

COMPETITION TRIBUNAL OF SOUTH AFRICA

Case No: 21/LM/Feb08

In the matter between:

The Prepaid Company (Pty) Ltd

Acquiring Firm

And

Clostrade 393 CC t/a Crown Cellular

Target Firm

Panel : D Lewis (Presiding Member), N Manoim (Tribunal Member),
and Y Carrim (Tribunal Member)
Heard on : 27 February 2008
Order Issued : 29 February 2008
Reasons Issued: 28 March 2008

Reasons for Decision

Approval

[1] On 27 February 2008, the Tribunal unconditionally approved the merger between The Prepaid Company (Pty) Ltd and Clostrade 393 CC t/a Crown Cellular. The reasons for approving the transaction follow.

The parties

[2] The primary acquiring firm is The Prepaid Company (Pty) Ltd ("TPC"), a company duly registered in terms of the company laws of the Republic of South Africa. TPC does not control any other firm but operates through three divisions namely TPC Virtual Pack, TPC Starter Division, and TPC Retail Division.

- [3] TPC is a wholly owned subsidiary of Blue Label Telecoms Limited (“BLT”), a public company listed on the JSE Securities Exchange.¹ BLT is not controlled by any single shareholder. The five largest shareholders who hold more than 5% in BLT are Shortput Investments (Pty) Ltd (with a 15.2% shareholding), Nthwese Investment Holding Consortium (Pty) Ltd (with a 10.4% shareholding), Brett Marlon Levy (with a 9.5% shareholding), Mark Steven Levy (with a 9.5% shareholding), and Investec Bank Limited (with a 5.7% shareholding).
- [4] BLT has 27 subsidiaries² which all operate in the telecommunication industry. One of its subsidiaries, Venture Group (Pty) Ltd holds control over five companies.³
- [5] The primary target firm is Clostrade 393 CC trading as Crown Cellular (“Crown Cellular”). Crown Cellular has one member, Faizel Carim (25%) and five beneficial owners⁴ namely Mahomed Carim (20%), Riaz Aboo Carim (15%), Ebrahim Ghood (25%), Muhammed Gani (5%), and Faizlul Huck Gani (10%).
- [6] Crown Cellular does not have control over any firm. Three of its owners have controlling interests as follows: Riaz Aboo Carrim controls Crown Wheels CC, Muhammed Gani controls Crown Mobile (Pty) Ltd – a dormant company, and Ebrahim Ghood controls Riverwalk Trading 930 CC.

Description of the transaction

- [7] In terms of this transaction, TPC will acquire Crown Cellular as a going concern. Upon completion of this transaction, the operation of Crown Cellular will be incorporated into the business of activities of TPC.

Rationale for the transaction

¹ On 27 September 2007, the Tribunal unconditionally approved a merger in which Blue Label Investments (Pty) Ltd acquired ten companies in which it had controlling and non controlling interests under case number 72/LM/Jul07. The Prepaid Company was one of the companies that were acquired in that transaction. On listing on the JSE Securities Exchange, Blue Label Investments (Pty) Ltd changed its name to Blue Label Telecoms Limited.

² See record pages 96-97.

³ See record page 97.

⁴ The beneficial owners share in the profits of the close corporation and are able to cast votes in respect of the decision to be taken by the close corporation. However, their interests in the close corporation are held through a single individual, Faizal Carrim, who holds the interests as a nominee.

- [8] The primary acquiring firm views this transaction as an opportunity to directly reach its customers who are retailers of prepaid airtime, and to further expand its current business strategy of providing its clients with a more complete range of services.
- [9] The owners of the primary target firm view this transaction as an opportunity to grow as part of a listed entity which operates in a wide array of telecommunication services.⁵

The parties' activities

Primary acquiring firm

- [10] BLT's prepaid products and service offerings include prepaid airtime, prepaid electricity, bill payment, electronic funds transfer, gift vouchers, loyalty programs, stored value cards, location based services and other prepaid tokens of value (both physical and virtual) that are allied to the telecoms, utilities, insurance, financial services and transport industries.
- [11] TPC is a distribution and trading business focusing on the supply of prepaid secure electronic tokens of value to wholesalers, financial services providers, corporate and independent retail and petroleum outlets. TPC operates through three divisions:
- [11.1] TPC Virtual - which distributes electronic prepaid products utilising various technology mechanisms to ensure accurate, efficient and auditable end to end consumer delivery transactions. These include bulk database warehousing and delivery solutions, pin generation solutions, merchant bulk printing solutions, value redemption platforms and electronic competition solutions for various prepaid product applications;
- [11.2] TPC Starter Pack Division - which distributes cellular starter packs to major retailers, wholesalers and independents;
- [11.3] TPC Retail Division - provides cellular telephony solutions and value added services to major retailers and smaller merchants.

⁵ The parties submitted that as a consideration for acquiring Crown Cellular, the current members of the close corporation will be issued shares in BLT. See record page 70.

The primary target firm

[12] The primary target firm distributes prepaid airtime (physical and virtual), starter packs/kits, sim based telephone, new and refurbished (Nokia) cellular handsets.

Relevant Market

[13] The Commission and the parties stated that the relevant product market is the sale and distribution of airtime (physical and virtual) and sim-based telephony.⁶ Further, they submitted that the merging parties are active throughout the country and, as a result, the geographic market for this transaction is national.

Competition analysis

[14] There is an overlap in the activities of the parties in respect of the sale of and distribution of airtime and sim-based telephony.

Table: Market share figures for the distribution of airtime based on volume and volume

Name of company	Market share – volume (%)	Market share – value (%)
Vodacom	21.17	40.11
Telkom	20.14	9.87
MTN	19.98	16.71
Autopage Cellular	8.05	1.25
Nashua Cellular	7.79	1.21
TPC	6.65	13
Cell C	4.8	5.22
Smart Call	4.8	10.45
Crown Cellular	1.67	1.91
RMCS	0.11	1.46
Virgin Mobile	0.96	1.17

⁶ The merging parties submitted that the supply of sim-based payphones is ancillary to the main business of Crown Cellular and only comprises 0.125% of its turnover. As a result, there is no need to analyse this market further.

Total	100	100
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Source: Merging parties

[15] The above table shows that the merging parties would have 8.56% and 14.91% combined post-merger market share by value and volume, respectively.⁷ The proposed transaction is therefore unlikely to substantially prevent or lessen competition as the parties' post merger market shares remain low. In addition, the merged entity will face competition from competitors like Vodacom, Telkom and MTN, among others.

[16] TPC supplies approximately 60% of Crown Cellular's prepaid airtime. This transaction does not raise customer foreclosure concerns because TPC's other big customers and the customers of Crown Cellular can easily source airtime from the mobile operators themselves as well as other Independent Service Providers such as Nashua and Autopage.

Public Interest

[17] There are no public interest issues.

Conclusion

[18] The merger is approved unconditionally.

N Manoim
Tribunal Member

28 March 2008

DATE

D Lewis and Y Carrim concur in the judgment of N Manoim

Tribunal Researcher : R Kariga

For the merging parties: Edward Nathan Sonnenbergs

For the Commission : E Ramohlola (Mergers and Acquisitions)

⁷ At the hearing, the parties stated that the market share that might be more relevant for the purposes of competition is the market share by value. See transcript page 4.