

# ICASA Public Hearing

*Mobile Broadband Services Inquiry*

*Date: 12 August 2021*

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# Agenda



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## Context and Background

# The MTN Journey

BRIGHT

Ambition 2025



## 2016-18

- **Regain Network competitiveness**
  - Prioritization of rollout areas
  - Customer-centric KPIs
  - Spectrum refarming
  - 4G expansion
- **Stabilise IT platforms, re-design IT strategy**
- **Rebuild leadership team**
- **Investment catch-up** – x2 CAPEX intensity

## 2019-20

- **Build digital foundation**
  - MONZA – Access network modern.
  - Siyakhula – new BSS stack
  - EVA – Big data
  - Enterprise converged services
  - New service platforms – MoMo
  - Digital platforms
  - Infosec – Marshall plan
- **Optimise CAPEX & OPEX** – Smart CAPEX, Accelerate

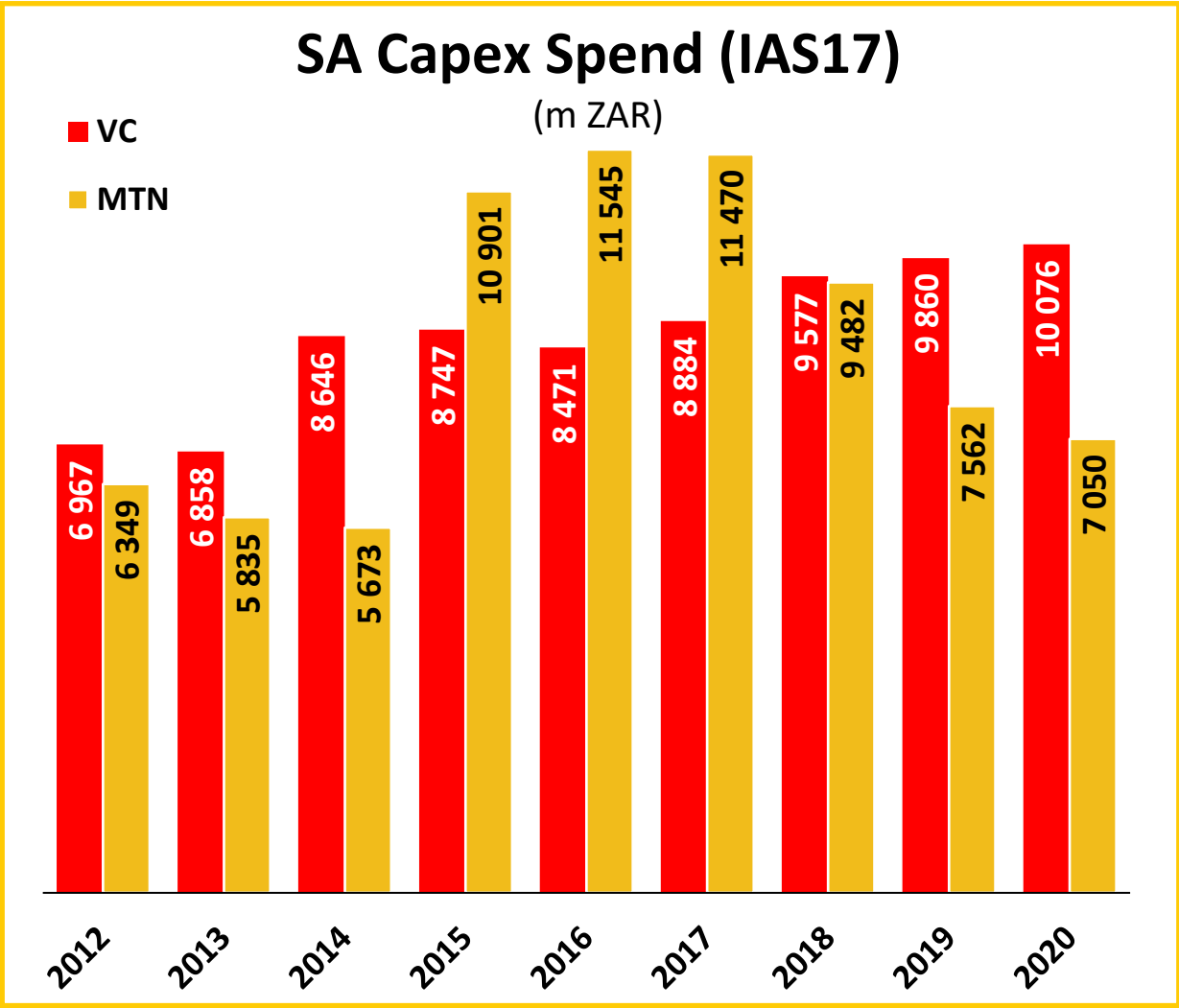
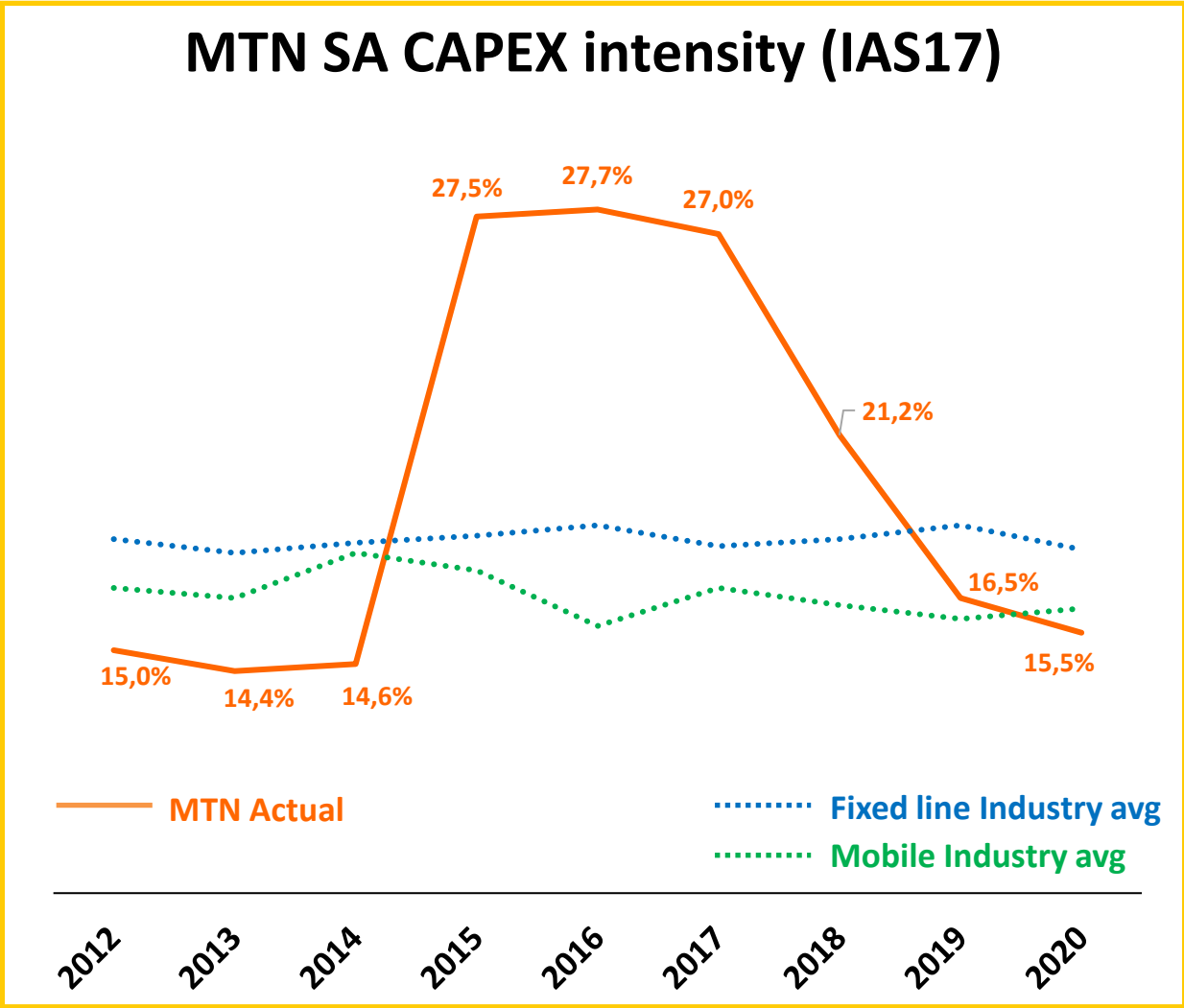
Build the **largest**  
& most **valuable platforms**

