Telkom

Conference call transcript

8 February 2021

MARKET UPDATE

Operator

Good day ladies and gentlemen and welcome to the Telkom SA Ltd market update. All participants will be in listen only mode. There will be an opportunity to ask questions later during the conference. If you should need assistance during the call please signal an operator by pressing * then 0. Please note that this call is being recorded. I would now like to turn the conference over to Sipho Maseko. Please go ahead, sir.

Sipho Maseko

Thank you very much Claudia. Thank you very much, and welcome to everybody on the call. Good morning to those who are in the U.S. Good afternoon to those in South Africa and this side of the world. With me I have our new CFO, Dirk Reyneke, who is joining this call for the first time. I'm also with the Head of IR, the Head of Treasury, so it's the full team from the Telkom side. I will start by just going through the market update that was published today as follows. Firstly, I will start with just breaking down the business trends we witnessed since we released our half year results. Secondly, Dirk will then unpack the financial year to date performance and how we're building the financial resilience. Then lastly I will come back and provide feedback on the value unlock relating to masts and towers, and hopefully then conclude a little bit by discussing the regulatory environment.

As a start, I think I'm very pleased to say that the group delivered quite a decent set of results, very solid in a period where growth was challenging due to a number of factors. Firstly, the economy in South Africa is taking strain. Secondly, the ramifications the of COVID-19 pandemic. The move to level 1 in the third quarter of the year had some benefits, but limited benefits, and it was way too short to make a significant impact on the key indices that we look at. Our large enterprise customers remain pretty impacted by the interruption in economic activity. This is evident in the results of some parts of our business. But also I'm pretty sure if you're also following other sectors it is evident in the results of other sectors as well.

Looking at our business trends in perspective; our mobile business remains the key driver of growth alongside masts and towers in Gyro who are continuing with their growth trajectory in the third quarter. On the other hand, BCX and Openserve continue to be under pressure, albeit there are some marginal improvements as the economy slightly improved in the third quarter, but also significantly the businesses also employed quite a lot of self-help initiatives in the face of that. From a small and medium business perspective the trends are even worse, and I think that is characterised by just the calamity in the broader economy, restaurants and bottle stores and all of those sorts of places who just don't have the ability to see through the severe pressure financially that they've had to endure. Some of them have had to close down. Some of them are coming back into business very slowly. And that's almost the bottom end of the market because these are small businesses, and for them to survive it is very difficult.

Maybe let me just focus a little bit on mobile. Our mobile performance remains very robust. The business year to date has delivered a service revenue growth of about 40% to R12.6 billion, which is an increase of R3.6 billion year on year. The EBITDA more than doubled, growing by about R2 billion to R4.1 billion, while our mobile EBITDA margin remains pretty strong despite the increase in post-paid activities in the third quarter. We saw a 26% growth in the subscriber base to about 15 million subscribers with the blended ARPU increasing by about 24% to R108. The post-paid market is very challenging in terms of new connections due to consumers being under pressure. But also ordinarily how these activations would work, either people would go to stores. The online activation in post-paid is still very difficult. The team has really been able to break through some of the barriers, but given some of the verification processes that need to happen, it’s not an easy thing. However, we saw a good growth in post-paid year to date ARPU of 15.5% to R212. The prepaid market remains very strong, driving new connections. Prepaid customers grew by 30% to about 12.3 million.

As you may well know, data has always been the key focal point of our strategy. We continue to drive growth in that area, especially with regards to various broadband solutions. We delivered very strong growth on our mobile broadband KPIs. The mobile data revenue grew by about 46% to R9 billion driven by strong growth in mobile traffic which was at about 64%. And this was supported by almost 27% growth in mobile broadband customers to more than 10 million. And we increased our site rollout in the network on the Telkom Mobile side to about 6,100 sites. Those three dimensions are really the key metrics that we’ve been looking at insofar as mobile is concerned.

As for BCX they continue to be under pressure as the economy remains quite constrained. Year to date revenue is down 9% to about R12 billion. However, what is encouraging is that the year to date revenue decline is lower than the one reported in the first half of the financial year. We saw a slight recovery. And also some of the newer technology, newer generation businesses are punching quite hard and they are beginning to offset that rate of decline. We won’t say much about the South African economy. As you move to various adjusted levels, whether 3 because of the second wave, it takes longer for enterprise customers to recover because of the severe financial pressure and the capital investments are still on hold given the uncertainty. I think as you heard yesterday with regards to the vaccine, it almost adds to the uncertainty. And we are also starting to think about our own independent plans as a firm in terms of how we begin to deal with that insofar as our employees are concerned.

