IHS Markit Technology

Market Monitor

TV & Online Video Intelligence

Pay TV & Online Video Report – MENA – 2019

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Summary

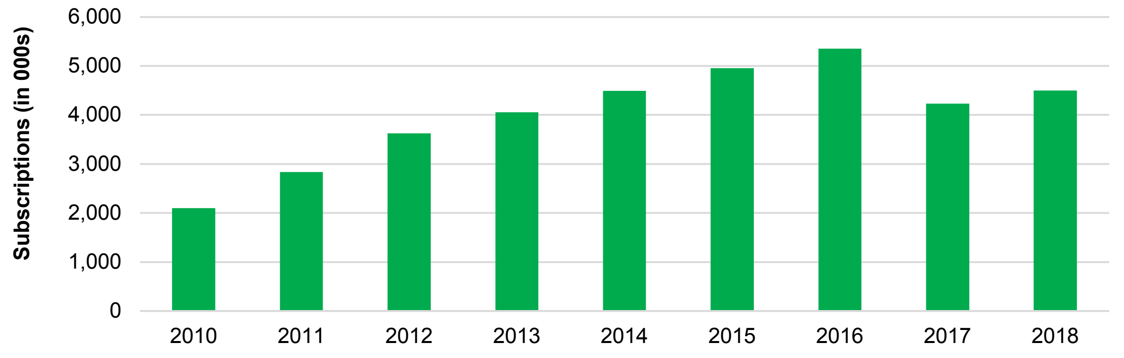
- The pay TV market in Middle East and North Africa (MENA) is starting to recover, albeit at a sluggish pace, from the blow of the blockade of BeIN Media in Saudi Arabia, Egypt, and Bahrain. At the end of 2018 the market had reached 4.5 million subscriptions, up 6% from 4.2 million a year earlier.
- Between 2010 and 2016 the market experienced significant growth, recording a CAGR of 17% over the period, the highest regional growth rate for pay TV globally. This pattern of growth was reversed in 2017 as a result of the blockade.
- The main drivers of growth are the IPTV operators, who are leveraging their investment in fiber and 4G, while adopting the business model of super aggregator. Satellite on the other hand, despite remaining the dominant pay TV platform in MENA, had a flat growth trajectory.
- In contrast with subscriptions, overall pay TV revenues fell around 8% in 2018. This fall is attributed to two factors: First, the 2017 figures were artificially inflated as BeIN Media was receiving revenues until the end of summer, and second, 2018 was the first full year where the slashing of packages' pricing by OSN took full effect.
- The online subscription video market in MENA is experiencing rapid growth: Paying subscriptions at the end of 2018 stood at 1.78 million, up 45% from 1.23 million a year earlier. Revenues from paying subscriptions reached a high of $146 million for the year, up 41% from $103 million in 2017.
- IHS Markit expects the positive momentum of the market to continue up to at least the middle of next decade. By 2023, online video subscriptions will reach almost 5 million, while annual OTT video revenues will reach $416 million.
- Mobile video consumption is driving the OTT subscription market. MENA is predominantly a mobile market: At the end of 2018, the number of mobile broadband subscribers was 17 times higher than that of fixed broadband subscribers (286 million versus 17 million).
- Netflix has been present in MENA since the start of 2016 and, according to IHS Markit data, controlled around a quarter of the market in subscriptions at the end of 2018. Still, it trailed STARZ Play Arabia, a semi-local service partly owned by Lionsgate, which was the leading OTT service in the region with a 29% market share in subscriptions. Revenue wise, it was a tie, as both Netflix and STARZ Play accounted for one third of the market in 2018.
- Telcos and pay TV operators have launched their own OTT services. For telcos, the model of super aggregator, bringing other OTT services on to their platform, has been a key strategy for growing their business.

Pay TV market

Pay TV overview: Moderate growth in 2018, the first full year of the blockade

- The pay TV market in MENA in 2018 has tried to heal the wounds of the previous year. The blockade that Saudi Arabia, Egypt, Bahrain, and the UAE have imposed on the major pay TV operator in the region, BeIN Media, has inflicted a heavy blow on the state of the market. BeIN Media has been deprived access to its largest (Saudi Arabia) and third largest (Egypt) markets in MENA. Despite the fact that the UAE have reversed their decision and permitted BeIN Media to carry on with its commercial operations in their territory, the overall state of the pay TV market has not significantly improved.
- Between 2010 and 2016 the market has experienced an assertive growth trajectory, recording a CAGR of 17%, which was the highest regional growth rate for pay TV globally. This pattern of growth was reversed in 2017 as a result of the blockade.
- In 2018, the market grew around 6% in subscriptions over 2017, reaching 4.5 million, up from 4.2 million the previous year. The growth is mainly the result of the good year that the IPTV operators had in the region. Satellite, the dominant pay TV platform in MENA, had experienced a flat growth trajectory.
- While subscriptions grew in 2018 relative to the previous year, the overall revenues fell around 8%. This drop is mainly because of two reasons: First, the 2017 figures were artificially inflated as BeIN Media was receiving revenues until the end of summer 2017; and second, 2018 was the first full year where the slashing of packages' pricing by OSN took full effect.

MENA: Pay TV subscriptions (in 000s) 2009–18



Source: IHS Markit

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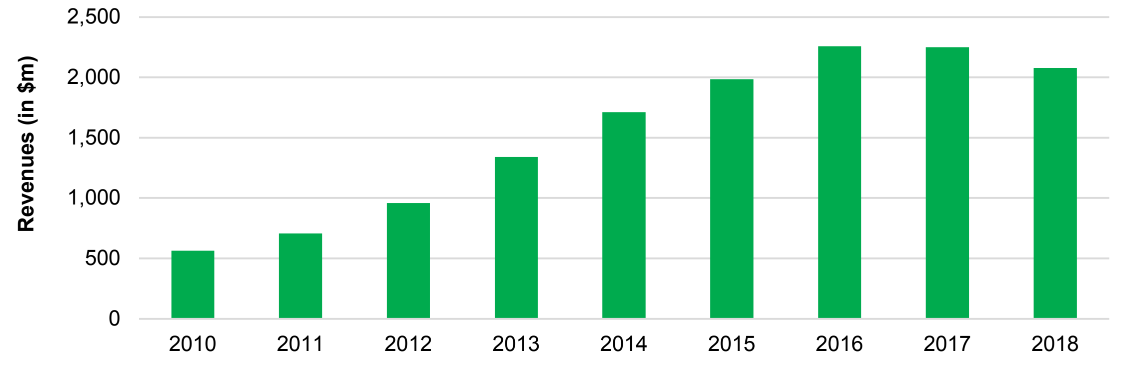
MENA: Pay TV revenues



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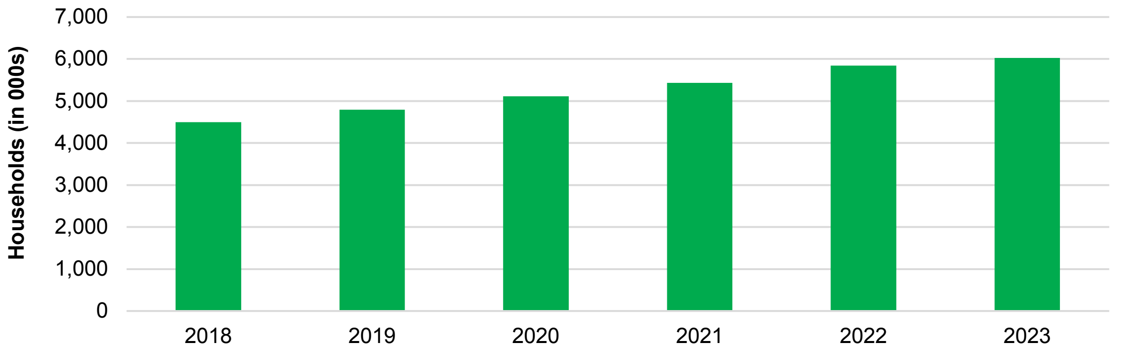
Pay TV growth drivers: IPTV operators are expanding the market, but piracy remains a significant inhibitor for all

- In the beginning of 2019, the pay TV market in MENA is still operating under the shadow of the blockade. The blockade has direct effects like the loss of subscriptions and revenues for BeIN Media. It also has indirect effects, the most serious of which is the proliferation of piracy in the region. The blockade of BeIN Media has sown the seeds for the emergence of BeoutQ, a network of pirated channels launched first in Saudi Arabia and expanded to other MENA countries in 2018. The presence of rogue operators and pirated channels is jeopardising the future of the entire pay TV industry and not just BeIN Media's.
- Other pay TV operators like OSN has expressed its deep worries for the harmful effects of this phenomenon and has stated that the presence of pirated channels is impacting upon its efforts to expand its subscriber bases.
- IHS Markit expects the pay TV market to grow with a CAGR of 6% in subscriptions between 2018 and 2023, even under the effect of the blockade. IHS Markit recognize that this forecasting might be optimistic as it foresees the shutting down of pirated channels. Pay TV revenues are expected to grow with a CAGR of 8% during the same five-year period. This forecast is also made under the assumption that piracy will be contained. IHS Markit is following closely the developments in the pay TV sector in MENA and will revise the forecasting if there is enough evidence pointing to that direction.
- Growth will be mainly supported by the IPTV operators. The latter will contribute almost half (45%) of the new additions, even though they represent just one third of the total subscribers' base.