Drive **industry-leading**  
connectivity operations

Accelerate portfolio  
**transformation**

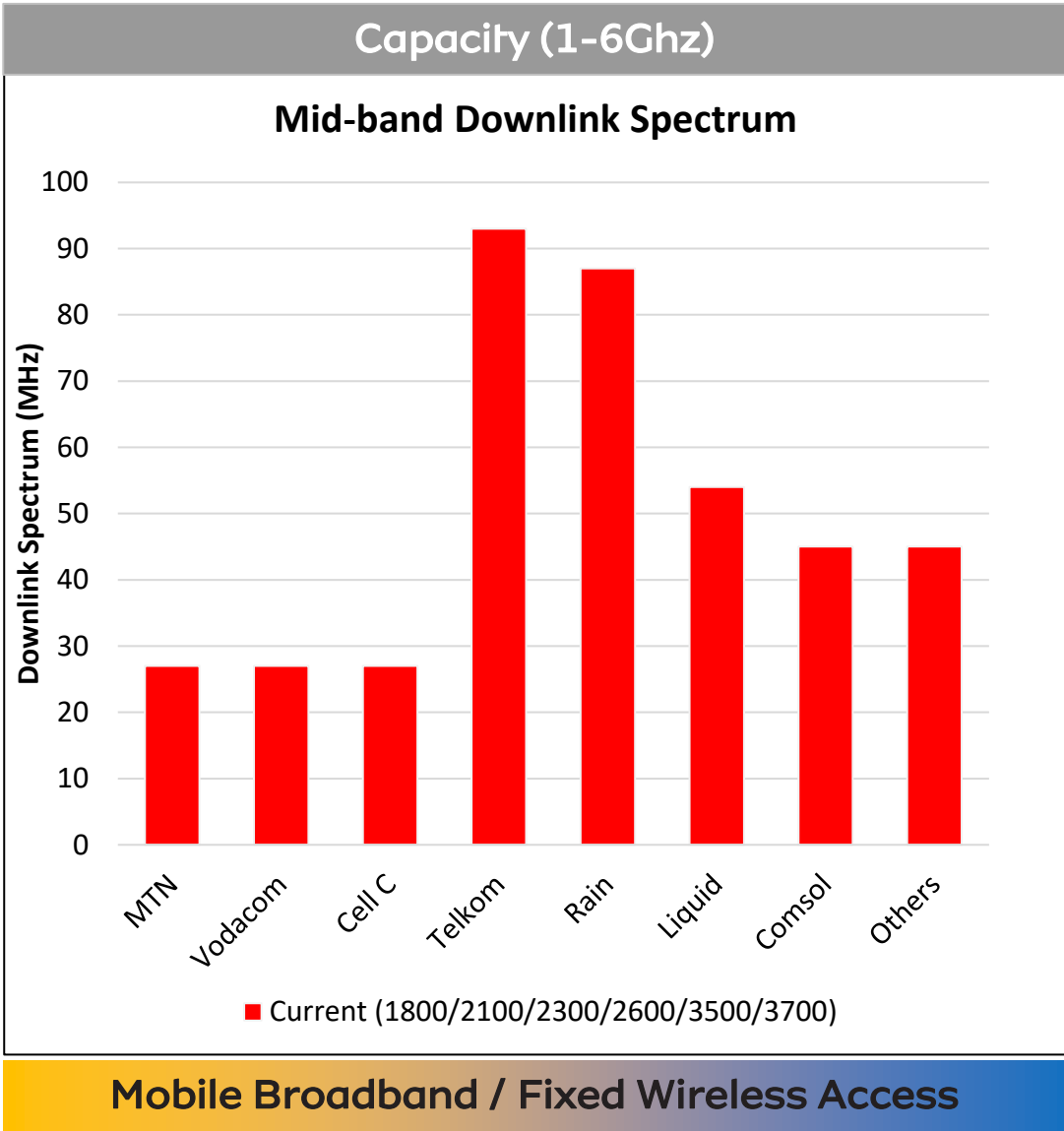
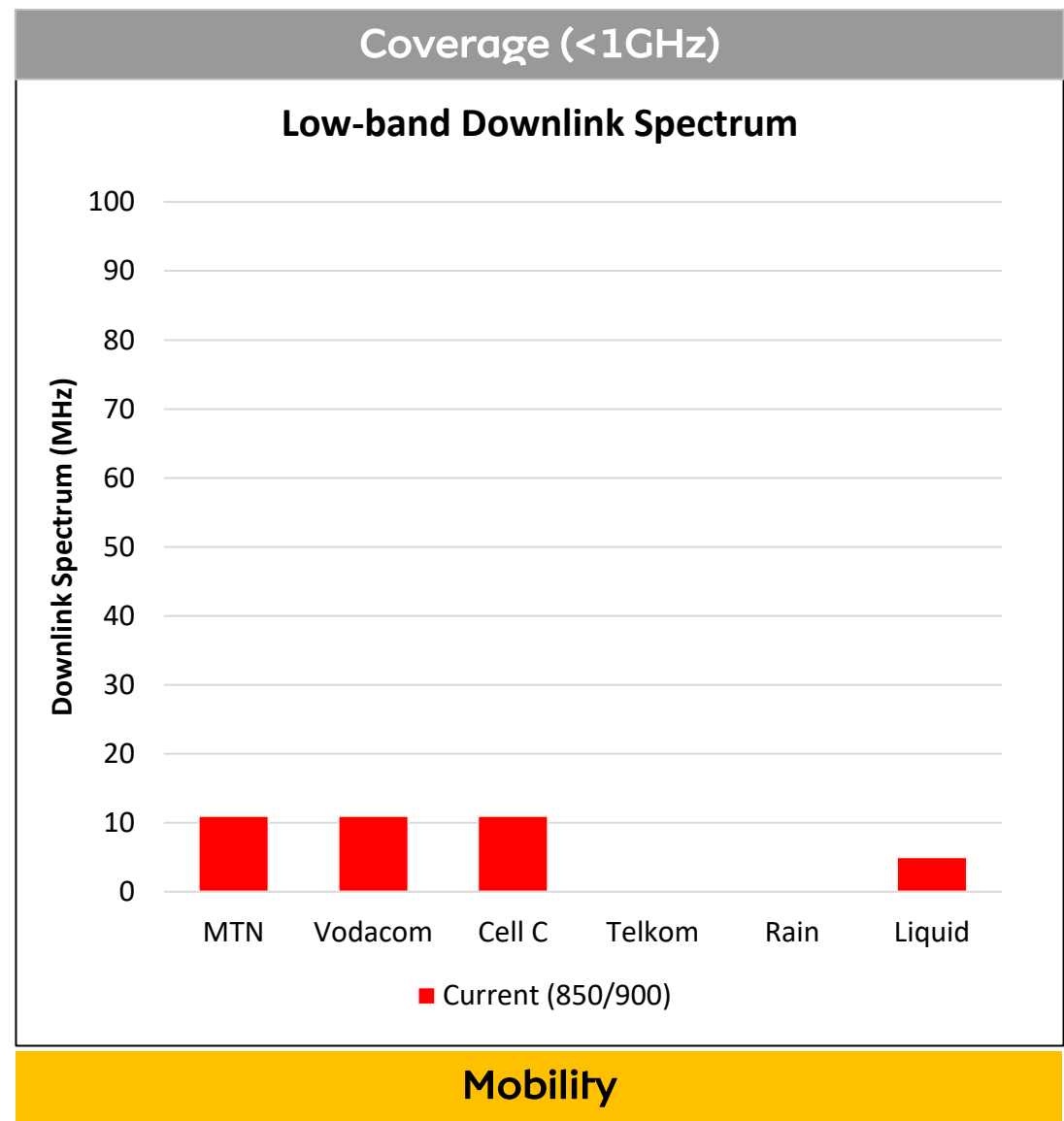
Create  
**shared value**

