



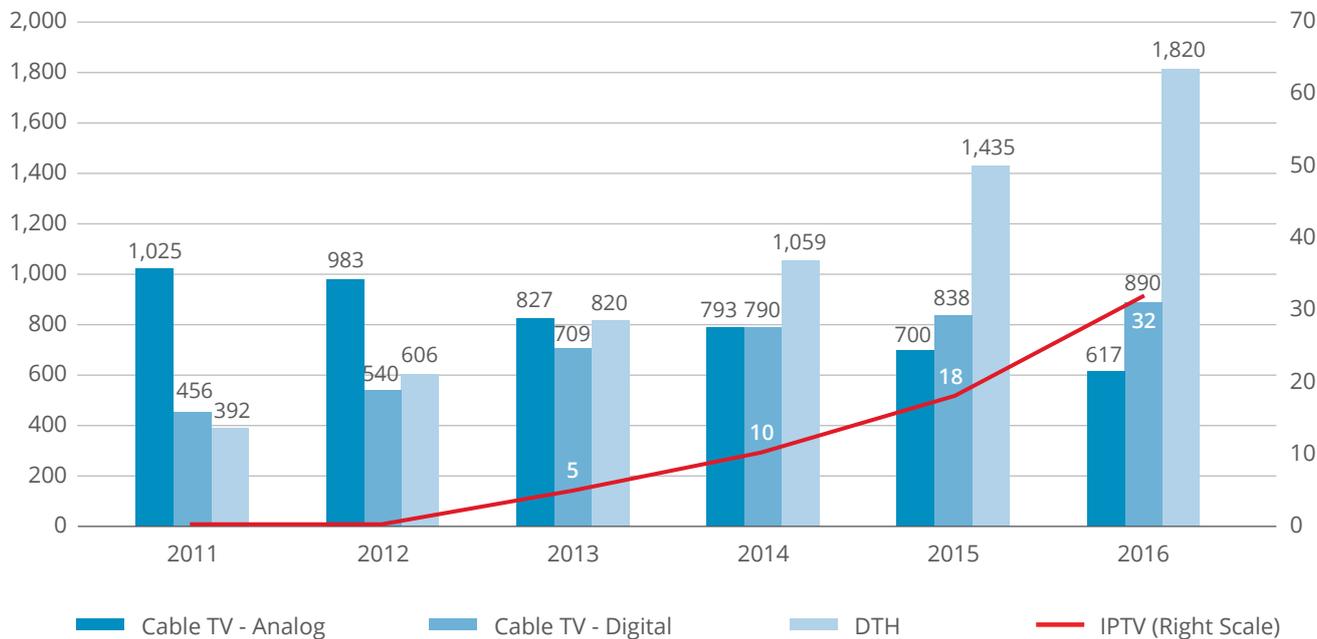
# PHILIPPINES IN VIEW

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EXECUTIVE SUMMARY

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Pay-TV Subscribers by Product in '000s (2011 –2016)



Source: Media Partners Asia

## 1. Market Overview

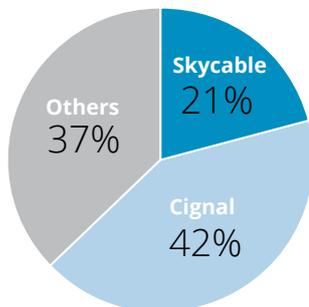
While the addressable market for Pay-TV in the Philippines has grown, it still far from the maturity levels of some other countries in the region. The most extensive household survey in the country, conducted by the Philippine Statistics Authority, reported that TV penetration in the Philippines stood at 76% as of end-2014, equivalent to 17.1 million households with TV sets. In terms of growth in TV households, this translated to a CAGR of 4.10% per year since 2010, or about 1.5x higher than population growth. Broadband<sup>1</sup> connections also grew during this period, at a more aggressive rate. With a total of 24.4 million estimated broadband connections as of end-2016, up from 7.3 million in 2011. Of this total, 90% was reported to be wireless broadband connections, or about 22 million versus 2.4 million fixed broadband connections.

## 2. Pay-TV Market Estimates

Based on our research, estimates on the number of Pay-TV subscribers in the Philippines ranged widely from 3 to 7 million subscribers, which made it difficult to pin down a universally acceptable figure. We talked to different industry stakeholders, including Pay-TV operators, content programmers, regulators and industry association representatives – and each party provided a different estimate and rationale. Issues raised included manipulation of subscriber number reporting to content programmers, unknown volume of illegal connections, and under-reporting of revenues to regulators, among others. Therefore we present data above from consultancy Media Partners Asia, as a central estimate.