MENA: Pay TV households, 2018–23



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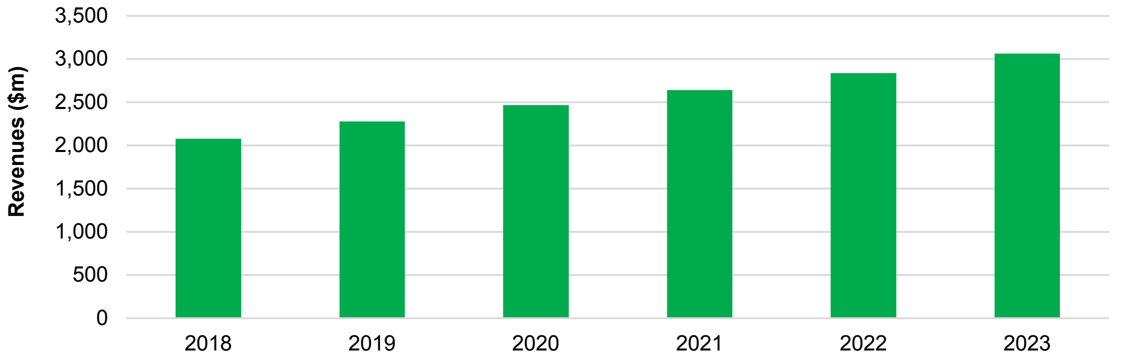
MENA: Pay TV revenues, 2018–23



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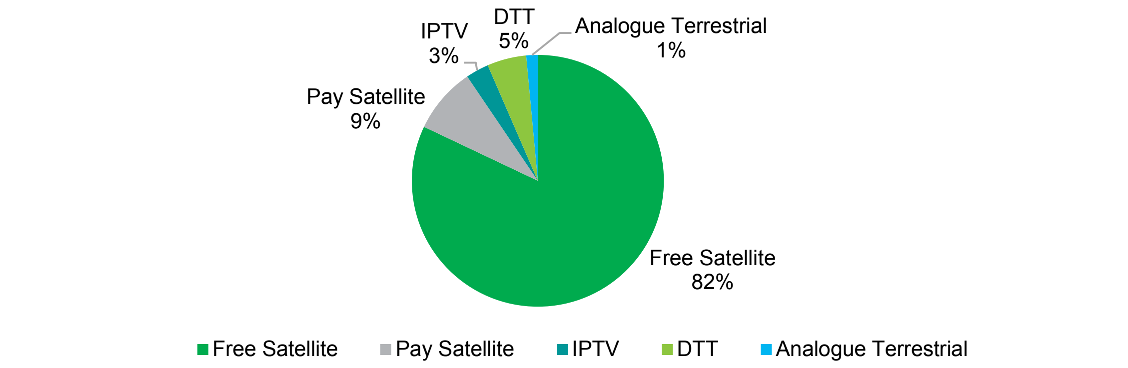
TV platforms: Satellite is dominant, followed by IPTV; the transition to DTT is stalled outside the Gulf

- Satellite is the dominant TV platform in the MENA region. Historically, the first TV platform in Arab countries, like in most regions around the globe, was analogue terrestrial. However, since the early 1990s the installation of satellite dishes has mushroomed across Arab cities and neighbourhoods. While analogue terrestrial TV is offering a staple diet of just a few government-owned channels, satellite TV is providing the Arab viewer with a wealth of choice. According to IHS Markit research, the average satellite TV household in MENA has free access to more than 980 channels, including around 130 HD channels.
- Not all MENA countries have completed the transition from analogue terrestrial to digital terrestrial TV (DTT). The Gulf countries and some countries in the Maghreb (Morocco and Tunisia) have shut off all analogue terrestrial TV transmissions. For the rest of the MENA countries the switchover is not seen as a priority (mainly because very few people are still watching terrestrial TV) or they simply lack the funds to rollout the DTT networks. IHS Markit expects that some MENA countries will not have completed the switchover by the internationally agreed deadline of 17 June 2020.
- IPTV is the third largest TV platform in MENA and the second largest pay TV platform. IPTV is present in just a handful of countries, primarily in the Gulf. However, it is growing, substantially helped by the investment made in fiber networks in those countries. Cable is present in countries like Lebanon and Egypt, however, most cable networks in Lebanon operate without a proper licence. Some Gulf countries, like the UAE, have managed to switch all their cable TV viewers to IPTV.

MENA: TV households by platform, 2018



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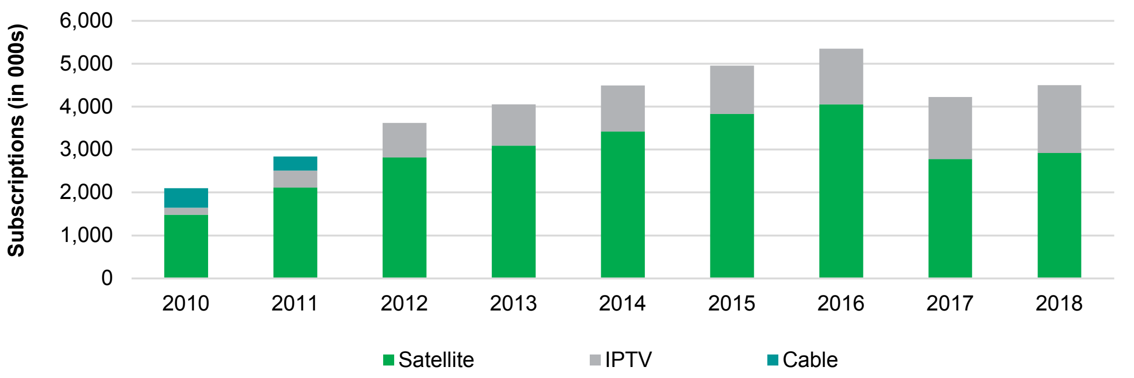
MENA: TV subscriptions by platform, 2018



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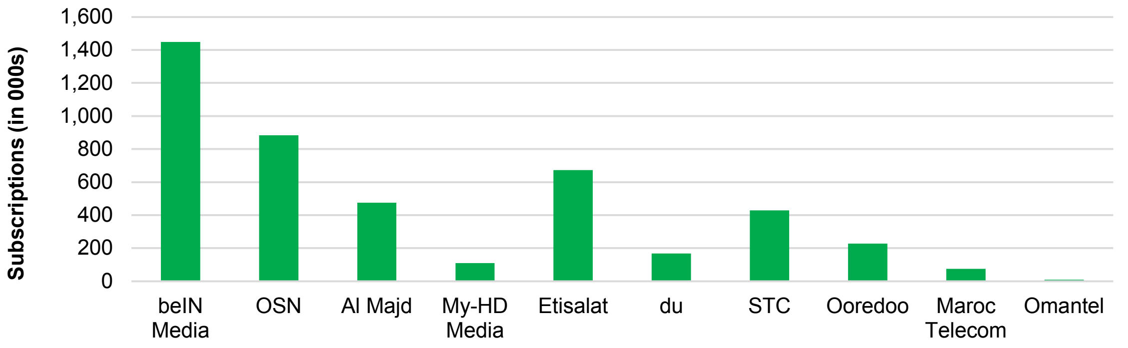
Pay TV operators: BeIN Media and OSN remain dominant, despite the serious challenges they face, while Etisalat and STC lead in IPTV

- Satellite operators tend to dominate the market in MENA countries, primarily because of the fact that more than 85% of the households are equipped with a satellite dish. From the end of 2009, two satellite operators, the Doha-based BeIN Media Group (formerly known as Al Jazeera Group) and the Dubai-based OSN had established a virtual duopoly, dictating the direction of the market and commanding the investment in rights acquisition, programming commissioning, and content production and distribution.
- According to IHS Markit, between 2010 and 2016 BeIN Media and OSN together controlled over 60% of pay TV subscriptions and over 55% of pay TV revenues in MENA. The blockade has not substantially alerted this dynamic – BeIN Media and OSN continue to hold the first two spots as the two largest pay TV operators in the region.
- However, both are facing challenges: BeIN Media has lost 40% of it subscriber base as a result of the blockade. OSN has also suffered setbacks, losing almost 15% of its subscriber base between the second quarter of 2015 and the third quarter of 2017. The decision to slash the pricing of its basic and medium-tier packages by around 30% in the second half of 2017 has helped OSN to halt the decline – between 2017 and 2018, it managed to win back around 5% of the subscribers it lost the two previous years. OSN has also faced the onslaught of piracy – although not at the same level and with the same intensity as BeIN Media – and in 2019 has launched new, low-cost packages targeting mostly younger demographic groups.

MENA: Pay TV operators, 2018



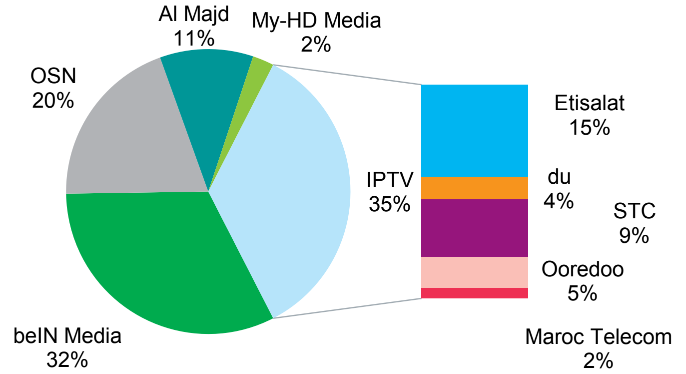
Source: IHS Markit

- IPTV operators are growing their share of the market in the last few years. To a certain degree they have been helped by the blockade, but they have also made considerable investments in improving the TV offers to their broadband subscribers. Partnerships with content owners, broadcasters, and pay TV operators have helped the telecom operators in the region to enrich their IPTV propositions and to launch new, value-added services. The UAE telco Etisalat is currently the operator with the largest TV subscriber base in MENA. IHS Markit expects that the Saudi telco STC will challenge Etisalat's leadership at the beginning of the next decade, helped by the huge investment that it is making in revamping its pay TV offering.

