COVID- 19 and the Nigerian Telecommunication, Media and Technology (TMT) Sector

KPMG in Nigeria

May 2020

With over 3 million cases of the Coronavirus disease (COVID-19)[1] and staggering casualty figures globally, the pandemic has indeed reached dreadful proportions, leaving trails of economic woes, even in the most advanced countries.

The pandemic has indeed affected every sector of the Nigerian economy including the telecommunications, media and technology (TMT) sector.

Telecommunications (Telecoms) services across the world have seen a significant increase in demand since the advent of the COVID-19 pandemic. Expectedly, the rise in demand for data and voice related services spiked at the wake of the lockdowns in the major cities of the world. Consumers have had to depend on these services to work from home (WFH), maintain social ties, access entertainment and training amongst others. Businesses have also relied on the services to sustain remote working protocols and skeletal operations. The surge in demand has led to increased revenue for services provided and the attendant need to ramp up requisite infrastructure, to sustain quality and reliability of services. Further, players have also had to consider postponing new investments such as the 5G network capabilities, in favor of keeping up with current demand.

Despite the pandemic, the Nigerian telecoms industry appears to be experiencing a boom like its counterpart in the developed economies. This is on account of the lockdown that has been imposed on major cities of Nigeria (Lagos, Abuja, Ogun) and the need for many organizations to adopt WFH protocols. Schools have also had to move to online platforms. Recently, the Nigerian Communications Commission (NCC) alluded to the increase in the volume of voice and data traffic over the past few weeks, which has necessitated the installation of more fibre-optic cables in the country to boost capacity. Furthermore, one of Nigeria's large telecoms service provider, MTN Nigeria, recently released its unaudited financial result for the first quarter of 2020, showing increased data revenue by 32.4%, Fintech revenue by 22.9%, voice revenue by 12.7% and service revenue by 13.4%. This implies an average growth in revenue of about 20.3%[2]. Although, the results of the other players in the industry are yet to be released, we envisage that the results will be quite similar.

On the media front, the impact has been in two opposite directions – rising demand for existing content and stagnation of new content creation. On one hand, demand for TV programs (e.g. DSTV), streaming (e.g. Netflix, HBO Now, and YouTube), and on-line gaming continues to rise, even though some of the services are being offered at discounts, as a form of palliative by service providers, to ease lockdown experience of consumers.

On the other hand, movie productions and premieres have been postponed, live broadcast of major sports events – NBA, Football, Tennis and even the Tokyo 2020 Olympics (postponed to 2021) – have grinded to a halt due to strict social restrictions affecting the events. Also, commercial advertising has largely seen a significant downturn, with most brands opting to engage in pandemic-related public enlightenment campaigns across the media. Most brands have taken to collaborating with non- governmental organizations (NGOs) and the government on combative efforts towards flattening the curve of COVID-19 spread, as well as providing relief packages to vulnerable segments of the society. This may be a strategic move that ensures that brands continue to be projected positively.

Overall, the media industry may be seeing mixed impacts of the COVID-19 which may create a negative net effect on revenues in the worst-case scenario, or nil to positive net effect in the optimistic best-case scenario.

The impact of the pandemic for the technology (tech) sector can be scrutinised from three angles – Hardware, Software and Information Technology (IT). One of the major impacts of the COVID-19 pandemic is the disruption of global supply chain of all products, from raw materials to intermediate and final goods. Consequently, the hardware segment of the tech industry has been hard hit with reduced activity, due to restrictions in movement globally and has led to limited availability of existing hardware and delayed launch of new products. Although, tech giant, Apple, announced a 1% growth in its Q1 2020[3] revenue (compared with last year), it is more likely that this segment will witness decline in revenue.

[1]https://www.who.int/emergencies/diseases/novel-coronavirus-2019
[2]https://businessday.ng/companies/article/mtn-2019-first-quarter-results-show-steady-increase-in-revenues/
[3]https://www.vanguardngr.com/2020/05/apple-reports-58-3bn-dollar-revenue-beating-analysts-expectations/

In stark contrast, the software sub sector could be complete a game changer for players in the tech industry, as the social restrictions have revolutionized the way consumers and businesses interact, learn, work and play. Teleconferencing tools like Zoom, Microsoft Teams and Skype have reported a skyrocket in the daily and monthly average usage, as users have had to look to technology to stay in touch for business, educational and social needs. This may imply an increase in revenues, share value and investor confidence.