<sup>1</sup> Data connection that provides speeds of 1 megabit per second (mbps) or more

### Pay-TV Operators' Market Share Based on Subscribers (Dec 2016)



Source: Company reports and Key Informant Interviews (CASBAA)

### 3. Pay-TV Operators

DTH player Cignal TV overtook Sky Cable in 2015 to become the largest Pay-TV operator in the country by volume of subscribers. It attained a reported 1.6 million subscriber count as of end-2016, and had been growing at a CAGR of 39% from 2013 to 2016. Cignal TV is owned by MediaQuest Holdings and is part of the PLDT group. It is cross-marketed heavily with other relevant PLDT brands such as PLDT Home and Smart to sell bundled packages with DTH and IPTV solutions. It also announced in July 2017 the launch of Cignal TV Entertainment, its entry into original content creation through partnerships with local production companies. Cignal TV also has exclusive partnerships with branded content partners such as Ultimate Fighting Championship (UFC), Bloomberg TV, and was the launch partner of Fox+ (as part of the PLDT Group).

Sky Cable, while no longer the largest Pay-TV operator by subscriber numbers, continued to be the biggest industry player in terms of revenues. In 2015, it reported gross revenues of PHP 8 billion against PHP 5.2 billion in revenues for CignalTV. In a major strategic

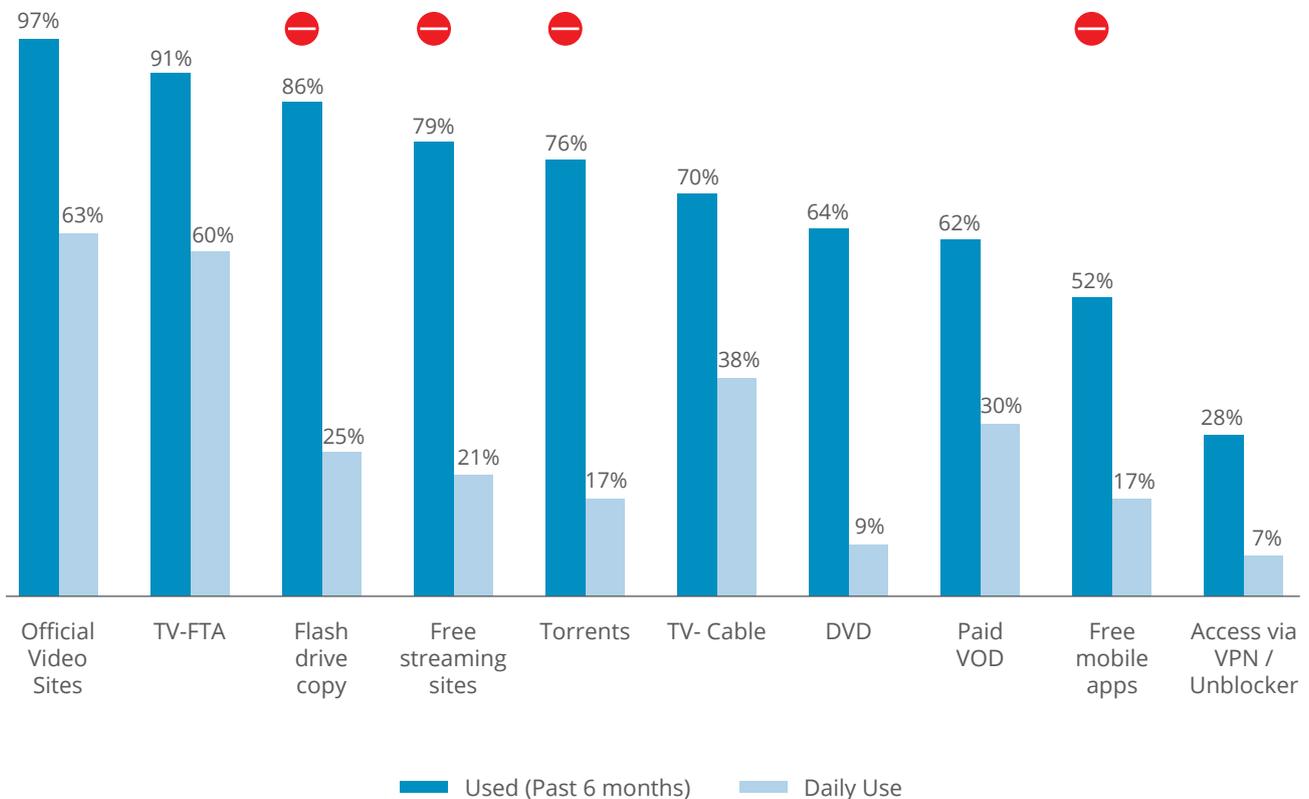
move, it launched its DTH product Sky Direct in March 2016. In a matter of nine months, Sky Direct acquired over 100,000 new subscribers and helped Sky Cable break through the 1 million subscriber mark at the end of 2016. Also In 2016, Sky Cable shifted focus to marketing its bundled service called OneSky which included Sky Broadband, Sky Cable and its wireless broadband product SkyMobi (under MVNO deal of ABS-CBN with Globe Telecom).

