

Mobile market in Georgia

Market overview

June, 2020



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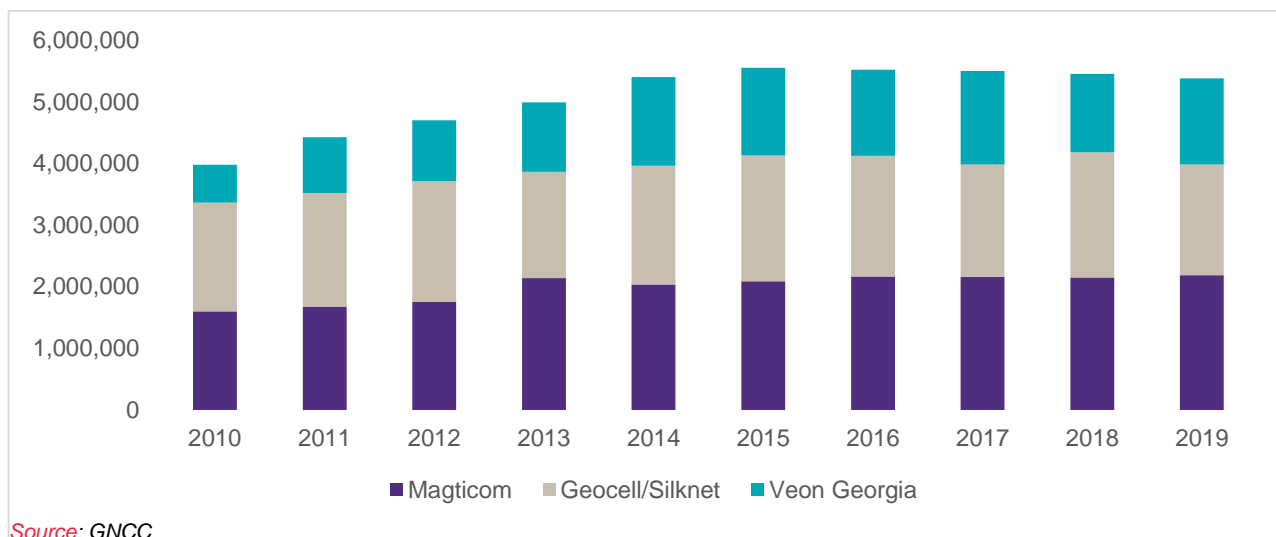
Key Facts

1. Georgian mobile market is among the smallest (26th in our benchmark based on number of subscribers) in Europe, with 5 million subscriptions and slight decrease in this number;
2. In Georgia a high mobile penetration of 135% is present. This proves the affordability of the services since some people own multiple active SIM cards.
3. The market run by three Mobile Network Operators (MNO) shows nearly the lowest Average Revenue Per User (ARPU) of 2.5 EUR per month compared with other countries in Europe, which of course offers smaller absolute margin;
4. The facts that Georgian market ARPU and effectively the total revenue are very low in comparison to Europe strongly support the premise that Georgian mobile market has very limited space for new market entrants, as it seems very unlikely that new market entrants could offer even lower prices than the existing MNOs;

Subscribers & Penetration

Firstly, we look at the number of mobile subscribers in Georgia in the last 10 years. While we can see a certain growth in the number of subscribers in the first few years of the decade, this trend has not continued through to the recent years, where we can see a minor decline in the number of subscribers. This sudden end of the growth in 2015 and steadiness in the last few years suggest that Georgia has reached the ceiling of the mobile subscribers potential with not much space left for further growth in the number of subscribers.

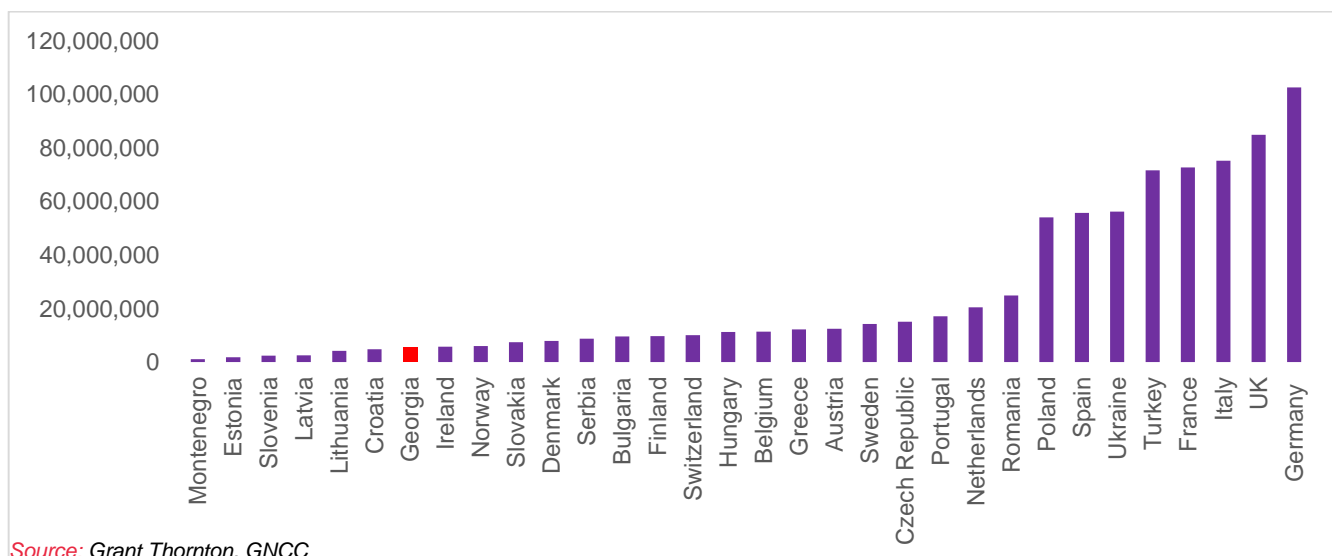
Figure 1: Number of Mobile Subscribers in Georgia



