



2021

Telkom SA SOC Ltd

# Annual Results Presentation

For the year ended 31 March 2021

**Telkom**

# 1

## Operating environment



# Erratic economic activity due to COVID-19



## Weak economy

- Consumers under significant pressure
- Exchange rate volatility
- High unemployment rate



## Competitive landscape

- Importance of fixed data services
- Reduced effective fixed data pricing
- Pricing pressure in Enterprise



## Regulatory uncertainty

- Temporary spectrum alleviated COVID-19 pressure
- Mobile Broadband services enquiry
- Spectrum auction

# ~R100 million COVID-19 related spend



## Employees

- Supplied personal protective equipment (PPE) to frontline
- Extensive internal communication engagement
- Launched a mental wellness programme



## Customers

- Reduced data prices
- Increased speeds and broadband bundle sizes
- Adapted stores to comply with health and safety protocols



## Government

- Partner in developing a COVID-19 management solution
- Donated 1 500 devices and data for track and trace
- Availed our training centre as a quarantine site



## Communities

- Launched our education platform Lightbulb Education
- Zero rated access to educational sites for schools, colleges and universities

# 2

## An evolved business

# Key strategic themes underlying performance



**Evolution  
of the business**



**Monetising  
Infrastructure portfolio**



**Formidable  
Mobile business**

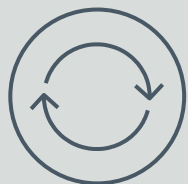


**Broadband  
leadership**





# Solid strategy execution



Next generation  
business

> 65%

of Group  
revenue



Mobile  
customers

>15m

3rd position  
in SA



FTTH  
connectivity rate

>51%



M&T external  
tenants

56%

of tenants



Sites with fibre  
backhaul

70%-80%



Fixed line  
broadband traffic

1 428  
petabytes

# Group financial performance at a glance



**Resilient  
revenue**



**Improved  
profitability**



**Robust  
earnings  
growth**



**Strong cash  
generation**



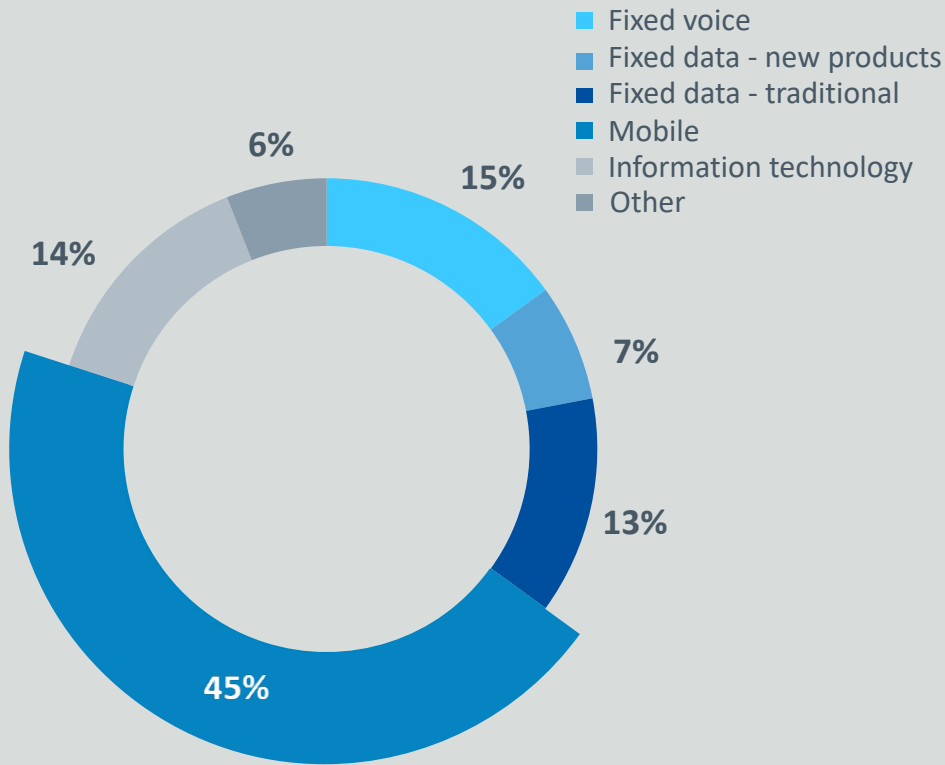