Aside from these two giants, the local Pay-TV industry is composed of a handful of medium players (such as GSat, Cable Link, Converge ICT, Asian Vision, etc.) and a long tail of small provincial operators. It is estimated that there are 1,200 Pay-TV licenses issued, operated by about 800-900 unique systems or companies. These small operators had anywhere from 1,000 to 60,000 subscribers, mostly on analog systems, but a few have already transitioned to digital including fiber networks. There are two industry associations active in the market, the Philippine Cable TV Association (PCTA), and the Federation of International Cable TV and Telecommunications Association of the Philippines (FICTAP). These groups have been regularly consulted by regulators for policy and industry planning feedback. FICTAP also initiated and won a bid with the Philippine government for its Free Public Wi-fi project, and this was farmed out to its various member cable companies across the country.

### 4. Pay-TV Average Revenue Per User (ARPU)

Sky Cable's monthly ARPU was reported to be PHP 628, which is similar to previous years. Cignal TV's ARPU was not publicly available, but we derived an

Usage & Preference of Video Content by Source – Pirated Sources are Marked w/ Red Violator



Source: CASBAA 2017 Market Research Study

estimate by looking at their subscription revenues in 2015 versus reported subscriber count, which resulted in a notional ARPU of PHP 292. (This figure should be used with caution, as it does not account for variation in plans and prices.)

### 5. Pay-TV Content and Programming

According to Kantar Media TV Audience Measurement (Cabled Individuals) 2016, the two highest rated cable channels were Cinema One and Pinoy Box Office – both movie channels that feature local or Tagalog titles. These were followed in the list by kids channels,

local TV news, education then general entertainment. Of the Top 15 TV-Cable/DTH channels, 8 were local channels and 7 were foreign. In terms of channel lineup for Pay-TV, about 50% was composed of international entertainment channels, followed next by local entertainment at about 15% and then by news and kids. There was also an increase in volume of home TV shopping programming, as it dominated off-peak hours.

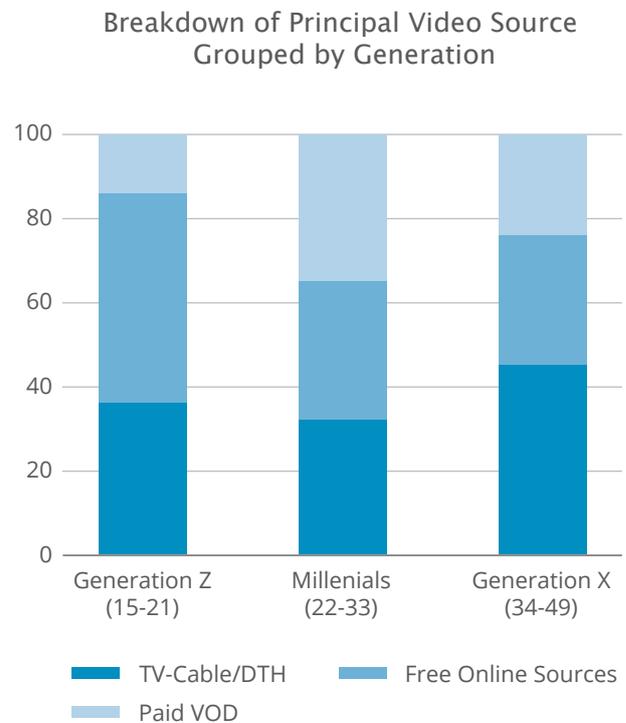
## 6. Adoption of DTT, OTT and Video-on-Demand Platforms

The government through the Department of Information and Communications Technology (DICT) mandated a full switch-over to digital TV by 2023. To support this, in February 2017 the government unveiled its Digital Terrestrial Television Broadcasting migration plan, laying out the programs to support this goal over the next 6 years.

