African firm. John Tiefel, a partner at McKinsey, predicts that consolidation will result in three or four large operators spanning Africa and the Middle East, with a sprinkling of national firms. "All the operators have a very similar vision: to become meaningful players in all these markets," says Phuthuma Nhleko, the boss of MTN Group in South Africa, which has operations in 21 countries across the region.

The appeal is obvious. "There is high growth, high profitability, high cashflow generation and still many years of growth ahead of us," says Marc Beuls, president of Millicom International Cellular, which does business in 17 developing countries under the name Tigo. Mobile telephony is now a \$25 billion industry across Africa and the Middle East. Subscriber growth in the region will be 40% this year and exceeds 100% in some countries. Revenue is increasing by 20-50% annually and margins are around 40%. In many countries mobile operators are among the biggest companies and largest taxpayers. And the market is still young: fewer than 15% of Africans have mobile phones.

The companies benefiting from this growth are mainly home-grown. As Western operators either stayed away or pulled out after the telecoms crash of 2001, African firms raced to expand. More recently Middle Eastern operators have moved into the market on a tide of petrodollars. As for European firms, only Millicom of Luxembourg and Vodacom, a joint-venture between Vodafone of Britain and Telkom of South Africa, have much of a presence. "We have more appetite for risky countries and go in there and run very profitable businesses," says Tito Alai of Celtel, part of the MTC Group.

MTN is the largest operator in the region as a result of its \$5.5 billion acquisition in May of Investcom, a company with stakes in several Middle Eastern operators. MTN's boss, Mr Nhleko, says the firm will focus on Africa and the Middle East, where there is plenty of room for growth. MTC expanded in the other direction, from the Middle East into Africa. The Kuwaiti firm bought Celtel, which runs networks mainly in east Africa, for \$3.4 billion in 2005. It has since purchased a stake in a Nigerian operator and arranged a \$4 billion credit facility to pay for further expansion.

Until last month Vodacom was prevented from expanding north of the equator by a pact between its British and South African parents. But the deal has now been scrapped, so Vodacom is on the move. This week its chief operating officer, Pieter Uys, said it was targeting Algeria, Nigeria, Ghana and Angola. Etisalat, the UAE's partially state-owned operator, bought a 50% stake in Atlantique Telecom, which operates throughout west Africa, in April 2005. It has also expanded into Pakistan and Afghanistan, and in July it paid \$2.8 billion for Egypt's third mobile licence—a staggering sum that only a year ago would have purchased an entire regional operator.

As others pile into Africa, Orascom has been pulling out, having sold its stakes in a dozen African operators. It is now targeting "highly populated, under-penetrated markets," says Ossama Bessada, a senior executive at the Egyptian firm. It has operations in the Middle East, Pakistan and Bangladesh, and plans to bid for a licence in Saudi Arabia next year. Naguib Sawiris, Orascom's chief executive, also owns Weather Investments, which paid €12.1 billion last year to take control of Wind, Italy's third-largest mobile operator.

Meanwhile, operators in Saudi Arabia, Qatar and Oman are hunting around for acquisitions too. Targets include Millicom, which was almost bought by China Mobile this year, Econet Wireless of South Africa, and the 50 or so independent mobile operators scattered throughout the region.

Some firms are even looking north, to southern and eastern Europe, for acquisitions. "They are getting very brave now, and they're looking beyond their traditional markets," says Devine Kofiloto, an analyst at Informa Telecoms & Media. Middle Eastern operators were among the bidders for Mobi63, a Serbian operator, earlier this year. Etisalat narrowly lost a fight for Turkey's Telsim to Vodafone in 2005. And Mr Sawiris has expressed interest in a Greek operator.

The arrival of Middle Eastern and African operators, with their innovative, low-cost business models, could put pressure on European operators. Celtel's One Network, for example, eliminates roaming charges for customers travelling between the adjacent countries of Kenya, Tanzania and Uganda. Subscribers can add airtime in different currencies and carry it across borders. Celtel has, in effect, created a unified market of the kind that regulators can only dream about in Europe. African operators are also pioneering per-second billing and mobile-phone banking.

The rise of these regional operators brings great joy to Mo Ibrahim, the founder of Celtel, who is regarded as one of the fathers of Africa's mobile industry. He has created a \$100m venture fund for African entrepreneurs and a foundation that offers a \$5m prize to African leaders who promote good

governance. As pan-African operators emerge, they are not just providing telecoms services across the continent—they are a force for change within it.

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