**De-risked  
balance sheet**



# Our business today

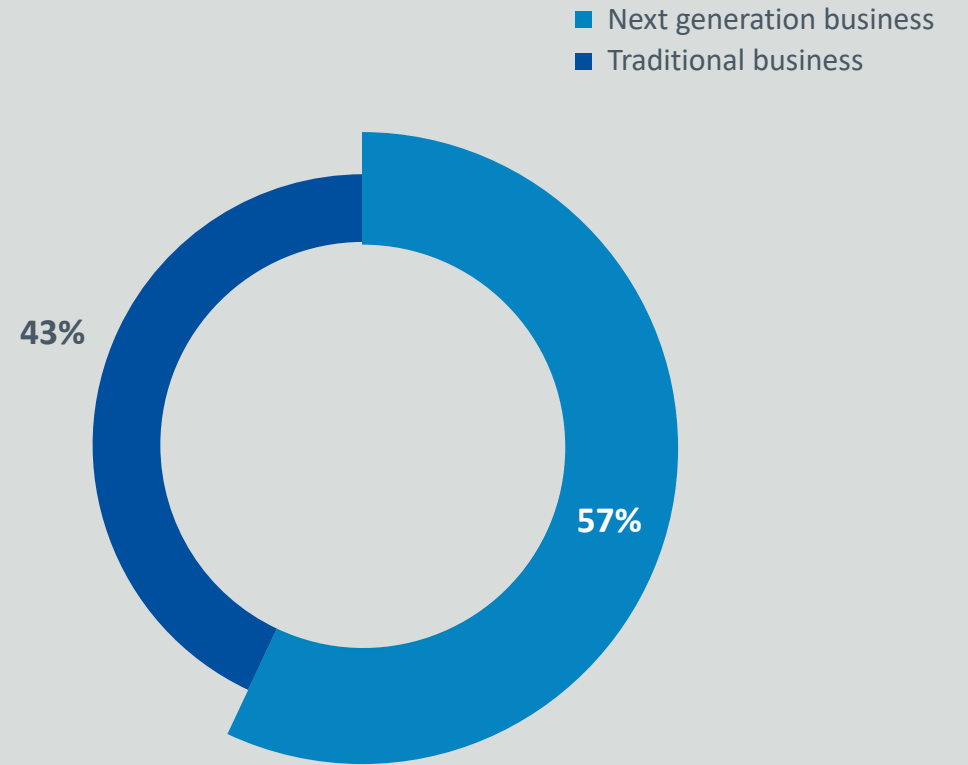
## Revenue contribution to group

(%)  
FY2021



## EBITDA contribution to group

(%)  
FY2021



# 3

## Business performance

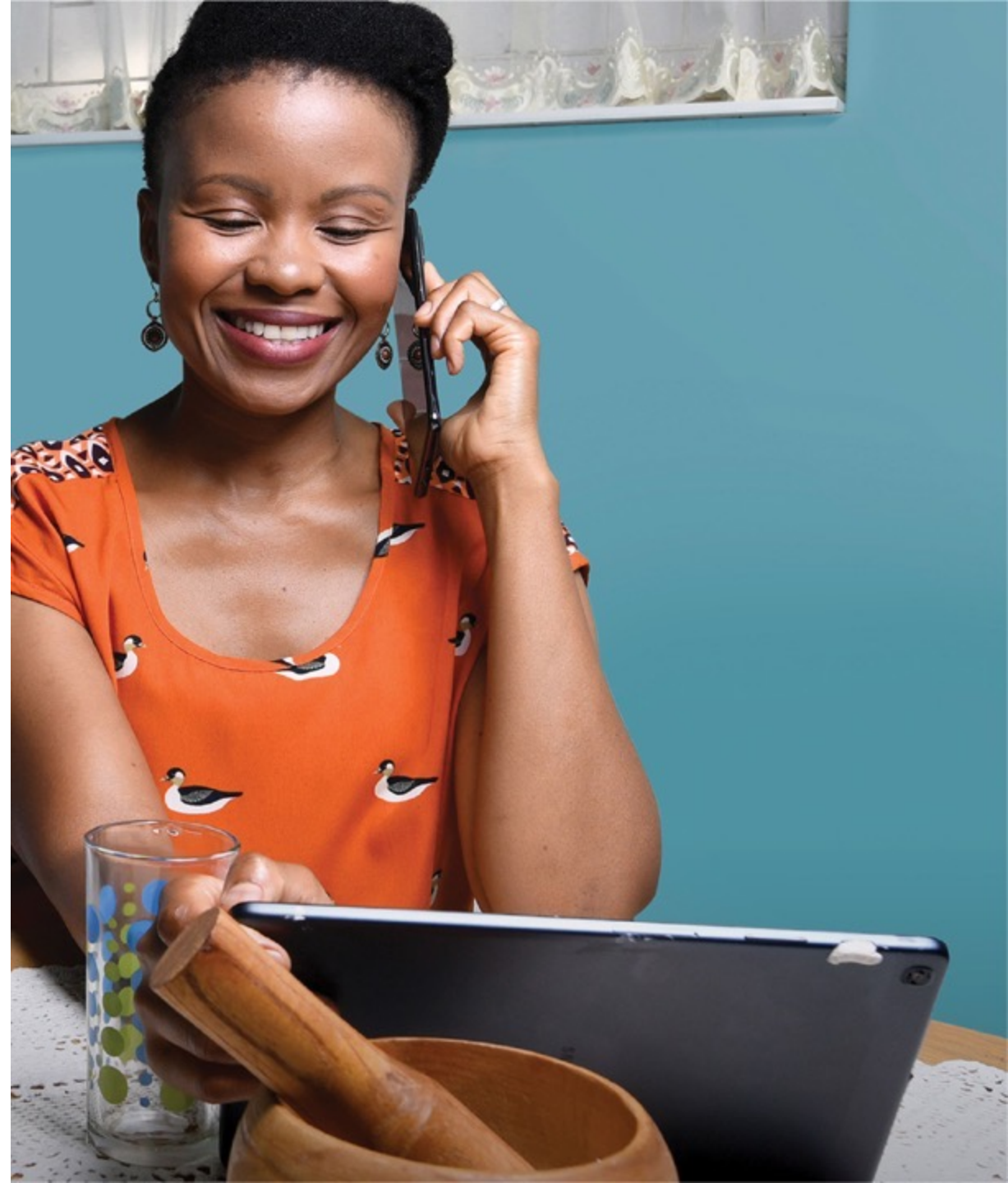
**Telkom**  
*Consumer*

## Key strategic focus areas

Accelerate mobile  
growth

Drive high speed  
broadband

Network  
expansion

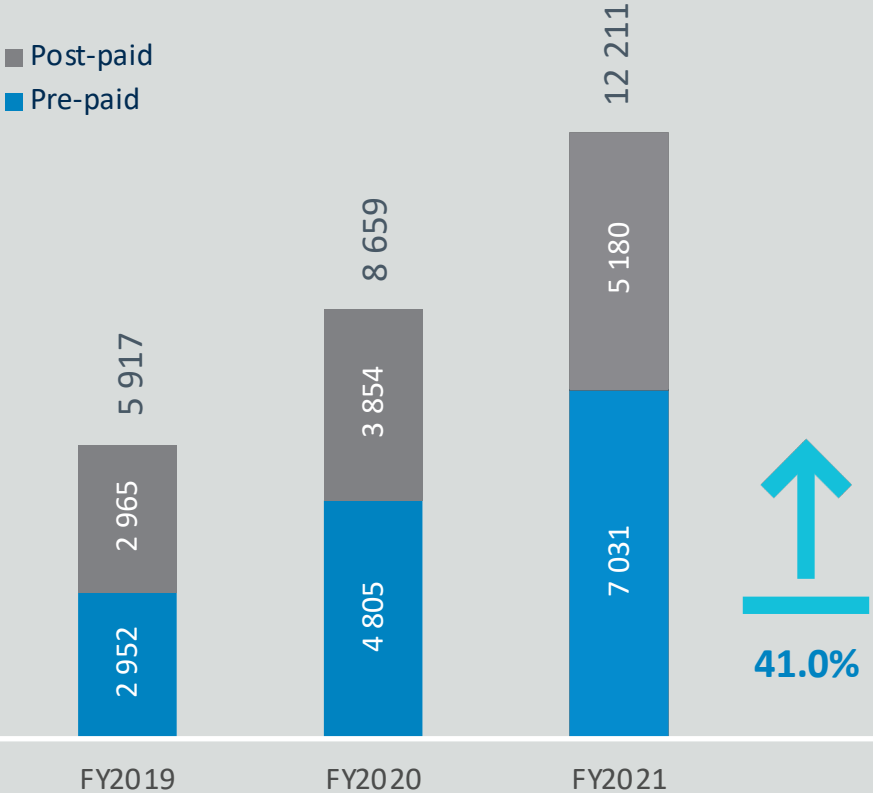


# Successful broadband leadership strategy

## Mobile data revenue

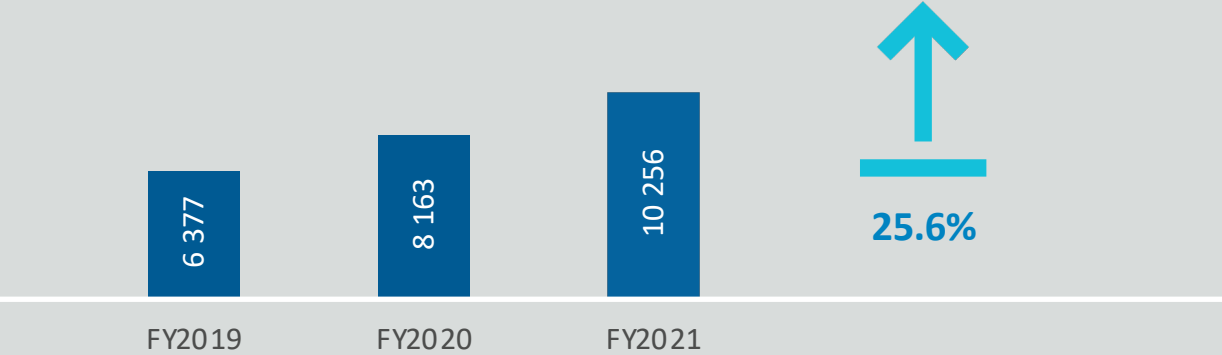
Rm

- Post-paid
- Pre-paid



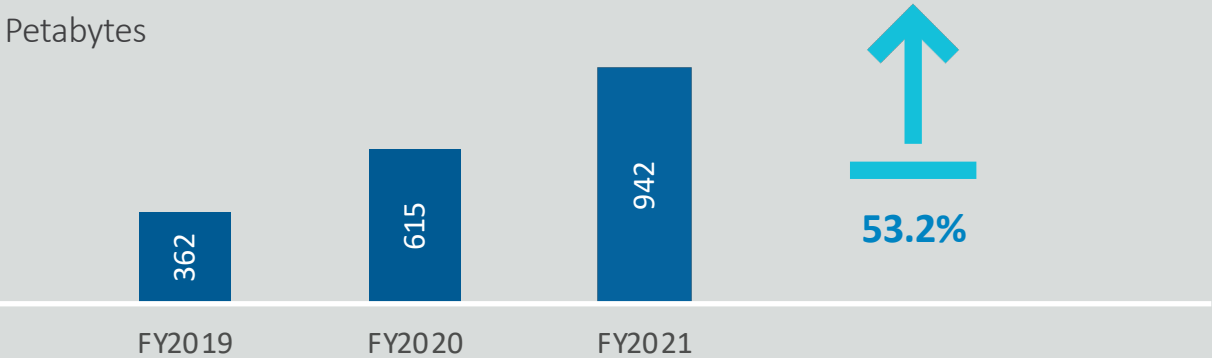
## Total Mobile broadband subscribers

'000



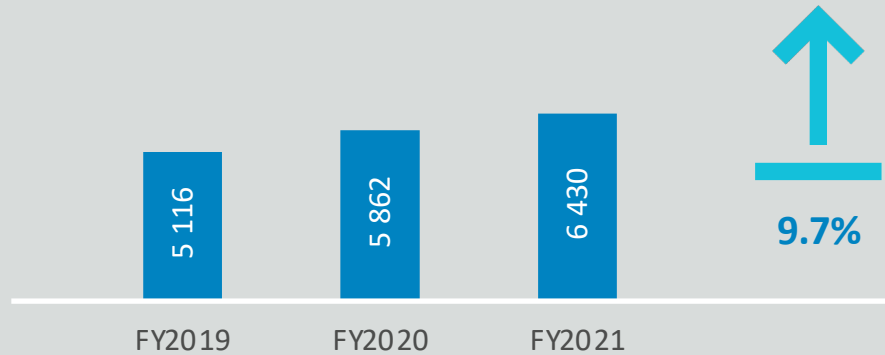
## Mobile broadband traffic

Petabytes

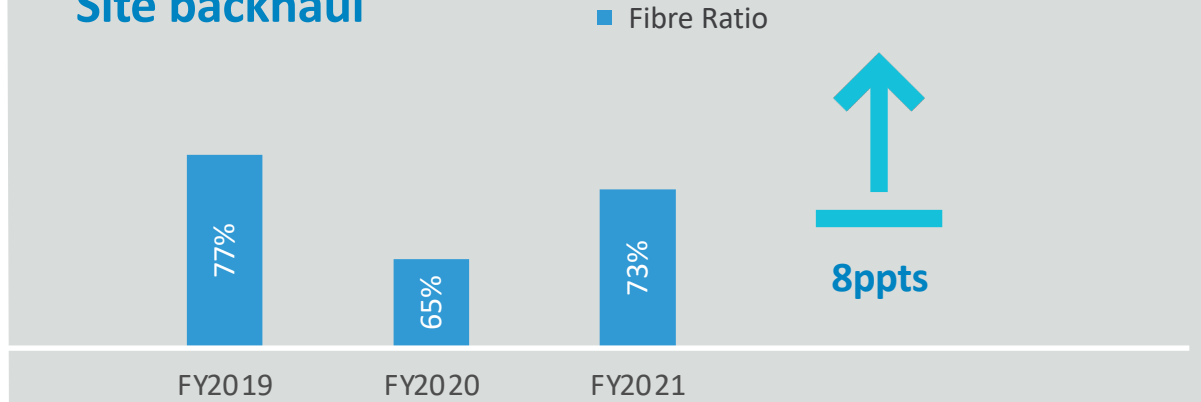


# Data-led network investment underpins growth

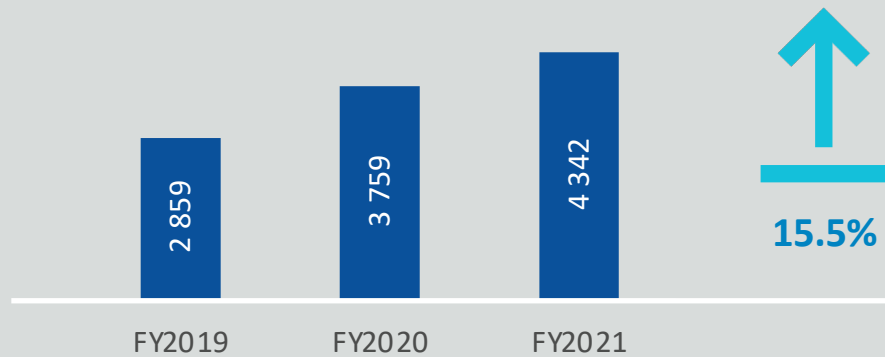
## Mobile sites integrated



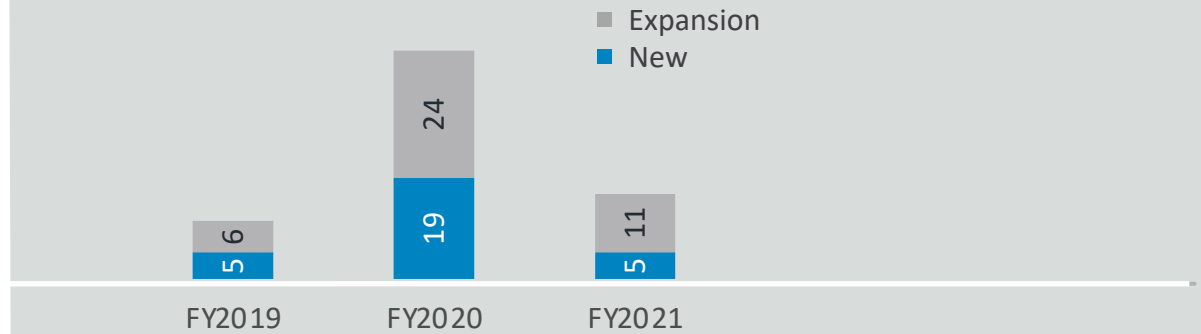
## Site backhaul



## 4.5G integrated sites

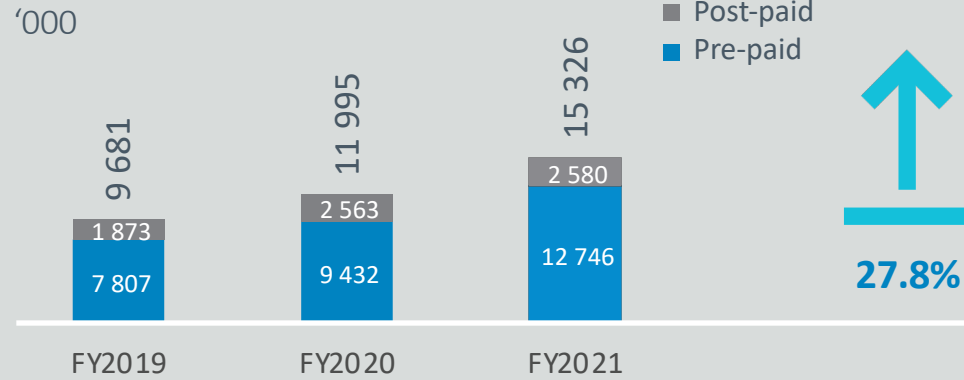


## Mobile core expansion & new elements

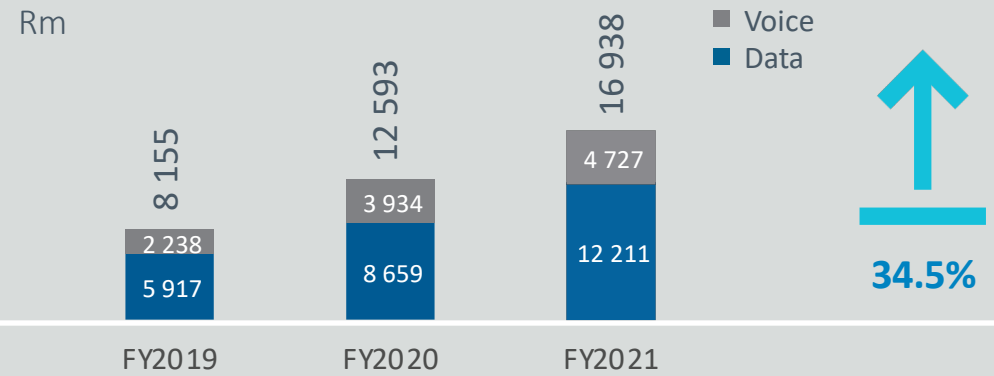


# Execution excellence

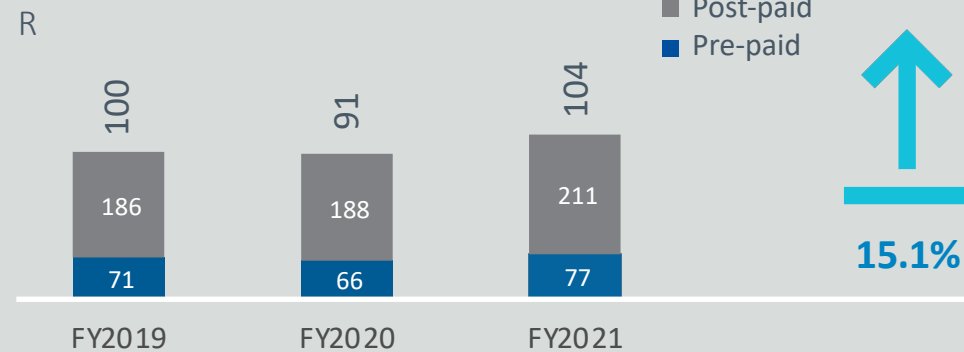
## Subscriber growth



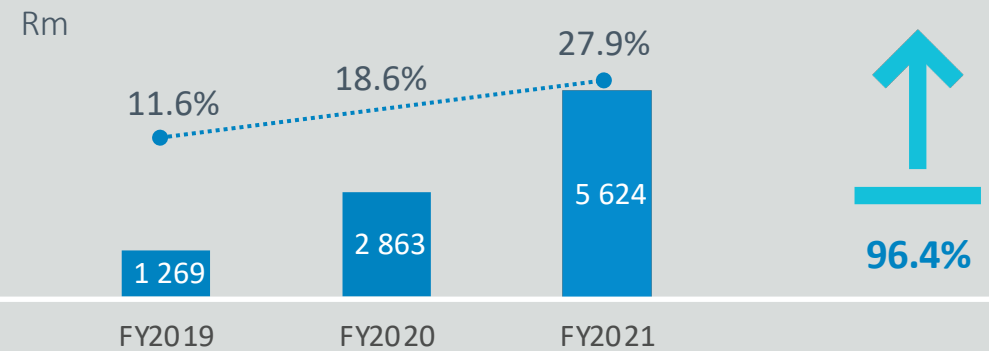
## Mobile service revenue



## ARPU



## EBITDA/margin





yep!

## Key strategic focus areas

Build Digital platforms

Build Financial services

Utilise the fixed business as a springboard for growth





# Our ecosystem of digital platforms



## Yep!

- Yep marketplace users grew by 25% year on year (YoY)
- 30% of our installed SME base currently using the eCommerce platform improving customer experience significantly



## SMB

- Business Mobile revenue growth of 31% YoY
- New customer acquisitions grew by 10% YoY



## Financial services

- Increased insurance gross written premiums of 23% YoY
- Telkom Pay digital wallet pilot progressing well with over 10 000 subscribers
- Partnership with fintech company, **Easy Equities** recently concluded



