

The swot analysis of telecommunications industry



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Malaysia takes fifth position in Business Monitor Ltd's (BMI) latest business environment ratings table. The country retains the highest score for independence of regulator at 90, alongside Japan and Taiwan showing that the MCMC remains supportive of broad development across the telecoms industry. Aside from developing a healthy mobile sector, with penetration rates in excess of 80%, the regulator has now turned its focus towards the broadband sector, which remains relatively underdeveloped compared to other areas of the industry. This is complemented by the strength of its country structure score, which acknowledges the country's economic growth. BMI is of the opinion that the Malaysian economy should remain well supported in 2008, provided the country's current consumption boom sustains itself. In Q307, the country's economy strengthened further as economic growth accelerated to 6. 7% y-o-y.

Furthermore, as highlighted earlier, the country retains a mature mobile market, placing it in league with the region's developed nations of Japan,

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South Korea and Singapore. However, there remains room for improvement. With the majority of mobile subscribers as prepaid users, operators are now concentrating their efforts on migrating customers onto the more lucrative postpaid offerings. This is down to Malaysia's percapita GDP, which is quite low at US\$6, 053, reflecting its status as a developing economy.

Meanwhile, an inflow of foreign direct investment would benefit the telecoms industry. This is lacking, with Telekom Malaysia playing the role of investor in a number of high growth emerging markets in Asia. In addition, greater competition in the fixed-line and broadband markets would be welcome, with Telekom Malaysia playing a dominant role in both sectors.

TM's domestic mobile unit Celcom continues to register consistent improvements, with growth of 11. 4% y-o-y to MYR1. 304bn in Q307. The push on mobility solutions through better data usage and content offerings has seen revenue from mobile data improve to 21%, against 19. 2% in Q306. TM's Performance Improvement Programme (PIP) has shown continued signs of stabilisation, with fixed-line revenues reporting a 2. 4% y-o-y increase to MYR1. 971bn. Aggressive marketing initiatives in its broadband subscribers have attributed to this revenue increase. There were 110, 000 broadband net additions over the quarter and 444, 000 net additions over the year. This also aided a 23. 7% y-o-y increase in internet & multimedia revenues of MYR287mn, while data revenues increased by 30. 8% y-o-y to MYR314mn. On account of a decline in the number of fixed-line subscribers, this resulted in a 6. 9% y-o-y fall in fixed-line voice revenues to MYR1. 224bn. The international arm of TM continues to remain an important asset to the group, and has continued to report robust growth, despite many of its units facing

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regulatory and political uncertainty, and foreign exchange movements. In Q307, international revenues contributed MYR1. 275 or 27. 7% of total revenues, against 25. 9% in Q306. International mobile subscriber growth (excluding Celcom) rose by 51. 6% y-o-y to 28. 972mn. As for Celcom, the unit made a 666, 000 net loss to its subscriber base over the year ending on 6. 728mn. The result is that international capex continues to surpass that of domestic, rising by 83% y-o-y to MYR2. 664bn. This was largely due to investment into aggressive network implementation. In terms of international capex breakdown by country, Indonesia is the largest recipient at 66. 4%, followed by Bangladesh (14. 2%) and Sri Lanka (14. 9%). In terms of domestic capex, which fell to MYR1. 593bn from MYR1. 680bn a year earlier, the bulk of investment went into fixed-line and largely directed at broadband network growth. As for mobile, this accounted for 30% of capex, up by 1. 7pp over the year.

Internet Services

In accordance with its earlier increases to fixed-line capex, during June 2007, Telekom Malaysia awarded Alcatel-Lucent with a EUR10mn contract to supply it with a 10Gb IP/Ethernet network. This is to be delivered through AirStar, a local telecoms solutions provider, and will enable the incumbent to offer reliable services including virtual leased lines and virtual private LANs to all corporate customers. This network will also provide the basis on which triple play and other advanced services can be deployed with minimal added investment. One month later, TM previewed its fibre optic based internet access service.

CEO Zamzamsairani Mohd Isa said, ' we are heading for the digital home era where IPTV, VoIP and home surveillance are necessities.'

The first phase of its deployment will begin in Q308, with initial services to be provided to high-rise buildings before moving to other residential areas.

Mobile Services

In June 2003, the merger between Celcom and TM Cellular, the mobile arm of Telekom Malaysia, was finalised, after Deutsche Telekom sold its remaining 8% stake in Celcom for US\$114mn. In February 2006, Telekom Malaysia paid US\$232mn to Deutsche Telekom subsidiary DeTeAsia Holdings after losing out on a contract dispute following the sale of Celcom, as ordered by the International Court of Arbitration.

In preparation for the launch of its 3G services in 2005, Telekom Malaysia worked in close partnership with a number of multinational vendors, including Ericsson of Sweden and Huawei Technologies of China. The Malaysian telecoms regulator expects the operator's 3G network to cover 80% of the country's population by 2010.

In January 2006, Telekom Malaysia signed a network partner agreement with Vodafone, which covers three of the operator's subsidiaries - Celcom, Excelcomindo (Indonesia) and Dialog (Sri Lanka). Under the terms of the agreement, the customers of these three operators are able to provide roaming services with full access to Vodafone's international voice and data and 3G offerings. This partnership does not involve any equity relationship with Vodafone.

