Telecommunications sector

Nordic Investment in Mexico

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Overview

The Telecommunications sector is one of the most important sectors in the country and it represents 4.7% of the GDP. According to the regulatory body Ifetel, the investments in the sector rose to almost 5 billion USD by the end of 2013.

The Telecommunications sector in Mexico has, up to now, been heavily dominated by one key player; América Móvil, which accounts for 70% of the mobile market through Telcel and around 70% of the fixed market through Telmex. TV and Radio Broadcasting services have been dominated by Televisa with a market share of 67%.

América Móvil’s market share:

<table>
<thead>
<tr>
<th>Service</th>
<th>Total (millions)</th>
<th>América Móvil (millions)</th>
<th>Market share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed Telephony</td>
<td>20.34</td>
<td>13.74</td>
<td>67.6</td>
</tr>
<tr>
<td>Fixed Internet</td>
<td>13.44</td>
<td>9</td>
<td>66.9</td>
</tr>
<tr>
<td>Mobile Telephony</td>
<td>102.61</td>
<td>71.96</td>
<td>70.1</td>
</tr>
<tr>
<td>Mobile Internet</td>
<td>14.45</td>
<td>8.96</td>
<td>62</td>
</tr>
<tr>
<td>Pay TV</td>
<td>14.38</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Mobile radio location</td>
<td>0.03</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Fleet communication</td>
<td>3.39</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total number of users</strong></td>
<td><strong>168.64</strong></td>
<td><strong>103.66</strong></td>
<td><strong>61.5</strong></td>
</tr>
</tbody>
</table>

Source: Ifetel

Televisa’s market share:

<table>
<thead>
<tr>
<th>Group</th>
<th>No. of stations</th>
<th>Population (millions)</th>
<th>MHz/Pop (millions)</th>
<th>Audience (%)</th>
<th>Commercial Audience (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Televisa</td>
<td>250</td>
<td>394.3</td>
<td>2,365.8</td>
<td>65</td>
<td>67</td>
</tr>
<tr>
<td>%</td>
<td>54.35</td>
<td>53.56</td>
<td>53.56</td>
<td></td>
<td></td>
</tr>
<tr>
<td>TV Azteca</td>
<td>180</td>
<td>270.4</td>
<td>1,622.40</td>
<td>28</td>
<td>29</td>
</tr>
<tr>
<td>%</td>
<td>39.13</td>
<td>36.7</td>
<td>36.7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td>30</td>
<td>71.5</td>
<td>429</td>
<td>6.4</td>
<td>4</td>
</tr>
<tr>
<td>%</td>
<td>6.52</td>
<td>9.71</td>
<td>9.71</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>460</strong></td>
<td><strong>736.2</strong></td>
<td><strong>4,417.2</strong></td>
<td><strong>100</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Ifetel
The lack of competition in the sector has resulted in high tariffs, both for consumers as well as for companies which has delayed the adoption of new services. Compared to other OECD countries, the investments per capita are low as well as the market penetration for the fixed, mobile and broadband markets. According to the Competitive Intelligence Unit (CIU), in 2013, only 49% of all smartphone owners used mobile internet services. A market study done by the Mexican government showed that only 26% of all Mexican homes have internet access and a mere 32% have a computer.

During 2013, the investments decreased by 27% compared to 2012, as a consequence of the long and complex process to approve the telecommunications reform. One year after the promulgation of the reform, it is estimated that the delay of the secondary legislation had disabled private investments of 48 642 million MXN and 9 944 million MXN in public investments. For the second half of 2014 and during 2015 it is expected that the investments will increase, thanks to the passed reforms. The outlook for 2015 is to attract foreign investments above 30 billion USD.

**Key Data**
The telecom market in Mexico is the second biggest in Latin America.

- 102 million mobile subscribers.
- The pre-paid segment accounts for 85% of the market.
- Most mobile phones sold are feature phones, although smartphone sale is growing; in 2013, there were 26 million smartphones in the market (28%).
- 3G services have been available for several years; the demand for mobile data services is growing.
- There are 13.8 million broadband Internet users.
- The broadband penetration rate is 12.6% (business and residential users).
- The broadband Internet market is showing strong growth with several operators present.
- By 2017, the broadband Internet market is estimated to grow to 23.4 million users.
Telecommunications Reform

To increase the investments and the competitiveness of the sector, the President Enrique Peña Nieto signed the decree enacting the constitutional reform on June 10, 2013 and promulgated the same on July 14, 2014.