# Financials – CAPEX Investment



SOURCE: Ovum Mobile and Fixed Capex intensity projection June 2020

# Mobile spectrum competitive position





## Legislative Requirements

# Draft Regulations are fundamentally flawed – irrational and unlawful



## ICASA must follow the prescribed process – s67 ECA

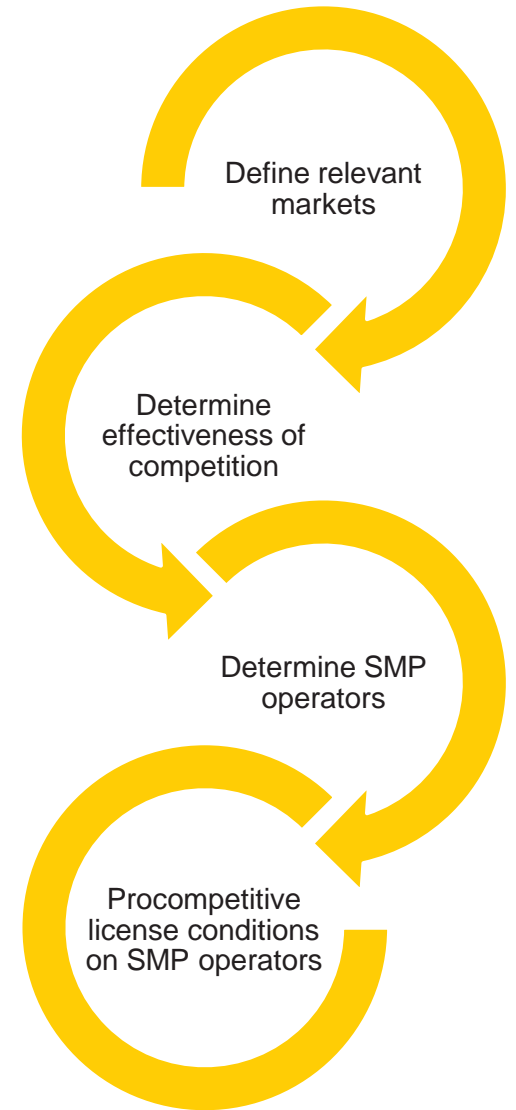
**Step 1:** Define the relevant market/s - s67(4)(a)