Pay TV operators: Satellite leading in pay TV market share but IPTV is growing at a faster pace

- Despite the harmful impact of the blockade, BeIN Media kept the market leadership position in subscriptions in 2018. It is controlling one third of the market, while its share in 2016 (the last pre-blockade year) was around 50%. BeIN Media has realistic hopes to further grow its business reach and its market share, even if the blockade persists. One possible way can be the investment in quality local and foreign entertainment content. Especially partnerships with local content owners and content producers can be very beneficial to BeIN Media.
- OSN is the second largest pay TV operator in MENA, controlling roughly one fifth of the market. OSN needs to address the needs of the medium-to-lower income homes and of younger demographics to expand its customer base and challenge BeIN Media's dominance.
- Satellite operators Al Majd and My-HD Media are not competing directly against the two major players but rather target smaller, niche markets for their business survival. Al Majd is mainly targeting an audience that prefers to consume content religious, conservative content, while My-HD Media is targeting specific demographic groups like the Asian expat communities or the French-speaking audience of North Africa.
- IPTV operators are, contrary to satellite ones, confined inside the borders of their home markets. Despite that limitation, in countries such as the UAE and Qatar telcos are the largest pay TV operators. As telcos are adopting the bundling of their core service with subscription OTT services, their chances of growing their businesses and their market shares are higher than those of the satellite operators.

MENA: Pay TV households by operator, 2018



Source: IHS Markit

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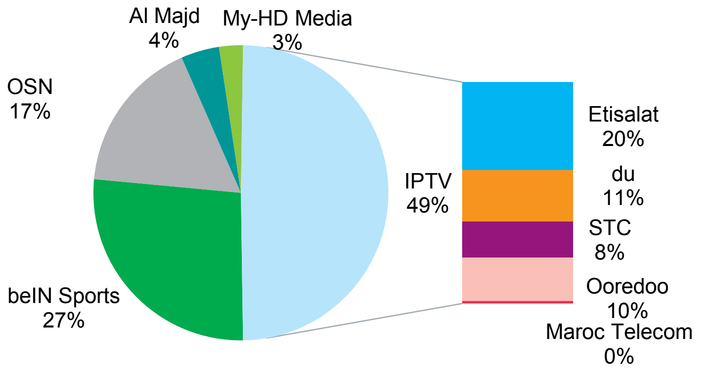
MENA: Pay TV revenues by operator, 2018



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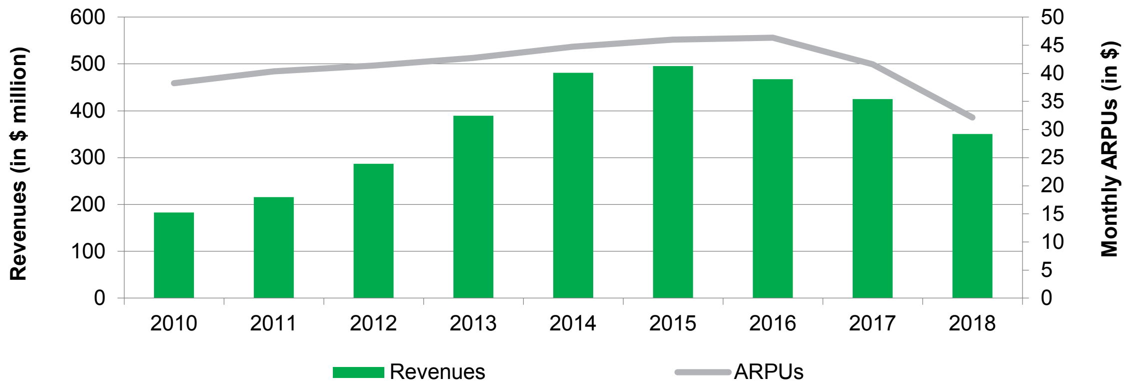
Operator strategies: OSN bets on low-cost, online content, and younger demographics for a revival of its business

- From the beginning of 2017, OSN began implementing a new commercial strategy with a certain level of success as the downward trend in subscriptions has been stopped. The main pillars of the new commercial strategy are:
  - Launch of low-cost basic packages at a price level equal to that of competition
  - Enhance the digital and online video content offerings
  - Target younger demographics with offers that appeal to them (no contracts, services that are device-agnostic)
  - Target markets outside the Gulf where pay TV has higher prospects of growth
  - Invest in Arabic content and enrich its Arabic channels offering.
  - Focus its investment in content genres where it has an advantage over the competition (example: Movies, TV series, family programming).
- Although OSN's strategy has achieved some success, the operator has not reversed the negative impact piracy has had on its business. In addition, the operator has faced challenges like the severe delay of launching a new set-top box incorporating Netflix as an app. The launch day has been postponed for more than a year, and is now expected to launch in the second half of 2019.
- Looking ahead, OSN has two core strategic priorities:
  - Rollout low-cost, flexible (no long-term contract) services like El Farq in Saudi Arabia
  - Keep costs under control by opting not to renew expensive sports programming, and by migrating its digital infrastructure from on-premises equipment to the cloud.

OSN media revenues and monthly ARPUs



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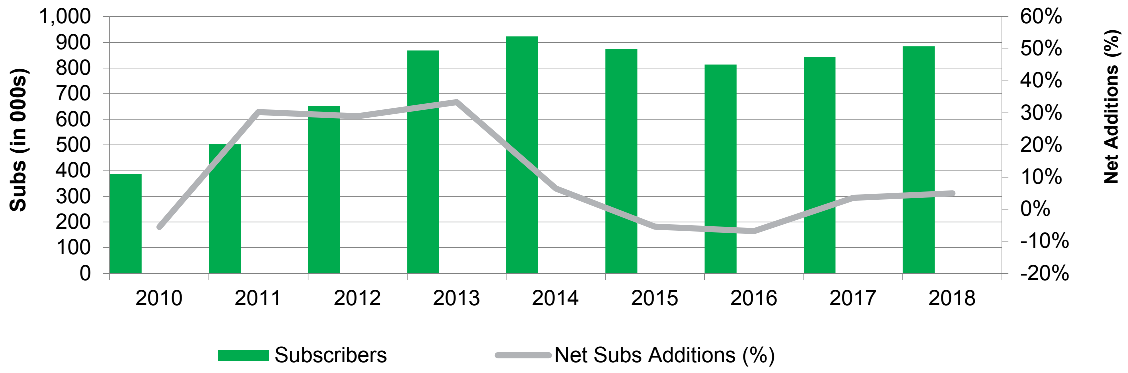
OSN subscribers and net additions (%)



Source: IHS Markit

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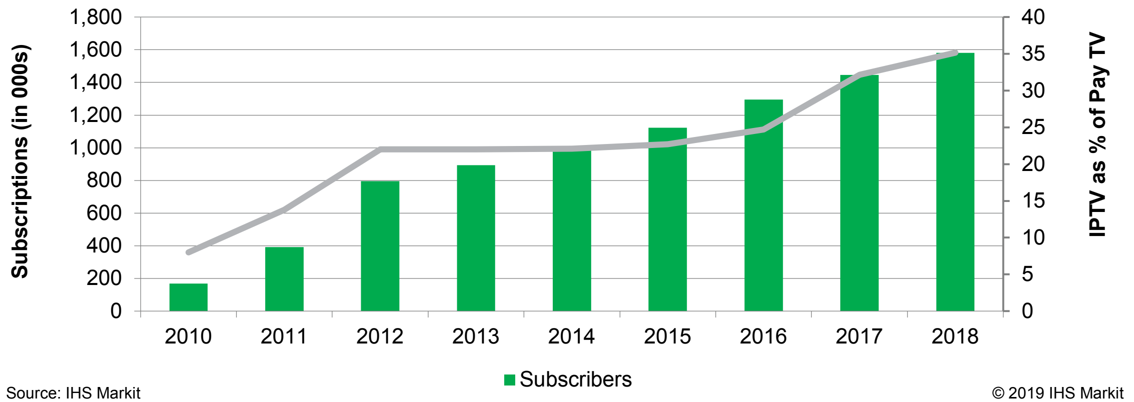
Operator strategies: IPTV operators bundling OTT services and leveraging investments in fibre and 4G

- For the telecom operators, the launching of IPTV packages is being implemented as a strategic business move to enhance the appeal and value of their core telecom services: Fixed and mobile broadband. Launching a TV offer bundled with telecom services has boosted customer retention and provided upsell opportunities to most expensive packages.
- IPTV services were predominantly launched in the Gulf states although small IPTV services were also launched in Morocco, Jordan, and Lebanon. In some Gulf states, like the UAE and Qatar, the IPTV operators have the largest market share among all pay TV operators. IPTV networks have some other benefits for telecom operators, like generally having lower capex and opex costs relevant to cable networks. This has prompted some cable operators to migrate their subscribers from cable to IPTV networks – for example, UAE telco Etisalat, which migrated all of its Evision cable TV subscribers to its eLife IPTV platform at the end of 2011.
- IPTV is experiencing impressive growth in MENA: Subscriptions rose from just 160,000 in 2010 to 1.58 million in 2018, a ten-fold growth rate. IPTV's market share rose from 8% in 2010 to 35% in 2018. The blockade of satellite operator BeIN Media has boosted the market share of IPTV although even without the blockade, IPTV's share would still have increased to 27%.
- While recently the telecom operators have shifted their interest towards the online subscription video platforms (OTT), they keep investing and launching IPTV services (one such example being Omantel in Oman).