## Key strategic focus areas

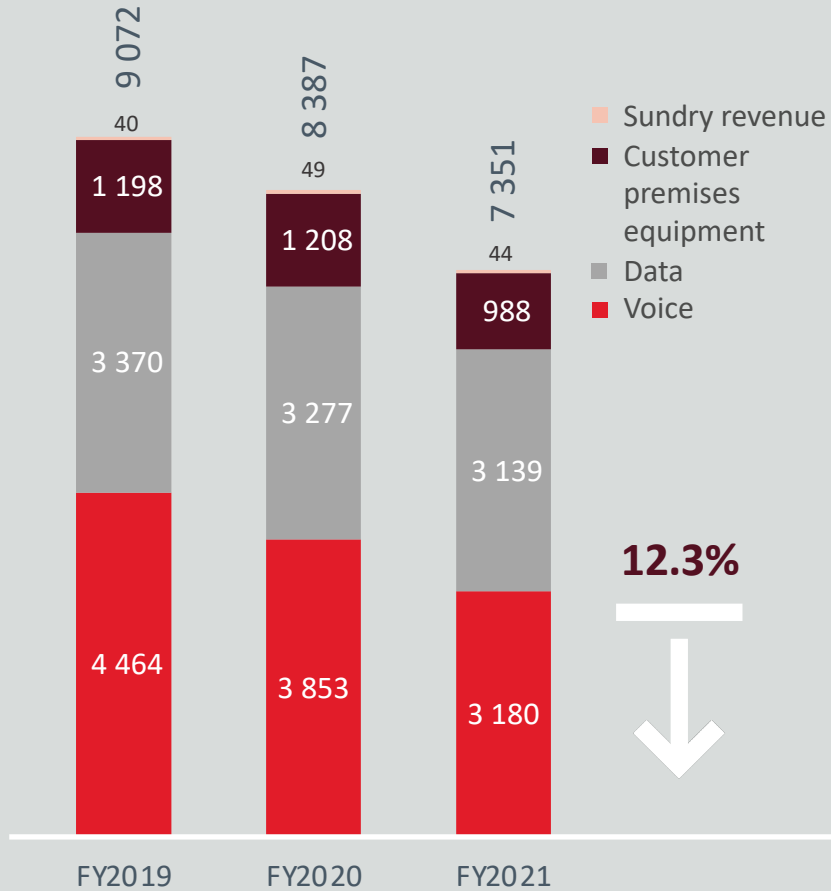
Grow IT business

Reduce cost to serve

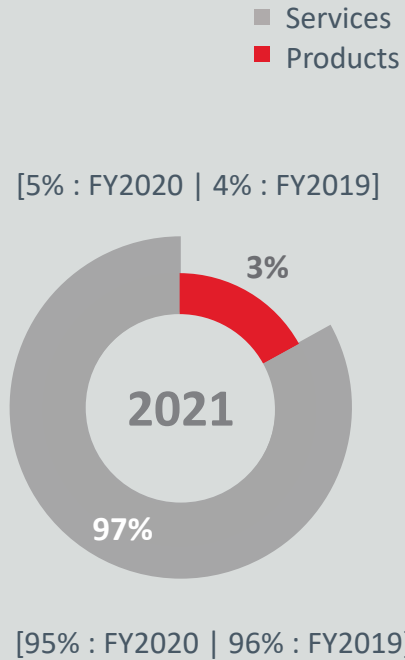


# Converged communications business

## Revenue

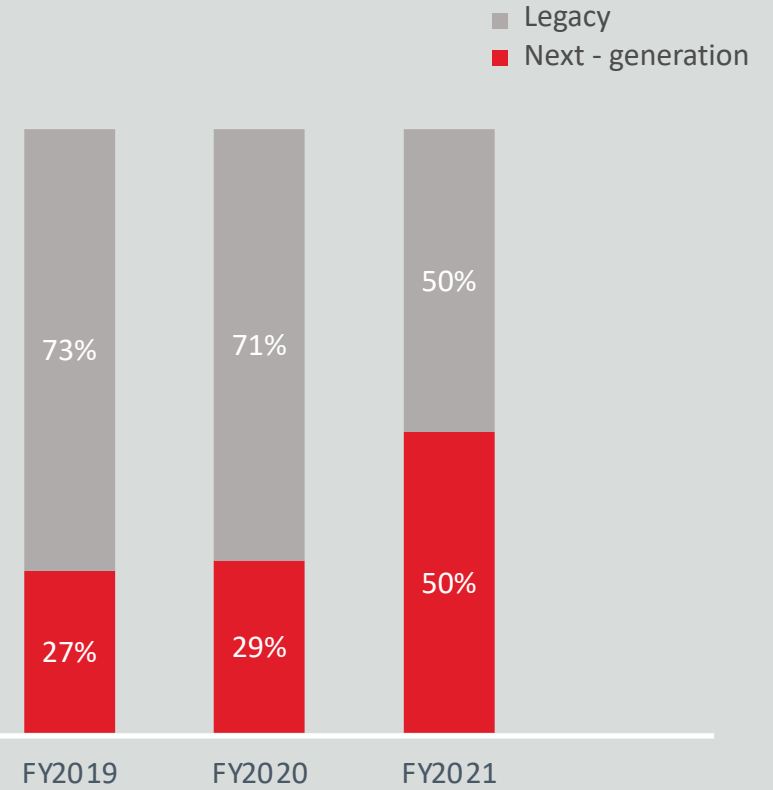


## Revenue mix



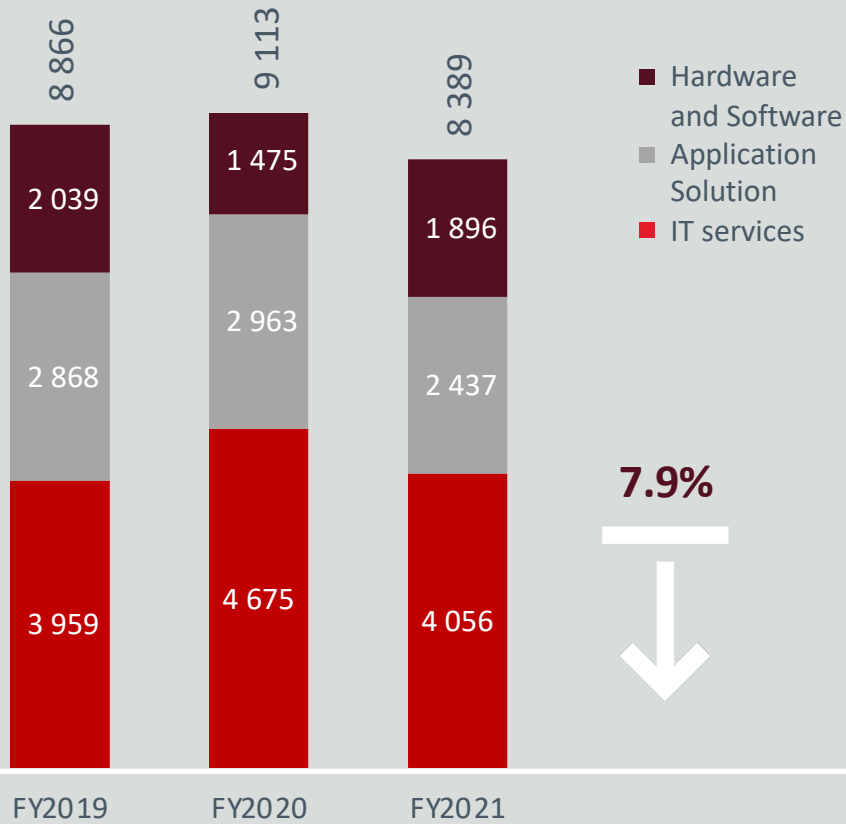
## Next-generation revenue

### Data Access

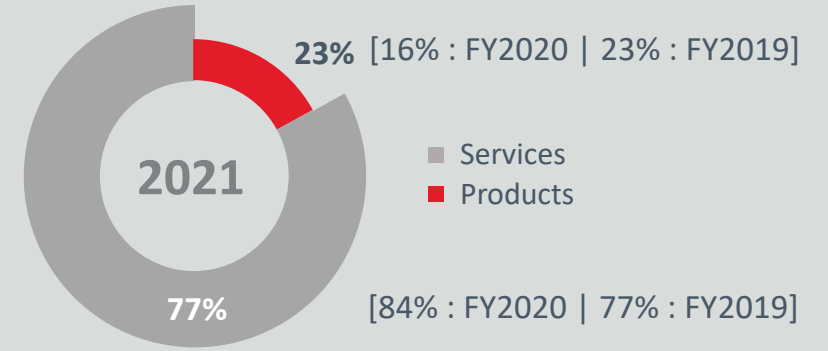


# Resilient IT business

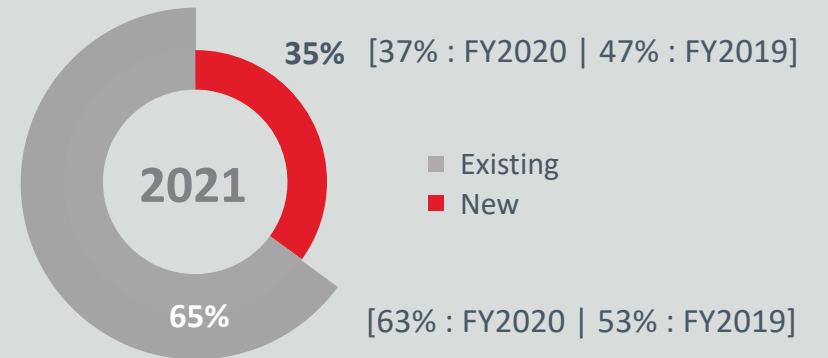
## Revenue



## Revenue mix

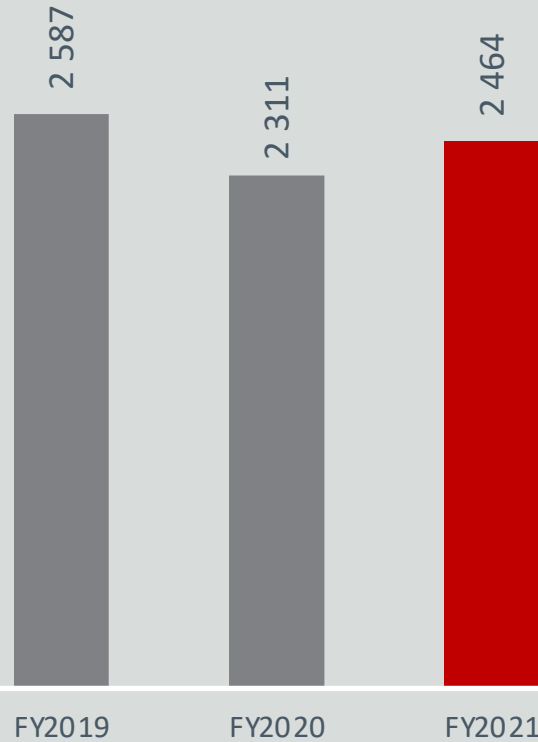


## Annuity revenue ratio



# Improved profitability

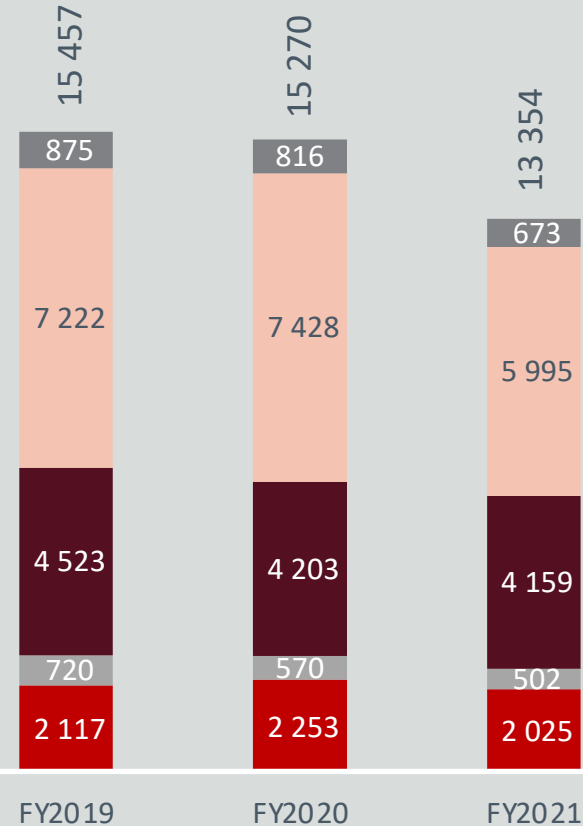
## EBITDA



**6.6%**

**EBITDA margin:**  
up from 13.2%  
to **15.7%**

## Total expenses



**12.5%**



- Sales commission, incentive, logistical costs, payment to other operators
- Selling, general and administration
- Employee expenses
- Service fees, operating leases
- Cost of handsets, equipment and directories

