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Bosnia Telecommunications Report Q4 2012

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Abstracts

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Executive Summary

BMI View: Bosnia's telecoms market remains one the least developed in Central and Eastern Europe and as such represents a significant growth opportunity for operators and telecoms equipment vendors.

Although the Bosnian market is demarcated into three distinct historical concession areas for the three incumbent telecoms operators - the result of the country being split into two distinct political regions, the Federation of Bosnia & Herzegovina (FBiH) and the Republika Srpska, competition outside historical concession areas is beginning to intensify. In addition, the regulator is promoting competition through the implementation of mobile number portability. We expect the liberalisation of the sector to boost growth in the medium term; however, considerable growth potential remains untapped as a result of the historical market structure that is only slowly eroding.

Key Data

BMI calculates that the Bosnian mobile market grew by 3.5% y-o-y in 2011 to reach 3.17mn subscribers and penetration of 84.5%. This is slightly lower than previously estimated and is a result of the downgrade of subscriber figures for third-ranked HT Mostar to reflect regulatory data. The only available Q112 operator data is from Mobilne Srpske, with its parent company Telekom Srpske, reporting a net loss of 42,000 subscribers.

New data from the regulator, CRA, showed Bosnia's fixed-line market to be declining faster in 2011 than 2010, with the rate of decline accelerating to 4.5%.

However, CRA data for the fixed broadband market showed strong growth, with total subscriptions increasing 39.2% to reach 430,247 at YE11.

Key Trends & Developments

BH Telecom remains the largest operator across all segments and has the largest historical concession area, in the FBiH. Telekom Srpske is the second largest operator and is responsible for the second largest region, the Republika Srpska. Meanwhile, HT Mostar is the smallest incumbent operator, is active in Herzegovina and is the smallest of the three. However, the three mobile operators are increasingly competing outside their traditional concession areas, which BMI believes will help to drive further subscriber growth.

The implementation of mobile number portability (MNP), allowing consumers to transfer between operators while retaining their number, is also expected to promote competition, thereby driving down prices and catalysing growth. However, the implementation of MNP is yet to be completed. In July 2012 the CRA revealed that was beginning legal action against HT Mostar for its failure to fully implement mobile number portability, following on from the fines issued in 2011 and earlier in 2012. Although the CRA has stated it will initiate legal proceedings, it has not indicated what penalty it might impose on the operator.

Meanwhile, CRA data for Bosnia's wireline markets revealed new trends. Although the fixed-line market's decline accelerated in 2011 CRA data reveals that the IP telephony market has begun to take off, with 38,933 subscriptions at YE11. BMI believes this is an indication of the take-up of converged services, which presents revenue growth opportunities for operators. Further, there are cost synergies between converged services from investment in broadband network infrastructure and the utilisation for mobile backhaul purposes. This could make a positive contribution to the mobile broadband market in Bosnia, which is trailing its regional peers.

Finally, Bosnia made a significant move up BMI's Risk/Reward Ratings this quarter as a consequence of improved Industry Rewards and Country Risks scores. Bosnia moved off the bottom of the table and up to 14th position in Q412. The primary factors were the inclusion of ARPU data reported in local media, which was higher than we had previously estimated. Further boost was provided by an 11.2 point rise in the Country Risks category due to the inclusion of new data measuring policy continuity risks and

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the country's legal framework. However, Bosnia continues to have the lowest score in the region in this category as it continues to face significant challenges, still affected by the legacy of conflict from 20 years ago.

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