MENA: IPTV subscriptions (in 000s) and market share (in %)



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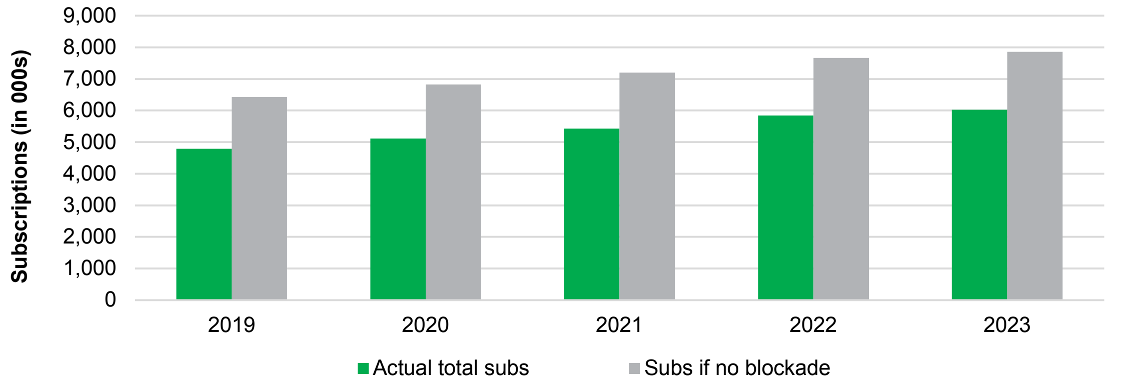
- MENA telecom operators are executing a range of business strategies to exploit their TV and video offerings in order to raise their revenues. The most common of them are:
  - Supplementing core IPTV services with streamlined OTT offerings, targeting non-pay TV subscribers and younger demographics. OTT offerings are made more attractive by freeing the subscribers from the obligation of long-term contracts.
  - Creating specific TV packages targeting expat communities residing in MENA.
  - Strengthening their positions as content aggregators by inking deals with major OTT and TV content providers. In 2018, Netflix signed its first deal with a major telco, DU in the UAE. Du has also signed a carriage deal with Amazon Prime Video, while similar deals have been negotiated between telcos and other major OTT services in MENA.

Piracy: A heavy blow to pay TV affecting all the players

- Piracy is an old and pernicious threat looming over the pay TV business in the MENA region. It has plagued the industry since the early 1990s, when Orbit and Showtime (who later merged to create OSN) launched their satellite packages in the MENA region.
- Piracy is helped by the lack of a concise and robust regulatory framework and the ineffective protection of intellectual property rights. The majority of TV viewers in MENA do not consider piracy as a crime and governments have a poor record of educating and informing their citizens about the negative impact piracy has on the local economies.
- Serious efforts to curb piracy and to educate the public have been undertaken by those business which were affected the most, namely the pay TV operators, the broadcasters, and the content owners. The TV industry has gone as far as creating a voluntary scheme, the MENA Broadcast Satellite Anti-Piracy Coalition, which provided a platform connecting pay TV operators, broadcasters, content owners, satellite operators, consumer equipment manufacturers, and trade organizations. The Coalition's main goal is to remove the threat of piracy, and it has had some success in the last four years, for example, shutting down more than 100 rogue channels.
- However, these efforts have been significantly undermined recently, as the fight against piracy became entangled in the bitter political strife between the states in the region. Since June 2017, Saudi Arabia, Egypt, Bahrain, and the UAE have cut all diplomatic ties with Qatar, accusing the later of supporting terrorism. This decision had repercussions in the media sector as the four countries have forbidden BeIN Media to legally operate in their territories.

MENA: Actual pay TV subs compared with subs if no blockade



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- The four states have also banned the import and sale of set-top boxes and smart cards from BeIN Media and have prohibited the renewal or sale of new subscriptions to the Qatari operator services.
- The threat of piracy was amplified in 2017 with the launch of BeoutQ. BeoutQ was launched in Saudi Arabia as an online streaming service in August 2017 and it was geo-blocked so that only Saudi residents could watch it. In October 2017, the first BeoutQ Sports channel was launched in Saudi Arabia and by early 2018 the pirated network had expanded to offer 10 channels. During 2018, BeoutQ offered full pay TV packages, complete with set-top boxes and smart cards, and expanded beyond Saudi Arabia to other MENA countries.

Piracy: BeoutQ is causing significant damage to the pay TV business

- BeoutQ is allegedly illegally broadcasting BeIN Media's content with a slight delay (less than 15 seconds), overlaying tickers to conceal BeIN logos. BeIN claims that three global leading digital security companies – Cisco Systems, Nagra, and Overon – have investigated and provided evidence that BeoutQ is being distributed by the commercial satellite system of Arabsat. Arabsat is the main satellite operator of the Arab World and was created as a joint venture by all member-states of the Arab League. Saudi Arabia is the largest shareholder of Arabsat, is hosting the organization on its capital Riyadh and is rumored to have a big influence on all major decisions taken by Arabsat.
- BeIN Media has claimed that the blockade and the launch of BeoutQ has cost the Qatari operator around $1 billion in lost revenues, in tarnishing its brand, and in reducing the value of its investment in the pay TV business.
- According to data by IHS Markit, the blockade has already cost BeIN Media the loss of almost 45% of its subscribers' base. IHS Markit had estimated that BeIN Media had loss revenues to the scale of $600 million, solely from home subscriptions, during the 18-month period from mid-2017 to the end of 2018.
- BeIN Media has unleashed a multi-pronged strategy to fight against BeoutQ. First, it garnered support from the content owners: Sports rights holders like UEFA, the Premier League, Spain's La Liga, Germany's Bundesliga, Formula 1, The Tennis Federations, and FIFA; pay TV operators and broadcasters like Sky BBC, NBCUniversal, and Eleven Sports Network; and US bodies like the US Chamber of Commerce and the International Intellectual Property Alliance.
- Second, it launched appeals to national and international organizations urging them to take action against BeoutQ and the government of Saudi Arabia. The state of Qatar, acting on behalf of BeIN Media, had filed a case with the World Trade Organization (WTO) accusing Saudi Arabia of serious violations of the WTO's Agreement on Trade-Related Aspects of Intellectual Property Rights. BeIN Media and its owned US studio, Miramax, have filled a submission to the Office of the United States Trade Representative ("USTR") demanding that the Kingdom of Saudi Arabia be identified as a Priority Foreign Country or be placed on the Priority Watch List. Finally, the Qatari operator had launched an international investment arbitration against the Kingdom of Saudi Arabia for damages totaling more than $1 billion.
- The case of BeoutQ is damaging the pay TV business. It is not just the huge loss of revenues inflicted upon BeIN Media and the regional and international content owners, or the tarnishing of the brands of BeIN Media and its business partners – it is also that a piracy enterprise of this industrial scale is putting the whole business model of pay TV in MENA in jeopardy. It can lead to the perception that MENA is a regional black spot in terms of protection of intellectual property rights, where the lawful owners of content have no legal recourse to protect the stealing of their programming. International media houses might face a reduced interest for their content from pay TV operators in the region; BeIN Media has hinted that it will significantly reduce its investment in content acquisitions. This development might force the content owners to avoid negotiating their rights with MENA operators, thus depriving the viewers in the region with access to content they might want to watch.

Saudi Arabia’s new media strategy: Investment and impact on pay TV

- Arguably, one of the most interesting developments in the MENA media landscape is the recent twist of direction of Saudi Arabia’s strategy towards the media business: The country wants to implement a media policy that will be more extrovert-looking and addressing the future challenges of the sector. This policy will support economic growth, non-tight with the oil business, help to create jobs and raise the GDP of the country, and promote the culture and the values of the Saudi society not just in the MENA region but to the world. The country has created a blueprint for growing its economy, for transforming the country to successfully engage the benefits of digitization, and preparing the society for the knowledge economy of the 21st century. This blueprint is called Vision 2030 and one important pillar is to develop the media and related industries and to strengthen their competitiveness internationally.
- Vision 2030 has set a number of key performance indicators (KPIs) and a list of targets to be reached by certain deadlines. A number of projects have been highlighted to be given priority status in terms of legislation and funding:
  - Lifting a 37-year ban on cinemas and directing national and foreign investment into the cinema sector. Investment will be used to develop the cinema infrastructure, to train and educate professionals, and to forge partnerships with the international cinema industry. Adjacent table provides info on all known deals.
  - Building the largest media, entertainment, and recreational zone in the world. The zone will have the size of a city, covering an area of 334 square km and be located in Al Qidiya, southwest of the capital Riyadh. Al Qidiya will host all major media, entertainment, and cultural institutions of Saudi Arabia as well as major international companies that want to invest in the media and cultural industries of the country.
  - Provide financial and technical assistance to Saudi-owned broadcasters (like MBC) and pay TV operators (like STC) in their efforts to direct their online video platforms (Shahid and JawwyTV) to target the Arab diaspora around the world.
  - Building partnerships with other MENA specialized bodies, like the Abu Dhabi Media Zone Authority (TwoFour54), for sharing knowledge, exchange best practices, and create job opportunities in the audio-visual sector for the youth of Saudi Arabia.