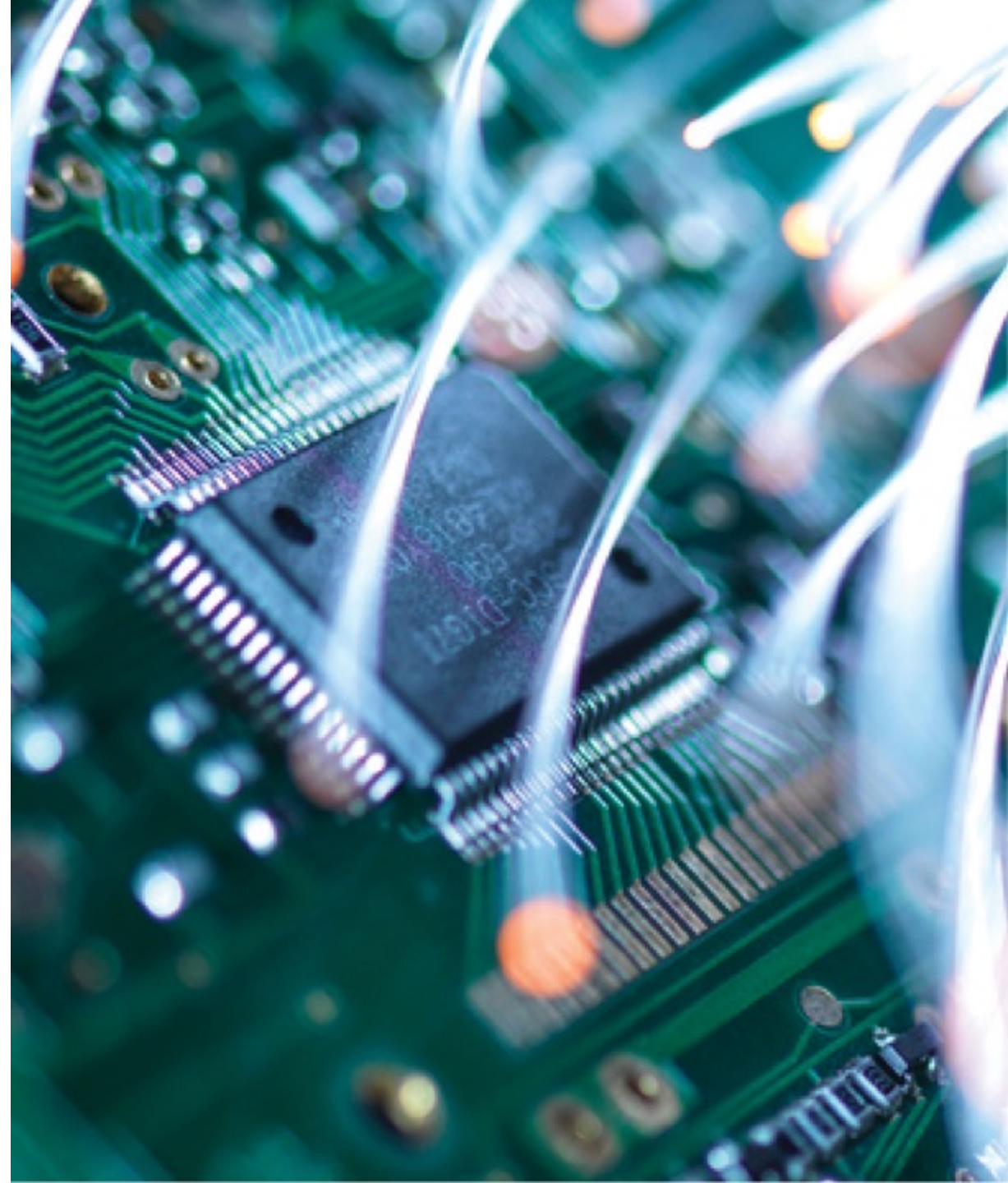


## Key strategic focus areas

Modernise the network

Commercialise the network

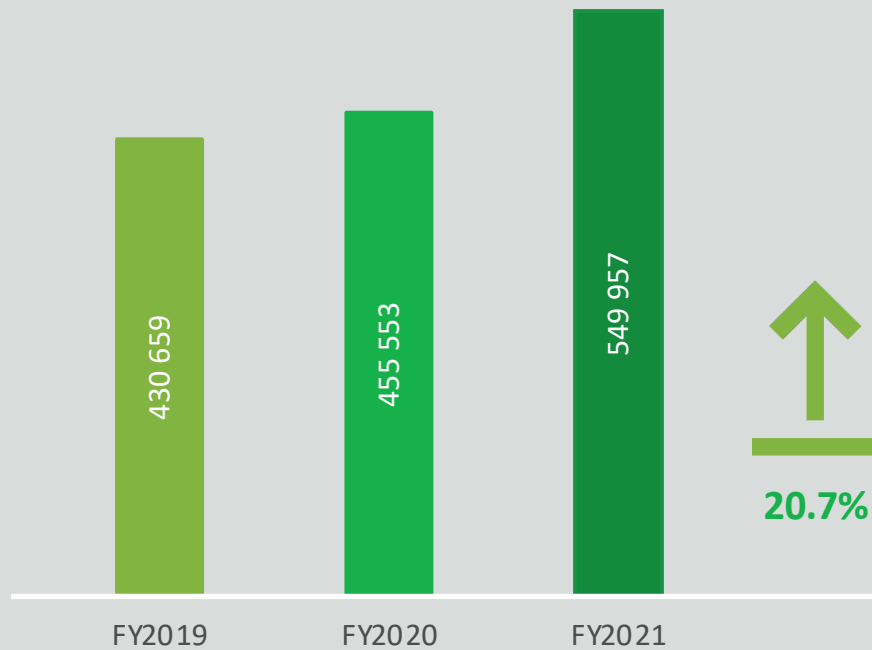
Transforming service delivery



# Monetising our fibre portfolio

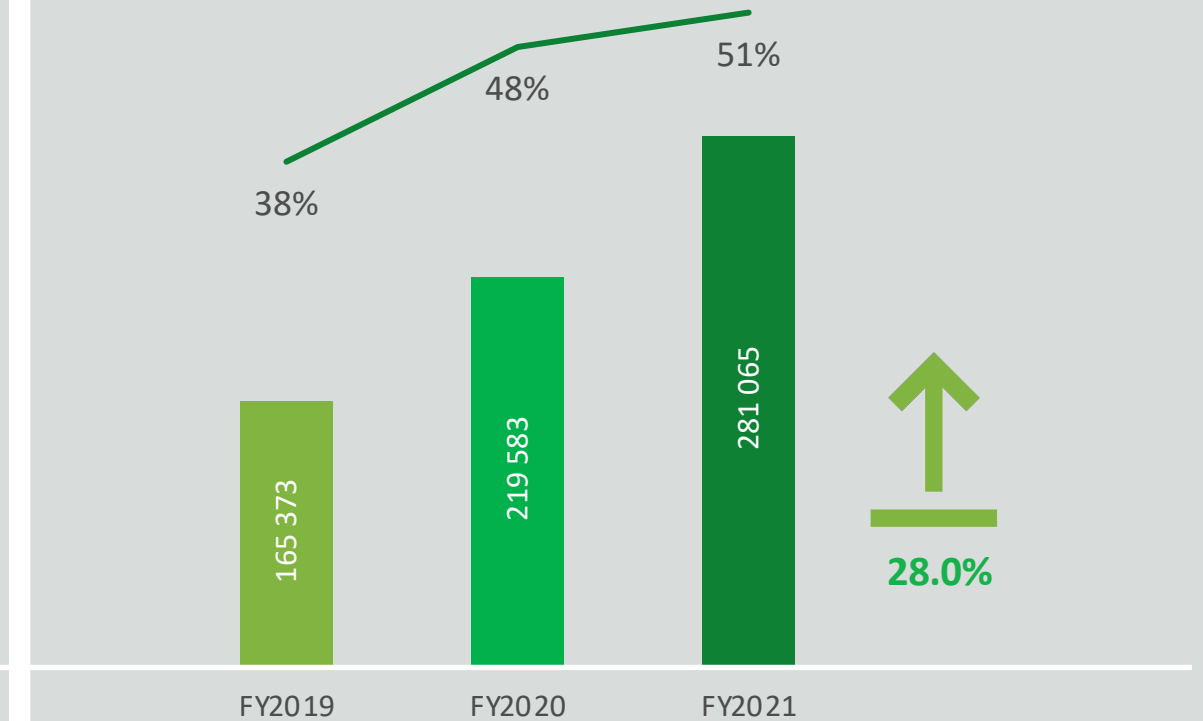
## Fibre to the home

Homes passed



## Fibre homes connected <sup>1</sup>

Connectivity rate

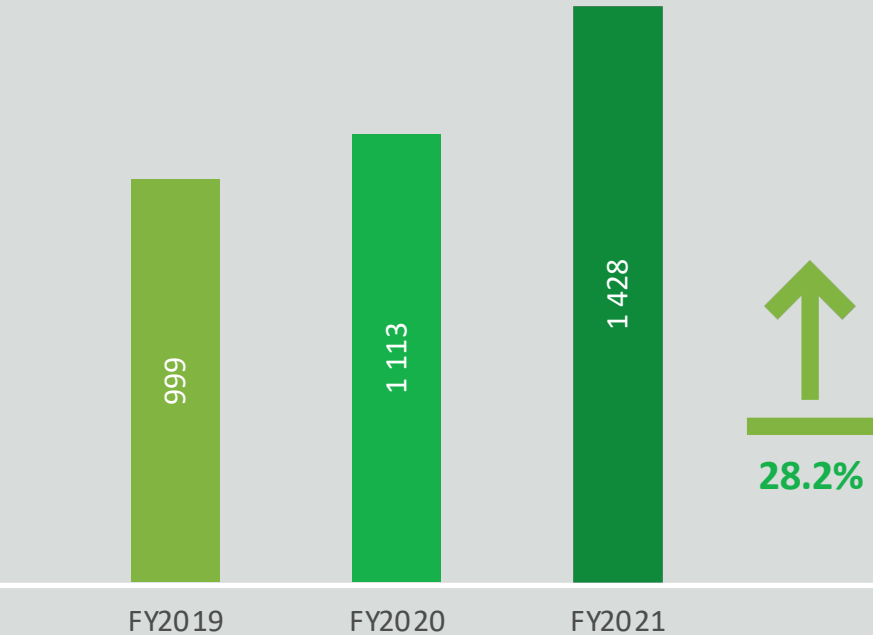


<sup>1</sup> FY2021 Homes Connected measure as per the FCGA Definition of Terms

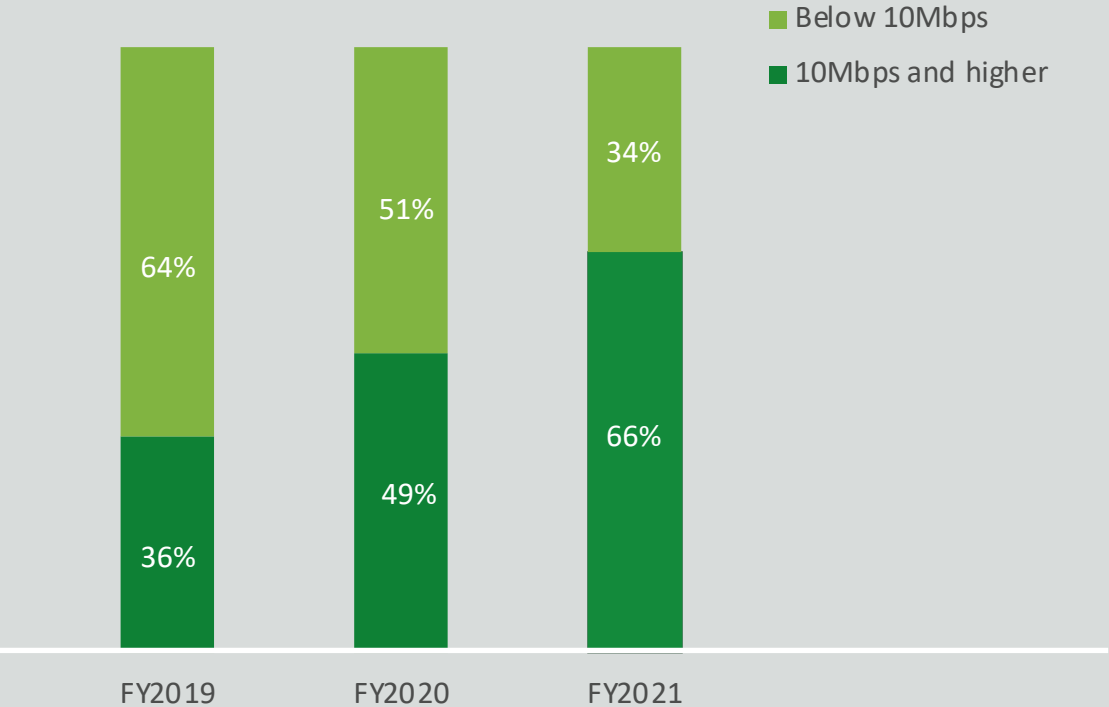


# Boost in data consumption

**Fixed line broadband data consumption**  
Petabytes



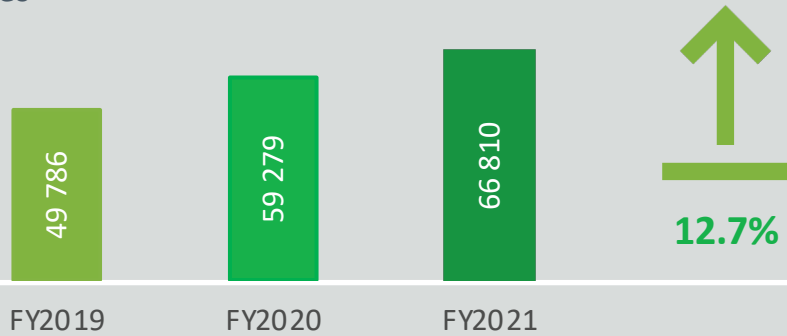
**Fixed line broadband connections**  
Access connections



# Data ecosystem evolution

## Next generation technology

Services



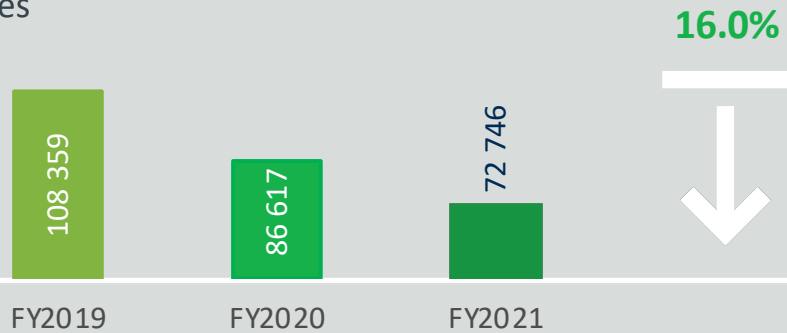
## Enterprise

Business services



## Legacy technology

Services



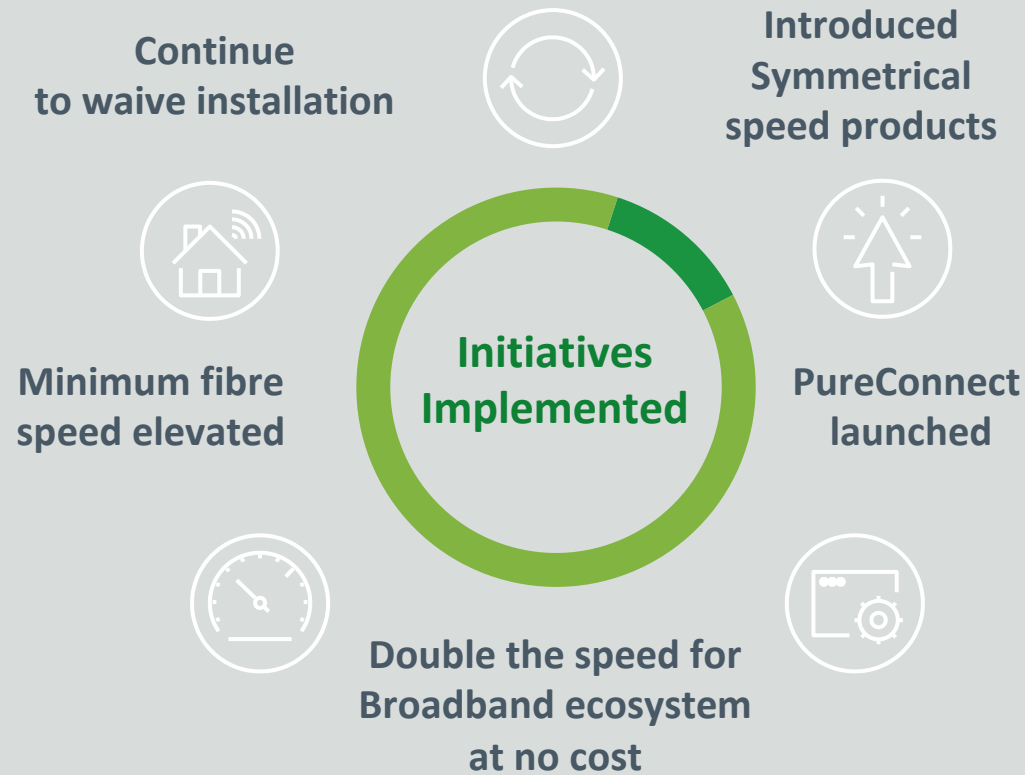
## Carrier

Services



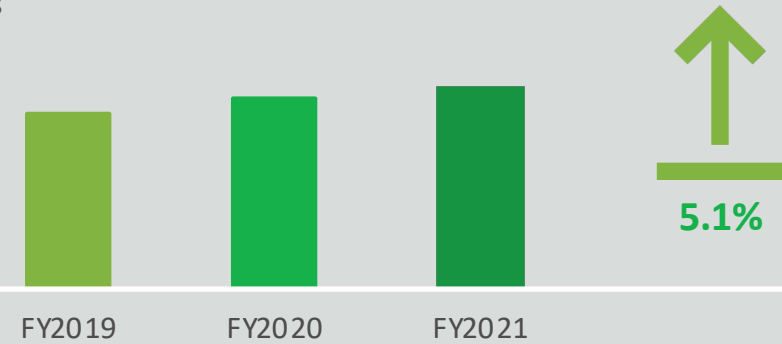
# Commercial value propositions

## Broadband product evolution

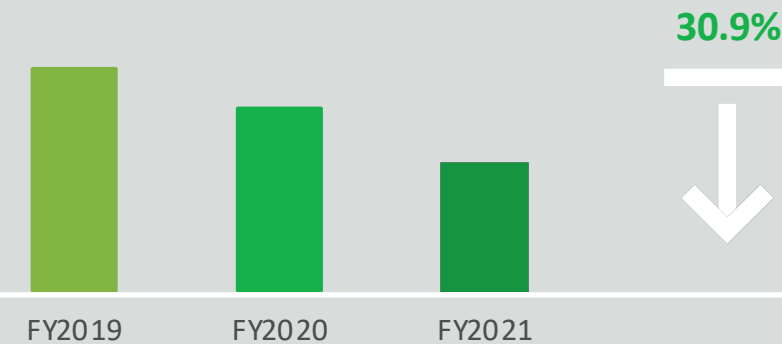


## Broadband price evolution

Revenue per subscriber (monthly)  
Rands



Revenue per gigabyte data  
Rands





## Key strategic focus areas

Optimise and grow the masts & tower portfolio

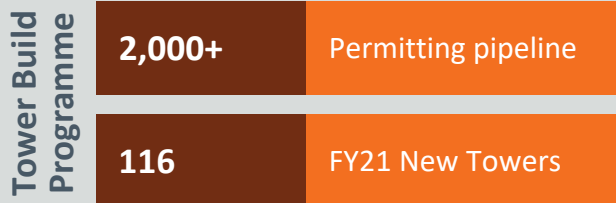
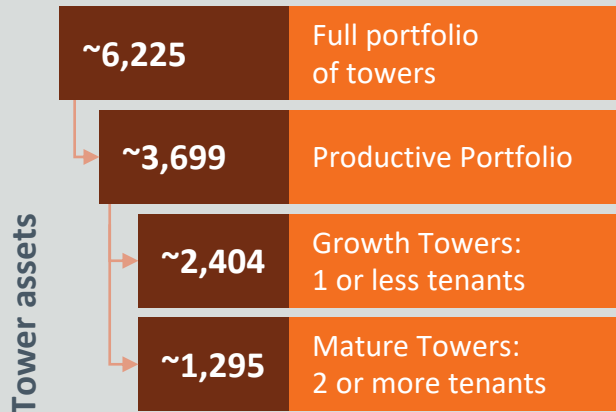
Commercialise the property portfolio

