New world order

According to one analyst firm, ZTE won more network contracts than any vendor in 2007. And the company has its sights set on more growth in 2008.

Founded in Shenzen in 1985 as the Zhongxing Semiconductor Co. Ltd, ZTE listed on the Shenzen Stock Exchange in 1997. The following year it won a $95m turnkey contract in Pakistan—which it claims was the first major overseas telecoms project to be awarded to a Chinese vendor—and opened its first research and development operation in the US. Today ZTE operates 14 R&D centres across North America, Europe and Asia.

One of a pair of Chinese telecommunications infrastructure and handset vendors (the other being Huawei which differs from ZTE in that it is privately owned) that are gaining in international market share and recognition, ZTE is doing its bit to change the mobile industry. As established Western vendors have embarked on mergers and acquisitions in a bid to manage expenditure and improve scale, ZTE, like its compatriot, has taken advantage of the cost structure that comes with being headquartered in China.

ZTE is performing strongly. According to a report published by analyst Gartner, the firm won more mobile network contracts in the first half of 2007 than any other vendor. For the same period, the firm's revenues were $2.1bn, an increase of 43.9 per cent on the corresponding half year for 2006. Profits in the six months to June 2007 were $63.7m, up 32.5 per cent year on year.

Like it's domestic competitor Huawei, ZTE has built market share by targeting operators in emerging markets, where cost is more likely to be a dominant factor in supplier selection, and through strong relationships with carriers in its home market.

The pair are likely to be winners in the TD-SCDMA space, should that be the technology that China's mobile carriers select for their 3G deployments. Even if those carriers opt for another technology, or decide to wait and leapfrog to a flavour of 4G, the nature of the Chinese market means that ZTE will likely score a sizeable win. It's biggest customer, China Mobile, is also the largest operator in the world by subscriber base.

ZTE's initial strength was in 2G CDMA, with GSM and subsequently WCDMA disciplines developed later. Latterly the firm has been investing its time and budget in WiMAX—it won a commercial deployment contract for the technology in Libya early in 2008. The contract will see ZTE deploy an 802.16e network covering eight major Libyan cities, including the capital, Tripoli.

This was the first WiMAX deployment in Africa, and the vendor's chief representative in Libya says that he expects it to stimulate further contract wins, which it feels well positioned to capitalise on. ZTE is the only Chinese firm to sit on the board of the WiMAX Forum and has 21 commercial trials of the technology underway in markets including Singapore, Thailand and Saudi Arabia.

In China, according to a report from analyst firm Forward Concepts entitled *WiMAX '08: The 3G+ Broadband Alternative*, ZTE envisions the technology working in conjunction with GSM and CDMA voice services and is working to support dual mode terminals that could provide end users with a single handset solution. ZTE has already won a deal to supply WiMAX terminals to US carrier Sprint Nextel.

According to ZTE, 33 per cent of the contracts that it won in the first half of 2007—there were 188 deals in total—were in Asia Pacific and emerging markets. As well as China Mobile and China Unicom, it highlighted key relationships with Indian player Reliance, Middle Eastern specialist Etisalat and Norwegian carrier Telenor, which has a portfolio of operations in the less developed markets of Eastern Europe.

India alone is of vital strategic importance to ZTE, which revealed late in 2007 that it is aiming to generate $1bn in revenues from the Indian market in 2008. India generated more than $800m in revenues for ZTE in 2007 and the firm has marked it out as the second most important market for its business outside of China.

Handsets represent a significant part of ZTE's play, with Informa Telecoms & Media ranking the firm just inside the top six handset vendor listing worldwide. 2007 saw ZTE win a handset supply deal with Vodafone for terminals carrying the operator brand, and the combined handset and infrastructure offering is a strength that ZTE is looking to leverage going forward.