Saudi Arabia: Cinema infrastructure investment deals

Date	Foreign \ Saudi investment partner	Expansion Plans
April 2018	AMC Theatres	40 cinema sites in the next 5 years and 50 to 100 in 25 cities by 2023
April 2018	Vox	80 screens in 12 months, 600 screens by 2023
July 2018	Al-Rashed United Group – Empire Cinema	30 cinema sites by 2022
August 2018	Lux Entertainment Co. / Fawaz Alhokair	300 cinema sites by 2024
March 2018 (licence awaiting confirmation)	Cinemacity	“several sites” – first 20-screen multiplex planned for summer 2019
November 2018	iPic Entertainment	25–30 locations
February 2018 (licence awaiting confirmation)	Kuwait National Cinema	12 cinema sites
March 2019	Light Cinemas	6 cinema sites with 15 screens each in 2019

Source: IHS Markit

Saudi Arabia's new media strategy: MBC adopts an assertive content strategy, pushing Shahid as leading OTT platform

- For the last two decades, MBC has been the most popular TV broadcaster in the MENA region and the most recognizable TV brand. MBC broadcasts frequently attract more than 100 million viewers. The broadcaster has managed to create channels that have the widest possible appeal in the region, being popular across all the territories of the MENA region. MBC has managed to grow its business also by forging partnerships with pay TV operators, telecom operators, content producers, and even mobile operators in the region.
- From 2018, MBC has been majorly controlled by the Saudi government, according to reports released in Middle Eastern and international media. This development has not affected the popularity of its programming. Analysing the business initiatives that MBC has undertaken in 2018, we believe that the Dubai-based operator has adopted an even more assertive strategy in reference to its content and it seemed to have a clear policy of further growth and expansion in the MENA region and even beyond. Among these business initiatives, the most prominent were:
  - The launch of a new content production unit, the MBC Studios. MBC Studios will focus on producing high-brow, top quality content for the cinema and television sectors as well as the online video platforms. The main focus will be on Saudi Arabia with the stated goal to accelerate the growth of the industry in the country and to create new job opportunities for the Saudi youth.
  - MBC is clearly shifting focus away from top quality Turkish drama series towards locally produced Arab programming. MBC is channelling investment in the production of Saudi, Egyptian, and Kuwaiti drama to fill-in the programming slots after the removal of Turkish series.
- Targeting new, prospective but poorly served local media markets like Iraq. MBC has launched a new channel titled MBC Iraq in February 2019. With the launch of MBC Iraq, the broadcaster wants to strengthen its relationship with Iraqi audience while also investing in the Iraqi media sector and in producing local content.
- Partnering with other free-to-air broadcasters and content owners from the region, in order to build a premium Arabic content platform and in turning MBC into a major-scale aggregator of top quality Arabic programming. Examples of this policy are the recent deals with two major Egyptian broadcasters, Al Hayat and Dream TV.
- Grow its business by expanding into markets outside of the Arab world. MBC has created channels to target specific countries or regions by offering content relevant to the tastes of these territories. For instance, MBC+ Power is targeting some Sub-Saharan African countries like Ethiopia, Mali, and Nigeria while MBC Persia, launched at the end of 2018, is targeting Iran. MBC is planning to produce original programming in Farsi (the official language of Iran) for MBC Persia.
- Revamp and expand the business scope of Shahid, the online video platform of MBC. Shahid used to be the catch-up TV service offering the content of MBC channels while some premium content was offered under a pay-wall, via Shahid Plus, the SVoD version of Shahid. The strategy includes the creation of Arabic original content to be offered exclusively on Shahid Plus. Also the partnering with other content owners, even other OTT services, to create a broad portal of quality Arabic content. Another major goal for Shahid and Shahid Plus is for both services to become the leading OTT platforms for the global Arab diaspora.

Online subscription video market

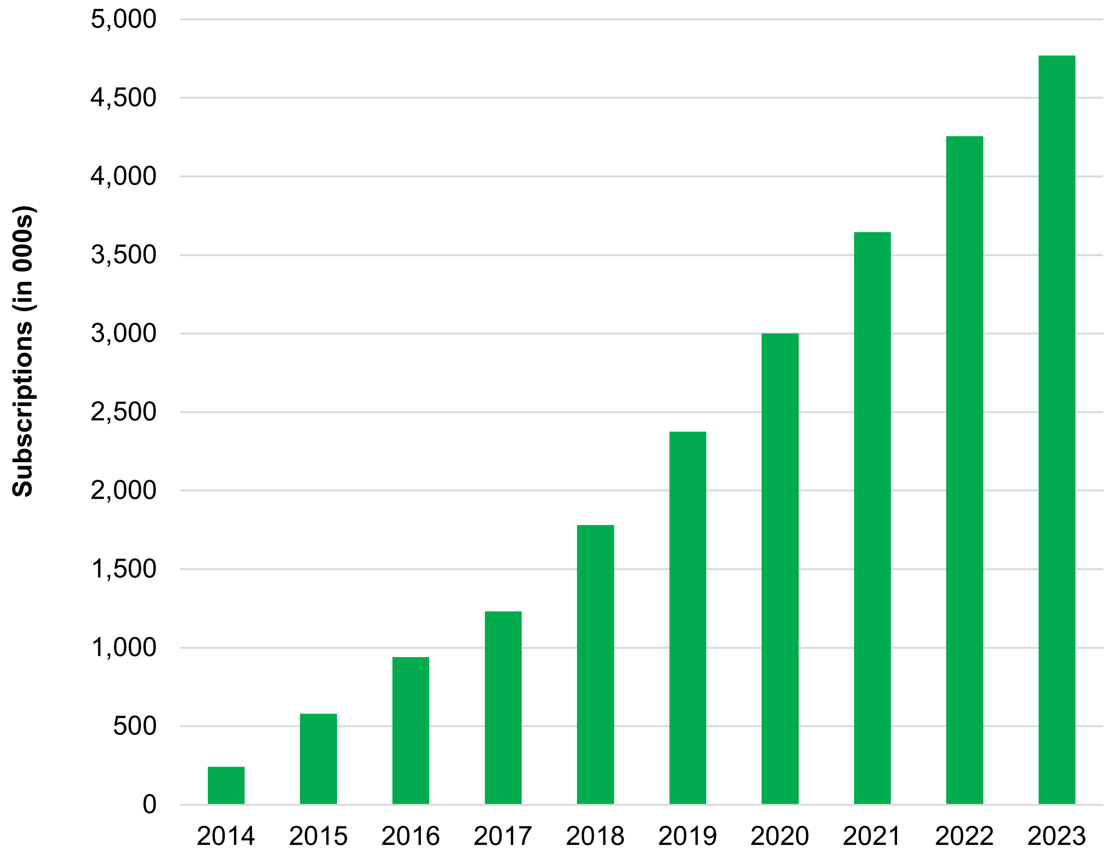
Online video overview: MENA market is dynamic, primarily driven by mobile consumption and partnerships with telcos

- The online subscription video market in MENA is experiencing a growth phase: According to IHS Markit data, paying subscriptions at the end of 2018 stood at 1.78 million, 45% higher than the previous year (1.23 million in 2017). Annual revenues from paying subscriptions reached a high of $146 million at the end of 2018, growing 41% over the previous year ($103 million in 2017).
- IHS Markit expects the positive momentum of the market to continue to at least the middle of next decade. By 2023 paying subscriptions will reach almost 5 million, experiencing a CAGR of 26% for the period in the seven-year period starting at the end of 2016, the year that Netflix and Amazon came to the region. Revenues from paying subscriptions will reach $416 million, representing a CAGR of 29.3% over the same period. Mobile video consumption is driving the OTT market and is supporting this growth pattern, even after taking into account the considerable investment in fiber infrastructure that some MENA countries have undertaken. MENA is predominantly a mobile market: According to IHS Markit data, at the end of 2018 the number of mobile broadband subscribers was 17 times higher than that of fixed broadband subscribers (286 million versus 17 million).
- The online subscription video market is pursuing the same growth pattern that the pay TV market had followed in the region: The main growth areas, at this initial stage, are mainly the Gulf countries. At the end of 2018, they represented two thirds of the total market in paying subscriptions (65%) and revenues (70%). Saudi Arabia is the largest market in MENA, controlling almost one-third in subscriptions and revenues, followed by the UAE.
- Netflix has been present in MENA since the start of 2016 and, according to IHS Markit data, controlled around a quarter of the market in subscriptions at the end of 2018. Still, it trailed STARZ Play Arabia, a semi-local service partly owned by Lionsgate, which was the leading OTT service in the region with a 29% market share in subscriptions. Revenue wise, it was a tie, as both Netflix and STARZ Play accounted for one-third of the market in 2018.
- STARZ Play Arabia, present in MENA since 2015, has implemented a smart business policy by localizing pricing and content offerings and by providing bundled payment options. The main facilitator of STARZ Play's growth, so far, is its shrewd strategy of inking deals with telcos for direct-carrier-billing. IHS Markit believes that this kind of partnership is significantly accelerating the uptake of OTT services in the region, and by the end of 2018 IHS Markit had counted 87 such deals.
- Telecom operators and pay TV operators have launched their own OTT services. For telecom operators the model of super aggregator, bringing other OTT services in their platform, seems to be the most preferable in order to grow their business. Saudi Telecom has the most ambitious plan: To turn its own standalone OTT service, Jawwy TV, into a global distributor of quality Arabic content.

Online video overview: Market maintained growth momentum in 2018, with subscriptions increasing 45% in the year

- During 2018, the online subscription market continued its expansion, reaching a total of 1.78 million paying subscriptions by the end of the year. One year earlier, at the end of 2017, the paying subscriptions stood at 1.23 million, hence the market in 2018 grew with a rate of 45%.
- High growth rate is the norm as far as online subscription services are concerned, so in that respect the MENA market makes no exemption. The market has accelerated since 2015, the year that STARZ Play Arabia has launched. Then in 2016, both Netflix and Amazon Prime Video entered the market although at the opposing ends of that year (Netflix in January, Amazon Prime Video in December).
- IHS Markit expects the growth spree to continue unabated and by 2023, with paying subscriptions to reach almost 5 million. The CAGR for the period 2016 to 2023 is expected to be 26%.
- Main factors facilitating that growth are:
  - The large number of partnerships between OTT services and telecom operators
  - Differentiation of pricing and packaging in relevance to the local market (example: Higher pricing in the Gulf countries, lower in North Africa)
  - The localization of OTT services: Primarily in pricing in local currencies and in launching interfaces and search in Arabic and secondary in content offering
  - High penetration of smartphones and investment in 4G networks.