**Step 2:** Determine the effectiveness of competition in the defined markets - s67(4)(b)

- consider all relevant factors; and
- not take account of irrelevant factors

**Step 3:** Determine if there are operators with SMP - s67(4)(c)

**Step 4:** Impose appropriate procompetitive license conditions only on SMP operators - s67(4)(d)

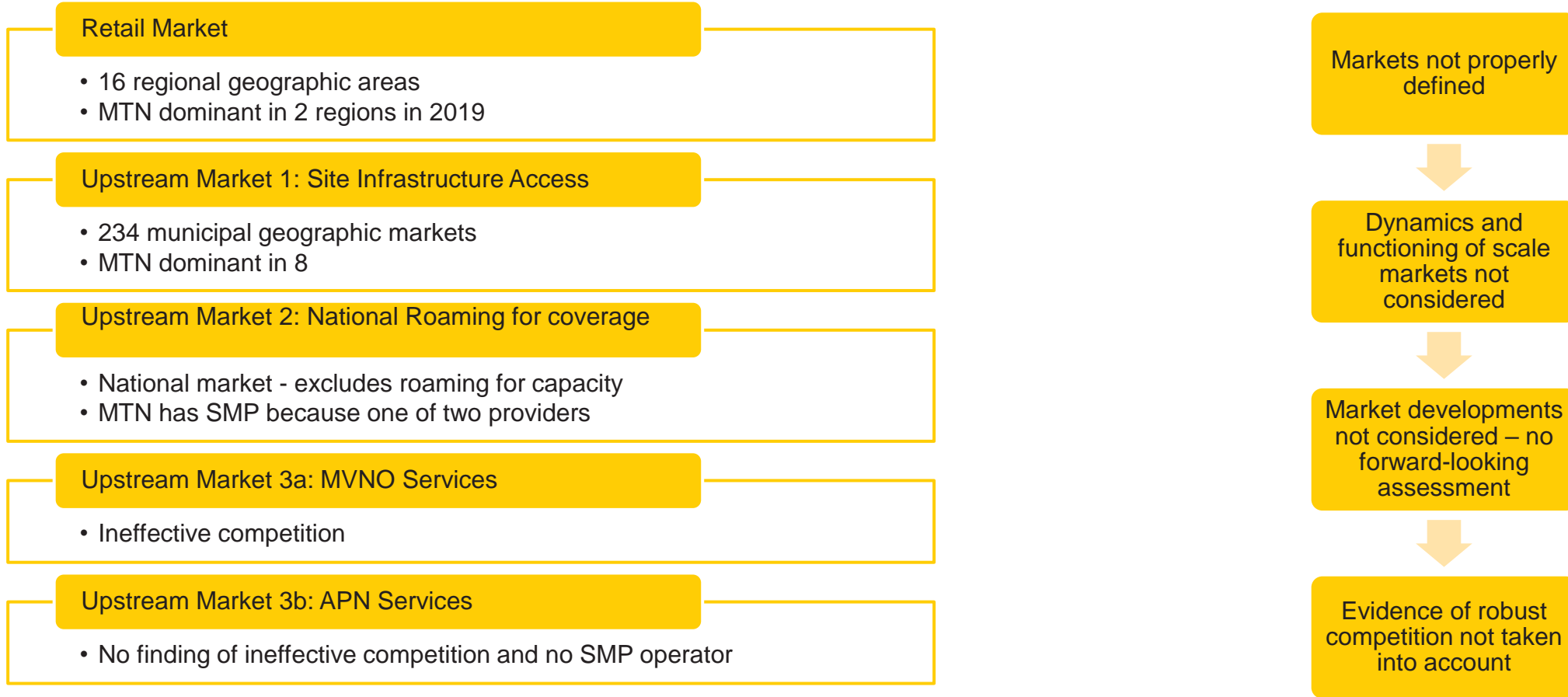






ICASA Draft Regulations  
and Findings Document

# Draft Regulations are fundamentally flawed as they are based on incorrect conclusions in Findings Document



**A proper assessment indicates highly competitive markets with MTN having SMP in none.**

MTN should not be subjected to any further regulations

# The relevant geographic scope of the retail market is national



Geographical areas are connected through a chain of substitution

National coverage = customer mobility

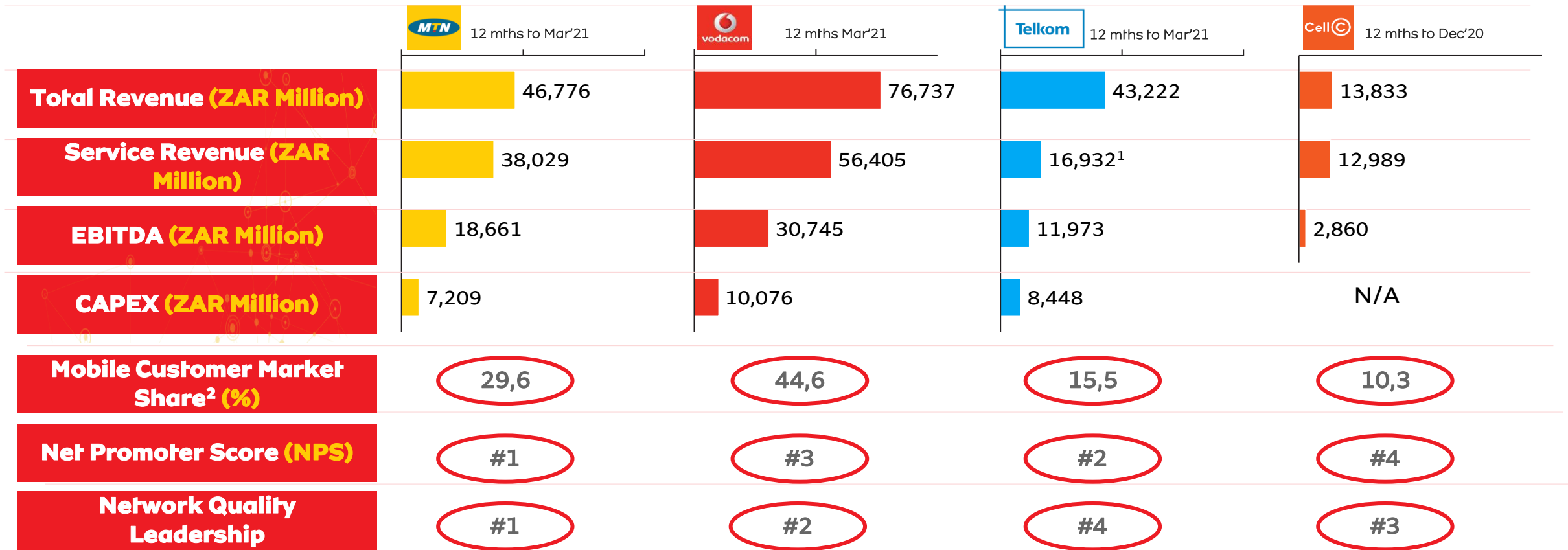
MNOs respond to customers' demand & competitor investments nationally.

