GBCM Research: Vodafone in MoU for Oman Third Mobile Operator License- Event Update

Intense competition expected, Consumers to benefit...

News Announcement

Vodafone has been selected as a "strategic partner" by the telecom's regulator for the creation of a third mobile operator in Oman. According to the Telecommunication Regulatory Authority (TRA), a memorandum of understanding has been signed by the two parties which will kick start the necessary procedures to obtain the operating licence.

In a statement, the TRA said, "Regarding what has been circulating on some websites and social media platforms on Vodafone being granted license to be the third mobile operator for public services in the Sultanate, the public authority confirms that what has been reached is the **signing of a memorandum of understanding between the company owned by the local investment funds and between Vodafone (as a strategic partner) in a move to complete the procedures for obtaining the third operator license** to provide mobile public telecommunications services in the Sultanate in accordance with the directives of the government in this regard."

"TRA welcomes such trade agreements, which is one of the jurisdictions of the licensing entities. The authority regards such agreements as a positive indicator that the telecommunications market in the Sultanate is an attractive market for international and domestic investors, thus enhancing the chances of competition," the authority added.

Last year in December, as per news sources quoting Deputy CEO for Spectrum Management Affairs at the Telecommunication Regulatory Authority (TRA), said the licence for the third mobile communications operator is in the final stage and the announcement will be made early in 2019, the announcement was made during the draw, which was organized by TRA for the frequency domain 3400-3700 megahertz.

According to the outcome of the draw, Omantel was allocated the frequency from 3400 to 3500, Ooredoo from 3500 to 3600 and the third operator from 3600 to 3700, as per TRA rules and regulations.

Source: TRA, Times of Oman.

Event update- GBCM Views:

- As a timeline to this news announcement, during Oct 2017, Oman has canceled the international tender for Third Mobile license and decided to award the same to a consortium of local investment funds and an international operator. **The current news announcement reveals the progress of steps taken towards the introduction of third mobile operator license in Oman.** As per TRA announcement (May 2019), a MoU has been signed between the local company (owned by local Funds) and Vodafone, where Vodafone would be the strategic partner to complete the procedures for obtaining the licence.

- As per earlier news sources, **Vodafone is close to sign a partner market agreement to support the launch of an operator in Oman, under the Vodafone branding**. This would be the third mobile operator in Oman and to compete with Omantel and Ooredoo Oman.

- As per Vodafone website, The Partner Markets division of Vodafone was originally set up in 2002 and it has now grown and expanded to 29 partners in over 40 countries – from Chile to Russia, Iceland to Singapore and most recently, Angola.

- **Typically, we see the Partner agreement as a non-equity agreement in which Vodafone would provide strategic and operational support** in areas which include branding, consumer marketing, technology and business operations. This would be a strategic engagement between the companies to look for potential opportunities to serve the market.

- **We believe the next key timelines towards the commencement of third mobile operations would be towards the formation of the company (post MoU with the local funds and Vodafone as strategic partner), issue of third mobile license (through Royal Decree) and the steps taken towards the creation of commercial terms with the existing operators towards infrastructure sharing (Omantel, Ooredoo and others) to start the operations. We believe that the new company may commence operations during H1 2020 (in another 9-12 months).**

Outlook for Existing telecom companies (Omantel and Ooredoo)

- Post third mobile operator launch, we see a scenario of intense competition in Oman Mobile telecom space which is already highly penetrated (139% Mobile Penetration rate) and this could negatively impact the current operating margins of the existing telecom companies. On the other hand, this news has been anticipated among the telecom players and they are already in the process of countering this competition.

- To counter the entry of third operator, on a strategic perspective, **Omantel has taken a decision to acquire stake in Zain Group (in 2017) to emerge as a multi-market telecom player and this would in a way lower the overall impact.** Currently Omantel is consolidating the performance of Zain group in the accounts, which would act as a hedge to the overall performance.

- On the other hand, **Ooredoo remain as the single market player in Oman and has the support of Parent (Ooredoo Qatar) to work positively on strong branding, procurement, marketing and other benefits.** Currently Ooredoo Oman has an under-leveraged balance sheet which should support the scenario of generating free cash flow to the shareholders.

We expect the local telecom stocks (Omantel and Ooredoo) to react negatively on this news during the coming sessions. Ooredoo Oman is in our Model portfolio, we would continue to retain this name and would remain as buyers if the stock corrects sharply.

Ooredoo Oman is trading at attractive dividend yield of 9% levels (low leverage and free cash flow remain strong) and Omantel is also trading at 20% discount to its book value and provides dividend yield of 8.4% levels. We would need to see the level of correction in both these stocks during the coming days which could bring buying opportunity.

Key Sources given below:

Source: TRA, Times of Oman.

Weblink- https://www.vodafone.com/content/index/what/partner-markets.html

Weblink- https://www.thefastmode.com/investments-and-expansions/14486-vodafone-inks-partner-market-agreement-with-movicel-angola

Stock Rating Methodology:

Buy - Upside more than 20%
Accumulate - Upside between 10% and 20%
Neutral - Upside or downside less than 10%
Reduce - Downside between 10% and 20%
Sell- Downside more than 20%
Not Rated - Stocks not in regular research coverage

LT- Long Term
ST- Short Term

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