ABS-CBN started marketing its DTT-box product called ABS-CBN TV Plus as early as December 2015 and has already reported sales of 2.3 million units as of end-2016. That service now covers 15 key geographic areas with an estimated reach of 40 million individuals. GMA 7 has reportedly set aside over PHP 400 million for its digital upgrade, and has targeted to start broadcasting a digital signal within 2017. GMA also unveiled a prototype DTT set-top box and digital device which combines media viewing and operation of internet-enabled apps for the TV set at home. Also, the local consumer electronics market already stocks branded and unbranded DTT boxes (RCA, Tomiko, Wow!), and DTT enabled TV sets (TCL, Haier, etc.).

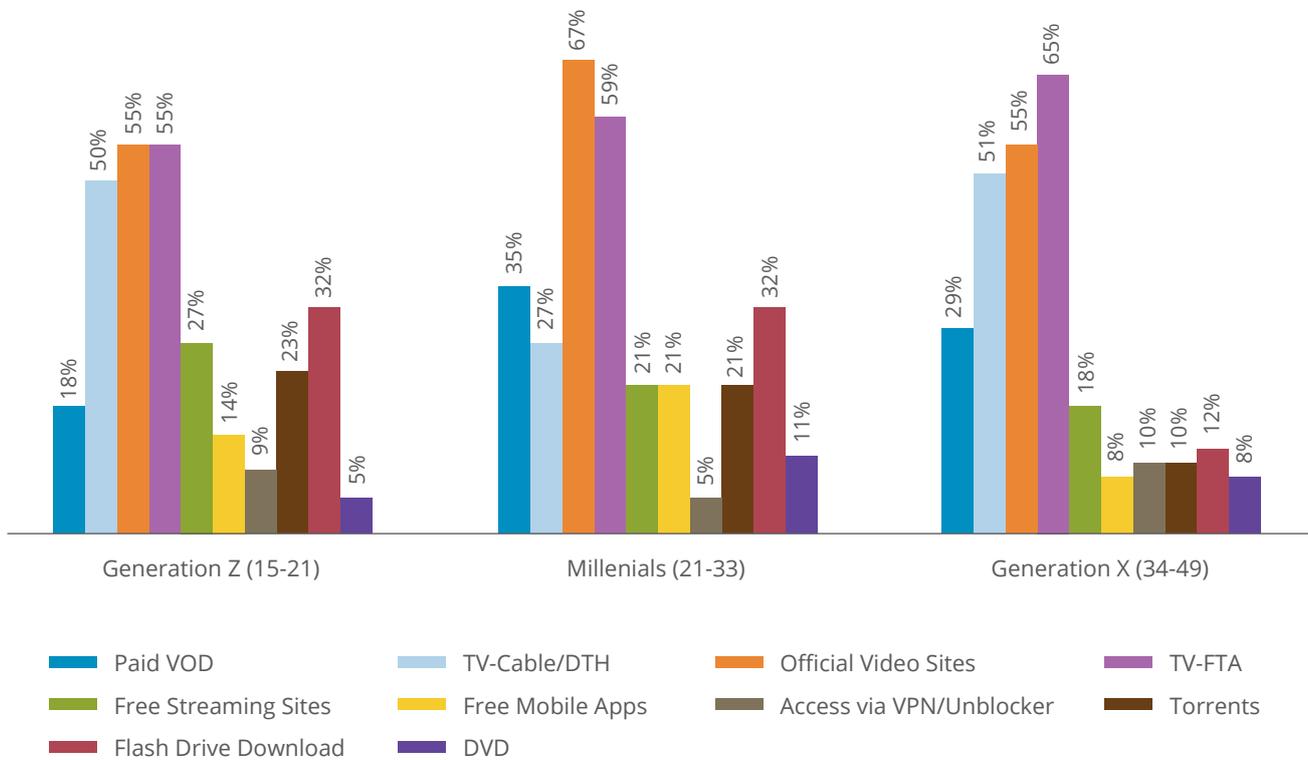
Multiple global OTT players entered the Philippines market in the last several years, starting with HOOQ and iFlix in the first half of 2015. Both HOOQ and iFlix followed very similar strategies of acquiring local content, partnering with major telcos and using a subscription business model with a low entry point. Netflix officially launched in the Philippines in January 2016. HBO Go is exclusively available to Sky Cable subscribers, while Fox+ has partnered with PLDT/Smart/Signal to tap their subscribers. Niche players

Viu and Tribe have also launched. iWantTV of ABS-CBN also remains popular, with exclusive access to ABS-CBN content. While official subscriber numbers are not available, results from the CASBAA 2017 Market Research Study conducted in urban areas showed that 62% of those surveyed tried using a paid VOD service in the past 6 months, and 30% use it on a daily basis.