The reform is based on three pillars: 1. National coverage, 2. Competitive prices, 3. Quality of service. The main initiatives of the reform are the following:

- Foreign investment will be permitted up to 100 percent in telecommunications and satellite communications, and up to 49 percent in radio broadcasting.

- Two new autonomous constitutionally-regulated agencies are to be created: The Federal Telecommunications Institute (Ifetel) and the Federal Economic Competition Commission (Cofeco), the latter to replace the current Competition Commission.

- Ifetel is granted the following rights:
  - Award and revoke operating licenses for the telecommunications and broadcasting sectors.
  - Impose limits to concentration of frequencies, operating licenses and market share and if necessary, even force sale of assets.
  - Guarantee economic competition and content plurality.
  - Eliminate any hurdles to free competition.
  - Establish costs for granting licenses.
  - Establish fines up to 10% of yearly income if rules are repeatedly violated.

- A federal policy of “universal digital inclusion” that will develop infrastructure, access and high-speed connectivity to permit broad use of digital technology throughout Mexico.

- The Government is to build a backbone network for broadband access and other telecommunications services, planned to be running in 2018.

- Update the legal framework of the telecommunications industry to provide better legal certainty with a single law covering services, networks and the spectrum through federal concessions.

- Increase rights of users of telecommunications and radio broadcast services by making the sector a “public service of general interest” for the country.

- Pay TV companies are obliged to re-transmit open TV channels free of charge to its subscribers and the public TV companies are obliged to offer their channels to pay TV companies without cost, known as “must carry”, must offer”.

- Wider coverage nationally through fiber optic broadband infrastructure.
Control of market share

América Móvil and Televisa were declared dominant players by Ifetel, as their market share exceeded 50%. This meant that they were obliged to comply with a series of measures imposed by Ifetel so that a free, competitive market situation would prevail.

Grupo Televisa’s main obligations:
• Grupo Televisa should share its infrastructure (towers, rights of way, sites).
• Grupo Televisa to inform Ifetel of the terms and conditions of their advertisement services; including commercials, discounts and packages.
• Exclusivity: It is prohibited to acquire certain exclusive content (to be defined by Ifetel)
• Public TV channels– Grupo Televisa should offer its TV channels to third parties, as they do to their subsidiaries and affiliate companies.
• Grupo Televisa is prohibited to financially participate in or influence the administration of the dominant player in the telecommunications sector.

América Móvil’s main obligations:
• Forced to share its infrastructure, such as towers, rights of way, sites.
• Open up the “last mile” broadband access to other carriers, with a new cost structure.
• Allow interconnection for other carriers in their local and long distance networks. Fees are regulated by Ifetel.
• The roaming tariffs for whole sale services for visiting users will be freely agreed between the parties.
• It will be forbidden to charge for national roaming.
• Mobile Virtual Network Operators (MVNOs) are permitted access.
• Forced to adhere to specific, controlled tariffs for the end user.
• Prohibited to acquire exclusive, audiovisual content (which will be defined by Ifetel).
**Industry developments due to new regulations**

As a consequence of the new regulations regarding dominant players, América Móvil announced its intention to sell part of its assets (infrastructure and subscribers) as soon as possible. The move is aimed at reducing its market share below 50% to avoid being subject to tough regulations applicable only to dominant players. According to estimates done by analysts, América Móvil could obtain a minimum of 10 billion USD which would be equivalent to 20 million subscribers (mostly pre-paid), depending on the capacity of the buyer. The intention is to divest the assets to a single buyer.

According to analysts at Accival, América Móvil would need to sell off 21,89 million mobile subscribers and 4,27 million fixed line subscribers to reduce its market share below 50%. There are 105 million mobile subscribers and 20,6 million fixed line subscribers in the market.

