Zim: NetOne in financial dire straits

By Dumisani Ndlela

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Zimbabwe's smallest cellular network operator NetOne Cellular is wriggling to extricate itself from a financial crisis, with sources indicating the company had punched a financial black hole after being deserted by contract subscribers last year.

The troubles at the state-owned mobile phone company are said to have turned off Africa's cellular giant MTN Group, which had been courting the firm for a 49% stake in its bid to enter the Zimbabwean telecommunications market.

NetOne refuses MTN bid

MTN is said to have given the company a cheap valuation after a due diligence exercise early this year led by its acquisition experts, but its offer, which included a comprehensive turnaround plan, had been turned down by the NetOne board which is said to have refused to recommend the bid to government.

Now, NetOne's woes are said to be mounting, with insiders saying out of a subscriber base of 500 000, active customers amounted to around 100 000, a situation that has seriously hurt revenues.

"A lot of the contract customers left after getting hefty bills when the economy dollarised last year. The company did nothing to retain these customers, who were the major source of income, so they could have joined other networks," a senior NetOne employee told Bizcommunity.

Subscriber base remains dismal

Apparently, although NetOne's prepaid customer base has grown over the past year, the subscriber base has remained dismal, growing marginally from just over 300 000 during the economic crisis period to current levels of 500 000 subscribers.

The network had been particularly hit by the exodus of contract customers, the majority of whom were top company executives and middle managers whose bills were on corporate accounts.

Despite having had a two-year lead over rivals, Econet Wireless Zimbabwe and Telecel Zimbabwe, NetOne is now the smallest operator in the country.

Growing competition

Econet has managed to grow its subscriber base from around 600 000 before dollarisation in February 2009 to current levels of over four million subscribers, while Telecel has grown from 250 000 to just over 1.2 million subscribers.

NetOne's managing director, Reward Kangai, was recently quoted saying that he was targeting growing the network to seven million subscribers after securing a US$45 million loan from China's Eximbank.

The loan, secured in June, was issued after Eximbank satisfactorily conducted a due diligence exercise that confirmed NetOne's solvency and its ability to repay the loan, Kangai had told reporters.

"Technically insolvent

But one telecommunications expert said this was far from true, arguing that NetOne was "technically insolvent".
"This could be an Enron in the making," he said.

At a parliamentary hearing in January this year, Kangai had said NetOne had failed to repay debts amounting to US$28 million owed to three lenders since 2002.

He admitted during the parliamentary hearing that customers had shifted to the pre-paid platform, in the process hurting the firm's revenue base.

Contract to pre-paid

A NetOne insider said the shift to the pre-paid service by contract customers had seriously affected NetOne's service providers, Firstel Cellular and Zellco Cellular, who handled the bulk of NetOne's contract customers.

Econet Wireless took NetOne to court in July over a US$9 million debt. The debt had arisen from NetOne's failure to pay interconnection fees for calls made between the two networks since January last year.

The problems at NetOne were being compounded by an exodus of technical staff to rival operators.

Kangai had not responded to questions sent to him by Bizcommunity on 15 September 2010. The questions had been resent to the NetOne MD on 20 October 2010 but were also not answered.

ABOUT DUMISANI NDLELA

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