**Socio-economic similarities  $\neq$  sub-national retail market**



**Economic rational = national retail market**

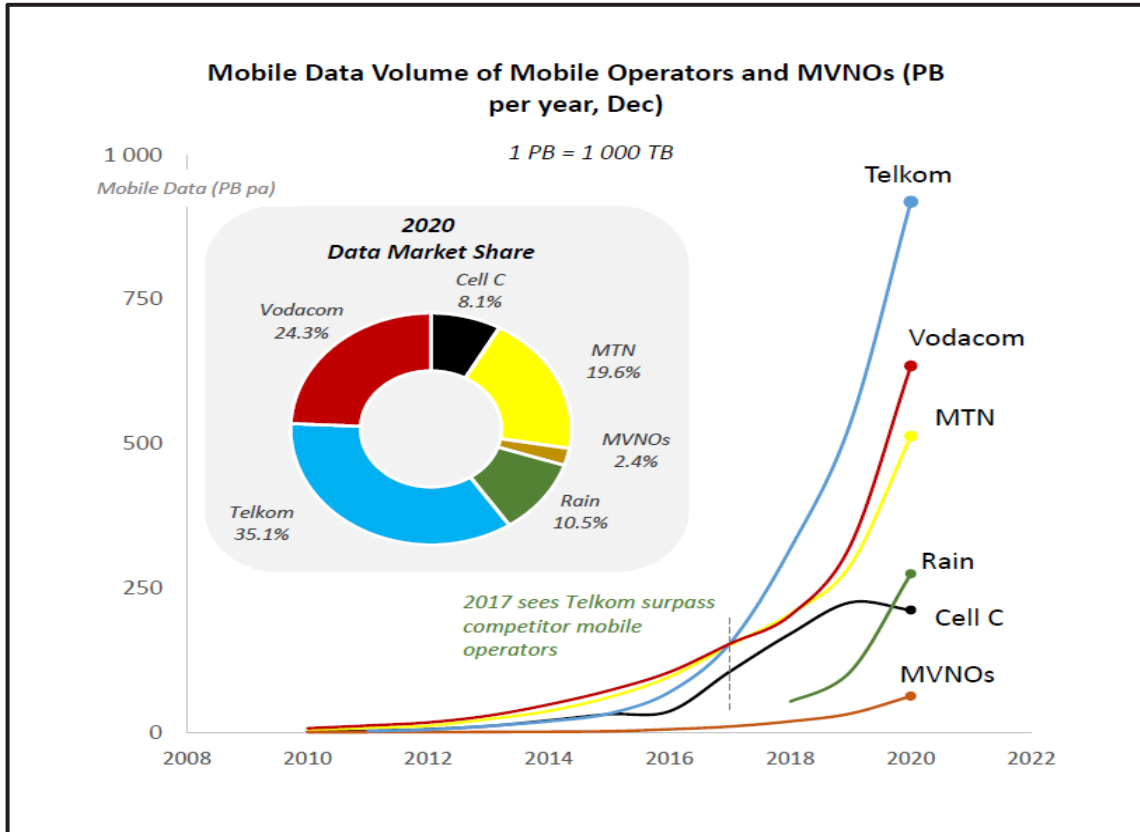
# The retail market is characterized by robust competition evidenced by competitor landscape



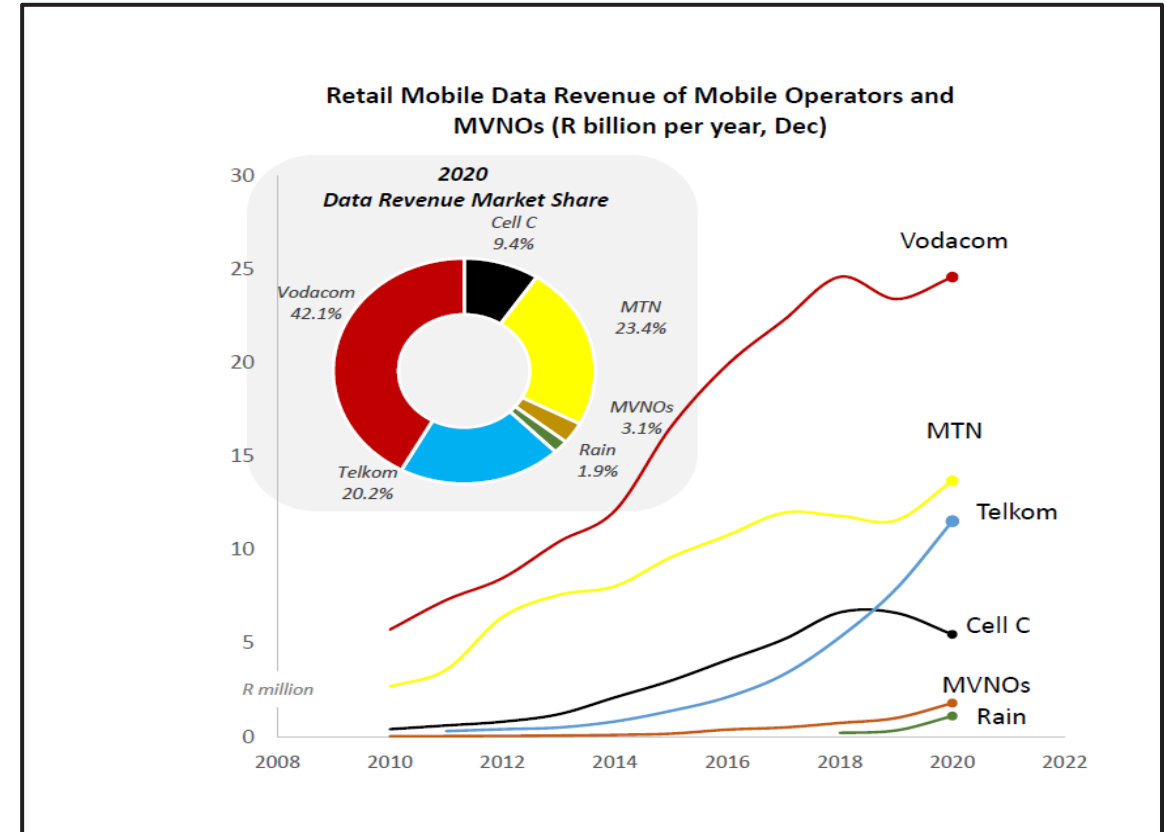
Sources: Vodacom SA annual results as at Mar'21, Telkom 2020 Annual Results, Cell C 2020 FY annual results, Umlaut (P3) 2020 Best in Test