International Operations

On the international stage, Telekom Malaysia has very much followed in the footsteps of fellow regional titan SingTel in looking abroad to spark off profit growth. Of the operator's 31.8mn subscriber base, 25.396mn subscribers (79.9%) come from its overseas operations. About 40% of that number comes from Indonesia (about 10.2mn) through Excelcomindo, and another 10.4mn in Bangladesh and Sri Lanka, via Aktel and Dialog respectively.

TM sold off a minor 3.2% share in Dialog at MYR27 a share, as it sought to increase liquidity in response to fund managers' saying there were too few Dialog shares in the market. TM is said to have raised around US\$58mn from the sale. Following this two months later, in July 2007, the operator was said to return capital to shareholders if it did not make any acquisitions within 18 months. TM has around MYR4bn in cash group-wide.

In an effort to extend its international operations further, Telekom Malaysia has followed its rival Maxis into the Indian market. In December 2005, Maxis acquired a 74% stake in unlisted Indian mobile operator Aircel. In February 2006, Telekom Malaysia entered into talks over the acquisition of India's Spice Telecom, negotiations that were completed in March 2006. Such an investment complements Telekom Malaysia's existing and successful investments in Sri Lanka, Bangladesh and Pakistan. Spice Telecom has 2.7mn subscribers in Punjab and Karnataka states as of March 2007. TM completed the acquisition of a 49% stake in Spice Telecom for US\$178.8mn. The operator successfully debuted Spice Telecom on the Bombay Stock Exchange, which was oversubscribed by 38 times and at a 27% premium of

the IPO price of MYR46 based on a closing price of MYR58. 5. Its market value standing at US\$388mn. This should partially aid TM's restructuring of Spice Telecom's US\$215mn of debts.

It is not just mobile operations driving growth overseas for Telekom Malaysia. It has just invested US\$100mn on the installation of a 4, 100km fibre optic cable in Pakistan for a project set to be complete in 2007. The investment has been made through Telekom Malaysia's Pakistani subsidiary broadband operator Multinet. The result of Project Ittehad is due to operate fully from Q307, and will connect 107 cities across Pakistan. Multinet currently provides broadband internet access via fixed and wireless networks in 12 cities - Karachi, Lahore, Islamabad, Rawalpindi, Lahore, Faisalabad, Gujrat, Multan, Sargodha, Sahiwal, Sialkot and Shaikhupura.

Strategy

Telekom Malaysia will raise its capital expenditure by 48% this year to MYR8bn (US\$2. 34bn). Of this amount, MYR5bn or 63% of the total will be directed at its overseas operations, with a particular focus in rolling out networks in Indonesia, and expanding its network in Sri Lanka and Bangladesh.

In terms of its domestic performance, the operator has two clear priorities. The first being to deploy its broadband services aggressively in order to increase its customer base as it looks to offset continued revenue losses in its fixed-line voice business. The second is Celcom continuing with a greater push for mobile data and enterprise solutions. Meanwhile, TM will continue to

ensure that its demerger process remains on track. The process is expected to be completed in Q208.

Competitor Analysis

Key Player - Malaysia Telecoms Sector

Sales Data- Selected Operator Financial Indicators.

Market Data Analysis

Mobile

Malaysia's regulatory body, MCMC, has reported a subscriber base of 22.069mn as of September 2007. Once again, Maxis Communications declined to provide its subscriber figures for Q307, though they were estimated at 9.2mn. However, No. 2 operator Celcom, the mobile operating arm of Telekom Malaysia, reported a 30.5% market share. Although the operator managed 649,000 net additions over the nine months ended September 2007, during the year, it suffered a loss of 666,000 subscribers as its international operations took precedent.

However, with 324,000 new subscribers reported in Q307 alone, accounting for 50% of its 9M07 net additions, the quarter was clearly Celcom's strongest performance. This it attributed to stronger marketing initiatives including greater product offerings, loyalty programmes, brand reinforcement and improved quality of service/customer experience.

DiGi is the smallest of the country's three operators, but its 804,000 net additions reported in the nine months ended September 2007 overtook Celcom's 649,000 over the same period. This propelled the operator's

overall market share to 27.6%, despite reporting a paltry 92,000 net additions in its most recent quarter. DiGi's focus has been to strengthen its market offerings, maintaining operational excellence and upgrading core technology platforms.

At the time of writing, the operator was also the only one to provide its end of year subscriber figures. As of December 2007, DiGi announced 293,000 net additions during the quarter; a vast improvement from its Q307 performance. Contributing to this growth has been DiGi's acquisition and retention activities, driven by its

1Plan (a postpaid plan with call rates as low as MYR0.13 to any network, non-existent access fee and a low commitment usage of only MYR50 per month) and 1LFR.

Meanwhile, an MVNO could enter the mobile sector after REDtone International (one of the WiMAX licence winners) announced it had formed an agreement with Celcom. Postpaid wireless services would be launched, marketed specifically for the corporate customer. Under the name of REDtone Mobile, a range of mobile services including SMS, MMS and GPRS and 3G technology could be provided. The operator is expected to offer its MVNO services by Q108.