Enhance building operation efficiencies

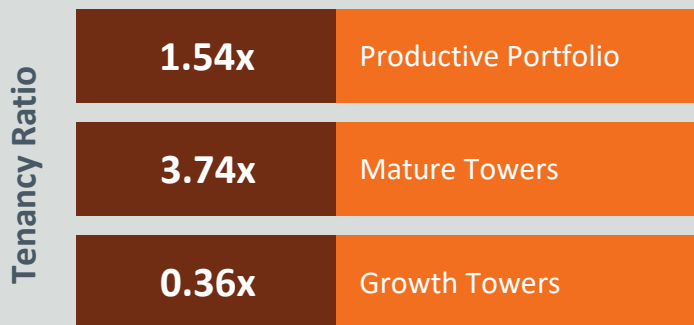
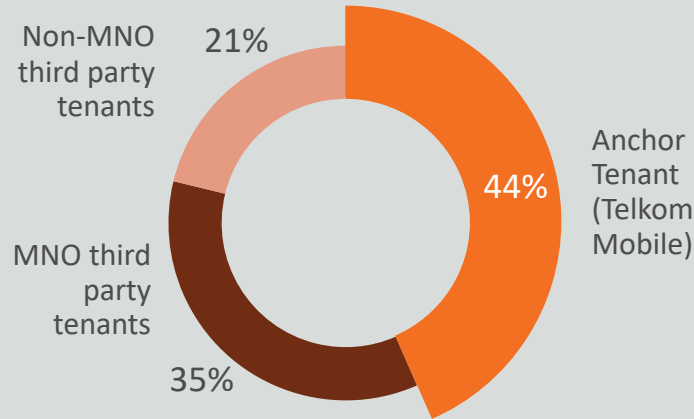


# Masts & Towers portfolio

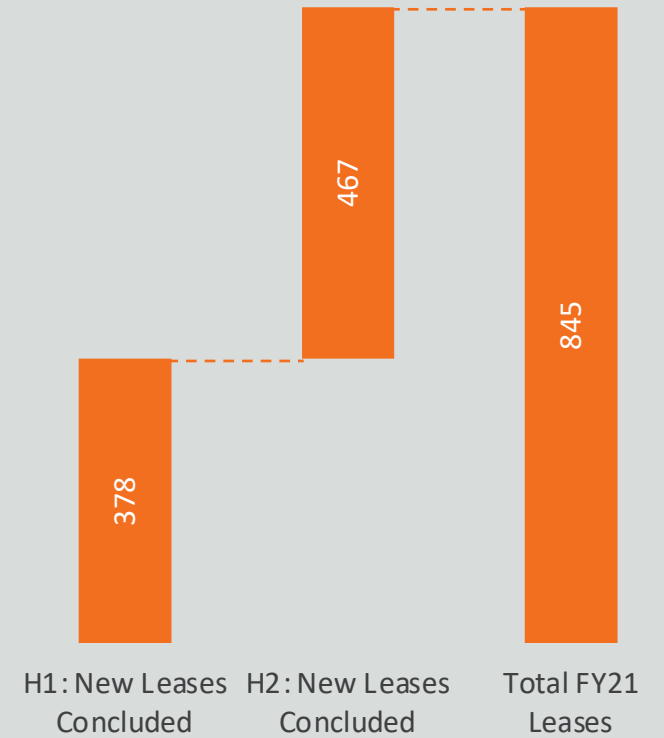
## 1 Towers



## 2 Tenants



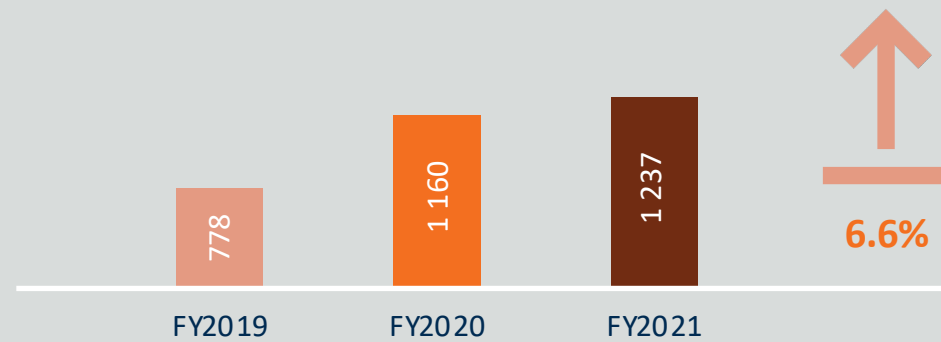
## 3 Additional leases for the year



# Commercialising M&T portfolio

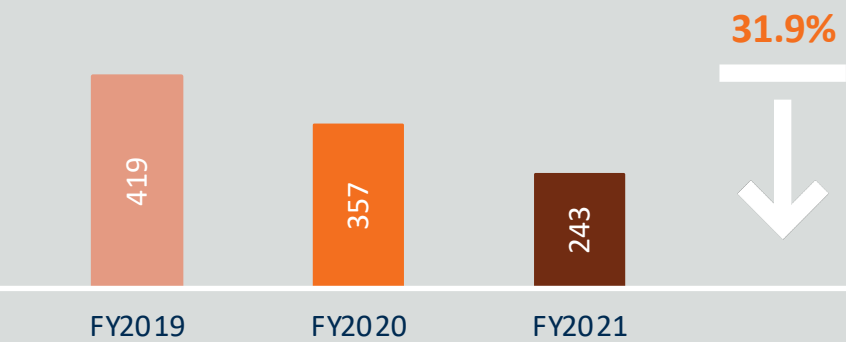
## Revenue

Rm



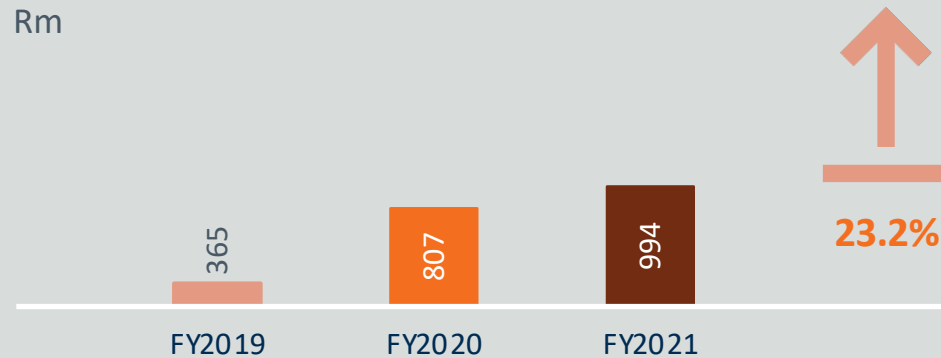
## Operational expenses

Rm



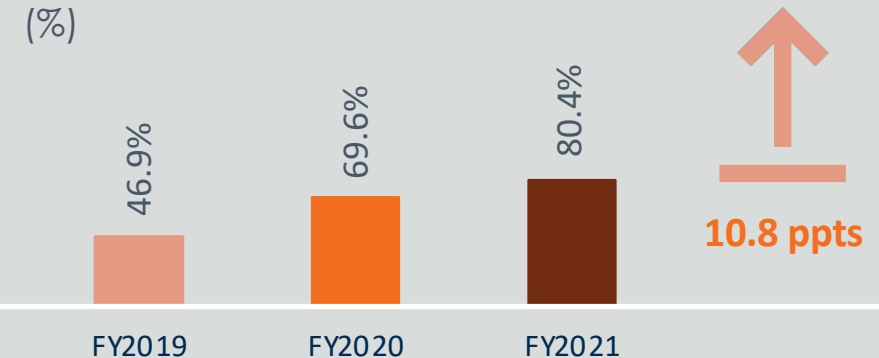
## EBITDA

Rm



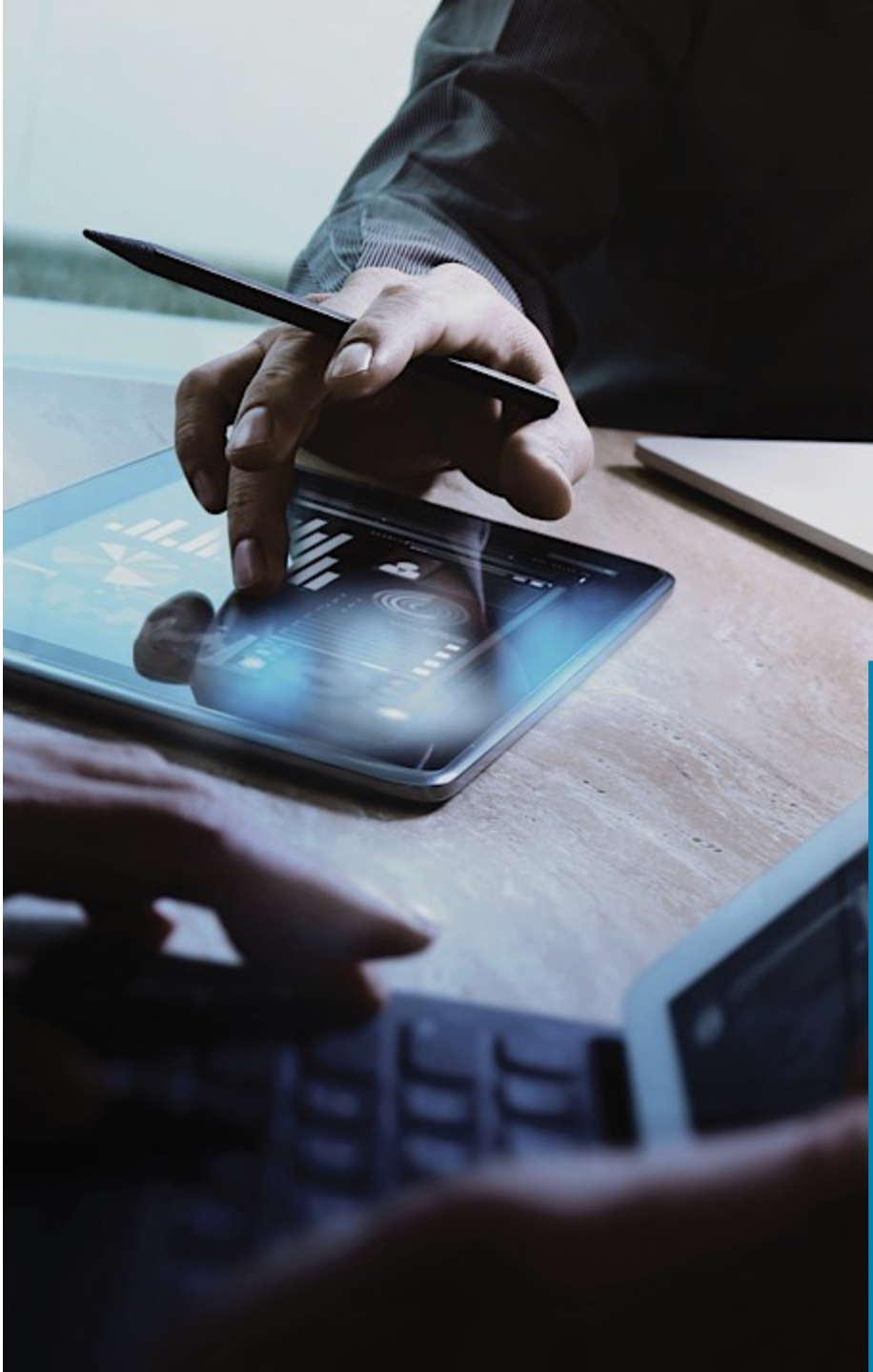
## EBITDA margin

(%)



