

# Conference call transcript

18 June 2024

## ANNUAL RESULTS Q&A

### Operator

Good afternoon, ladies and gentlemen, and welcome to Telkom's annual results Q&A session. All attendees are in listen only mode. Attendees are welcome to join the question queue by keying in \* and then 1. If you should require operator assistance during the call, you may press \* and then 0. Please note that this event is being recorded. I would now like to hand the conference over to Serame Taukobong. Please come ahead, sir.

### Serame Taukobong

Thank you kindly. Good afternoon, all, and thank you for joining our call. Joining me in the call is Nonku, our CFO, members of our investment team, as well as some members from our operations team. I will go briefly into the highlights to allow more time for Q&A.

As indicated in our presentations this morning and the SENS issues, we are pleased to report positive results highlighted in our top line revenue growth at 1.6%, driven by our next generation platforms showing a positive revenue growth of 7%. Also key to that is headline mobile service revenue growth at 6.8%, normalised EBITDA showing a positive growth of 5.2%, as well as free cash flow returning to positive levels of R424 million. Aligned to that is headline earning performance of 201% growth at 376 cents as well as our net to debt EBITDA ratio sitting at 1.7x. Without further ado, I will now open up to any questions and answers.

### Operator

Thank you, sir. Ladies and gentlemen, once again, if you would like to ask a question, please key in \* and then 1 on your telephone keypad or the keypad on your screen. A confirmation tone will indicate that your line is in the question queue. You may key in \* and then 2 to exit the question queue. Our first question comes from Nadim Mohamed of SBG Securities. Please go ahead.

### Nadim Mohamed

Good afternoon, Serame, Nonkululeko and team. Well done on an excellent set of results. Just three short ones from my side, two for Serame, one for Nonkululeko. Serame, you mentioned this morning that you're able to manufacture a MB of data cheaper than your rivals. I just like to understand why you think your rivals haven't been able to get closer to that level with the spectrum assets and the high capex investments of the last few years.

Then I'd just like to ask the question about the new fixed data products. It looks like there was a bit of a deceleration in H2 because for the full year, the revenue growth was 15% and the half-life was 23% if I'm correct. So, I just want to understand, is there a higher base in the second half? And then lastly, just any colour you can give us on the impairments of receivables and contract assets? It looks like they're slightly lower in H2 versus H1, but any sort of colour on that and the payment terms of public sector and so on. I would like to understand it better. Thank you.

**Serame Taukobong**

Data cheaper, it's a combination of a few things as we've answered. So, from a spectrum perspective, we've got to look at spectrum in two angles. What we've always said... and first of all, thank you for your questions. If you look at how we've utilised our spectrum from day one, we intrinsically built our network as a late entrant, utilising our 2300 spectrum, more to be more data hungry and data driven.

I've always said to you, Nadim, that it is not because our opposition did not have enough spectrum. We've all had equal amounts of spectrum, but it was how the spectrum was utilised. They had to run almost three different networks, a 2G, a 3G, and partially a 4G, which has been a challenge in that productivity.

Secondly, we've always maintained that our backhaul has been strongly driven with fibre, which also makes it far more efficient in terms of the production than of the megabyte. So, when your backhaul is also quite strongly driven with microwave, it is a higher cost of production for that. So, that is the intrinsic differentiator.

Thirdly then is that when we also acquired sub-1 gig, it meant that we could be far more effective in how we roll out our network as well, because that then complemented the 2300 and the 2100 spectrum that we had in that regard. Fixed data growth in terms of H2, it is a function of, yes, the base getting bigger as well, because we have seen our LTE base growing quite significantly, particularly in your prepaid. And that is as the base is growing bigger. Receivable on payments, do you want to cover that? Can you repeat that? Did you guys get that question? Slowdown in H2. Yeah, it did slow down in H2, particularly on your mobile side.

**Hasnain Motlekar**

It's a factor...

**Serame Taukobong**

That's Hasnain answering for you.

**Hasnain Motlekar**

Sorry. Hi, Nadim. So, the payment receivables, you are right, there has been a slight slowdown. But it is also a factor of us being for stringent on our credit rating, so who we are allowing onto the base going forward. You will have seen a post-paid revenues were fairly flattish. And is by design because we still believe the credit consumers are under duress. And we're managing the inflow of that into our base. So, there was a slowdown. And also, as we exited out, you would have seen over the last couple of years, last three years, our impairments actually doubled. So, I mean, and that is as we exited out the customer, they couldn't actually stay on the network anymore. But we think we've reached a peak this year. And from next year, we should start seeing a slowdown, but not dramatically so. We should see an improvement, but we're not expecting a dramatic improvement.

**Nadim Mohamed**

Thank you so much, Hasnain and Serame. I appreciate it.

**Operator**

Ladies and gentlemen, just a further reminder, if you have asked a question, you're welcome to press \* and then 1 on your telephone keypad. The next question comes from Preshendran Odayar of Nedbank CIB. Please go ahead. Preshendran, your line is open. You can ask your question. You might have muted yourself from your side. Unfortunately, we're not getting any response from Preshendran's line. Preshendran has re-joined the question queue. Please go ahead.

**Preshendran Odayar**

Hi, everyone. Okay, so I have three questions if I can. Firstly, on your free cash flow, I think you did answer this question earlier this morning, Nonkululeko. How much of your handsets are you planning to sell this year? And secondly, regarding free cash flow, when are you guys pencilling in the circa R6.7 billion proceeds from the sale of Swiftnet? So, basically I'm asking, what's your best guess on when you can expect CompCom and ICASA to actually finalise this and then the Actis consortium to send iMali for this payment?

