

SACS, ORANGE-MAINONE, CAPE-TO-CAIRO AND THE CHANGING FACE OF THE AFRICAN SUBMARINE CABLE MODEL

A XALAM MARKET BRIEF – SUBSEA FIBRE

FOCUS: REGIONAL – SUBSEA FIBRE
OCTOBER 2018

SUMMARY

- During the past quarter, the African wholesale space has witnessed Liquid Telecom's Cape to Cairo agreement, MainOne's deal with Orange and the commercial launch of Angola Cables' SACS.
 - On the surface, these developments have little to do with one another. Taken together, we say they mean three things: bandwidth gluts don't matter anymore, the African opportunity is about more than Africa, and OTT demand will determine (almost) everything.
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Two ants do not fail to pull one grasshopper.
Tanzanian proverb.

During the past quarter, African international wholesale markets have witnessed three significant developments.

- In July, **Liquid Telecom signed a Memorandum of Understanding (MoU) with Telecom Egypt (TE)**, that would allow Liquid to connect its network to TE's in Egypt, thus completing the long sought-after Cape Town to Cairo link.
- **In September, Orange and MainOne Cable announced that they had reached an agreement** that would see Orange contribute to the installation and construction of two new branches on the MainOne network, while taking ownership of one (Dakar).
- And still in September, **Angola Cables announced that its SACS cable linking Angola to Fortaleza in Brazil, with an onward route to Miami in the USA was now open for commercial traffic.**

On the surface, these developments appear to have little to do with one another. Taken together, they are manifestations of the winds of change currently blowing through African wholesale capacity markets.

Cape-to-Cairo – Liquid Telecom’s Dream Becomes Reality

The MoU between Liquid Telecom and Telecom Egypt to offer the last leg of a Cape-to-Cairo link has highly symbolic underpinnings. Linking the Cape to Cairo was part of the initial vision for Liquid Telecom, a vision which at times seemed like a quixotic dream, so intractable are Africa’s cross-border connectivity challenges. Beyond the symbol, Liquid Telecom’s Cape to Cairo network would substantially slash latency between Southern and East Africa and provide an alternate route to East coast submarine cables.

The Orange-Main One Partnership

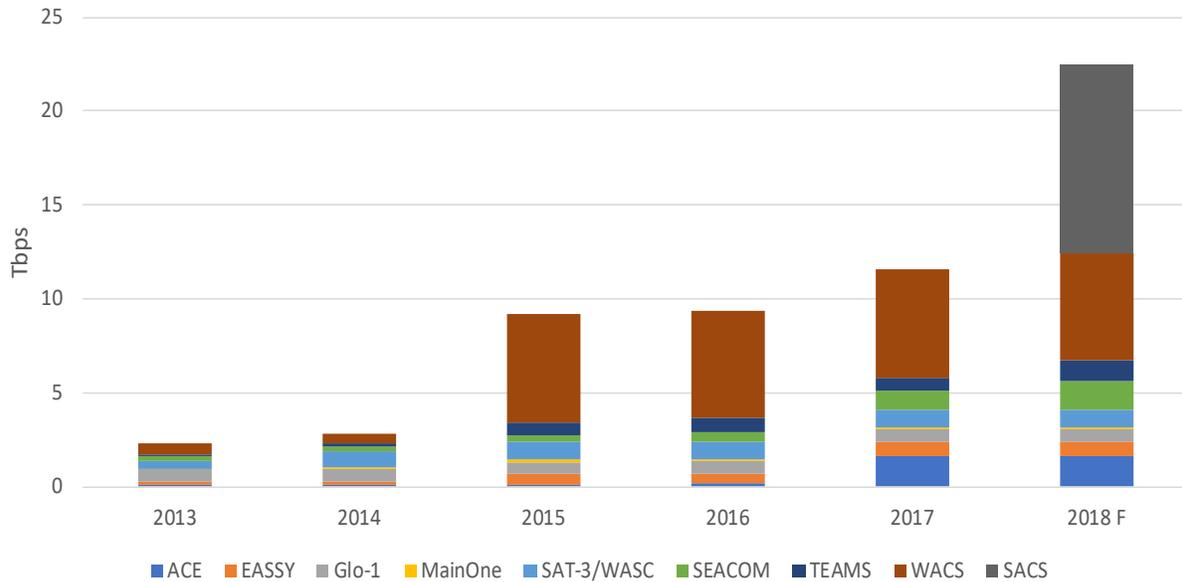
The collaboration between Orange and MainOne cable in East Africa is another watershed moment for the region. There was a time when such a partnership was unthinkable, between two African cable providers competing head-to-head on several West African routes to Europe. In a bout of pragmatism unusual for this market, the agreement works for everyone.

MainOne gets to optimize its CapEx in building out its Cote-d’Ivoire cable station (a notoriously tough Orange stronghold) and extend its West Africa network reach. Orange gets access to a redundant cable for its West Africa units, to complement the ACE cable, and in time, likely replace the nearly-obsolete SAT-3 cable. Orange also avoids building another cable, along with the mind-numbing constraints that typically come with West African consortium cables.

Angola Cables’ SACS Becomes Operational

The new SACS cable is set to have the most dramatic impact on Africa’s West Coast since the launch of WACS. By our estimates, SACS will, at a minimum, essentially double available African submarine cable capacity, a remarkable flow of new supply. In addition, it will open a new, lower-latency route to the Americas.

SACS Impact - Evolution of Sub-Saharan African submarine cable equipped capacity



*Chart includes commercially operational cables only, as of September 2018; routes to Europe, Americas, Middle East and Africa only; transatlantic cables only, excluding global cables passing through Africa’s East Coast (e.g. EIG). Sources: Xalam Africa International Wholesale Market Dashboards; Provider data.

What does this all mean? Three related things, in our view:

1. Bandwidth gluts don’t matter any more

Can the African market generate enough demand to support the dramatic increase in international capacity supply? Not even in our most optimistic traffic growth assumptions. But this no longer matters as much. SACS, like many of the new cables coming to market, is the embodiment of a new age where capacity is so abundant that some form of market oversupply, and the attendant declines in capacity pricing, are essentially a given.

Oversupply is a feature, not a bug, and given the dramatically lower costs of adding capacity, demand no longer needs to precisely match supply for the business model to work. Increasingly, the critical factor of success (even for African-based cable) is the ability to provide cost-effective latency routes to (and from) high traffic hubs, along the ability to build routes that eliminate single points of failure.

In such a context, partnerships are increasingly critical; this goes beyond the odd capacity swap, to various forms of co-opetition that see partners share costs while providing increased capacity and flexibility to their customers.

2.The African international capacity opportunity is increasingly about more than Africa

For new cables, a business model now relying solely on “African” demand is courting trouble. New cables illustrate Africa’s increased integration into the global economy; the (presumably) successful model is less about selling to African customers, though that matters too; it is about fitting into global traffic routes and serving the world’s global generators of traffic. **In this vein, Angola Cables’ SACS isn’t merely another African submarine cable: it is Africa’s first global cable.**

3.The OTT demand fulcrum

Recent developments also highlight how critical global Internet provider demand has become to African international wholesale. From the need to build out content delivery networks to the need to connect cloud data center locations, Over the Top (OTT) OTTs and global Internet infrastructure providers are the new drivers of African subsea cable capacity demand.

The biggest risk to new ventures is no longer a competing cable or a shortfall in African demand. **It’s whether a Google, Microsoft or Facebook will decide to build their own Africa-focused subsea cable infrastructure.** For African international bandwidth providers, the next existential battle will thus be to throw enough low-price bandwidth and resilient routes at the OTTs so they feel they need not build their own.

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