Service revenues: emerging market growth, established market dominance

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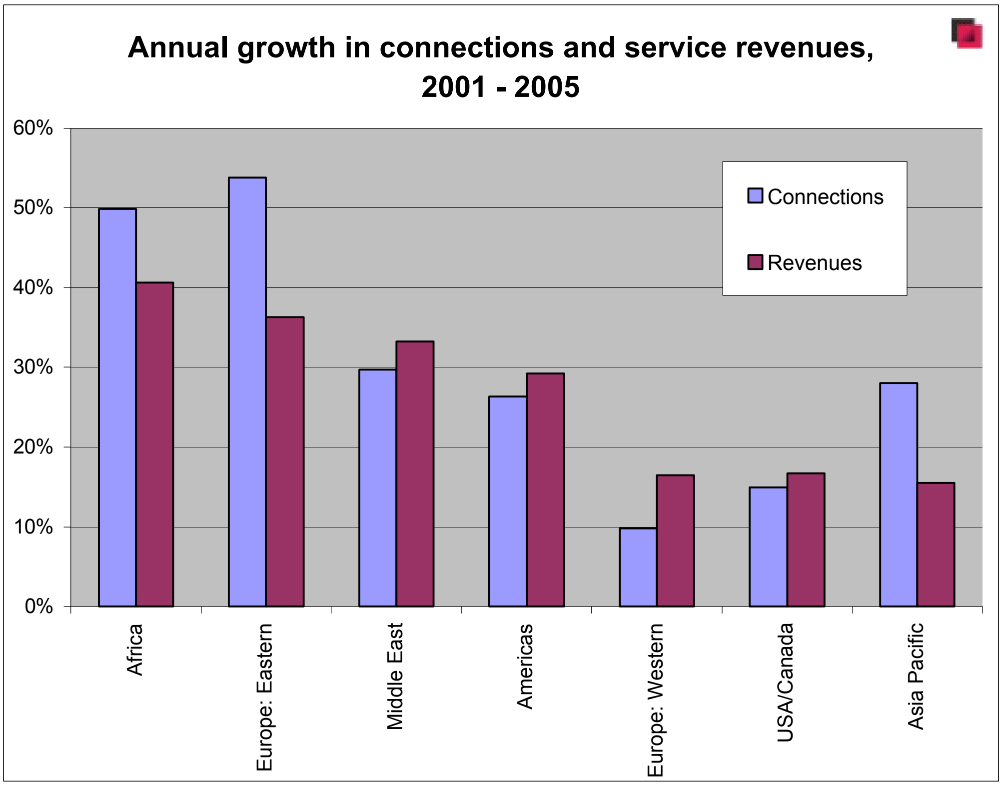
In our previous report we highlighted that, despite global ARPUs falling, service revenue has continued to increase in all regions. In this report we look further into global service revenues and find further evidence of the explosive growth of the emerging markets. But we also report that operators eyeing growth beyond their traditional borders must recognise that success overseas may not be enough to offset revenue slowdown in their established markets.

Figure 1 **Annual growth in connections and service revenues, 2001 - 2005**



Source: Wireless Intelligence, July 06

Wireless Intelligence captures connections data for 92% of world connections and ARPU data for operators accounting for 85% of world connections. We estimate the remainder of the connections data for each unknown operator and calculate total service revenues for each region using the two metrics. We then assess the calculated regional service revenues against reported figures from operators that release service revenue data to ensure our extrapolation is sensible.

All historic data is presented at Q1 2006 currency rates.