Source: GNCC

The chart below shows a comparison of the number of subscribers between European countries and Georgia. While this figure does show Georgia rather low with regards to total subscribers, it is due to a lower number of inhabitants compared to most European countries. This will be further analysed in Figure 4.

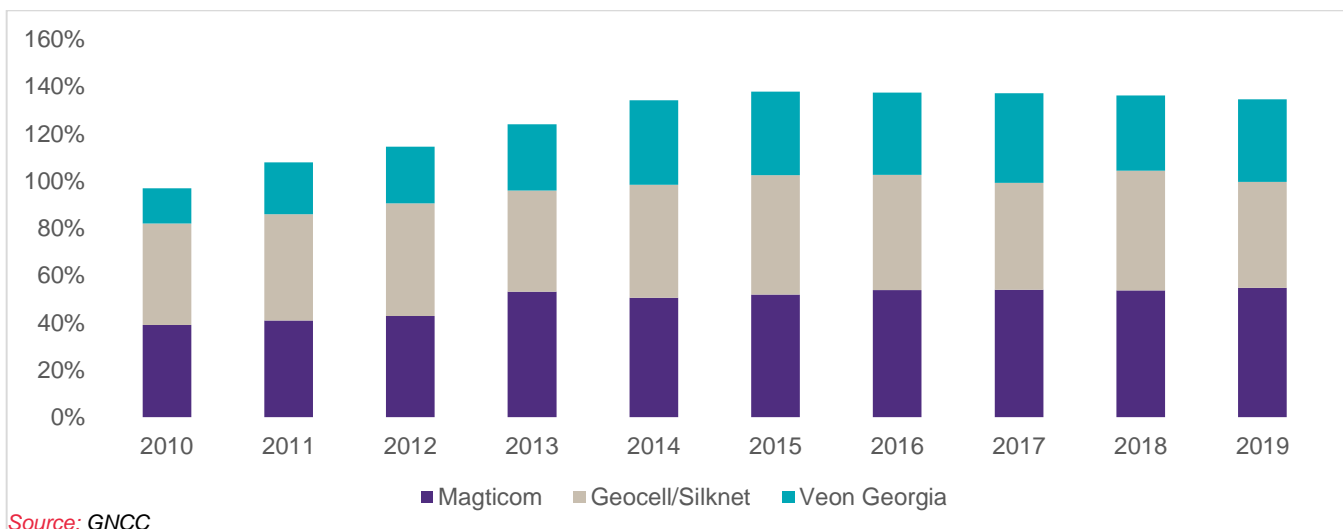
Figure 2: Subscribers Europe [Q4/2019, 2020 for Georgia]