MENA: OTT paying subscriptions

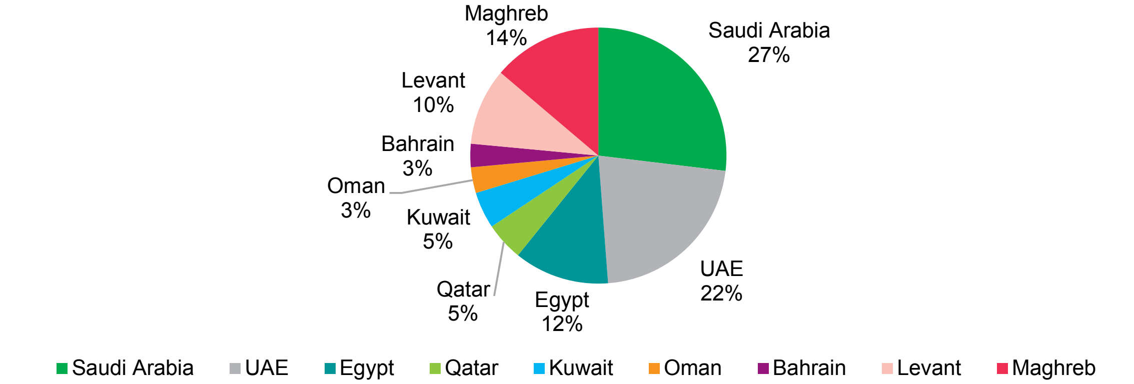


Source: IHS Markit

Online video growth drivers: Gulf countries command leading position

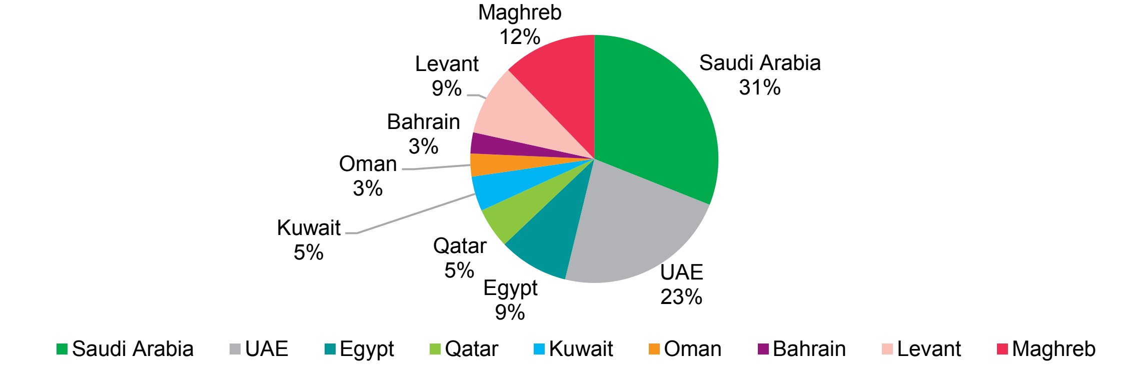
- A number of factors are at play to varying extends in each of the individual MENA markets, all of which can have an influential impact on the prospects of the online subscription video market. These include, but are not limited to, family income, level of digital infrastructure, content tastes and preferences, adoption of cashless payment solutions, and willingness to pay to have access to content.
- Among all the MENA countries, it is primarily the Gulf countries which have the most favourable environment for the growth of the market. In addition to the factors listed above, the Gulf countries possess another important asset: The presence of numerically significant expats communities in their territories. For expats, independently whether they are coming from South East Asia, Africa, Europe, or other Arab states, TV content represents a link with their home countries and with their culture. For many expats, TV content from their homeland is the only form of entertainment available to them in these countries.
- It therefore comes as no surprise that the online video market resembles the pay TV market, where the Gulf countries represent the territory with the highest take-up and, consequently, the highest market share.
- In 2018, the six Gulf countries (Saudi Arabia, UAE, Kuwait, Qatar, Oman, and Bahrain) controlled two thirds of the online subscription video market in subscriptions (65%) and revenues (70%). Saudi Arabia and the UAE are comfortably leading the market while Egypt, historically one of the largest Arab media markets, is the sole country, outside of the Gulf, commanding a double-digit (12%) market share in subscriptions in 2018.

MENA: OTT subscriptions by country, 2018



Source: IHS Markit

MENA: OTT revenues by country, 2018

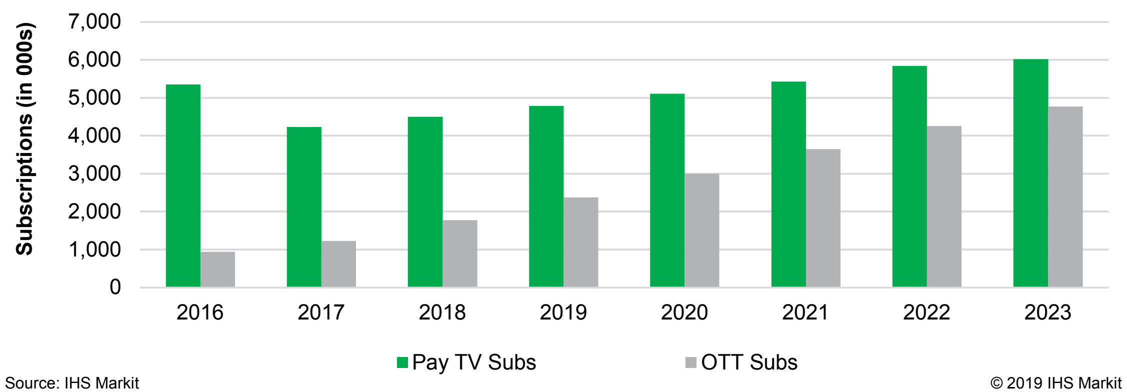


Notes: Maghreb consists of Algeria, Libya, Morocco, and Tunisia. Levant consists of Iraq, Jordan, and Lebanon
Source: IHS Markit

OTT versus pay TV: Online subscriptions growing twice as fast as pay TV ones, but investment in premium content prevents cord-cutting

- IHS Markit research indicates that, in MENA, there is not a clear trend of pay TV being substituted for OTT. Cord-cutting might be happening but not yet at a level causing alarm to pay TV operators. Pay TV penetration is very low, at around 10%, but the main reason for the lack of cord-cutting is that online video still does not offer the high-quality content found in the catalogues of the major pay TV operators. Premium sports and premium movies are still falling within the domain of operators like BeIN Media and OSN. IHS Markit estimates that BeIN Media is spending over $1 billion a year for content acquisitions and OSN a sum almost half that of BeIN Media.
- The pay TV market is experiencing moderate growth following the BeIN Media blockade. Among numerous other reasons for this, piracy is also a dominant contributing factor. Online subscriptions on the other hand, will keep their high-growth momentum well into the middle of the next decade experiencing a CAGR of 26% according to IHS Markit, over the same seven-year period.
- By the end of 2018, the number of online video subscriptions was equivalent to 40% of pay TV subscriptions. IHS Markit forecasts that this year they will be as high as half the number of pay TV subscriptions and by 2023 they will reach 80%. This forecast takes into account a continuation of the blockade, however, the growth pattern of pay TV will not alter significantly.
- OTT services are gaining twice as many new subscribers (net additions) as pay TV operators do, for the period 2018–23. By 2025, online video subscriptions will overtake pay TV ones, if this rate continues.

MENA: Pay TV versus OTT subscriptions



Source: IHS Markit

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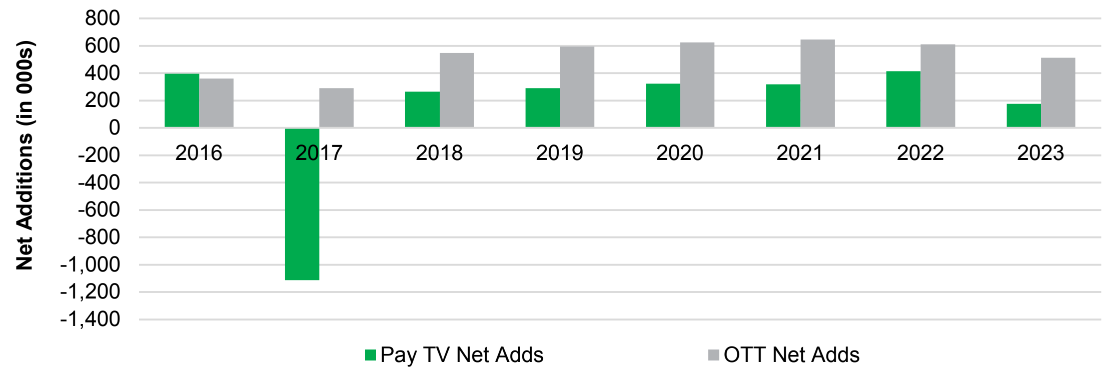
MENA: Pay TV versus OTT net additions