The main objective for América Móvil is to enter the pay TV market to be able to offer triple play services. To reach this objective, it would need to get out of the measures imposed as a dominant player. There is an option for América Móvil to do this in less than a year if it can show a plan for divestiture of assets that would be beneficial for the competition. In any case, the legislation opens the door for América Móvil to leave its dominant position in less than two years, which is the time period that Ifetel had originally announced.
Main improvements for the end user

With the new reform, there are improvements for the end user:

1. No long distance tariffs within Mexico from 2015, both for fixed and mobile telephony.
2. Termination of calls in dominant player’s network is free of charge. This will reduce the tariffs of other carriers and increase their competitiveness.
3. Telmex will finally be able to offer pay TV services within 18 months from March 2014 if complying with its obligations as a dominant player. This in turn will represent competition for Televisa.
4. The carriers will have to compensate the users due to service failures.
5. There will be a Defence Council established for the audience of public radio and TV, which will respond to any claim from the audience.
6. América Móvil and Televisa will have to share their infrastructure with existing and new competitors. This will generate a more competitive market.
7. Within a period of max. 36 months the Premium TV programmes will have sign language or hidden subtitles.
8. The telecommunications and broadcasting companies have to specify the monthly invoices to the users.
9. Pre-paid time will have a validity of one year.
10. No charge for balance inquiries.
11. Change of carrier with number portability will not take more than 24 hours.
12. Cellular phones are to be sold unblocked.
13. Handicapped users are to be offered means of access and connectivity.
**Initiatives to promote investments**

The reform is changing the telecommunications sector to a more favourable market for investments, specifically for new and also for smaller companies as the market entry costs are decreasing. Apart from the already mentioned asset divestiture (América Móvil), there are several initiatives in process to promote this tendency.

**Incentives for a more competitive market**

Iftel has established certain measures to secure a more competitive market. These include lower interconnection fees, free national roaming, termination of calls in dominant player’s network at no cost, access to its infrastructure at a competitive price.

**Openness to foreign capital**

Foreign players are allowed to enter the market without having to partner with a Mexican investor/company, which promotes the flow of foreign capital into the market. AT&T is one player that has expressed interest in investing in the market.

**Backbone network**

The 16th transitory article establishes that the federal executive should install a shared wholesale network for telecommunications services that fuels the public access to broadband and other telecommunications services. The installation of this network will start end of 2014 and should be operating by the end of 2018. The network will use CFE’s (a government owned electricity company) fiber optic network and additional optical fiber will be constructed using part of the 700 MHz band. The project will be financed through a PPP (Public Private Partnership).

**MVNOs**

The reform gives market access to MVNOs. There are players that already have started operations in Mexico, such as Virgin Mobile, Ekofon and Maz Tiempo.
**Sector Outlook and its opportunities**

As the telecommunications sector opens up and becomes more competitive, there are opportunities for growth. This has to do with the development that the sector will have in the coming years. According to International Data Corporation (IDC), the trend is that voice related services will lose ground in favour of internet based services, such as the cloud, software and big data. As such, the business opportunities should be most attractive in mobility and in internet. The services related to M2M (machine-to-machine) is also an area to consider.

The market for information and communication technology services in Mexico has an estimated value of 60 billion USD and it is expected to grow to 73 billion USD in 2018.

The group of services comprised of the cloud, big data, social media and mobility represents 80% of the investments in the information and communication technology sector towards 2020.
As seen above, the market share of telephony based services will decline around 14% by 2018, from 59% (36 billion USD) to 45%.

From 2005 to 2014, the traditional telecommunications market share decreased 3.5%. This trend is expected to continue in favour of IT and software based services, which are expected to grow with double digits.
Summary

With the new telecommunications law, the government has undertaken a ground-breaking commitment. It should prove that it is capable of making a true change in one of the most important sectors, which represents costs above 25.8 billion USD for the Mexican economy, according to an OECD study from 2012.

The market for internet, mobile and fixed telephony is worth more than 40 billion USD annually. The market for television services invoices around 5 billion USD, but compensates its “lesser” size with its huge influence. There is no other telecommunications market that is so dominated by a few companies like the Mexican one.

The importance of the telecommunications sector cannot be underestimated. Not only in numbers, but also in the sense that all economic sectors depend on telecommunications services of some kind. The new telecommunications law is fundamental for the country’s well-being as it attracts investments, creates employment and increases competitiveness. The whole economy benefits from a modern and efficient telecommunications sector which increases productivity.

The scenario for growth looks promising. Not only is the government investing in a national, whole sale back bone network, the market is opening up to foreign capital. As an example of the existing foreign interest, there are already existing players like Virgin Mobile and Tuenti. The fact that no player may have more than 50% market share helps the sector to open up for new ventures. An example of this is that América Móvil is selling part of its assets. As the future for growth is in technology where the convergence and internet form the basis, it is also where the opportunities to invest are the greatest.