Source: Grant Thornton, GNCC

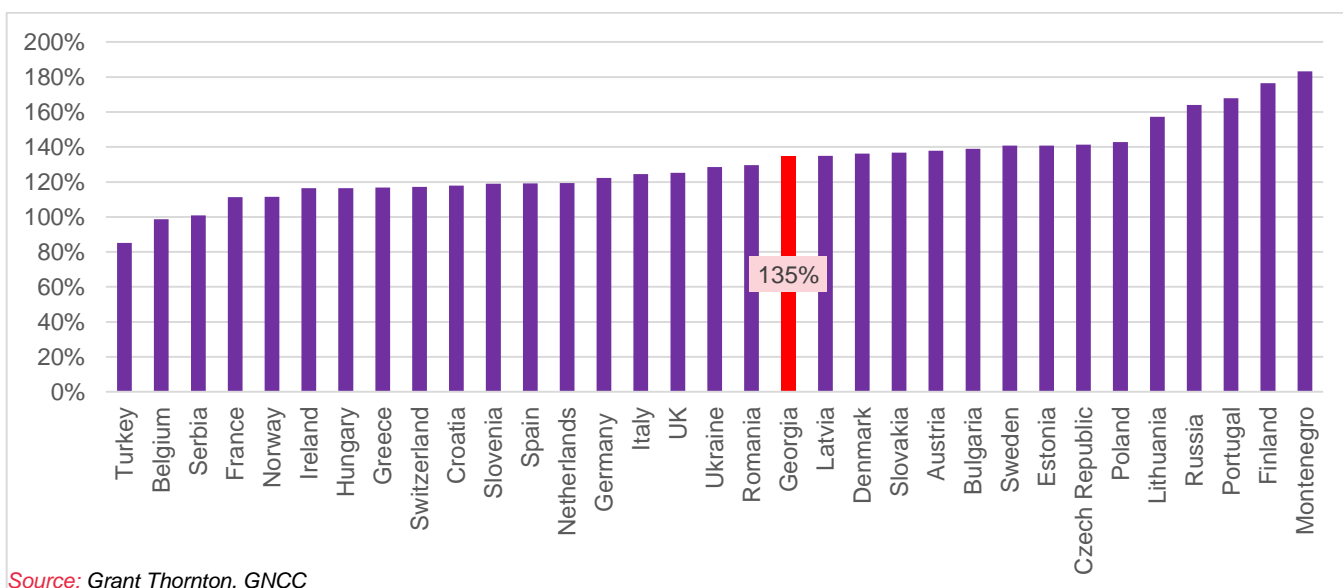
The chart below shows the level of subscriber penetration. We can see a similar growth tendency as in Figure , with a slightly more noticeable decline in the last few years where the penetration has fallen from 138% in the year 2015 to 135% in 2019. However, that is still a very respectable number especially compared to only a 97 % penetration in 2010. This also shows that the number of users is not decreasing as can be seen in **Error! Reference source not found.**, but rather the penetration decreases by a few percent's.

Figure 3: Georgia Mobile Subscriber Penetration



However most importantly, 135 % mobile subscriber penetration places Georgia above the European average subscriber penetration as shown on the following chart. The average subscriber penetration of all selected countries is 131 %, while the overall European penetration is at 128 %. This further supports the premise that Georgia has reached the optimal number of subscribers and does not currently offer significant space for new market entrants to attract new subscribers, but rather to overtake the ones from the competitors.

Figure 4: Subscriber penetration Europe [Q4/2019, 2020 for Georgia]

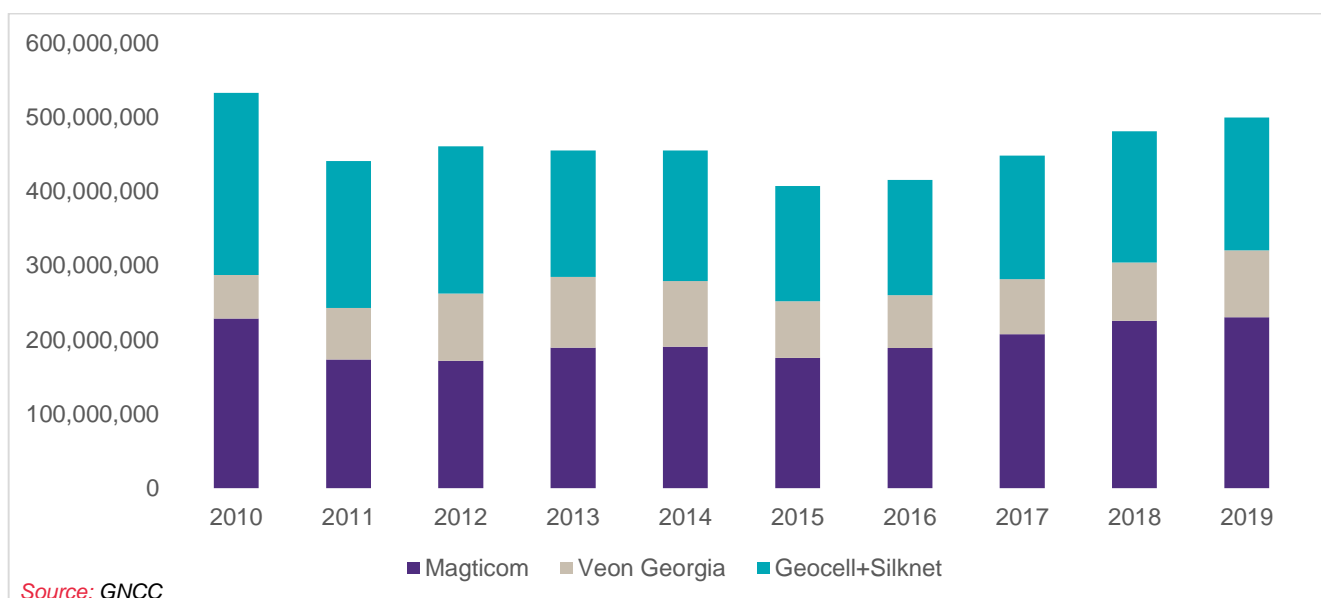


Retail Revenue and ARPU

Retail Revenue

We further move on to the category of revenue to see how well the Georgian mobile market has performed in the last decade. Firstly, we look at the overall total mobile retail revenues in Georgia, where we can see a decrease in revenue from 533 million GEL in 2010 to only 499 million in 2019. However, this is mainly due to a significant drop in revenue between the years 2010-2015. Since 2015, the market has maintained stable growth, but at the end of 2019 still finds itself 6% lower than in 2010. This is also interesting since the main drivers are prices and volumes, while volumes grow the average prices must decrease accordingly.

