

**Sector  
Highlight**

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Cambodia's mobile carrier market has delivered double digit growth for 13 consecutive years. Growth will remain robust however as customer penetration remains low at 29%. Under a liberal licensing policy, Cambodia now has nine mobile phone operators fighting over its 14 million consumers.

From 1996 - 2007 there were only three operators, who served a few hundred thousand users and charged them very high prices. However over the past two years demand growth accelerated and six new players charged into the market, most bringing deep pockets and years of marketing experience. The aggressive new entrants have already carved off a combined 12% share of the market through massive pricing promotions that the earlier players were forced to match, slashing call charges up to 85%. This pressure on operators' margins is unlikely to ease, with two more future entrants reportedly on the sidelines. Price deflation has substantially boosted service affordability, underpinning further rapid demand growth and overseas telecom investor interest.

Cambodia's telecommunications history is unique. In 1992 when peace was restored Cambodia had only 4,000 fixed lines and no money, so its telecom industry was thrown open to foreign investment. The timing fortuitously coincided with the birth of GSM networks elsewhere. Rather than cabling the country with costly copper, Cambodia leapfrogged directly into the wireless age, becoming the first country in the world with more mobile than fixed line users. As technology advanced and handset costs fell, cell phone popularity soared, and now the country's mobile subscribers outnumber fixed lines nearly 100 to 1. Most of the 4.2 million mobile subscribers live in Phnom Penh, which has a population of just 2 million, however many people subscribe to two or three operators since some networks block calls to others.

Cambodia's nine cellular operators are all 100% or majority owned by foreigners, most of which are multi-national operators eager to expand their global footprint and tap into a virgin market where the market pioneers have been earning excellent returns. Cambodia is one of the world's cheapest places to get a license and start operations, and has a youthful population eager to embrace new products, provided they can afford them.

GSM remains the dominant service for seven operators, but five operators now offer 3G or 3.5G service, including two entrants who came straight in with CDMA networks. Operators' market shares mostly reflect their timing of entry into the market:

**MobiTel:** The sector's trailblazer launched its GSM 900 service back in 1996, and has since added 3G/UMTS. MobiTel still commands 55% market share with over 2.17 million users. MobiTel is operated by CamGSM, a joint venture between 58% holder Millicom International Cellular (a frontier market cellular operator with Swedish roots) and local conglomerate Royal Group. MobiTel is currently "in play" as Millicom revealed they wish to sell their cellular interests in Cambodia, Laos and Sri Lanka, and several competitors seem eager to swoop in.

**MFone:** Thailand's second biggest operator with an 18% share, MFone has operated its GSM 1800 service since in 1998 and has added 3G/UMTS. It is 51% owned by Thaicom (a satellite operator in Thailand); the other 49% is held by a joint venture of ST Telemedia (owner of Starhub, one of Singapore's largest operators) and Qatar Telecom. MFone was previously known as CamShin when

it was controlled by Thailand's Shinawatra Group. MFone reported 50% revenue growth and a healthy 25% ROE in 2008.

**Hello:** In 2007, TMIC (Malaysia's largest operator) acquired a GSM 900/1800 which had been launched in 1999 by Thailand's Samart Group, and rebranded it Hello. As a major regional player, TMIC is unhappy with its local 15% market share and announced aspirations to be the biggest operator. TMIC is discussing a bid for Millicom's Asian assets; acquiring MobiTel which would give them a combined 70% share and rock the market. In the meantime Hello has invested in 3G/UMTS and launched the first 3G Blackberry service in Cambodia.

The other six players joined the fray over the past two years, in this approximate sequence:

**Star-Cell:** Visor Group, a Kazakhstan investment group, created Applifone Co. which launched Star-Cell 1800 GSM service in 2007. The following year, TeliaSonera (Sweden's biggest operator) acquired 51% from Visor and took management control.

**qb:** In 2008, Cambodia Advance Communications (CADCOMMS), a local company backed by Middle East investors, launched its qb service with a huge free pop concert and Sim card handout. qb's management team of ex-Telenor staff took a bold approach by offering the country's most advanced data services on a 3.5G HSPA network. Cambodians can now watch television on their cellphones.

**Excell:** Owned by GT-TELL (Cambodia) Investment Co., a company rumored to be owned by an Uzbekistan investor, Excell launched in 2008 a 3G, CDMA 2000 service, offering voice and mobile broadband in Phnom Penh on 800 MHz. It reported plans to roll out to some provinces in the future. This company has spent little on advertising, and attracted few subscribers.

**MetFone:** Viettel (Vietnam's second largest operator, and owned by its military) launched its GSM 900/1800 service in 2009 and has invested \$100 million in building a network that covers 90% of Cambodia and links into a 5,000 km fibre optic network through Vietnam. To kick-start its business MetFone simply gave away 500,000 Sim cards and three free months of service. It seems to us that MetFone could be the first newcomer to displace one of the "Big 3"; since Viettel may view its Cambodia foray as almost an extension of its core domestic business, and spend whatever it takes to succeed.

**Smart Mobile:** Timeturns Holdings, based in Cypress, launched its GSM 1800 service in 2009 through its Latelz subsidiary. Russian-backed Timeturns is a new name in the global telecoms industry, focusing on underpenetrated frontier markets.

**Beeline:** VimpelCom (Russia's second largest operator) launched its Beeline brand in Cambodia in 2009 after buying 90% of Sotelco, which holds a GSM 900/1800 license. The launch featured a savvy and expensive bee-colored ad campaign which blanketed Phnom Penh. VimpelCom announced they plan to invest \$200 million in Cambodia over the next 3-4 years, and subsequently talked of bidding for MobiTel.

## Future Outlook

Insufficient regulation remains the sector's core problem. A Telecoms Law has been under development since 2000 and still awaits approval from the Council of Ministers. Enactment of this law would hopefully bring more planning and consistency to the murky licensing process, and force operators to readily interconnect rather than selfishly block calls to rival networks.

In the meantime, ongoing price wars will continue to restrict service quality; it is already difficult to make calls at peak hours. The number of operators may continue to rise, given that two more



licenses have been issued, including a CDMA license to SLD Telecom (owned by Korea's SK Telecom and LG Electronics). Eventually, an industry consolidation will occur as 9-11 operators is an unsustainable number for a small country like Cambodia. In a shakeout, operators without strong global telecom parents, (i.e. Excell, qb, and Smart Mobile) could become the next M&A targets after MobiTel.

Consumers in the core urban upper and middle class markets will gradually migrate from GSM to 3G and beyond, to enjoy better data services, and will make increasing use of cheap VOIP for international calling as Cambodia's overseas call rates remain ridiculously high.

Concurrently, operators will make greater efforts to tap the lower-income and rural consumer segments, where telephone ownership remains a novelty. This will require significant capital expenditure in network expansion as most of Cambodia's population is widely scattered around the countryside. Leading this charge, MobiTel recently secured a \$100 mn syndicated loan led by the World Bank's IFC s part of a \$141 network expansion into rural areas, seeking to reach 75% of Cambodia's population. Hello is investing \$150 million for provincial and rural expansion. MetFone appears to have a similar strategy with their immediate heavy network investment, and Beeline plans to go nationwide as well. Mobile payment services such as ANZ Bank's WING money transfer services will help stimulate demand in rural areas where banking access is limited.

Leopard Cambodia Fund is unlikely to invest in a cellular operator due to the overcrowded market, not to mention the amount of investment required. However, there are other emerging segments of the telecommunications industry of potential interest to the Fund, and we will highlight these in future newsletters.