The African Fiberco "Big Three": Seacom, MainOne, Liquid Telecom & the Case for African Fiber Consolidation

EXECUTIVE SUMMARY

Few companies outside of mobile network operators have done as much to transform the African Internet as MainOne, Seacom, and Liquid Telecom. We refer them Africa's Big Three Fibercos – the largest pan-African operators whose businesses were built upon, and have traditionally been rooted in the provision of fiber infrastructure.

The three companies are the continent's largest independent cross-country fiber plays. Together, they are largely responsible for upending African international capacity markets, driving sharp cuts in international wholesale prices by close to 80 percent over the past six years. This analysis examines where they go from here.

The top-line traffic projections that underpinned the development of African fiber models have largely come to fruition. The number of Internet connections in the markets covered by the Big Three Fibercos has risen 5x-10x over the past five years. Data traffic is exploding, and more than 75 percent of fixed broadband connections will be fiber-based over the long term in many markets.

But the fibercos are facing a number of fundamental challenges. Traffic growth is increasingly decoupled from wholesale capacity sales growth. African demand for leased international capacity is structurally unbalanced, the international fiber segment is oversupplied and fiber asset utilization rates are suboptimal. In effect, we believe the African international capacity business is now somewhere between a cash cow and a dog, and the economic value has moved to metro and enterprise markets. In turn, the Big Three Fibercos have to act.

The African Fiberco "Big Three": Seacom, MainOne, Liquid Telecom & the Case for African Fiber Consolidation examines the strategic options available to each of the three companies, based on international experience, the dynamics of their core geographies and the state of their current network infrastructure and service portfolio. It also examines the consolidation potential of each of the fibercos, either as acquirers or as acquisition targets. We argue that there is potentially more value in domestic market consolidation than in a combination of the Big Three Fibercos; we also note that each of the three companies would be a great fit for a number of players, such as Etisalat or Vodacom Business.
Sample key findings of *The African Fiberco "Big Three": Seacom, MainOne, Liquid Telecom & the Case for African Fiber Consolidation* include the following:

- Africa's Big Three have a number of strategic options, built around two main directional approaches: 1) strengthen the bandwidth infrastructure core, with expansion in national and metro and more depth at country level; 2) expand the breadth of the service portfolio; and 3) some combination of the above two approaches.

- We look at a scenario for consolidation between the Big Three and find that while it would provide a relatively unmatched pan-African fiber reach, a merging of Seacom, Liquid and MainOne wouldn't really fix some of the underlying business challenges faced by each player.

- We also looked at the consolidation potential within each of the fiberco's core markets and find this to be a more appealing consideration. A number of fiber markets are relatively inefficient (Nigeria, most notably), and we see substantial value in targeted acquisitions allowing the fiberco to fill critical gaps in the metro, domestic backbone, cloud and enterprise markets.

- We finally examined the fiberco as potential acquisition targets for global telcos or African integrated players. We say the global player (e.g., Level 3, BT Global, Tata Communications) case for a fiberco acquisition is not compelling at this stage.

- By contrast, a combination with a number of integrated mobile operators could have merit. We say MainOne would be a great fit in the Etisalat portfolio, and like the potential matching up of Vodacom or Internet Solutions with Liquid, or PCCW Global with Seacom.

*The African Fiberco "Big Three": Seacom, MainOne, Liquid Telecom & the Case for African Fiber Consolidation* is published in PDF format.