Figure 5: Mobile Retail Revenue in Georgia [GEL]

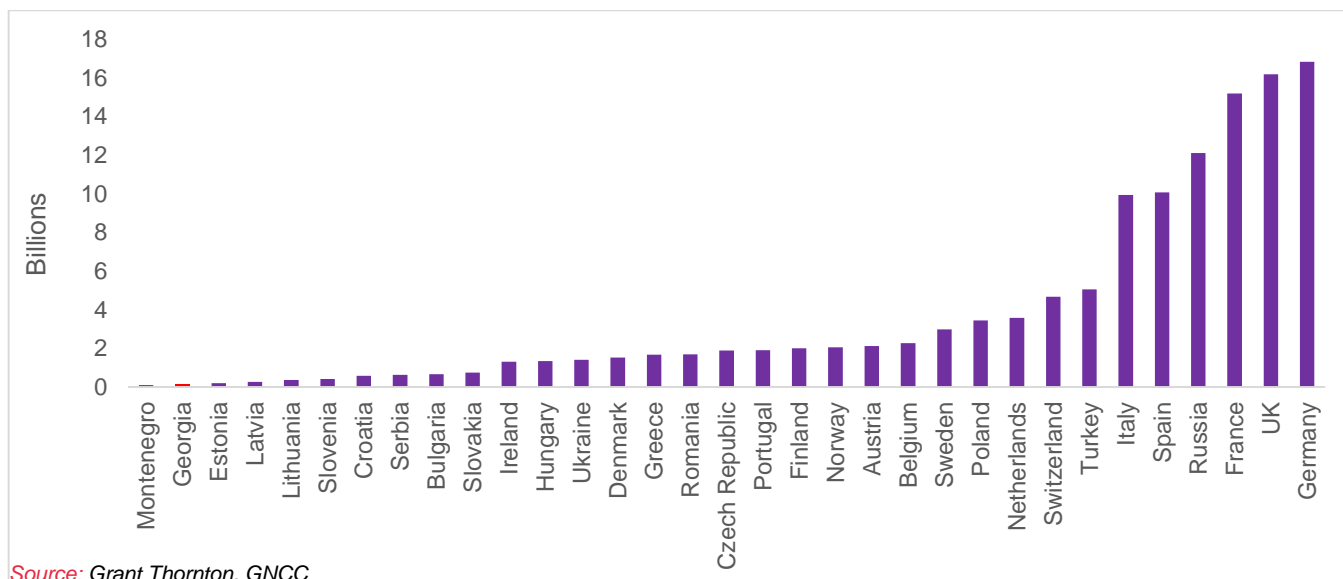


In comparison to the rest of Europe, the total revenue of the Georgian mobile market is staggeringly low. Georgian market ranks 2nd lowest in terms of revenue with only Montenegro ranking lower. While the market size and purchasing power certainly play an important role in the country's placement on this graph, Georgia places even lower than countries with a considerably lower population like for example Slovenia or Lithuania.

Also, no matter how big the country is, or subscriber base is, some costs are fixed and need to be paid in the nearly same amount and can, therefore, play a more significant role in the budget in smaller markets such as Georgia.

Among other important facts is, that the current situation with COVID-19 will dramatically influence all sectors among which telecoms revenues are expected to decline by 3.4% on average in developed markets in 2020. This will result in an even higher decline in countries that are more sensitive to price.