Source: IHS Markit

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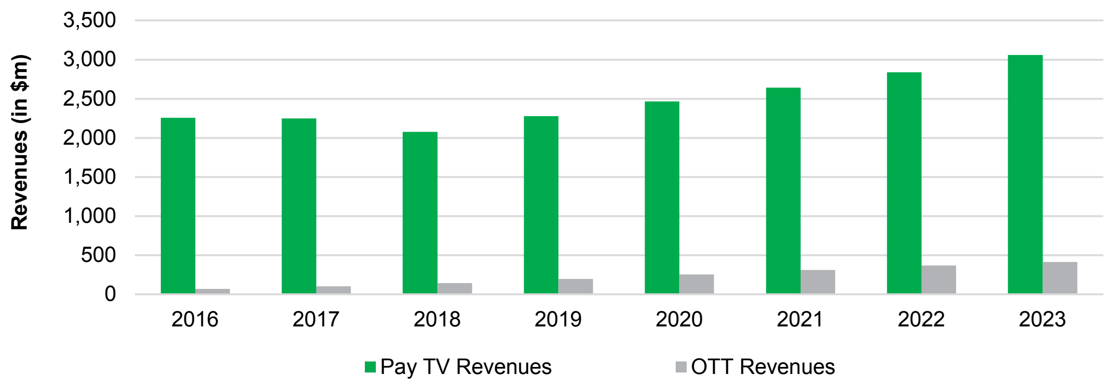
OTT versus pay TV: In revenue and ARPU terms, pay TV remains a higher-value business than online video, helped by the lack of competition in IPTV

- Revenue-wise, online video subscriptions (OTT) have a lot of ground to cover to stand on an equal foot with pay TV subscriptions. IHS Markit estimates that, in 2018, OTT revenue was only 7% the size of pay TV revenue. As OTT subscriptions are growing much faster than pay TV ones, the OTT revenues will be as high as 14% of the pay TV revenues by 2023.
- The low penetration of pay TV is attributable, at least in part, to the high cost of accessing premium content in the region. The reputation of operators like OSN was tainted for years with criticism that its packages were very expensive and out of the reach of the average MENA family. OSN since 2017 has significantly reduced its pricing, while BeIN Media has moved in the opposite direction raising its pricing by 250% between 2012 and 2017.
- Pay TV ARPU is, on average, four to five times higher than OTT subscription ARPU. This relationship between the two ARPUs forms a trend that IHS Markit has observed internationally: In general, OTT subscription ARPU is between 10% and 30% in size of the pay TV ARPU.
- The last two years, IPTV operators in particular have kept pay TV subscription fees high. These operators enjoy a virtual monopoly in their home markets and, therefore, feel no pressure to offer competitive pricing in their packages due to the fact that legislation forbids the installation of satellite dishes on any new building, forcing the residents to an IPTV subscription to satisfy their TV viewing needs.

MENA: Pay TV versus OTT subscription revenues



Source: IHS Markit

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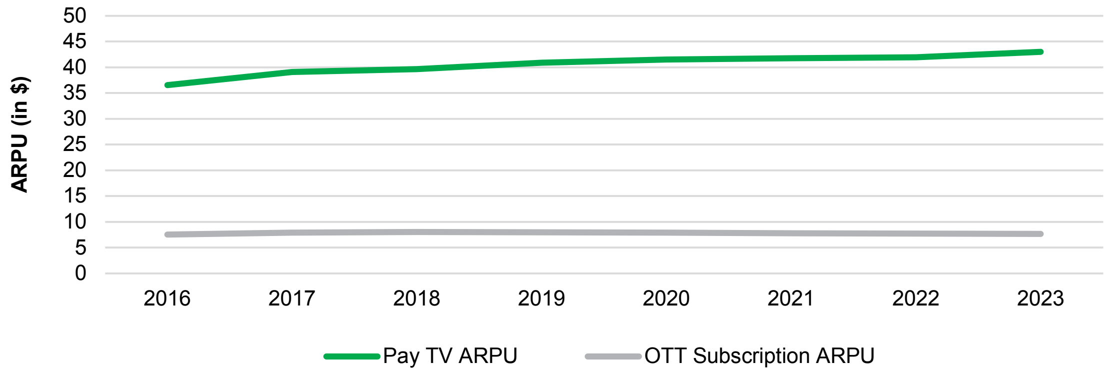
MENA: Pay TV versus OTT subscription ARPU



Source: IHS Markit

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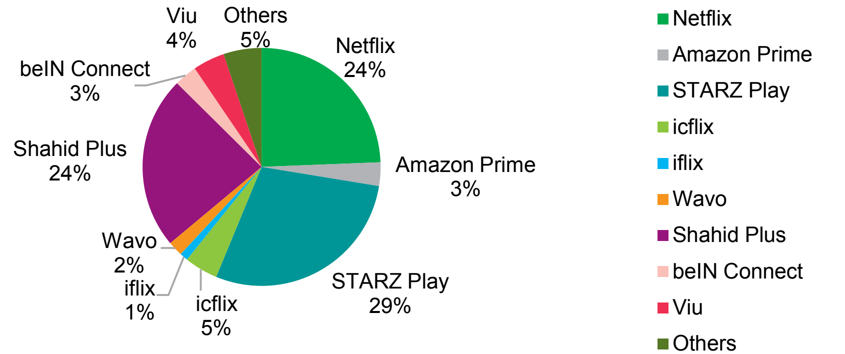
Online video providers: Three players dominate the market, with Netflix soon to challenge STARZ Play Arabia

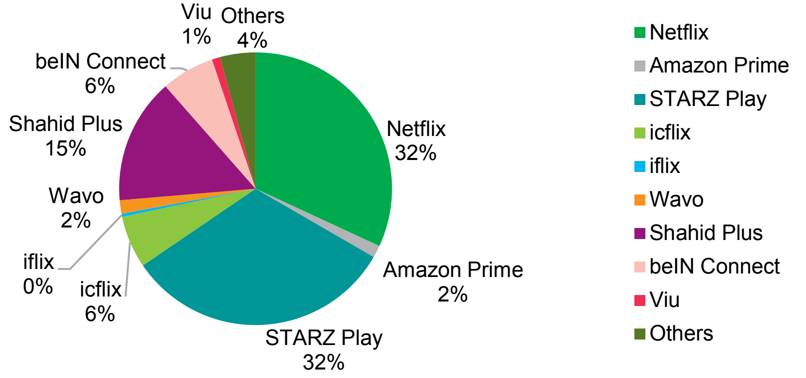
- In 2018, the OTT subscription market can be described as a tale of three major players. Semi-local service STARZ Play, local Shahid Plus, and international provider Netflix managed to attract almost 8 out of 10 subscribers last year. The rest of the OTT subscription services managed to command low, single-digit market shares. Among them was Amazon Prime Video which is paying the price for not offering a localized service and for not inking many deals with the local telcos.
- STARZ Play kept its leading position from 2017 on the back securing the largest number of deals in the region, diversifying its packaging and pricing to reflect the tastes of every local market, and crafting an offering comprising attractive Western, Asian, and Arabic content. Shahid Plus is in the middle of a revamping process and is putting its bet on the brand name of MBC, the close ties with local content producers, the expert knowledge of content preferences of the Arabic audience, and on the ease of inking deals with telcos.
- Netflix is quickly gaining ground, as IHS Markit predicted last year, and is set to pose a clear challenge to STARZ Play's dominance in the next two years. Netflix's localization efforts continued in 2018, with local pricing introduced in the two largest MENA markets (Saudi Arabia and UAE), while it forged regional and local deals with operators like OSN and Du. Finally, Netflix has started investing in local content production and in 2019 it will launch globally its first original series from MENA, Jinn.
- Other players have revamped their strategy, including OSN with its virtual pay TV service WAVO, switching a tiered, genre-based pricing model for a cheaper single-tier content package in an attempt to gain ground.

MENA: OTT subscriptions by operator, 2018



Source: IHS Markit

MENA: OTT subscription revenues by operator, 2018



Source: IHS Markit

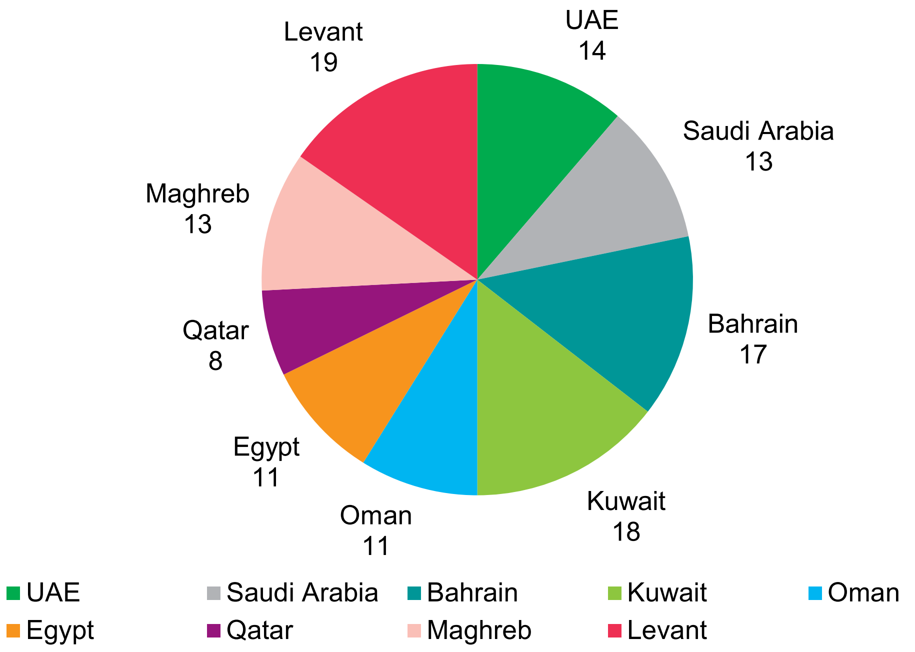
Online video providers: Jawwy TV case study – a Saudi OTT service that aims to shape the MENA market