COVID-19 is an ongoing risk. My view is that this will be with us for a while, and therefore management needs to drive self-help initiatives to mitigate this risk. The annuity revenue mix of between 70% and 75% which has cushioned our revenue decline during the pandemic, we still want to maintain that approach and we still see that coming through. BCX as well has been focussed a lot on driving cost efficiencies. Hence the result in improved year to date EBITDA compared to the first half. BCX announced a Section 189 process and has already started the implementation thereof, which will result in the staff complement declining by about 300 or so at a cost of between R200 million and R300 million. And they need to be really laser-like in really focussing on those pockets of opportunity to improve our cost.

Openserve, I think the key headline there is that we’ve seen a surge in broadband traffic, which was obviously offset by the fixed voice decline that we have seen. And I guess to capture the Openserve story, the pressure in the Openserve performance trends that we witnessed in the first half of the year continued into the third quarter with revenue down by about 12% to R10 billion. However, we saw an increased need for data in the period despite the fact that fixed voice continues to decline. So their performance remains under pressure. The investments in the network that we have been deploying in the last couple of years has enabled them to be able to carry an increase of about 29% in terms of traffic across the fixed network. We saw an increase in demand for fixed line communication and improved FTTH connectivity ratio to about 56% or so compared to about 46% in the prior period.

Whilst there might be supply chain challenges resulting from the various lockdowns that you see internationally in the third quarter, we have continued to drive the expansion of the fibre footprint as we have seen in about 25,000 new homes passed with fibre in the third quarter. With regards to masts and towers the revenue is up 6% to about R930 million as they continued to commercialise that portfolio. They are on target to achieve the tower build plan and increase the number of tenants as we indicated in the first half of the year. And if you recall, there is a separate property development segment inside Gyro, and with COVID-19 we've been thoughtful in terms of how we manage the process of development. Much as we may be at advanced stages of development planning, we have a lot of flexibility in revising these development opportunities or extending the project commencement timelines. So that's on the property side. I suppose the environment has presented us with the opportunity to further rationalise property operating costs, consolidate office space as employees work from home, and we see that this outlook will remain for a while. I will then hand over to Dirk who will unpack the financials a little bit, and then he will hand back to me at the back end. Dirk, over to you.

Dirk Reyneke

Thank you Sipho, and good afternoon everyone. I think the key financial messages are really around three major themes. First of all, the resilient revenue performance while we are facing the pandemic. Secondly, we're continuing with the sustainable cost management which then underpins the growth in EBITDA. And thirdly, the balance of strong cash generation despite the accelerated capex in the third quarter. On top of that you will cover the value unlock strategy once I'm done.

But if we can go back to the three that I've mentioned, first of all the resilient revenue performance. The trends that were demonstrated by Telkom units in the first half of the year continued in the third quarter with improved year to date group revenue which grew by 0.9% year on year. This certainly compares favourably to the group revenue decline of roughly 4% reported in the first half of the year, and that's due to the slight recovery in the South African economy in the third quarter, moving to level 1 of the national lockdown before Christmas. The revenue performance was by and large driven by the mobile business, which you've covered. Service revenue is up 40.7%, partially offset by the decline in fixed revenues of 25.3%. So, in totality we are pleased with the revenue performance given the pandemic that we face.

If we then look at EBITDA growth and sustainable cost management, the group has been on a cost management drive for a while. The year to date group EBITDA increased by 8.5% to R8.6 billion with the margin expanding by 1.8% to 26.6%. The main reason for this was mainly driven by the benefits of the phase 1 restructuring programme of approximately R710 million realised to date. The overall opex cost, however, also continues to decline compared to the previous year, which is certainly exceeding management targets of containing opex below inflation. The ongoing optimisation of the cost to serve remains a key lever to the group profitability. Mobile cost to serve was optimised despite an increase in the post-paid activities in the third quarter. In the third quarter we completed phase 1 of the restructuring programme in the group and commenced the second phase with BCX. The restructuring costs incurred in the third quarter were approximately R200 million. Excluding this, the EBITDA grew by 10.9% to R8.8 billion when compared to the previous period.