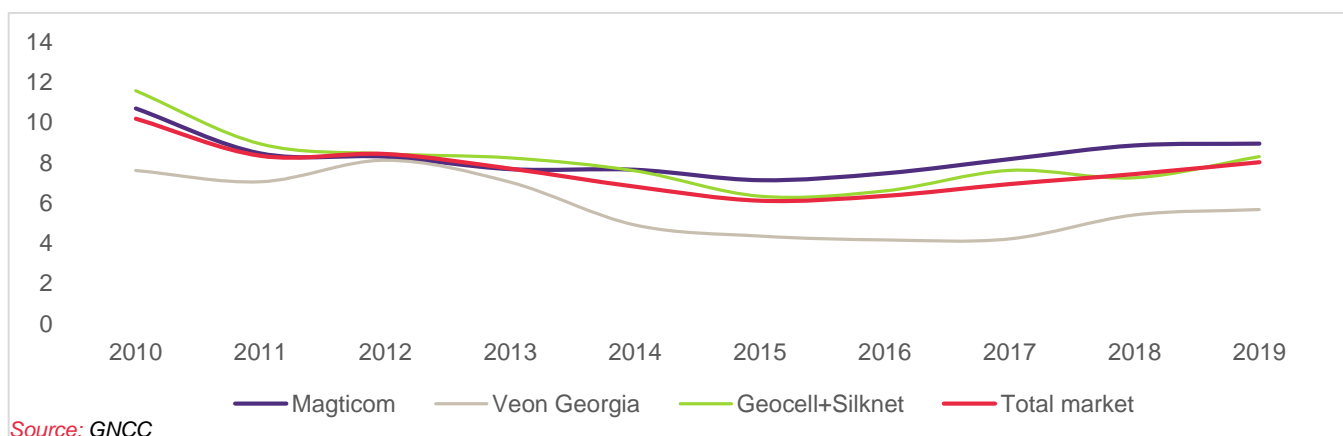
Figure 6: Retail Revenues in EU [EUR, Q4/2019, 2020 for Georgia]



ARPU

As mentioned above, when comparing the total revenue of countries, the population plays an important factor and as such, it is important to look at revenue through ARPU which allows comparing the revenue per one user which eliminates population's size effect.

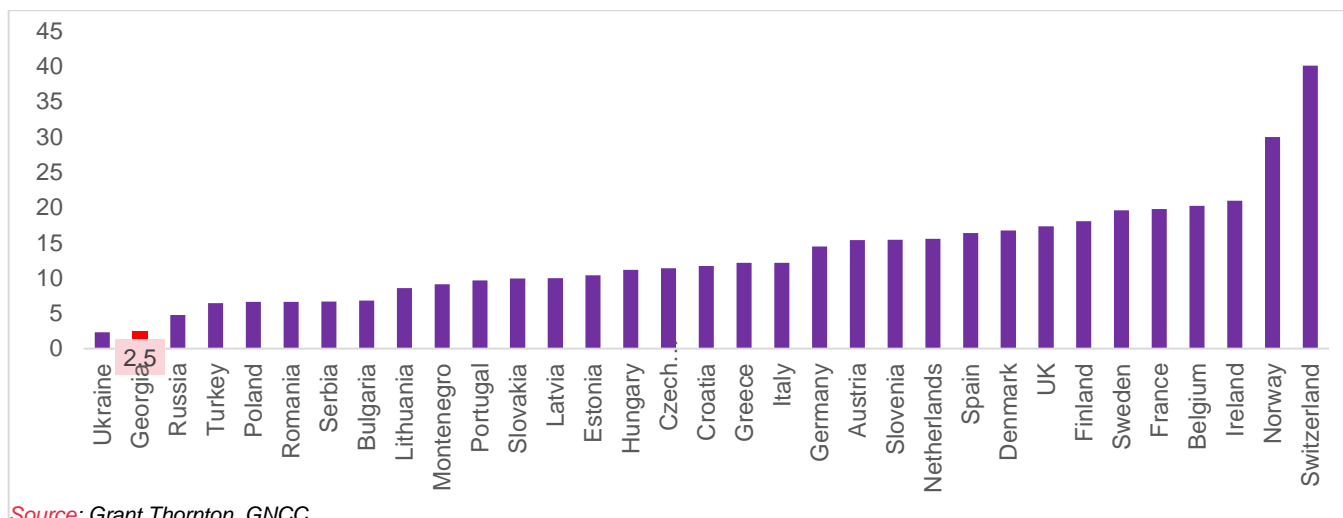
Figure 7: ARPU in Georgia [GEL]



The chart above shows the ARPU of Georgia's MNOs in the last decade as well as the total market ARPU. From this chart, we can see similar trends to Figure 6 as there is a significant drop in ARPU between the years 2010 and 2015, with a steady growth after 2015. This trend with only minor differences applies to all major providers. In this case, however, the overall fall from the year 2010 to the year 2019 is over 20% as ARPU in 2010 was 10.2 and ended up at 8.03 in 2019.

This much bigger fall is due to this chart being affected by the number of total users. In **Error! Reference source not found.** we have seen that the total number of subscribers in Georgia has risen from almost 4 million in the year 2010 up to 5.4 million in 2019, and therefore ARPU has fallen even more than revenue.