Then secondly, just following on from Nadim's question, what percentage of your tower sites are fiberised? I know you used to put that in the presentation, but I might have missed it. Apologies if it is there. But if you can just give me the percentage that's fiberised versus microwave. And then lastly, following on from Hasnain, I also noticed that your handset revenue went backwards this year. And I do remember in FY22 and FY23, you were aggressively pushing post-paid, which obviously results in higher handset sales. Have you stopped pushing post-paid and handset sales? And can we expect a more subdued growth, or is there further trimming down on how aggressive you want to be in that space? Thanks.

**Serame Taukobong**

I'll take the last ones. So, post-paid, in terms of the aggressive acquisition, I think we got to a steady state of where we wanted to end up. It was an intentional plan to get to a level of between 14% and 16% of our base. I think we did achieve that. What we have been doing now is focusing more on SIM only deals. And I think that is the journey that will continue. So, you want to see that level of aggression, but we do keep fingers on the pulse to make sure that we've got the right position in the market.

In terms of the fibre between 65% and 70% as we roll out of our backhaul is on fibre. In terms of the Swiftnet deal, we had put in between six to nine months. We're not banking it to come in this financial year. So, six to nine months from when we did our submissions, which was pretty much the same time as we had the general meeting. So, it would be good if it comes in sooner, but I think to be prudent, that's what we've built in in that regard. Free cash flow on handsets, we're planning to do about a further R1 billion in this financial year, Presh.

**Preshendran Odayar**

Thanks very much, Serame.

**Operator**

At this stage, I have the next question from Jonathan Kennedy-Good of Prescient Securities. Please go ahead.

**Jonathan Kennedy-Good**

Good afternoon. I'd just like to follow up on the tower transaction. If I recall from your circular based on a pro forma impact on the earnings base, there was a fairly high diluted impact. And I just wanted to try and understand how that may have changed with the new numbers. Could you run us through the cost savings on finance costs? That should be fairly simple. And then what we should expect to come out of the base from a DNA perspective and how lease liabilities will change, if at all, from the circular. That will be helpful. Thank you.

**Nonkululeko Dlamini**

So, maybe just to start with the lease impact. And I mean we didn't necessarily do the secular format in doing the numbers this time. But if you recall because the secular was based on half-year numbers, we would have shown you the impact of the lease being now external in half-year numbers. And we did say that you have to just double those numbers to see what the full year number would be. That would not have changed because of the full year, just in terms of the principles and the contractual arrangements that are in place. The principles would remain the same.

But then from the financial performance of the group as well as Swiftnet, we did highlight in the financials, in fact in the booklet that I'm hoping you have, on page five we do give an indication of the headline earnings per share as well as the base basic earnings per share that are attributable to Swiftnet as a business. And in the middle there we do indicate that the continuing business would remain with the headline earnings at the level of about 288 cents, and the 88 cents is attributable to Swiftnet. And that is the part of the business that would be exited once all the approvals are in place and in terms of the direct earnings from that business. So, that's the full year picture. I think we would have shown you half year picture at the time.

**Jonathan Kennedy-Good**

Right. So, just to be clear, that R2.88, my understanding is that that would not include interest savings on the cash received for the towers. And then we must double up that lease liability impact that is in the circular to get to a base once the towers are sold.

**Nonkululeko Dlamini**

Yes, so if you look at the discontinuing operations, we would still have kept the debt impact, interest and finance charges. You can see there's a line there that says on continuing operations there is R2.1 billion of interest and finance costs that represents the numbers that we have at the moment. And there's a small portion that would go to... so if you look at the total number the interest and financial charges would remain. So, you would have the finance costs coming out because we would have paid over R5 billion of debt. And you would have the external lease coming in. So, that's probably the elements that are not built in the structure of the reported results.

**Jonathan Kennedy-Good**

Great. Thank you.

**Nonkululeko Dlamini**

And then I think that was the main question around the tower deal.

**Serame Taukobong**

Are you comfortable, Jonathan?

**Jonathan Kennedy-Good**

Yes, I'm comfortable. Thank you.

**Serame Taukobong**

Sorry, before the next question, there is a point of clarity and correction that I must make from a question that was asked earlier on about mobile price increases. And I need to correct the statement that I've made. In terms of price increases taken, on the 1<sup>st</sup> of June, we took a 5% increase on post-paid tariffs. I think I said it must have been both prepaid and post-paid. So, 5% was taken on post-paid tariffs, not on prepaid. On prepaid, the increases were taken on CVM, so what we call our Mo Nice proposition. So, price increases have been taken in prepaid not at the headline level, but on the CVM proposition. So, I just wanted to make the clarity.

**Operator**

Thank you, sir. Ladies and gentlemen, just a final reminder, if you'd like to ask a question, you're welcome to press \* and then 1 to place yourself in the question queue. Thank you, sir. It appears we have no further questions in the question queue.

**Serame Taukobong**

Excellent. Thank you very much for continuing to show interest in Telkom. We are available for any further calls and we look forward to continuing engagement with you. We wish you a wonderful day onward. Thank you.

**Operator**

Thank you. Ladies and gentlemen, that concludes today's event. Thank you for attending and you may now disconnect your lines.

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