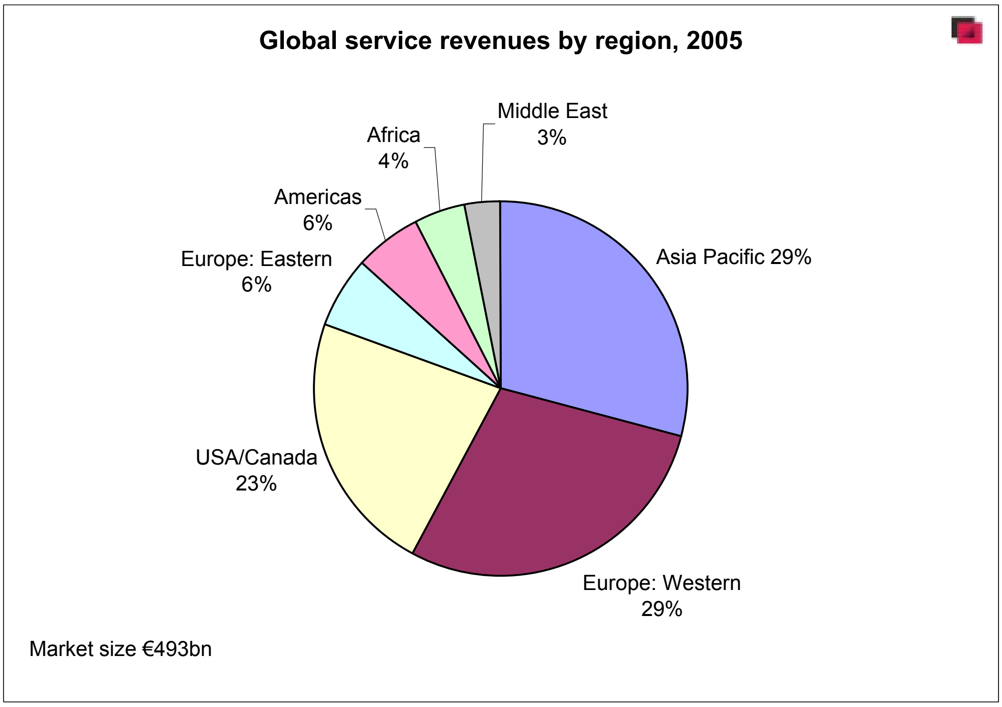
Analysis

Figure 2 shows the contribution from each region to global service revenues in 2005. We estimate the market was worth €493 billion in 2005, up 13% on 2004. In Q1 2006 market growth was again up by over 10% year-on-year, and with a similar pattern expected for Q2 2006, we believe the market will be worth just under €550 billion in 2006.

It is interesting to observe that Western Europe and USA/Canada continue to account for over 50% of global service revenues. This is despite the growth of the wireless intelligence

emerging markets, particularly in Eastern Europe, the Americas and Asia Pacific over the past few years. If the developed markets of Asia Pacific are added to those of Western Europe and North America, then the world's established markets account for nearly two-thirds of the service revenues generated globally.

Figure 2 **Global service revenues by region, 2005**



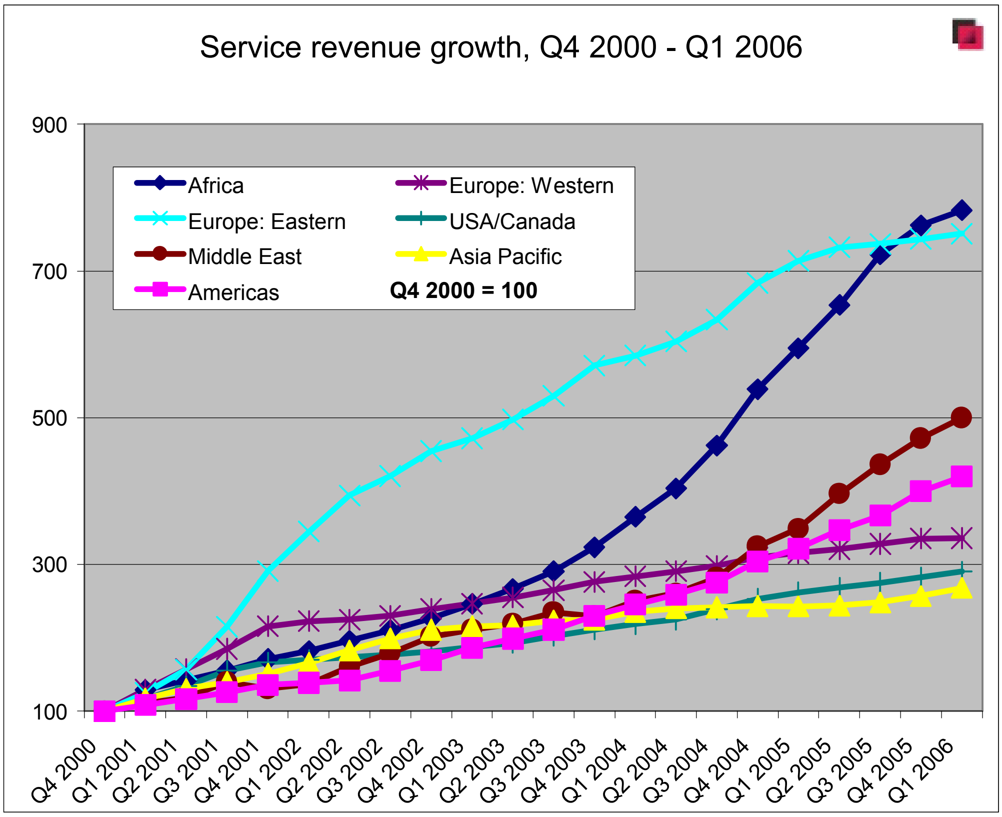
Source: Wireless Intelligence, July 06

But the growth of the emerging markets is also clear to see. *Figure 3* shows the year-on-year change in service revenues by region over the last five years by quarter. The index enables us to highlight the explosive growth of markets in Eastern Europe and Africa, and the strong growth in the Americas and Middle East. Asia Pacific is complicated due to its mix of countries, and the aggregate masks slow growth in established markets and rapid changes in the likes of China, India and many others. Indeed, China alone now accounts for nearly 7% of global service revenues.