# 4

## Financial overview





# Key Group financial highlights



Revenue  
**R43.2bn**



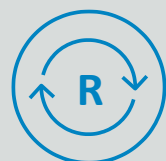
EBITDA growth  
**R12.0bn\***



EBITDA margin  
**27.7%\***



HEPS  
growth  
**561.5 cps\***



Free Cash Flow  
despite capex of R8.4bn  
**R2.1bn**



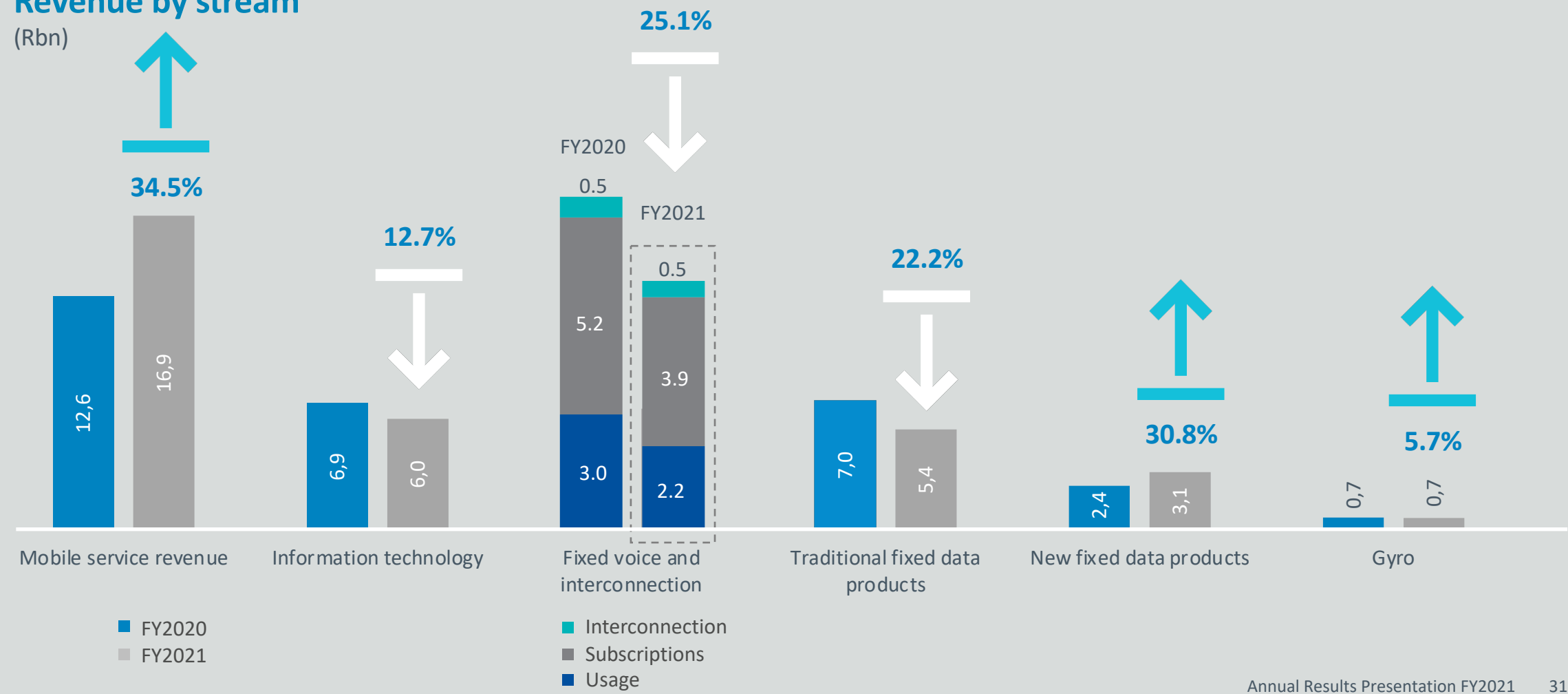
Net debt to  
EBITDA  
**0.9x**



\* Excludes R270 million provided for VSP, VERP and S189 costs in FY2021 and R1 186 million in FY2020 and the related tax impact.

# Mobile performance offsets COVID headwinds

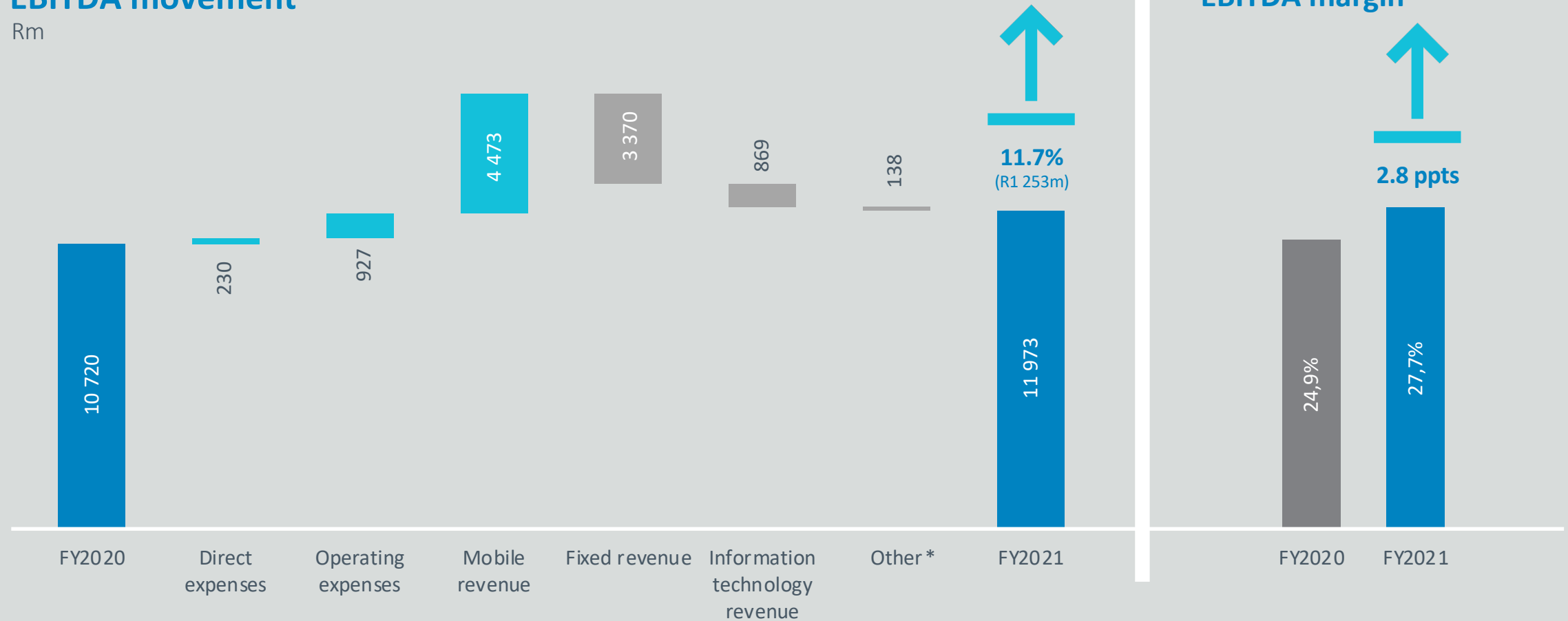
Revenue by stream  
(Rbn)



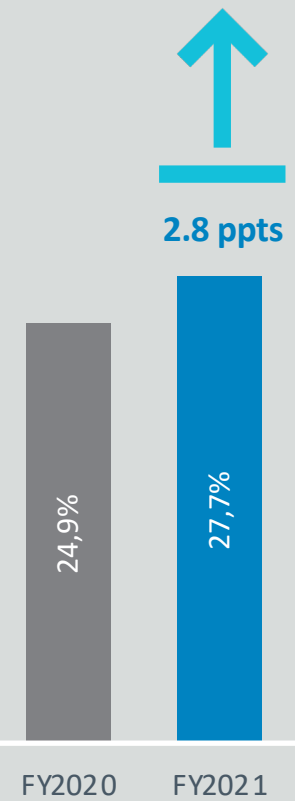
# EBITDA underpinned by sustainable cost management