In Nigeria, the Financial Technology (Fintech) sector, particularly the mobile payment solutions providers have seen an increase in usage. This is obviously because many unbanked consumers have sought alternative payment solutions in the wake of the pandemic and lockdown. Also, ULesson, a recently launched startup involved in mobile learning application has reported over 40,000 new installs[4] over the four-week lockdown period.

However, some tech-based service providers such as Uber and Bolt have been negatively impacted by the lockdown as their operations have been grinded to complete halts. Hopefully, with the gradual easing of the lockdown restrictions in most parts of Nigeria, there should be some improvement.

The Information Technology (IT) sector seems to be taking after the telecoms sector as businesses continue to demand cloud-based infrastructure to support the WFH strategies adopted by most businesses. Further, cybersecurity, data protection and privacy are key areas that businesses are looking to in a bid to adapt to the "new normal".

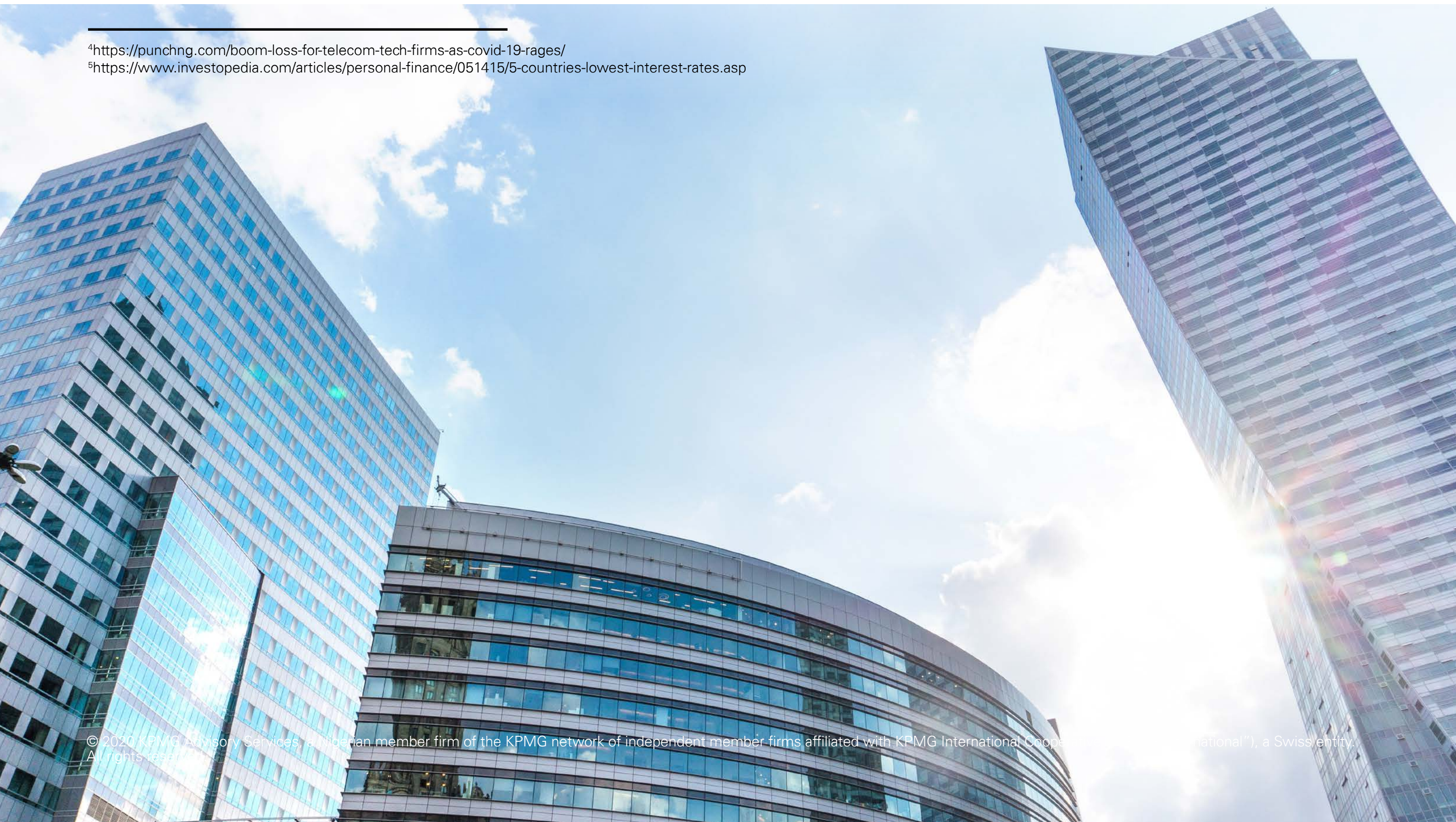
Overall, it may not be all gloom and doom for the TMT sector.