I think a very topical issue is the cash generation and the free cash flow. In the year to date capex of R5.1 billion was invested in the growth areas such as mobile business and fibre. We saw the accelerated cash in Q3 compared to the first two quarters, but we remained discipline in our capital allocation while investing in the business for growth. Notwithstanding the accelerated capex in the third quarter, Telkom liquidity remains healthy with a stable balance sheet. In the first nine months Telkom Group generated free cash flow of approximately R1.6 billion. If you compare this to the R211 million reported at the first half of the year, it's a significant improvement. And then if you further exclude the VSP cost or cash payment of approximately R1.3 billion, Telkom generated a year to date free cash flow of R2.8 billion. So I continue to say the balance between accelerated capex, required capex in the right areas, investing in the business for growth versus managing the free cash flow. Sipho, thanks for that. I'll hand over to you to take us through the value unlock strategy and then conclude on the regulatory environment. Thanks a lot.

Sipho Maseko

Thank you Dirk. Thank you very much. So maybe just to conclude, we are on course with our value unlock strategy having recently concluded a successful market sounding exercise to gauge the interest. This remains a core component of our capital allocation framework and will actually give us as management the flexibility to rebase the balance sheet on the one hand and reinvest in the business where the growth dynamics indicate. So that is on track. Dirk and I are on top of that matter on an ongoing basis with the core team that is working on this, so I'm very comfortable that we are on course.

Insofar as the regulatory environment is concerned I'll just say a couple of things. The matter is being heard starting today, and we should know soon where this will end. I guess the issue for us is that as Telkom we are really ready to participate in the spectrum auction and support the urgent release of the high demand spectrum. However, we have a couple of concerned, amongst them the non-availability of spectrum in the 700 and 800 MHz bands for commercial use and the general construct of the licensing dispensation. The television broadcasters will occupy 700 and 800 bands, and to date there is no definitive timeline on when they will be migrated. And if we were to reflect on the past, almost all the previous deadlines of migration were never met. That is why it is only fair for us to be concerned about any plan that is not underpinned.

Insofar as the design of the licensing process is concerned, Telkom is concerned that it disregards the prevailing competition challenges that beset the mobile sector. We ventilated all of our issue in the papers. The matter is being heard starting from today in the Northern Gauteng High Court. We obviously would not want to pre-empt the outcome, but we think we've made a sound case. I'm pretty sure everybody else also would think that they've made a sound case, and we'll see how that plays itself out. So I will pause there and bring the call to an end. Perhaps this is the moment, Claudia, where we can take questions from the participants.

Operator
Thank you very much, sir. If you would like to ask a question, please press * then 1 on your touchtone phone or on the keypad on your screen. If you decide to withdraw your question, please press * then 2 to remove yourself from the list. Again, ladies and gentlemen, if you would like to ask a question please press * then 1. The first question comes from Preshendran Odayar from Nedbank. Please go ahead, Preshendran.

Preshendran Odayar
H everyone. Thanks for the opportunity to ask questions. Congratulations on this trading update, Sipho and team. I've got three quick questions if I can. I know you guys gave year to date numbers, but I did some calculations to look at your quarterly performance and it looks like your group revenue was quite good. It was up 3.6% by my numbers. I'm just wondering if you can give me some colour on what is driving that because I noticed you gave us mobile service revenue, you gave us Gyro, you gave us BCX and Openserve. And mobile service and Gyro seem like a slight deceleration from the interim numbers and BCX and Openserve the declines were pretty much in line with what we were seeing in the first half of the year. The only thing I think I'm missing is your mobile equipment revenue and other revenue that forms part of group revenue. I don't know if you can or are able to give us any colour on how those numbers performed.

Secondly, related to that, I know Telkom is infamous for restatements. Are there any restatements in the prior period that would affect the growth rate that I have calculated? And the last quick one, Sipho, is you did mention your value unlock strategy. Is there any update on timelines for that? It seems like now that MTN is also looking to do its tower deal it seems to have gotten quicker traction on it than you guys. Are you guys able to share with us any timelines on when you plan to give us more information on that? Thanks very much, guys.

Sipho Maseko
Dirk, do you want to answer those questions to Presh?

Dirk Reyneke
Let's start with the first one. I think in terms of the group revenue up 3.6%, I think you're right. It is by and large driven by mobile. We did see a slowdown in deterioration in BCX as well as Openserve, but it is by and large driven in mobile and specifically on the ARPU in the post-paid market, and then both the volumes and some ARPU growth in the prepaid market. So we saw substantial growth there. Those are the main reasons. In terms of restatements we covered a restatement in the half year results. We are certainly not aware of any further restatements. I've had many meetings with external audit with all the finance teams since my appointment and I'm not aware of any further restatements that are in the pipeline or that we are aware of.