- Jawwy TV is a new online subscription service which was launched in 2018 by Intigral, the fully owned IP video arm of Saudi Telecom Company (STC). Jawwy TV was launched as an app in three MENA countries in 2018 (Saudi Arabia, Kuwait, and Bahrain) and only in Saudi Arabia via a hybrid (satellite-OTT) box.
- Like all OTT services launched by telcos, Jawwy TV's main aim is to support STC's core business, fixed and mobile broadband. STC, like all telcos in the Gulf has made big investments in roll out fiber networks (FTTH) and OTT services is seen as an asset that can drive monetization. The case of Jawwy TV, however, seems to move much further than this model and to support much broader business strategies. Jawwy TV is wholly incorporated in the framework of the new assertive, ambitious media policy of the state of Saudi Arabia. Intigral is labelling Jawwy TV as a new kind of digital platform in MENA, which it believes will have a significant impact on the way media and entertainment is consumed in the region. Jawwy TV can become a strategic asset for the planners of the new Saudi media policy, as well as an important tool projecting Saudi media and culture around the world.
- IHS Markit has identified a range of areas where Jawwy TV's business case differentiates from the rest of the OTT services launched by telcos in the MENA region:
  - Adopting the profile of a multi-source content aggregator, to a scale larger than anything similar before in the MENA region: Jawwy TV has already inked deal with content owners and distributors (Rotana, Fox), broadcasters (MBC), pay TV operators (OSN), and international OTT services (BluTV) to be incorporated in its platform. Some of the services, like OSN, MBC, and BluTV have their own branded areas within the Jawwy TV service. It is rumoured that they are in talks for a similar deal with Netflix. In essence, Jawwy TV wants to create a unified platform from accessing premium content from a wide variety of sources.
  - Jawwy TV is planning to produce and commission its own original Arabic content. Before Jawwy TV, the telcos in MENA focused on offering content produced by broadcasters and pay TV operators. Intigral believes that original Arabic content will be one of the USPs of Jawwy TV. Furthermore, it will strengthen its business proposition to the Arab diaspora around the globe that Jawwy TV is determined to target.
  - Jawwy TV's business plan includes the acquisition, on an exclusive basis, of the global rights for its Arabic content. One prime example of this policy is the rights of the Saudi Football League which are being acquired by STC for the next 10 years. From the 2019–20 season, Jawwy TV will broadcast globally the League's matches.
  - Jawwy TV wants to extend its MENA foothold by launching in as many countries as possible. To accelerate this process, STC is ready to ink deals with other telcos in the region for partnerships. STC is the first telco in MENA to actively seek cooperation with other telcos.
  - STC has managed to have more leverage in the OTT market with Jawwy TV as it owns the full ecosystem, i.e. the entire broadcast chain: Acquisition, production, storage, and delivery of content through its own in-house CDN infrastructure.

OTT strategies: Carriage and billing deals continue to proliferate as market leaders expand

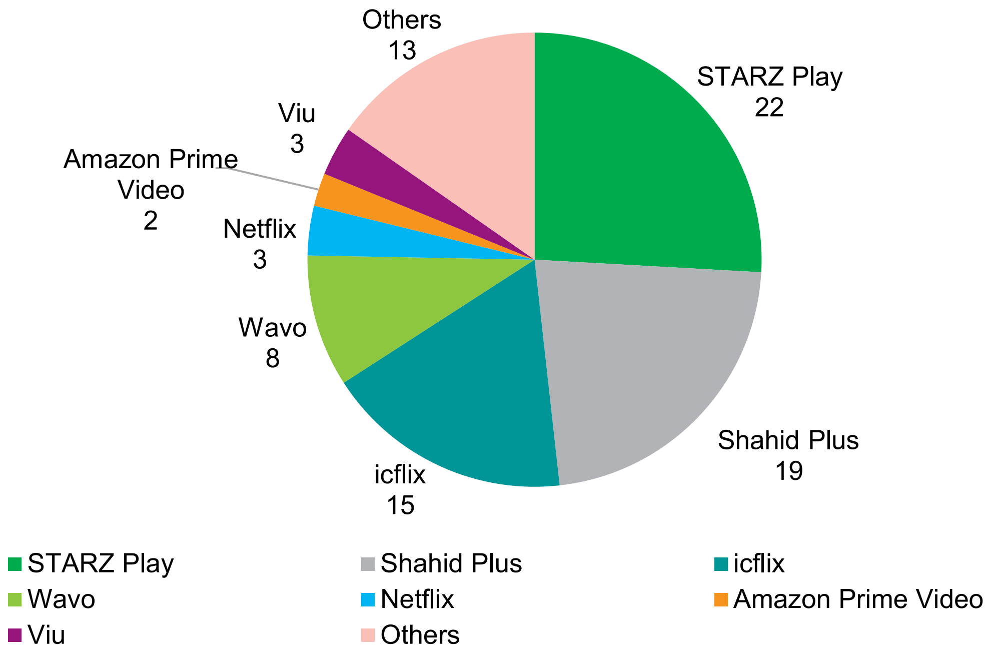
- The year 2018 saw a number of players continue their expansion in MENA through deals made with local operators. The services making these deals primarily consisted of market leaders STARZ Play Arabia, Shahid Plus, and Netflix. The operators partnered with and the nature of the deals made, however, have varied significantly and provide insight into the strategies of the OTT subscription providers going forward.

MENA: Number of OTT subscription video operator deals with local operators by country, 2018



Note: Maghreb consists of Algeria, Libya, Morocco, and Tunisia. Levant consists of Iraq, Jordan, and Lebanon
Source: IHS Markit

MENA: Number of OTT subscription video operator deals with local operators by OTT service, 2018



Source: IHS Markit

OTT strategies: Carriage and billing deals continue to proliferate as market leaders expand

- Deals with operators can take a number of forms but they predominantly allow customers to pay for a service in local currency, directly through the operator. They also frequently include a free trial that lasts much longer than that offered by the OTT subscription video service directly, some extending for as long as six months. These deals apply primarily to local telcos, and their nature varies significantly depending on country and service. In addition to these traditional deals, a number of OTT subscription video providers offer deals through local brands, including smart TV sets and even food brands. Such deals tend primarily to offer free trials to the partnered subscription service but can occasionally provide consumers with benefits to the partner brand as well. Nearly 100 of these deals existed between OTT subscription video providers and local operators by the end of 2018.
- In terms of both localization and making deals, both Netflix and Amazon Prime Video were much more active in 2018 and will continue to expand significantly in 2019. In September 2018, Netflix localized its pricing structure in its two strongest MENA markets (UAE and Saudi Arabia), and its regional deal with OSN made its app available on new OSN Plus HD Wi-Fi set-top boxes. Amazon has done less than Netflix this year but is likely to expand its video presence in conjunction with its local e-commerce brand Souq, potentially as part of a local Prime bundle that has proven successful in other markets.
- OSN's virtual pay TV service WAVO saw a stream of new deals with traditional operators across the region in 2018, following a mid-year pricing tier restructure. Despite this, its quantity is still behind most market leaders and subscriber numbers have been low, reaching 36,000 paid subscribers by the end of 2018. Icflix and iflix have also been struggling to gain ground against local leaders. In particular, Iclfix's symptomatic lack of new deals in 2018 is indicative of its falling market share in MENA. Despite its launch in Morocco in April 2018, iflix has also been losing out as its deal with Zain loses publicity and no further deals have been made in its MENA markets.
- Deals with operators are also benefiting transactional online video providers, including Google's Play store and Apple's iTunes, as well as digital music services such as local provider Anghami, which have made a number of direct carrier billing deals with mobile providers across the region. The number of these deals regionally across all digital media formats bring benefits to the wider landscape as it continues to raise the profile of digital content in MENA.

OTT strategies: STARZ Play Arabia in Saudi Arabia and UAE case study – deals are numerous and come in all shapes and sizes

- With more than 20 ongoing deals across the region, STARZ Play Arabia has made the largest number of deals with operators in MENA, as well as the largest number of deals in the two largest digital media markets, UAE and Saudi Arabia. These two countries are vital to the success of any digital video company in the region and STARZ Play's portfolio of deals across these markets is as varied as they are numerous.
- Over the years, STARZ Play Arabia has successfully partnered with key operators including STC and Etisalat across both pay TV and mobile platforms to offer its app with direct carrier billing solutions to customers of the most popular platforms in the region. Outside of traditional operators, a prominent deal in Saudi Arabia came with their partnership with consumer electronics retailer eXtra in March 2018. With this, eXtra became a physical outlet for STARZ Play Arabia subscriptions, allowing customers to pay with cash both directly and as an add on to select eXtra appliances.
- Regional deals with Samsung and LG to provide the STARZ Play Arabia app on their smart TV's increases the accessibility of the service across the region. Furthermore, its deal with Samsung extended further to offer customers of select Samsung TV Smart TVs up to six months free access to STARZ Play Arabia.
- Deals with brands go further than electronics and homeware, however, as STARZ Play Arabia is one of the first OTT subscription video players in the region to partner with a confectionary brand, having offered a month free trial with packets of M&Ms. Another example of partnering with a food brand came with Uber Eats in UAE – during Ramadan, it offered customers a two-month free trial to STARZ Play Arabia with a qualifying Uber Eats orders.
- Extending offers like these beyond traditional pay TV and mobile operators allows STARZ Play Arabia to target a wider group of potential consumers. For MENA specifically, where content piracy is widespread and bank card penetration remains low, the ability to pay with cash as well as offering free trials allows customers to experience these OTT offerings without commitment or restrictions.
- Such methods to draw consumers to STARZ Play Arabia has its own set of challenges, however, as the adoption rate of customers after their free trial is uncertain, especially for the wider consumer base that has been targeted. Free trials or discounts of this scale can be inherently expensive for these companies as revenue remains low. Meanwhile expenditure is still necessary for premium content acquisition and provision. Without a guarantee of prolonged commitment, STARZ Play Arabia will need to continue to provide more of these low-barrier service access points while hoping the allure of free trials draws more long-term customers in the future.

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