Figure 8: ARPU in EU [EUR, Q4/2019, 2020 for Georgia]



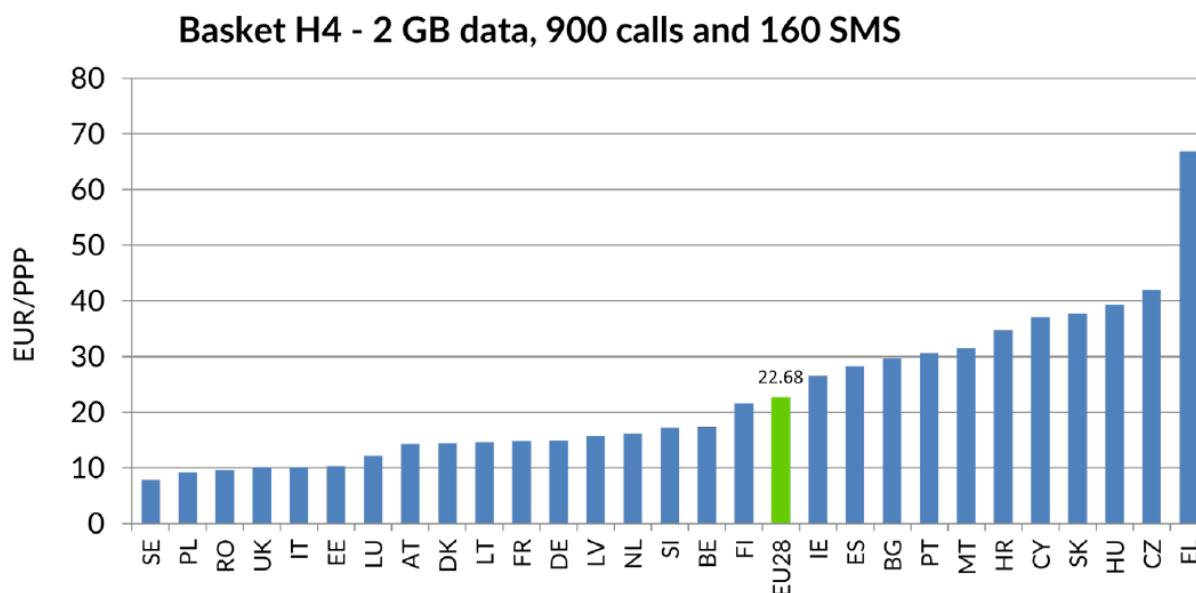
As mentioned above, the Georgian mobile market placed surprisingly low in terms of total revenue. That can be partially due to population size and other factors. However, when we compare ARPU, we eliminate the population factor, and we can see that the Georgian market still places 2nd lowest, this time only behind Ukraine, as seen on the chart above. The arithmetic average ARPU of all listed countries is at 13.3 EUR, which is more than 5 times the ARPU of Georgia (2.49 EUR).

This shows that Georgian market ARPU and effectively the total revenue are very low in comparison to Europe which strongly supports the premise that Georgian mobile market has very limited space for new market entrants, as it seems very unlikely that new market entrants could offer even lower prices than the existing MNOs.

Retail prices

According to the study "Mobile prices in Europe 2019" the EU average price for the mobile basket consisting of 2 GB data, 900 calls and 160 SMS was at 22.68 EUR/PPP. Prices in Romania, Sweden, and Poland were below 10 EUR/PPP, ranging from 7.89 EUR/PPP in Romania to 9.69 EUR/PPP in Poland. More than half of the EU Member States (16 out of 28) had offers below 20 EUR/PPP.

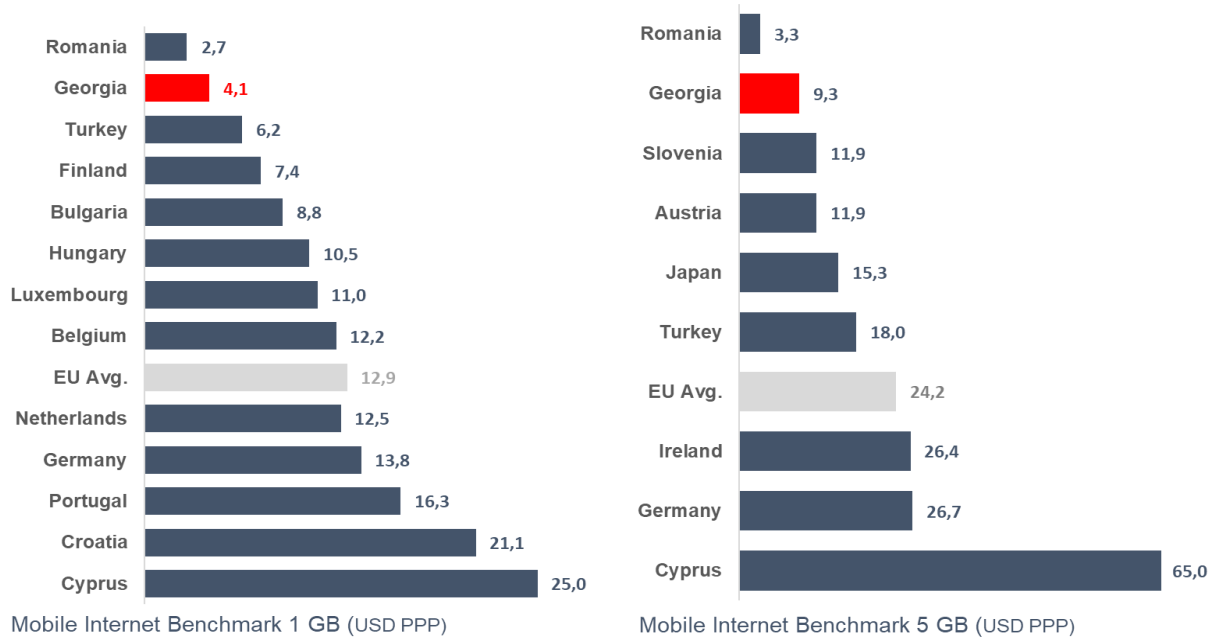
Figure 9: The chart from the study “Mobile prices in Europe 2019” for the usage basket with 2.0 GB data, 900 calls, and 160 SMS