In terms of the value unlock I think it's early days. You know the value unlock in the masts and towers, as Sipho has said, we have just completed the sounding exercise. Similar to the rest of the market in masts and towers, there is significant investor interest in the tower sector, but I think it's a process. We will proceed with the process of the sale of a minority stake, which is as per previous communications. But we haven't got any fixed dates further yet to disclose, no transaction structure, pricing or those sorts of things. It's very early days for those. So no, we don't have any further fixed dates. We will certainly target this calendar year. That will be our best attempt at forecasting a date, to say we will certainly target this calendar year for it to be completed, but no fixed dates.

Preshendran Odayar
Thanks very much, Dirk. And welcome.

Dirk Reyneke
Thank you.

Operator
Thank you. The next question comes from Johnathan Kennedy-Good from JP Morgan. Please go ahead, Jonathan.

Jonathan Kennedy-Good
Good afternoon. Thanks for the opportunity to ask questions. I just wanted to follow up on your free cash flow number and just try and unpack whether there were any significant contributions from working capital as was the case I think in prior periods. I'm just trying to reconcile the jump in free cash flow that you disclosed. And secondly on the value unlock, would it be possible to give us a sense of how many mobile towers you have that would be included in a potential value unlock transaction and what the tenancy ratio is on that portfolio at the moment?

Dirk Reyneke
Sipho, shall I go?

Sipho Maseko
Go for it, Dirk.

Dirk Reyneke
Jonathan, thanks for that question. I will start with the second question, which is probably more factual. Gyro has currently got in round numbers 3,600 commercially viable towers. We've got more towers, but what we seem to classify as our commercially viable, in other words the ones that we can monetise to the maximum. Roughly 3,600 towers. Current tenancy ratio of 1.48 and a loading ratio of 1.6. So we certainly believe that there's significant upside and potential in terms of upping the tenancy ratio, and then also further synergies in terms of the loading ratio. And the customer mix is in round numbers 48% to 50% anchor tenant, being internal, Telkom Mobile and Openserve, 34% other MNOs and 18% or 19% non-mobile network operators. So that's on the towers.

On the free cash flow I think it's a combination. The biggest impact is as a result of clawbacks on the cash concessions that were made in BCX in the first two quarters given the COVID pressure on the corporate customers as well as the SMV [?] customers. So we clawed back substantially in the third quarter on that, and that is certainly the biggest impact. If I understand your question right it talks to current assets, current liabilities. And that is an improvement in your debtors' ratios. So it is operational metrics. But that is the biggest impact. We've got our cash release initiatives which we previously communicated to the market, a R700 million to R1 billion target. In terms of handset receivables, supply chain finance and working capital improvements we are on track to make that. But it's fair to say the working capital specifically related to the BCX claw back on debtors had the biggest impact on that, Jonathan. Thank you.

Jonathan Kennedy-Good
Thanks very much. That's clear. Thank you.

Operator
Thank you. The next question comes from Dilya Ibragimova from Citi. Please go ahead, Dilya.

Dilya Ibragimova
Thanks very much for the opportunity and congratulations with the strong set of results. I have two questions related to mobile please. Could you give us an indication looking at the third quarter service revenue in mobile how did that stack up against the second quarter service revenue, so maybe sequentially? And what other trends are you seeing so far in the fourth quarter, whether so far the run rate is comparable to the third quarter? And then mobile EBITDA margin performance in the third quarter. Perhaps you could give us a bit more detail why there has been some pressure on margin. You did mention that there were some investments in post-paid, but what are you looking for there year to date? I see you mentioned in the first half that sustainable margin is 20% to 25% as a guidance for where margin would be for the mobile for the year. Thank you.

Dirk Reyneke
Dilya, let me go on the revenue growth. Yes, there is a slight revenue growth downward slowdown in Q3. Year to date it grew by 40% compared to the approximately 50% in the first half of the year. We have seen normalising of ARPU. So it's fair to say that both ARPUs and capex in the first two quarters were spiking and we've seen a normalised impact of that in the third quarter. This is off a relatively higher base, however, in absolute terms the revenue growth is comparable to Q3 of the previous year. But it has normalised from the first two quarters. I don't like giving forecasts, but we expect the trend to continue to be flat or further slight normalisation in terms of the fourth quarter in revenues. We've covered the ARPUs where on the prepaid ARPU we've increased by 25% and on the post-paid by 15%.