Eastern Europe, having been the significant growth story of the past five years, has seen its growth peak and flatten to reflect a more mature market profile. This is not surprising given that many markets on the western edge of the region now have more in common with their saturated Western European counterparts. But there is still room for revenue growth in Russia and to the east. However, it now seems that it is finally time for Africa to take its turn. Significant attention and investment from multinational players, in addition to latent demand and initiatives to make wireless communications more universally available, is likely to mean that

Africa will dominate global growth over the next five years. It is likely that Bangladesh, India and Pakistan will also see solid revenue growth over the same period, but at a regional level this will be diluted by the performance of the established Asia Pacific markets.

Figure 3 **Service revenue growth Q4 2000 - Q1 2006**



Source: Wireless Intelligence, July 06

But can the overall contribution of emerging market growth be overstated, particularly the impact it has on the distribution of global revenues?

Figure 4 shows how service revenue market share has developed by region over the past five years. In a time when there has been huge service revenue growth reported in Eastern Europe, Africa and the Americas, the market shares of Western Europe and North America have not been eaten away anything like as quickly as their market share of subscribers.

Between Q1 2005 and Q1 2006 we estimate that global service revenues increased by €15 billion. During this time, Africa, which has annual service revenue growth of over 30%, accounted for 10% of these additional revenues. Western Europe meanwhile, with a single-digit growth rate closer to 6%, captured 16%.

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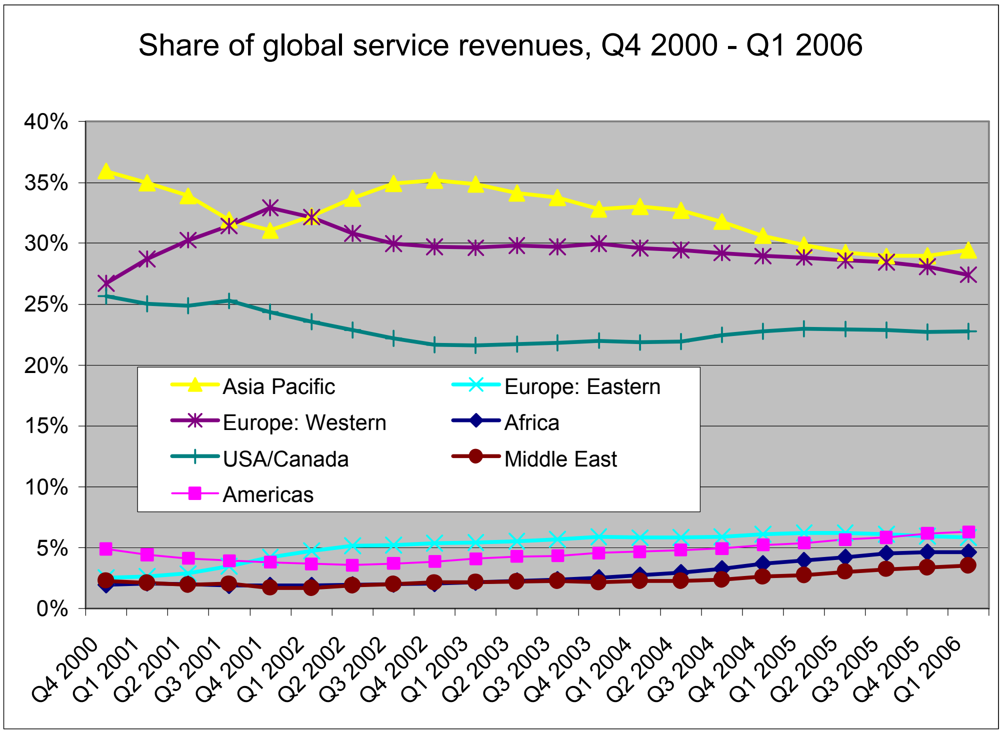
This is further reinforced by the fact that we estimate the established markets of Asia Pacific, Western Europe and North America to continue to account for well over 50% of global capex, despite the major network expansions to be found in emerging markets. Continued investment on this scale is driven by the anticipation of established market users continuing to increase their expenditure.

Figure 4 **Share of global service revenues, Q4 2000 - Q1 2006**



Source: Wireless Intelligence, July 06

But despite this sluggish change in market shares, there is no doubt that the revenue market share of emerging markets as a whole is increasing. And since this brief assessment does nothing to examine the profitability of growth in any market, it makes no judgement on the wisdom or otherwise of investing in emerging markets.

What it does do, however, is demonstrate to operators that spectacular growth overseas can easily be watered down by the performance of established markets. And worse, this bias can mean that if the growth in operators' established markets becomes hard to find due to market conditions or poor performance, contribution of emerging market successes, particularly in the short term, may well not be enough to cover top-line growth expectations.