Scale built at home and in emerging markets is being used by ZTE to push into advanced Western territories and ZTE says it has established partnerships with more than 500 carriers in more than 120 countries around the world. Its mobile infrastructure has been deployed by 120 operators in 70 countries, the firm says. »

ZTE company history

1985: Zhongxing Semiconductor Co. Ltd, the predecessor of ZTE, founded in Shenzen China

1997: Firm lists on the Shenzen Stock Exchange in China

1999: Signs first PHS contract with China Telecom

2000: Launches world's first CDMA handset with detachable SIM card

2003: Becomes largest CDMA system supplier to Indian carrier BNSL, constructs Africa's largest CDMA WLL network in Algeria

2004: First African 3G call made in Tunisia, over ZTE network kit

2005: Becomes China's largest wireless equipment provider, with a global wireless capacity exceeding 100 million lines. Ranked as one of the 'Top 100 Information Technology Companies' by Business Week magazine.

Further consolidation within the vendor community is widely anticipated for 2008, as players like Motorola and Nortel continue to compete with merged organisations like Alcatel Lucent and Nokia Siemens Networks. While Huawei has not ruled out participating in any future consolidation, Informa Telecoms & Media's Mike Roberts does not expect either of the big Chinese Vendors to become involved. ZTE and its domestic rival, he says, "are probably happy to continue gaining market share partly through fierce competition."

Most vendors are actively seeking network management contract wins as the operator environment begins to shift its form somewhat. With the carriers themselves looking increasingly occupied with managing and retaining their customer base and defining the service mix, network operation is falling more and more to the vendor community.

ZTE is not a major player in this space, which is dominated today by Ericsson and Nokia Siemens Networks. Between now and 2012, Informa Telecoms & Media forecasts that these two vendors will grow their share of this market, as will the second tier of players that includes Alcatel-Lucent, Motorola and Huawei. ZTE will need to address its participation in this sphere if it is to remain competitive in a vendor market that is clearly changing.

R&D has been a victim of the downturn at many Western Vendors, which have had to slash headcount in a bid to remain competitive. ZTE is keen to stress its continued investment in research as an advantage over other players. The firm says that 40 per cent of its workforce is employed in research and development, and that ten per cent of annual revenues are ploughed back into its various research projects. By 2005, says ZTE, this had resulted in 3,000 national and international patents applied for, the vast majority of which are IPR related.

Like all big vendors in the mobile industry, ZTE sets great store by the quality of its people. It has an employee base of 27,000, with over 70 per cent educated to degree level or higher. It is perhaps unusual in that the average age of its employee base is just 30 years old.

There is little doubt that the rapid growth of the Chinese vendor community has given more established Western players serious cause for concern. Given the relatively low cost of operations that companies like ZTE enjoy, they simply have not faced the kind of pressures that have forced European and North American players into round after round of redundancies and mergers and acquisitions that, at best, have yet to prove themselves strategically and commercially rewarding.

When ZTE first appeared on the wireless scene, it was often portrayed—like Huawei—as a company that had little to recommend itself other than the low cost of its products. But as more and more operators—including, crucially, those in the upper tier—have given these vendors trials and commercial deals, writing them off simply as cheap is no longer acceptable.

All of the Western vendors have made inroads into the Chinese market, attracted by the sheer scale of the opportunity. Simultaneously, that nation has been exporting its own firms, like ZTE. It simply remains to be seen whether or not the Western players can do as well in ZTE's market as it clearly hopes to do in theirs. ■

ZTE balance sheet

	30 September 2007	31 December 2006	Per cent change
Total current assets	28,053,223	20,292,662	38.2
Total non-current assets	7,042,421	5,468,033	28.8
Total current liabilities	17,887,950	11,276,409	58.6
Total long-term liabilities	5,104,574	3,158,448	61.6
Shareholders equity 11,417,999 (exluding minority interests)	10,763,946	6.1	
	Q3 2007	**Q3 2006**	
Revenue	8,215,952	5,367,597	53.1
Operating profit	85,758	34,260	150
Net shareholder profit	143,005	66,066	116.5
Earnings per share	0.15	0.07	114.3

Unit: RMB in thousands

Source: ZTE

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