In terms of the EBITDA margin I think it's mostly as a result of the ARPUs that have normalised that we have seen a slight deterioration. We reported roughly 29% to 30% in half year. It has come down to between 26% and 27%. We do anticipate that we will probably breach the upper margin of 25% that was communicated at half year, but we do see some normalisation there. So we certainly do not believe we will get back to the 30%, but the 25% was probably a bit conservative. Thank you.

Dilya Ibragimova
Thank you very much. Could I just follow up on the revenue? Looking at the absolute performance in Rand terms would it be fair to say that the peak revenue period was in Q2 for 30 September?

Dirk Reyneke
Sorry, Dilya. Just repeat that again please.

Dilya
Just looking at the absolute revenue in Rand terms, service revenue in mobile in Rand terms, Q1 to Q3, would it be fair to say that the peak revenue was in Q2, or the revenue sequentially still is growing in Q3 versus Q2 in absolute terms?

Dirk Reyneke
In absolute terms Q2 was higher than Q3. You are right.

Dilya Ibragimova
Okay. Thank you very much. And normalisation from here. Understood. Thank you.

Operator
Thank you. The next question comes from Vikhyat Sharma from RMB Morgan Stanley. Please go ahead, Vikhyat.

Vikhyat Sharma

Hi guys. Thanks for the opportunity. I think just two small questions from me. First of all, I wanted to know, you've given us 10% EBITDA growth. Is there any kind of restructuring in the base, or is the base quite clean? As I can remember we didn't have a third quarter number, but in the second half last year you reported lower EBITDA because of all the restructuring etc. So I'm assuming those are all in the fourth quarter and not in the third quarter. And the second question I think more from the perspective of Sipho. You've said that the business is closer to reaching an inflection point where mobile EBITDA growth will outstrip the fixed declines. Are we there yet, or is it probably just an impact of COVID that connectivity is so high? And how far away from that point are we, if you could just indicate that? Thank you.

Sipho Maseko
I'll deal with the second one. Maybe to frame it, certainly the contribution of mobile continues to be very strong, and it has offset at EBITDA level the contribution by fixed. But I also believe that fixed, especially fibre to the business, fibre to the base station and fibre to the home, is showing very nice trends of growth. I think that will also come in. If I may put it that way, the standard product would be legacy voice, so good old copper-based voice. I think as you see the decline in this quarter is probably about 12% from what we had at the beginning of the first half. I wouldn't say we've gotten to the floor yet, but I think we're getting close. I really think we're getting close. The fixed operational metrics, whether it's capital deployment, whether it's monetisation and all that, is improving on the day. We are remunerating the capital that we are employing. That's what that conversion rate of 60% says. We want to get that as high as possible so that the fixed business, especially new generation fibre, can start contributing and generating cash to be able to sustain itself going forward.

So I think that convergence is getting there, but in the main what you will see more and more is that broadband will be the lightening rod that we will be using in the market. We will be using broadband as the lightening rod, fixed and mobile, and we will be boxing with both hands. So what we've been doing in the last couple of years is we've essentially been boxing with one hand, largely the mobile hand which is the weaker hand actually. We will start using the stronger hand with fibre to the home and all of its other derivations to put products in the market now that will hopefully cement our broadband leadership going forward. Dirk, you will deal with the first one.

Dirk Reyneke
Thanks Sipho. If I understand the question right it deals with once-offs in the EBITDA growth. I think it's a fair question. I've alluded to the R710 million cost saving to date in the first nine months. We get to 8.5% increase to R8.6 billion including the R710 million to date saving. I further alluded to the R200 million in Q3 relating to BCX. If you add that back you would have had a 10.9% or R8.8 billion. But I think the way we need to be thinking about this is if you compare current period to previous period it is a significant saving that wasn't in the previous period. But it certainly addresses your cost base. So given that that's a sustainable cost benefit and that with all the other ongoing optimisation exercises, cost to serve, normal opex pressures and discipline I think that's sustainable, if that was the question. So change from year to year, but it changes your cost base completely, and we believe that is sustainable. Thank you.

Operator
Thank you. Ladies and gentlemen, just another reminder, if you would like to ask a question, please press * then 1. If you would like to ask a question, please press * then 1. The next question comes from Sunil Rajgopal from HSBC. Please go ahead, Sunil.

Sunil Rajgopal
Hi. My question is regarding the upcoming spectrum auction. Can you please comment about where South Africa is in terms of the transition from analogue to digital, and what is your thinking about the likelihood of when the 700 or 800 MHz would possibly become available? Secondly, in terms of the mobile business how should we be thinking about the future growth path? Is management confident on maintaining the growth pace that we've seen in Q3, or will there be some bit of pullback in those growth rates? Thank you.