Prospects Post Covid-19

With the lockdowns gradually being eased in Nigeria and major economies of the world, the key question for stakeholders' border around "what lies ahead?". In the TMT space, the focus may be around ensuring sustainability post-pandemic, minimizing disruptions in value chain, acquiring requisite technology for effective performance and planning for economic uncertainties. To be better positioned for the near-term survival and long-term success, organizations may consider the following business strategies:

- **Mergers and Acquisitions (M&A)**: Players who have experienced boom during pandemic, may look towards acquiring other businesses especially startups to bolster their structure and increase their prospects of improved performance in future. Other players may consider increasing capital investment in newer technologies to improve the quality and reliability of their service or merging with other businesses to increase their prospects of business continuity.
- **Spinoffs**: On the flipside, some players may look towards selling part of their businesses or investments in other businesses, to improve their business models and/or raise funds needed for continuity. Either way, this prospect is more likely for industry giants who operate on multiple fronts.
- **Sourcing Fresh Capital:** Many players would be looking towards the debt and equity markets to raise new capital needed to either remain in business as well as break new grounds. The debt market would likely be the favoured option considering that interest rates are likely to remain low post-pandemic, to encourage borrowing and support businesses. The US Federal Reserve's current lending rate is 0.25%, while that of the European Central Bank is 0%; the Bank of England is lending at 0.1% and Japan at about 1.3%[5]. In Nigeria, the Central Bank of Nigeria introduced an increase in available loan facilities and a reduction in interest rate from 9% to 5% plus additional one-year moratorium as part of its COVID-19 intervention measures. Overall, sourcing of capital is expected to be a significant business decision driver post-pandemic.
- **Business Restructuring:** Businesses will seek to re-evaluate their current structure in light of the current reality with a view to exploring opportunities for operational efficiency, commercial viability, managing tax footprints amongst other things.

Indeed, the COVID-19 pandemic has revealed the possibility of situations that could limit the ability of the government and businesses to rely on physical modes of transaction, leaving technology-based systems as the next viable alternative.



[4]https://punchng.com/boom-loss-for-telecom-tech-firms-as-covid-19-rages/
[5]https://www.investopedia.com/articles/personal-finance/051415/5-countries-lowest-interest-rates.asp

Now, more than ever, it is evident that a digital transformation of the economy needs to be brought to the front burner. Expectedly, the digital platforms that have been deployed by some government agencies such as the Corporate Affairs Commission (CAC), Federal Inland Revenue Service (FIRS), and other regulatory agencies have been widely applauded by stakeholders. Taxpayers for instance can now file their returns remotely without having to unduly expose themselves to health hazards associated with physical movement. Therefore, it may be beneficial for industry players, as the facilitators of digitalization, to galvanize a symbiotic collaboration with the government which would drive digital transformation of the economy. The industry players may also consider lobbying the government to ease doing telecoms business and to eventually move government business to the digital economy. This would surely be beneficial to the government, the industry and other stakeholders, as evident in more advanced countries. Indeed, going digital may no longer be an option, it is envisaged that it will be the new normal.

Finally, it is inevitable that organizations will need to proactively plan and re-strategize in order to prepare for the new reality and remain relevant. Therefore, there is a need to partner with professional advisers to prepare organizations for the post-COVID world.

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