When comparing the EU benchmark with offers of Magticom who provides mobile package of unlimited calls, SMS and 3 GB of data for monthly fee of 30 GEL (9,53 EUR per month) and Beeline who provides mobile package of unlimited calls, SMS and 3 GB of data for monthly fee of 25 GEL (7,94 EUR per month), monthly prices of mobile packages offered by Magticom and Beeline are significantly below European average. Although this compares the prices of one out of then benchmarked combined mobile packages (voice, SMS and data) we believe that comparison of other benchmarked packages between EU countries and Georgia would yield the same result.

When discussing further price benchmark, GNCC showed in their report that for mobile data in the extend to 1 GB package and 5 GB package the prices on Georgian market are among the lowest compared in the view of PPP. Below in the next figure can be seen the benchmark, which shows Georgia as the second cheapest country even when comparing PPP adjusted prices.

Figure 10 - Comparison of mobile internet prices [1GB & 5GB]

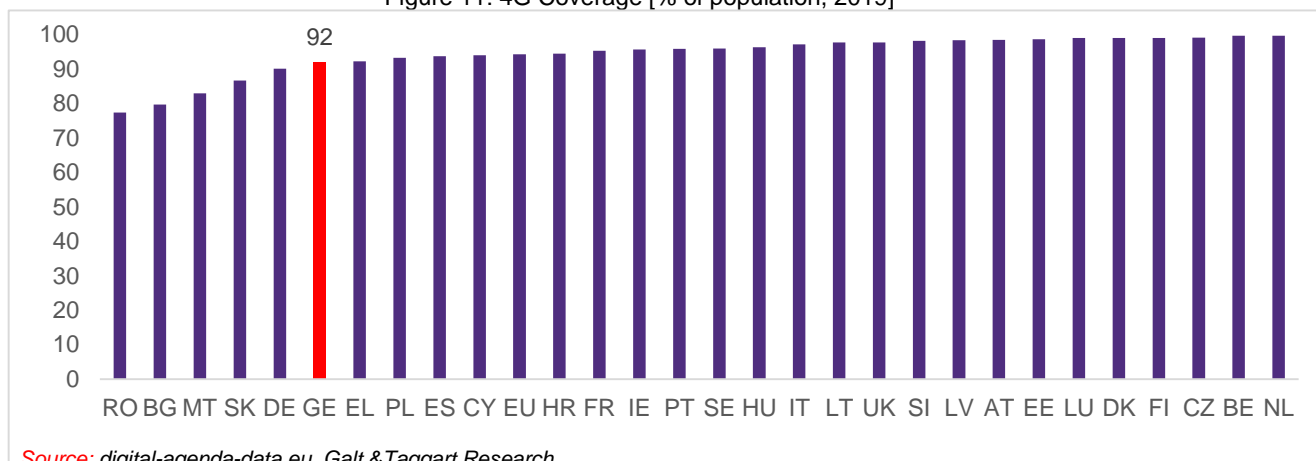


Source: GNCC report 2019

Mobile coverage and investment

The following chart shows the percentage of households covered with 4G infrastructure in Europe and Georgia. We can see that Georgia, although placing in the second half among other European countries as of 2019, reached 92 % coverage of the population. If Georgia wants to catch up with other countries it is crucial to maintain stable investment into mobile networks, since the last 10% of population coverage is the most expensive.

Figure 11: 4G Coverage [% of population, 2019]