## EBITDA movement

Rm



## EBITDA margin

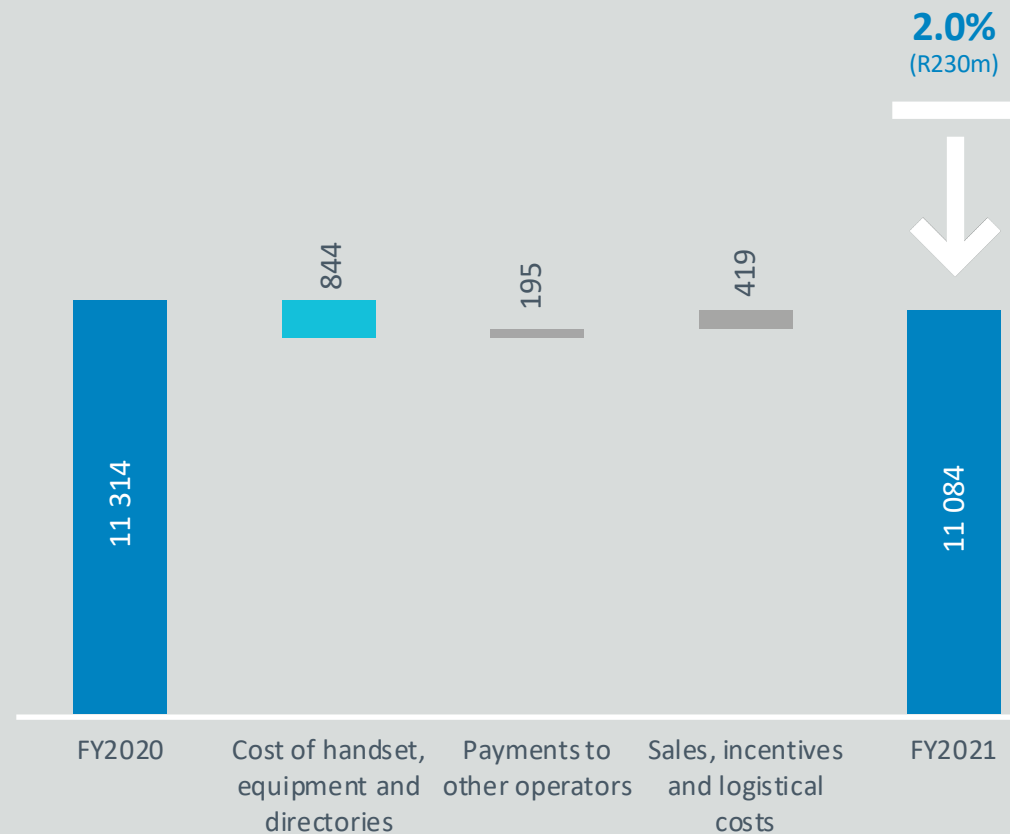


\* Includes other revenue, other income and insurance income from cell captive

# Direct expense optimisation

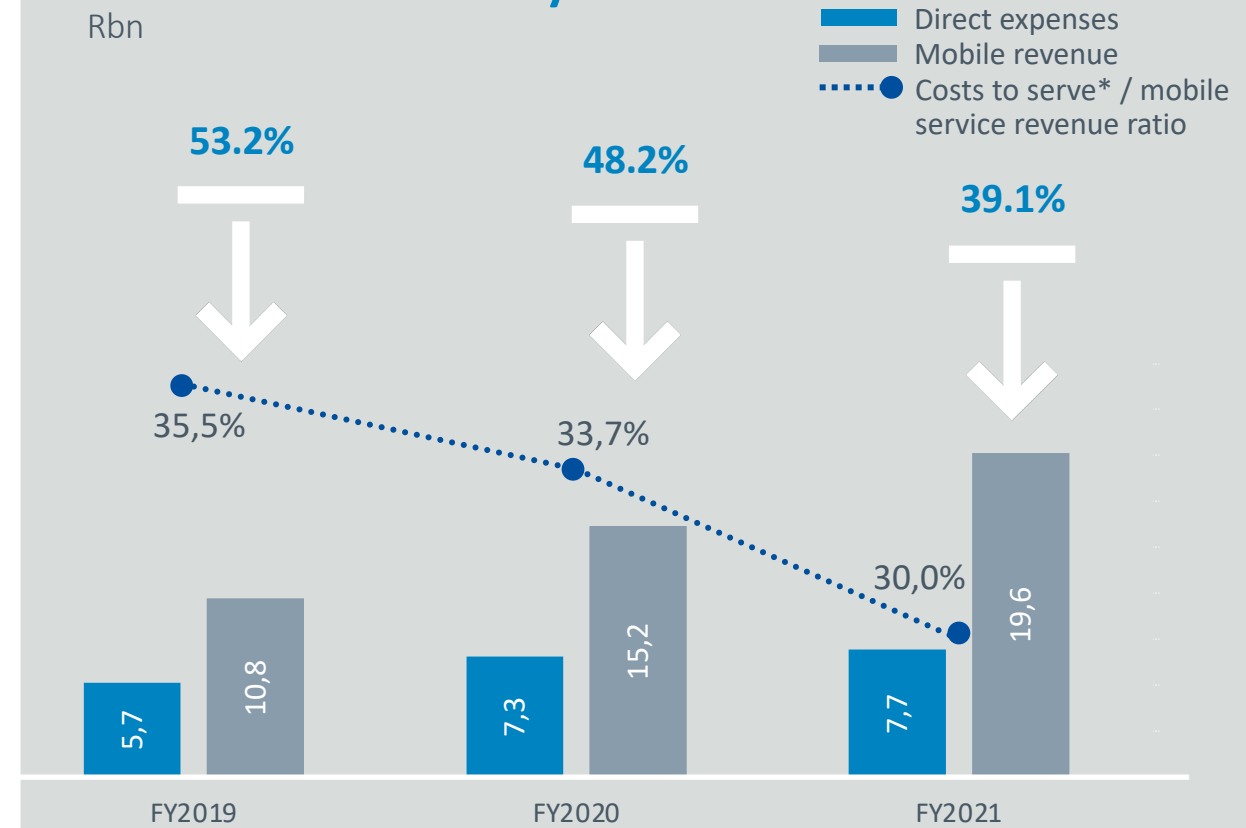
## Direct expenses

Rm



## Mobile cost efficiency ratios

Rbn

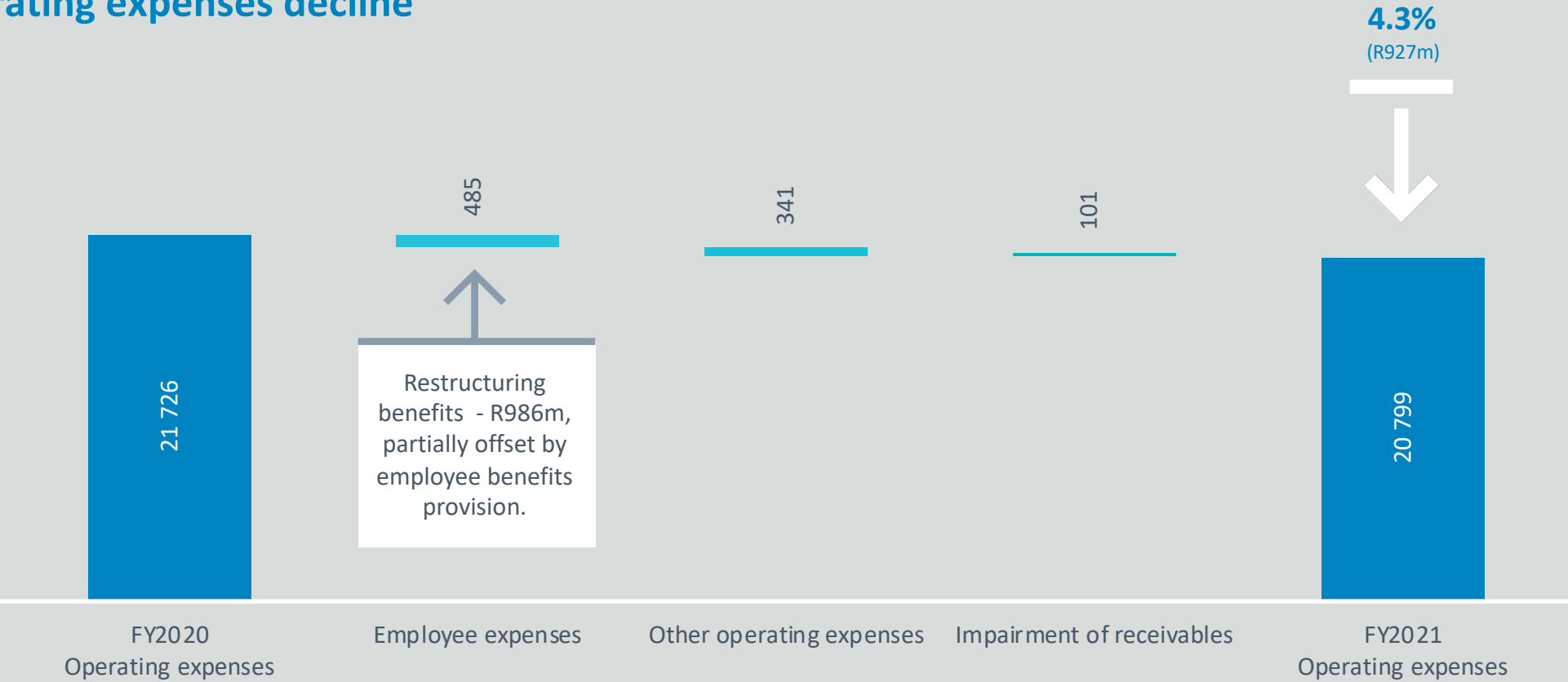


\* Payments to other Operators (PtoO) and sales commission and incentives

# Operating expenses decline from prior year

## Operating expenses decline

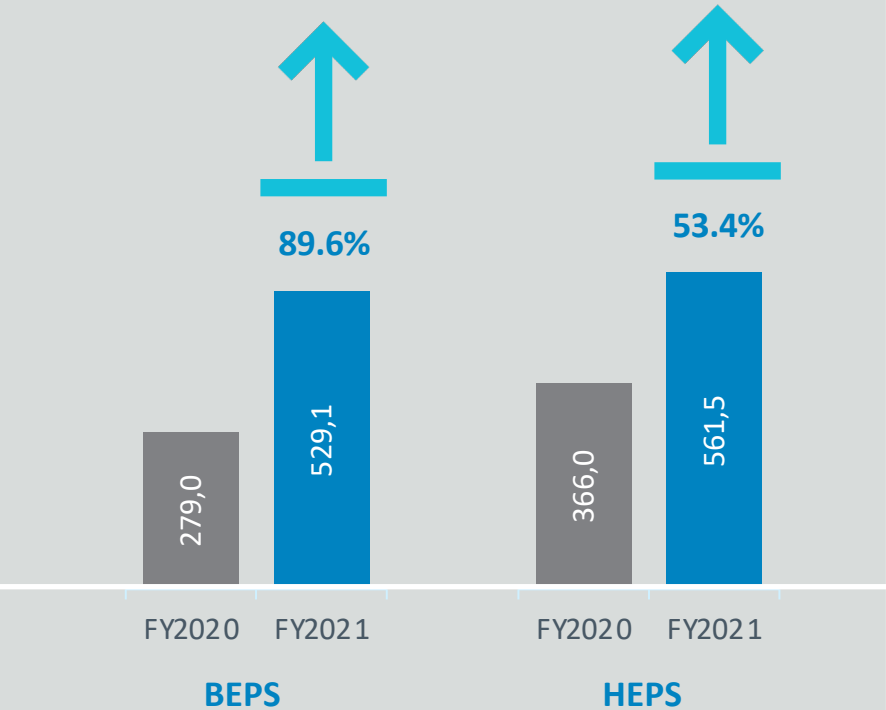
Rm



# Robust underlying earnings growth

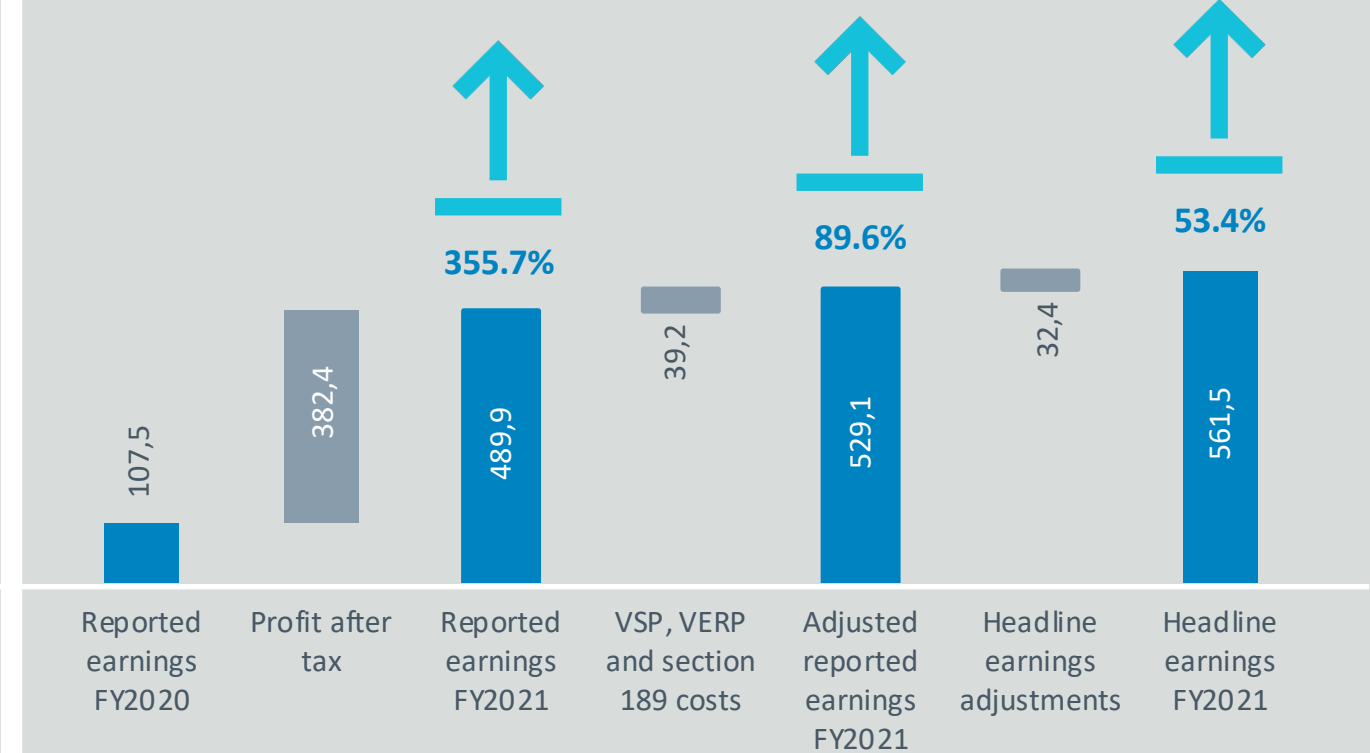
## BEPS and HEPS improvement

Cents



## Solid performance

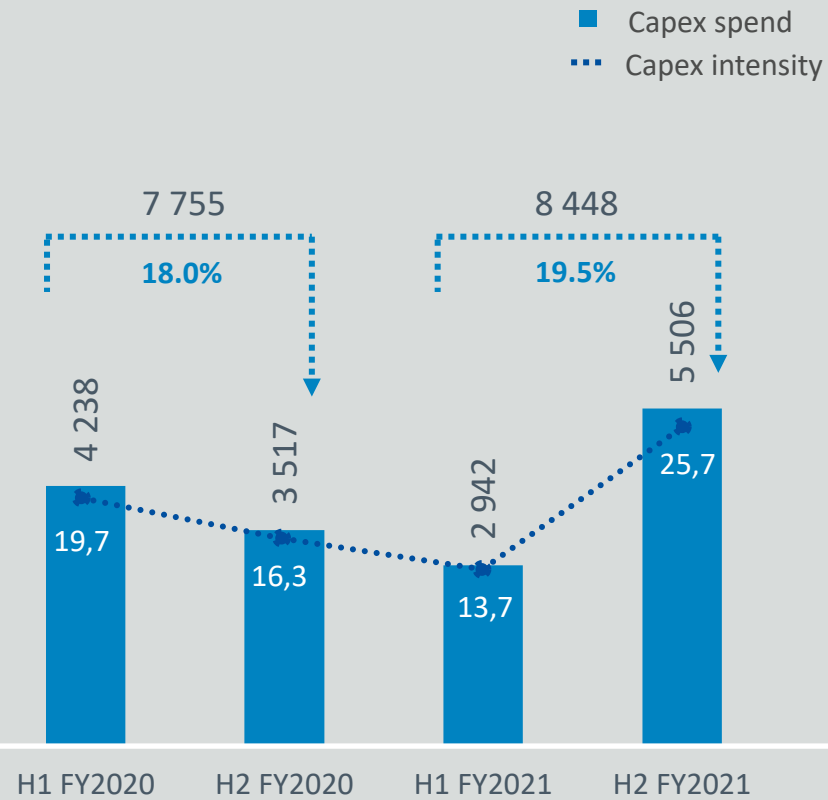
Cents



# Capex investments in key growth areas

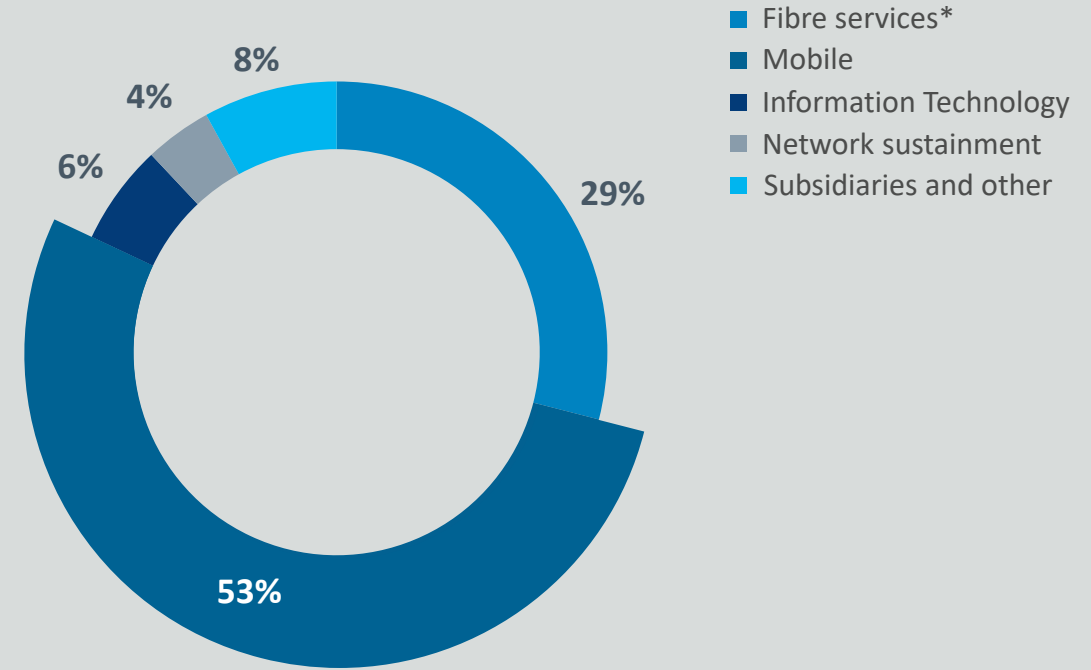
## Accelerated capex

Rm



## Capex investments allocation

(%)  
FY2021



\* Fibre services include FTTH, Core network and Service on demand



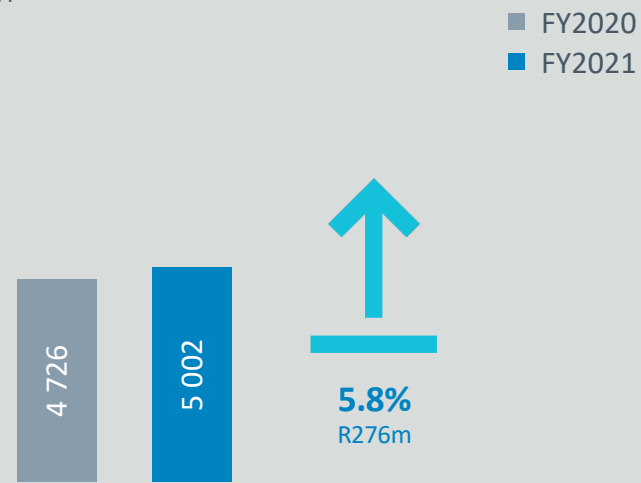
# FCF generation sustained

Free cash flow (FCF) movement Rm	FY2021	FY2020	%
Cash generated from operations excluding VERP, VSP and section 189 package cost payments	15 592	12 931	20.6
Less: VERP, VSP and section 189 package costs paid	(1 348)	(175)	(670.3)
<b>Cash generated from operations</b>	<b>14 244</b>	<b>12 756</b>	<b>11.7</b>
Repayment of lease liability	(856)	(780)	(9.7)
Interest received	332	212	56.6
Finance charges paid	(1 291)	(1 374)	6.0
Taxation paid	(2 194)	(1 320)	(66.2)
<b>Operating free cash flow before capital expenditure</b>	<b>10 235</b>	<b>9 494</b>	<b>7.8</b>
Cash paid for capital expenditure	(8 172)	(7 712)	(6.0)
<b>Free cash flow</b>	<b>2 063</b>	<b>1 782</b>	<b>15.8</b>

# De-risked balance sheet

## Cash balances

Rm

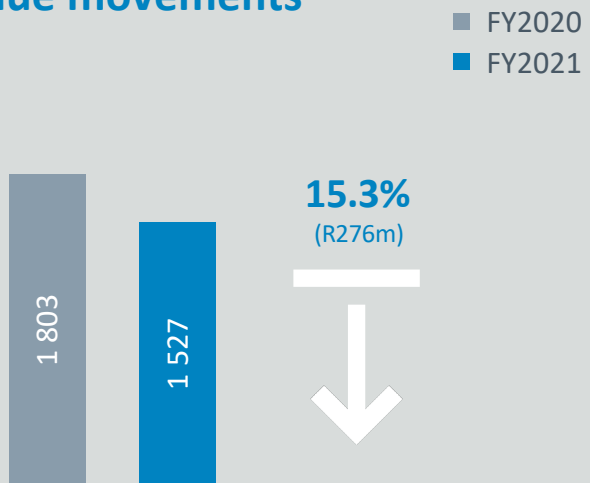


Liquidity improvement from FY2021 after:

- VERP & VSP (R1.3bn)
- Debt repayment (R1.1bn)
- SARS payment (R1.2bn)

## Net finance charges and fair value movements

Rm

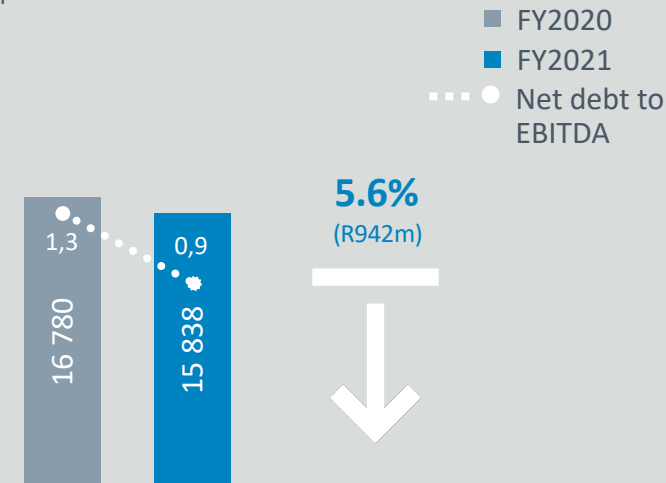


- Low interest rate environment
- Strategy to maintain higher levels of floating rate debt.

