

Neotel on the market again

By [Thabiso Mochiko](#)

14 Mar 2016

Neotel and its shareholders will have to go back to the drawing board after its deal with Vodacom collapsed. The company had hoped the deal would help it survive in the highly competitive telecoms industry.



©altomedia via [123RF](#)

Neotel was plagued by accusations of corruption that resulted in the departure of CEO Sunil Joshi and CFO Steven Whiley last year. It needs a big cash injection if it wants to take on its competitors, who are aggressively deploying high-speed network infrastructure around SA.

Deal called off

The R7bn deal was called off after two years of discussions. Vodacom had initially proposed to buy the entire Neotel business. But that structure, which was approved by regulators with stringent conditions attached, was opposed by rival operators, who said it would give Vodacom an unfair advantage. It would have given the company access to the sought-after and lucrative radio frequency spectrum. Telecom firms need spectrum for wider deployment of the 4G mobile wireless network. The current roll-out of 4G is limited to major cities and towns.

In December Vodacom announced the revised structure of the deal, which would have given all mobile network operators access to the spectrum on a leasing basis, while Vodacom buys Neotel's fixed-line assets. The termination of the talks did not come as a surprise, given the scrutiny that the deal has received. But Neotel is still seen as a possible takeover target.

Naila Govan-Vassen, information and communication technologies industry analyst at Frost & Sullivan, says there is demand for Neotel's fibre network and spectrum ownership. "Neotel's fixed-line infrastructure is still attractive for any operator wanting to provide FTTH (fibre to the home) services," she says.

In 2014 Joshi said the deal with Vodacom was important for the fixed-line operator as it would enable it to offer more products and services, serve a wider segment of the market and deliver "far more competitive" products. The company is undercapitalised. Since it launched nine years ago it has spent R7bn on its operations, including infrastructure. Its competitors are spending up to R10bn/year.

Neotel owns about 17,000km of fibre network nationally. It offers voice services, managed services and value-added services, including video conferencing and telepresence, and hosted business applications.

Business as usual

Neotel director Kennedy Memani says the discussions with Vodacom did not cause its projects to stall. He is adamant that it has been business as usual at the firm. Neotel recently grew its corporate customers by 35%. It has expanded its long-term evolution or 4G network in Cape Town and Durban. "This constitutes a migration path for Neotel's 200,000 customers," Memani says.

He says the market should expect a "revitalisation" of the brand through campaigns that will launch in the second quarter. He did not say how much capital expenditure would be required to continue building the network or what new products and services would cost.

World Wide Worx MD Arthur Goldstuck says Neotel has an extensive, high quality network that has become a significant and valuable component of the SA connectivity environment. It needs to build on that, but its shareholders have to inject cash into the business or find an investor with deep pockets.

Looking for a buyer

Neotel's shareholders, including India's Tata Communications, had accepted the proposed offer from Vodacom, which Goldstuck says could mean they are still looking for a buyer. He says one of Neotel's biggest errors was its positioning of itself as an enterprise-only telecommunications provider. "In every stage of the game [it] spoke consumer language but [was] never a consumer player," Goldstuck says.

It later added consumer products and services but, says Goldstuck, its first consumer product was disastrous. "[It] didn't understand consumers' needs. [It was] unable to connect with the consumer market."

Memani, a company shareholder and board member, has been in charge of operations since the departure of Joshi and Whiley. The search for their replacements is under way.

Source: Financial Mail