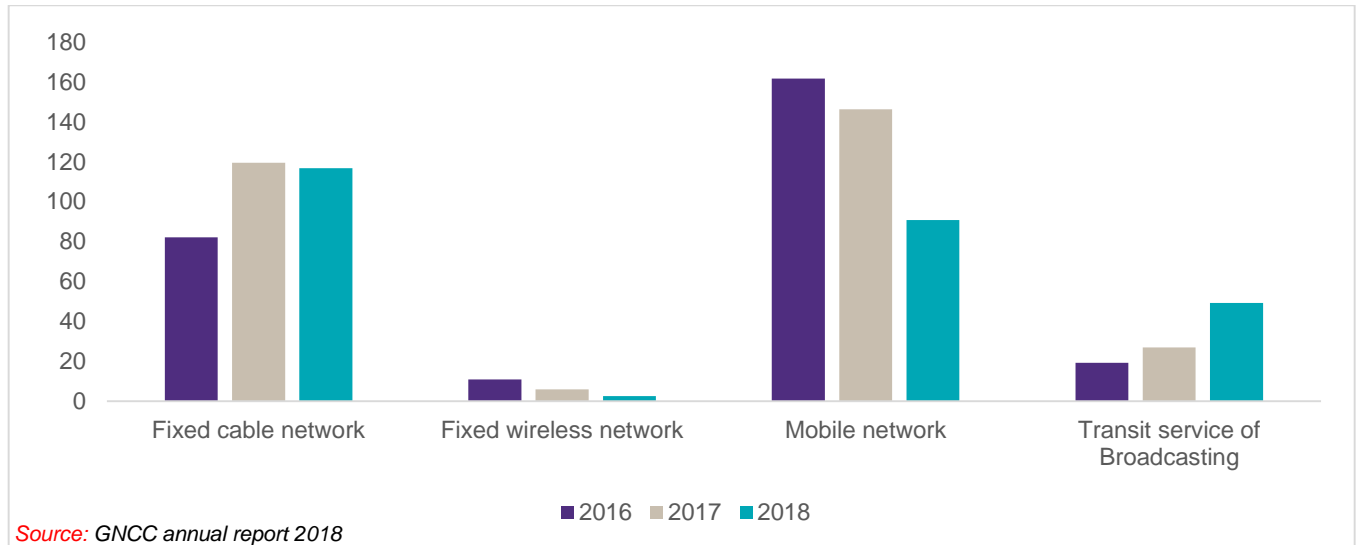


Source: digital-agenda-data.eu, Galt & Taggart Research

Net profits of Magticom has increased from 2016-2018 by approximately 16-17% YoY. In contrast, Veon Georgia's losses grew substantially and reached 193 million in 2018. As for Silknet, there was a steady decline and it can be explained by the preparation and execution of the takeover of Geocell.

In the following chart, we look at the investments made into Georgian mobile networks in the last couple of years. We can see that the investments have significantly decreased from 162mil GEL in 2016 to 91mil GEL in 2018. This copies the usual investment trend connected with 4G deployment. While it is true that investments will naturally decrease after a significant portion of the network has been built, it is imperative that a certain level of investment is maintained. This is especially important for Georgia, which as we have seen on the previous chart has the 6th lowest 4G coverage when compared to Europe and as such requires further investing. A significant level of investment (which can exceed hundreds of millions of USD) will also be required eventually for a 5G network. The decrease of investment can be explained as, in the future view of needed investments for spectrum auction and 5G deployment, a focus shift, and the start of saving necessary resources for new technology deployment. This trend can also be seen in the decrease of mobile network investment overall.

Figure 12: Investments in Electronic Communications [mil. GEL]



With new player entering the market, this decline in investments will probably drop even further. With more players on the market, an investment into new networks becomes a far less attractive option for any company, as entry of new player might significantly lower existing MNO's market share. There is therefore very low probability that investment incentives of MNOs will increase after entry of new mobile operator. We may assume, that new player entry would most likely decrease Georgia's level of mobile network development and improvement in comparison to other countries.

Glossary

VAT	Value added tax
GDP	Gross domestic product
PPP	Purchasing power parity
SMP	Significant Market Power
ARPU	Average revenue per user
MNO	Mobile network operator
GNCC	Georgian National Communications Commission
5G	Fifth generation
EU	European Union
SIM	Subscriber Identity Module
GB	Gigabyte
GEL	Georgian lari
SMS	Short message service
OECD	Organisation for Economic Co-operation and Development
JV	Joint Venture
GHZ	Gigahertz
COVID	Coronavirus
EUR	Euro
SE	Sweden
PL	Poland
RO	Romania
UK	United Kingdom
IT	Italy
EE	Estonia
LU	Luxembourg
AT	Austria
DK	Denmark
LT	Lithuania
FR	France
DE	Germany
LV	Latvia
NL	Netherlands
BE	Belgium

FI	Finland
EU28	28 European Union Countries
IE	Ireland
ES	Spain
BG	Bulgaria
PT	Portugal
MT	Malta
HR	Croatia
CY	Cyprus
SK	Slovakia
HU	Hungary
CZ	Czechia
EL	Greece
4G	Fourth generation
YOY	Year on Year
USD	United States dollar
BEREC	Body of European Regulators of Electronic Communications
CAGR	Compound Annual Growth Rate
CAPEX	Capital Expenses
OPEX	Operating Expenses
M&A	Mergers and acquisitions
NRA	National Regulatory Authorities
EC	European Commission
MB	Megabyte
HHI	Herfindahl–Hirschman Index
TV	Television
VOD	Video on demand
€	Euro

Disclaimer

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The report is based on a number of assumptions and analyzes conducted by our team, which were based on information available on public sources at the time of the preparation of this report.

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