<sup>1</sup>Mobile Service Revenue <sup>2</sup>As as April 2020

# The inexorable rise of Telkom



- In 2017, Telkom overtook Vodacom and MTN to become the provider with the highest data volumes and has maintained that position with a lead of more than 250 pb in 2020



- In 2019, Telkom overtook Cell C to become the third operator by data revenue
- This poses a challenge for MTN despite the high CAPEX investments in networks and 5G

# MTN is not dominant and does not have SMP, evidenced by Telkom's growth



## Context

### Spectrum

- Telkom currently holds 142MHz of High demand spectrum although it holds no spectrum in the sub 1GHz
- This better positions Telkom for serving in the emerging 5G market which requires spectrum in the higher bands

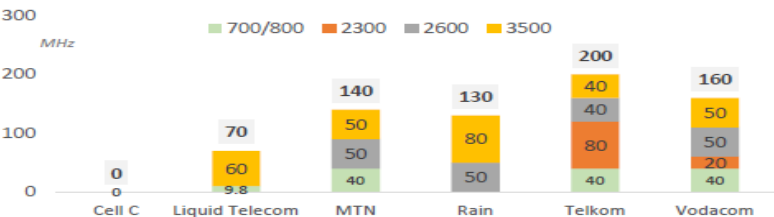
### Telkom's fibre and fixed-line dominance

- Telkom has fibre ~165 900 kilometers which is more than other players. This continues to serve as a competitive advantage as duplication of infrastructure is discouraged in South Africa
- Telkom's fixed line dominance, provides a supporting backbone for Telkom's mobile operations

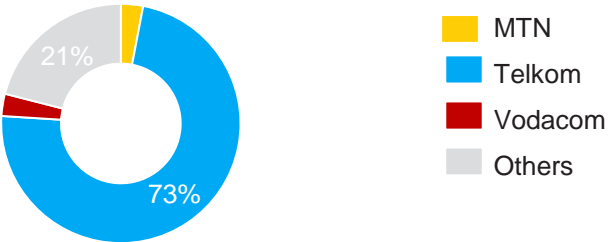
### Success in data offerings

- Telkom currently experiences the highest **data volumes** in the South African market which are expected to keep growing and eventually translate in higher share of the data revenue market
- Telkom exceeded Vodacom and MTN by mobile data volumes in 2017, and continues to lead

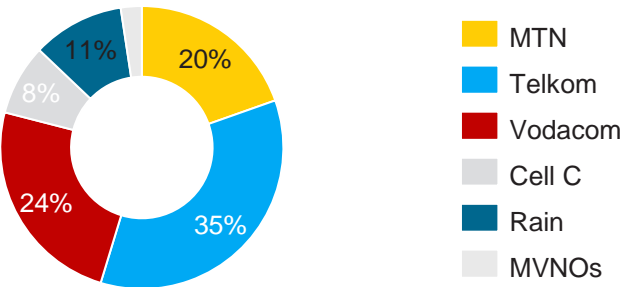
5G spectrum assignment (Existing and Temporary (MHz)



2018 Market Share of national Fibre



2020 Data Market Share (Volume)



# The duopoly allegation is a myth - Vodacom continues to dominate the mobile market

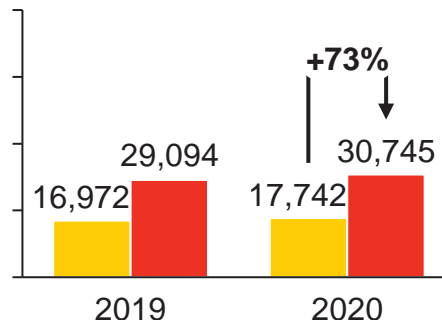
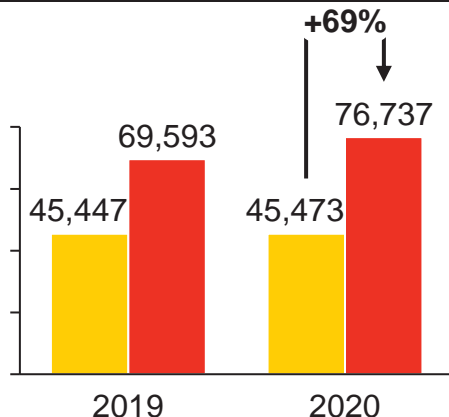


Total Revenue (ZAR Million)

EBITDA (ZAR Million)

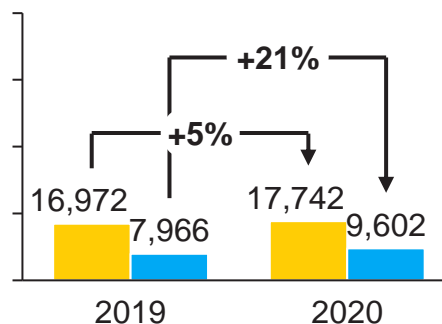
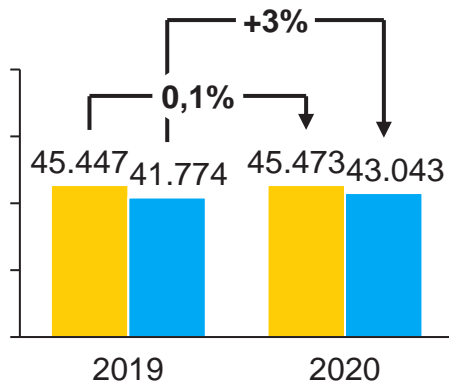
Key Takeaways

MTN vs  
Vodacom  
1



- Vodacom revenue grew by ~10% between 2019 and 2020, MTN grew by less than 1%
- MTN's CAPEX investment as a percentage of revenue was higher than Vodacom's however, actual value of investment from Vodacom was higher than that of MTN
- Vodacom continues to gain mobile subscribers with ~7% increase in between FY 2019 and FY 2020
- Vodacom outperforms largely as a result of its large subscriber base
- EBITDA for Vodacom exceeded that of MTN in 2020 by ~73% and exceeded total revenue by ~69%

MTN vs  
Telkom



- Telkom revenue grew by ~3% between 2019 and 2020, MTN grew by less than 1%
- MTN invested ~25% and ~17% of revenue in 2019 and 2020 for CAPEX while Telkom maintained ~18% of revenue in CAPEX for both years
- Telkom made most of its CAPEX investments in its mobile business
- EBITDA for Telkom grew by ~21% and for MTN by ~5%