Average cost of debt down 2.6 ppts to 6.2%

## Borrowings (includes IFRS16)

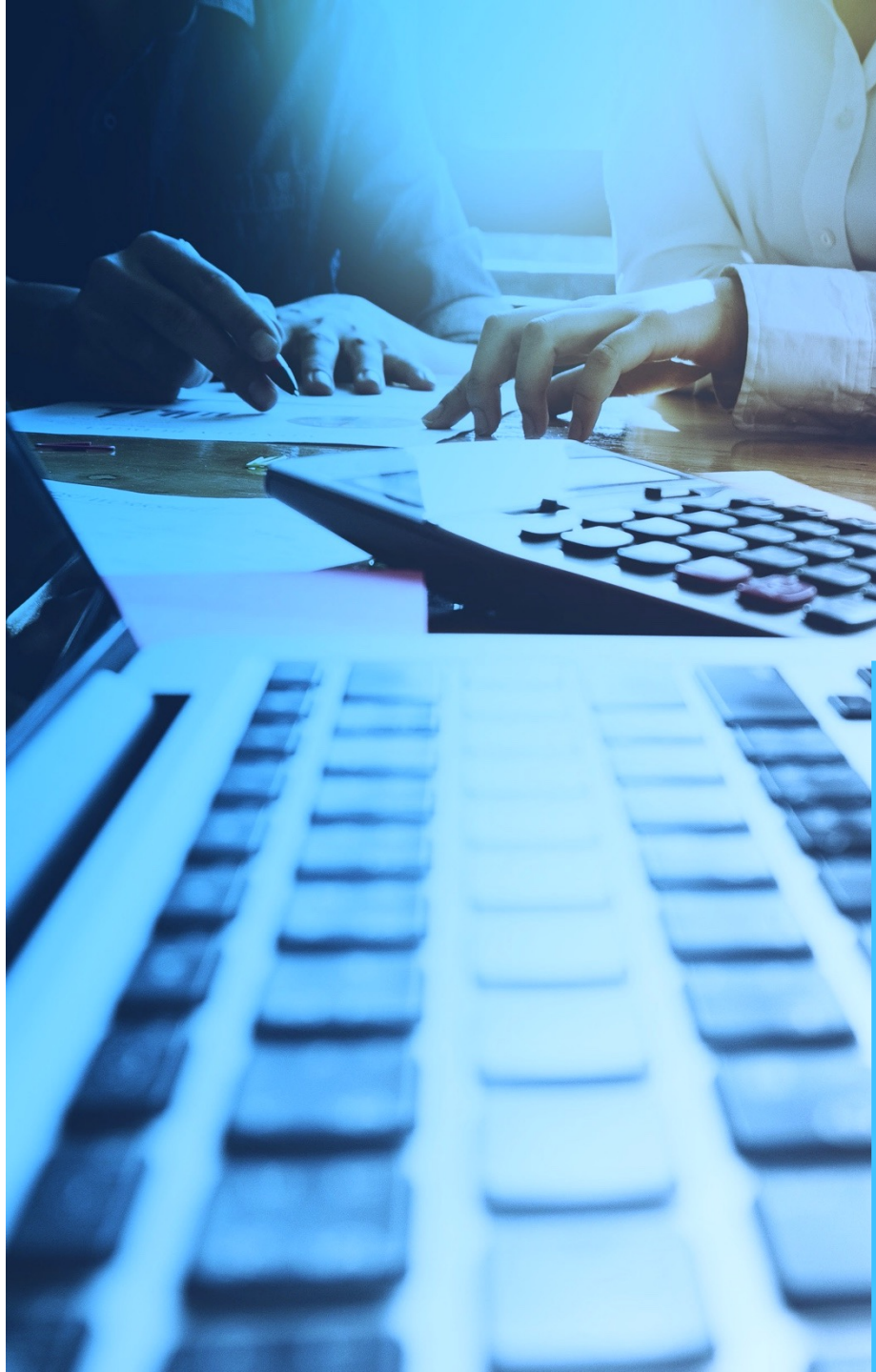
Rm



- Constitute of interest-bearing debt and leases
- R1.1bn debt repayment

# 5

## Financial outlook



# Sustainable financial framework



**Grow  
revenue**

- Grow new revenue streams
- Migrate legacy to next generation



**Improve  
profitability**

- Sustainable cost management
  - contain Opex below inflation
  - optimise Direct costs



**FCF  
generation**



- Net working capital optimisation
- Handsets receivables financing



**Disciplined  
capex allocation**

- Capital & Operational productivity
- Maximise capex returns

# New medium term guidance

FY2022 – FY2024 guidance*	
 Revenue (CAGR)	Mid to high single digit
 EBITDA (CAGR)	Mid to high single digit
 Capex per annum	R8.0 billion to R8.5 billion
 Net debt to EBITDA (times)	Less or equal to 1.0x

- Excludes corporate actions and spectrum.  
The guidance provided has not been reviewed or reported on by our external joint auditors

# Disciplined capital allocation framework

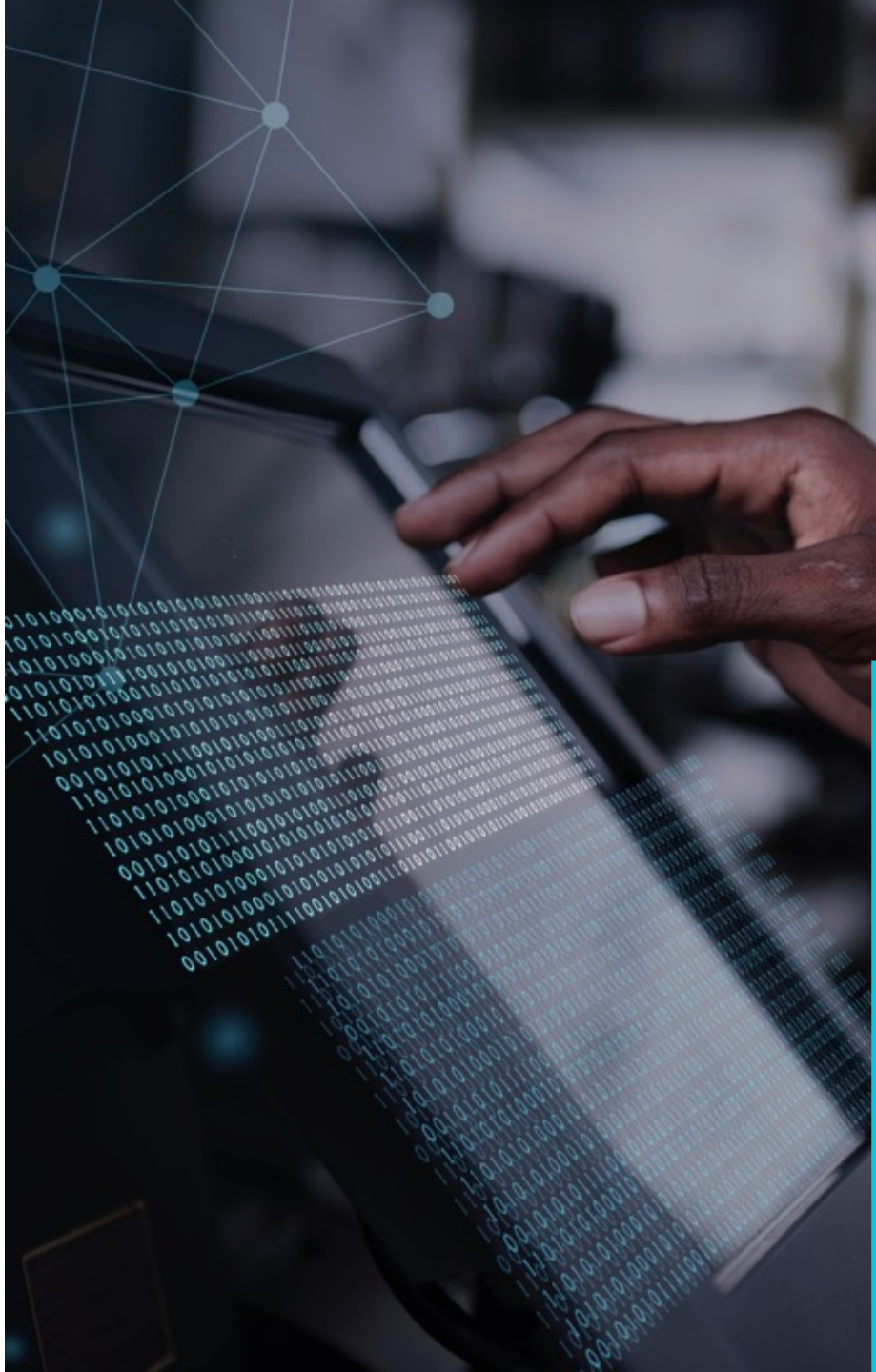


\* Including spectrum acquisition

**Dividend policy to be reviewed and communicated in November 2021**

# 6

## Value unlock



# Value unlock initiatives



**Masts and Towers**



**Data Centres**



**Openserve Separation**



# Mast and Towers value unlock journey



## Established a Masts & TowerCo

- Sale a leaseback from TKG to Gyro Masts & Tower
- Commercialised the portfolio
- Independent valuation



## Market sounding exercise

- Exploring different options
- Maximise shareholder value
- Enhance Telkom M&T strategy

# Grow data centre business



Grow scale and capacity of existing data centres



Utilise the existing suitable exchange infrastructure for Edge Data centres



Strategically introduce new, large scale data centres for colocation



Establish management capacity for a co-location datacentre business

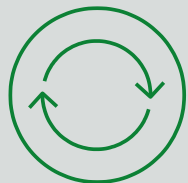
# Openserve separation



Further progress on separation of Openserve as a standalone entity



Balance sheet split nearing completion



Finalising of intra group arrangements and shared services

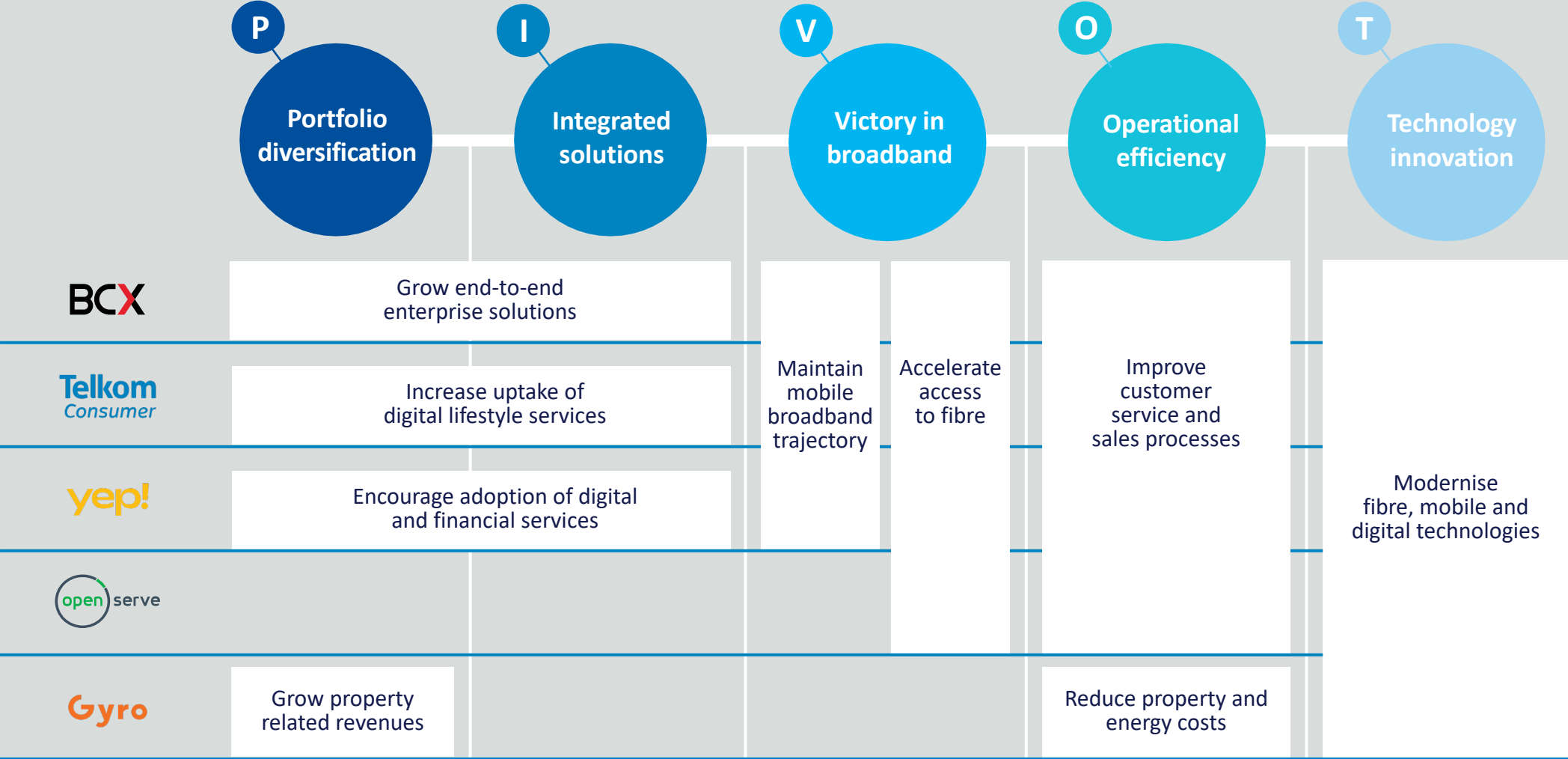


Legal and regulatory considerations

# 7

## Outlook

# Key focus areas - PIVOT





Thank you  
Q&A