Source: CASBAA 2017 Market Research Study

Video Sources Used Daily, grouped by Age Generation (% of total respondents)



Source: CASBAA 2017 Market Research Study

## 7. Piracy and Unauthorized Distribution

Online piracy and signal theft are the two more prevalent types of illicit content access in the Philippines. Online piracy involves accessing or viewing content such as movies, TV shows and other proprietary video content from online sources who do not possess the rights to distribute the content. On the other hand, signal theft involves illegally obtaining a Pay-TV signal, and viewing or distributing that through unofficial channels that are unauthorized by the channel’s rights owner.

Based on the CASBAA 2017 Market Research Study of “connected” urban consumers, online piracy activities were comprised of the following top most-frequently used sources: copying of illegally downloaded video files via flash drive, unauthorized free streaming sites, torrent downloads, and lastly, through unauthorized mobile apps for video streaming. While these pirated sources were used in the past 6 months by 52% – 86% of total survey respondents, they do not rank high in consumers’ preferences for viewing (as determined by repeated use). Viewing on free official websites (YouTube, Facebook, Vimeo, etc.) was the most frequently used source (63%), even beating out Free-to-Air TV (60%). This is followed by Pay-TV

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and then by Paid-VOD, making free streaming sites the 5th most-popular option, though highest ranked across pirated sources. Respondents cited lack of enforcement and the claim “everybody else does it anyway” as reasons for the high incidence of piracy.

On the other hand, signal theft incidence has gone down significantly according to industry stakeholders we interviewed, driven by the migration to digital. It remains more prevalent for analog Pay-TV operators. Stakeholders repeatedly expressed concern about signal theft using DTH decoders, which are widely available. In some cases that were shared, offenders would use a valid DTH signal, and distribute that illegally to multiple viewers. In some other cases, signals from other territories like from neighboring Indonesia would be shown illicitly. The prevailing view of programmers, regulators and Pay-TV operators we interviewed is that self-policing efforts to protect one’s own content or revenue streams would be the approach most likely to be successful. Some Pay-TV operators and program distributors shared that they have set up teams to investigate such incidents and disrupt the unauthorized use of the signal through box switch-offs, etc.

## 8. Regulatory Environment

The National Telecommunications Commission (NTC) still functions as the primary regulatory body overseeing the Pay-TV industry, although it is now an agency under the newly formed Department of Information and Communications Technology (DICT). As of the writing of this report (June 2017), the NTC was finalizing its implementing guidelines for OTT players operating in the country, and had a target to release these within 2017. One of the main issues raised by Pay-TV operators was the need to relax geographic franchise rules for Pay-TV companies to remain competitive. Since Pay-TV licenses are issued at the municipal level, they do not enjoy the same market opportunity that OTT providers have, who can sell to virtually anyone in the country. Other regulatory and administrative issues include implementation of the DTT migration plan, and enforcement assistance to Pay-TV operators who identify cases of signal theft. The NTC does not believe that preventing the illegal retransmission of copyrighted content falls within its responsibilities, and has reiterated that cases of commercial piracy should be filed by the content owners with the Intellectual Property Office.

**The full Philippines in View country report can be accessed at <http://www.casbaa.com/resources/casbaa-publications/country-reports/>. Please note, the report is accessible to CASBAA members only. You must be logged in to the Member Zone on the CASBAA website to view the report.**



### About CASBAA

CASBAA is the Asia Pacific region's largest non-profit media association, serving the multi-channel audio-visual content creation and distribution industry. Established in 1991, CASBAA has grown with the industry to include digital multichannel television, content, platforms, advertising, and video delivery. Encompassing some 507 million connections within a footprint across the region, CASBAA works to be the authoritative voice for multichannel TV; promoting even-handed and market-friendly regulation, IP protection and revenue growth for subscription and advertising, while promoting global best practices.

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