CAPEX  
as % of  
Revenue



MTN Vodacom Telkom

1 MTN FY ends in December while Vodacom FY ends in March  
Note: Both MTN and Telkom report Capex in IAS17 for 2020

# The site infrastructure market includes more than macro-sites



Figure 1: Types of substitutable sites

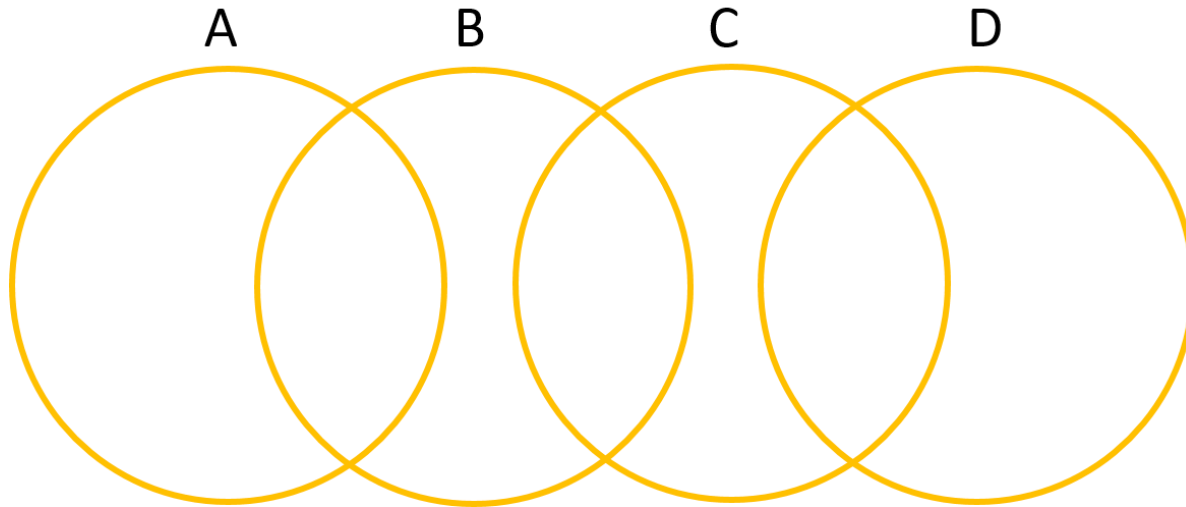
Lattice	Monopole	Artificial Tree	Others	Building
				
Lattice Towers are freestanding vertical framework towers	Monopole towers are towers with a solid concrete ground base where the tower supports itself	Network towers disguised as trees to blend in with the surrounding environment	This category includes Poles, Tree Masts and other structures	Tower equipment attached to existing buildings

All high sites should be included in the access to site infrastructure market



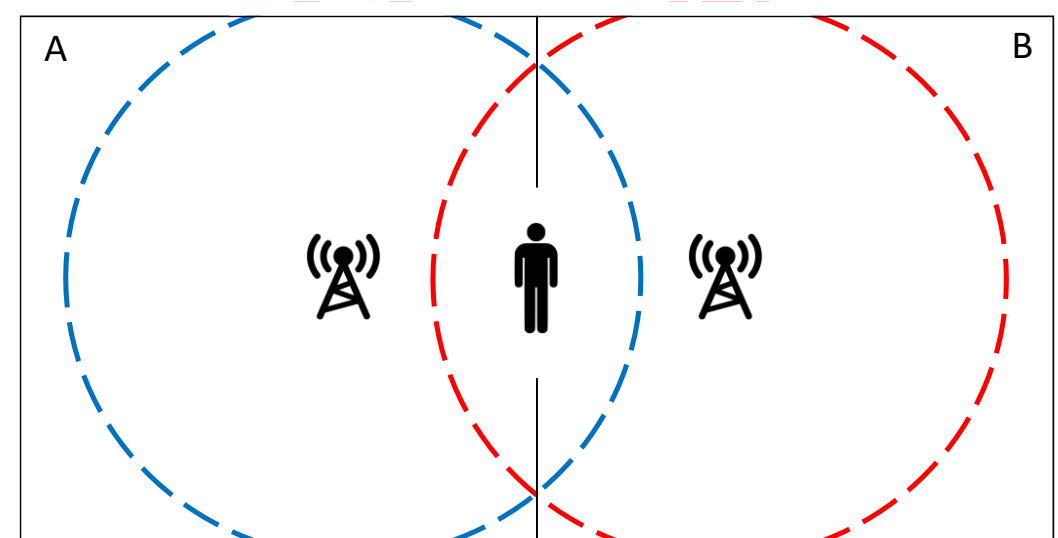
# The site infrastructure access market is national

Figure 2: Product market chains of substitution



Source: Adapted from Gore, D., Lewis, S., Lofaro, A, & Dethmers, F. (2013) *The Economic Assessment of Mergers under European Competition Law*, p 42.

Figure 3: Chains of substitution – RAN towers



# Effective competition at site access level

Effective competition

- MTN invests heavily in its national site infrastructure, making it an effective competitor to Vodacom

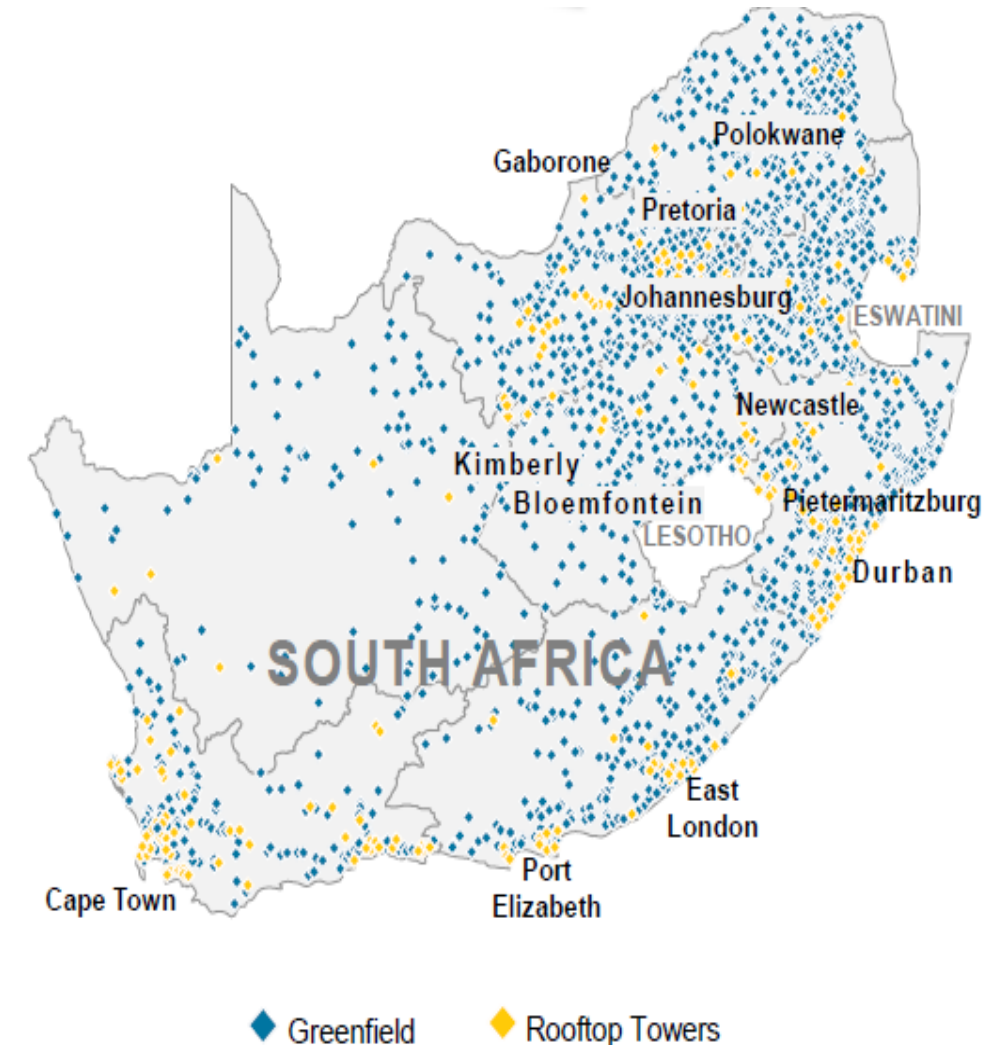
Unnecessary Regulation

- Regulating MTN due to unsubstantiated SMP disincentivizes investments & innovation

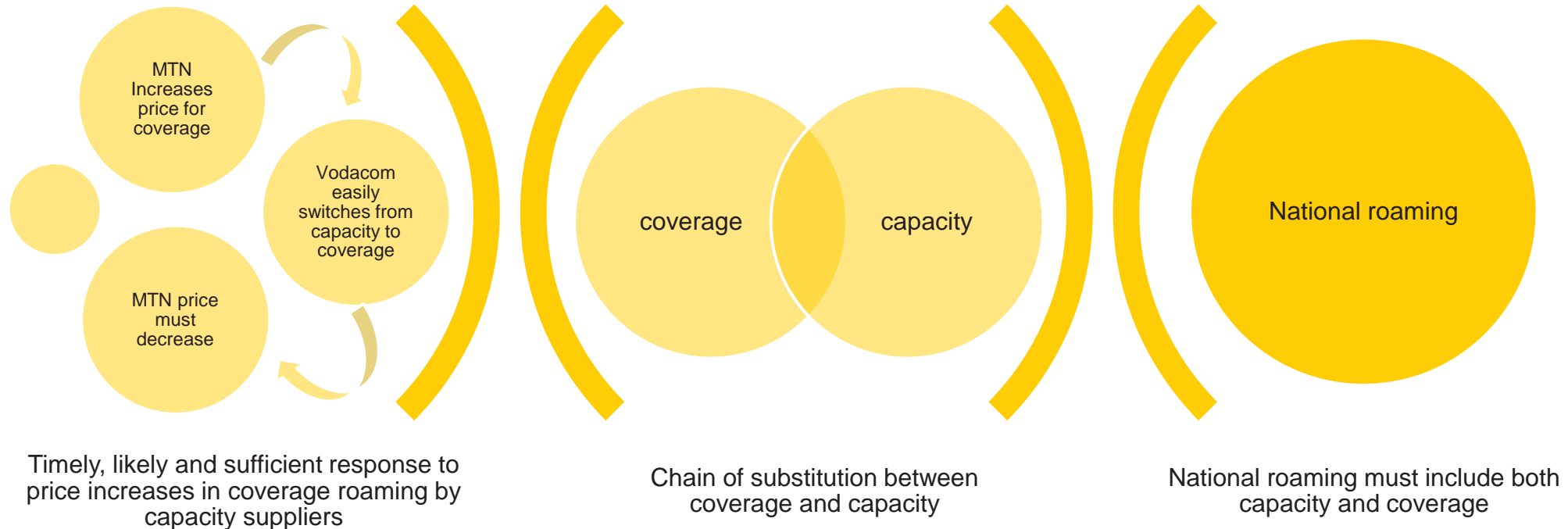
Consumer Harm

This directly harms poor, rural consumers

Figure 4 – Geographic overview of MTN sites



# The NR market is not robustly defined: NR market must include roaming for capacity



# Draft Regulations are fundamentally flawed as they don't include a forward-looking assessment in the NR market



Relevant Factors	Irrelevant Factors
Natural functioning of scale markets necessitates few operators with national infrastructure	Historical assertions
Network competition between MTN and Vodacom	Market shares / concentration in isolation
Empirical evidence of recent and current falling prices	Historic complaints that were never investigated and/or adjudicated
Empirical evidence of increased quality	
Ease of, and actual, customer switching	
The projected effects of spectrum allocation	
A dynamic roaming market	

# ICASA provides no evidence that vertical integration is anticompetitive



Vertical integration is not inherently anticompetitive – conversely, it is widely recognized as generally procompetitive.

All operators are vertically integrated to some degree - competition takes place at all levels of the value chain.

ICASA provides only a speculative theory, provides no economic analysis, and fails to consider the potential pro-competitive benefits of vertical integration.

No evidence of MTN providing operators with inferior access to upstream services

MTN's national market share has declined significantly since 2011, while newer entrants have grown



## Recommendations to ICASA

ICASA should reconsider key aspects & address fundamental flaws of its Findings Document to avoid harming competition and consumers

There is no sound economic basis for several of ICASA's conclusions on market definition

There is no basis for Telkom's claims of a "duopoly", or ineffective competition

ICASA provides no evidence to support a claim that vertical integration is anticompetitive, or indicates dominance

Stakes are high in COVID environment - Massive and continuous investment into network infrastructures = the effective and efficient provision of mobile broadband services to millions of South African consumers

Unjustified regulatory burdens undermines critical investment incentives, harming South Africa



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