Sipho Maseko

Geez, Sunil. When do we expect the migration from analogue to digital to happen? This is at the heart of the case now because ICASA wanted to auction 700 and 800 despite the fact that it's not commercially available, meaning that the broadcasters are still occupying it and there is no clear timetable of migration. Previous migration timetables were never met, and we think that proceeding to auction those frequency bands without any clear plan of when there will be a migration actually is not correct. More so because we are prejudiced by the fact that we are the only ones who don't have that sub 1 GHz spectrum. We would then have been expected to pay an auction amount with the minimum amount being R1 billion or so despite the fact that it's not commercially available. So what we have is a legitimate concern. Despite all of our attempts to engage ICASA to say you can't do it this way, find a different way, we were left with no choice but to elevate it to the courts. It's a very important matter for us.

Insofar as the growth trajectory of the mobile business, as the base gets bigger both in terms of ARPUs that we are commanding and subscribers, there will be a bit of dilution there. But we're still confident that we'll still continue to grow given our strategic focus insofar as broadband is concerned, the investments that we have been making in building a network, a data-led network over time, and making sure that we are able to make available outside bundles to consumers, and also using fixed look-alike and mobile interchangeably. So that's how we think about it. We've given the mobile team substantive capital, and to whom much given, much is expected. So we continue to expect much from them.

Sunil Rajgopal
Thank you. And if I can just follow up with a question regarding the BCX and enterprise segment and also the open network side of things. Can you comment around what the business sentiment is around the new contracts or new IT projects? Are we seeing a bit of improvement there in terms of sentiment for additional investment, or will there be a period of lag or the pullback will continue to be there for some time before we see a recovery?

Sipho Maseko
Actually I'm seeing a lot more connectivity contracts that the team is signing off. In fact, incidentally, before this call I spoke to our Head of Converged Communications, Julian Liebenberg, on a pilot they are doing with one of the big utilities. So I'm seeing that. But also I'm seeing a little bit of the follow-through from the IT side because companies are looking to strengthen their cloud solution, their online presence and all of those sorts of things. But I'm seeing the connectivity, just anecdotally, quite a lot of high fives on the connectivity side.

Sunil Rajgopal
Sure. Thank you.

Operator
The next question comes from Ziyad Joosub from Nedbank. Please go ahead, Ziyad.

Ziyad Joosub
Thank you. Hi everyone and thanks for the questions. My first question is on mobile data pricing and what you've seen post the COVID half. It looks like it's probably expected that your traffic growth has dropped quite a bit in the third quarter, data traffic growth. But at the same time given the conversion we are seeing in your data revenue growth it looks like the depth of your price cuts or the amount of promotions you're actually running has also come back quite a bit. So it will be interesting to get Sipho's view on what he's seeing in terms of pricing and promotions in the mobile market over Q3. Then my second question is on third party distribution costs in the mobile segment. Those fell away quite aggressively in H1. What are we seeing with those distribution costs for the mobile segment in Q3? Thank you.

Sipho Maseko
Thanks Ziyad. Obviously as more activity is activated as we're now at lower levels on COVID the distribution is a lot more active. But the team has been working on what you might call structural changes in the distribution arrangements both in terms of the fee structure and the remuneration model. So as an example, we don't just pay you an amount of money now that you've given us a customer. We also look at how long that customer stays. So we stagger the payments. The longer the

customer stays that's what you get rewarded on because we are looking at number of active customers on the network. That's a measure that for us is very important. A customer who last bought a SIM 90 days ago and didn't use it, we don't count that customer. We don't even count the customer who bought a SIM and has not used it for 30 days. We are looking at customers who are active on the network. And then we tie our distribution to a remuneration model that rewards them for customers who are active on the network. So it's a different approach to how we look at the distribution. So that's your second question. And your first question, Ziyad?

Ziyad Joosub

The first question is just on what you are seeing in terms of pricing and promotions, because data traffic has come down but you're still monetising quite well on the data side. So it looks like the depth of your price cuts or your promotions has come down quite a bit as well. I could be wrong, but that's what it appears.

Sipho Maseko

On the pricing side I think the market will be rational. It's very dangerous to bring prices down in order to bring subscribers and you drive a lot of traffic and you don't have the infrastructure to carry that traffic. We've seen some of the guys pulling back on their promotions. The outlier has been MTN. They have been almost not smart in terms of how they've been pricing. But who am I to tell them that? We can't tell them that. But we are holding our pricing. We are still seeing very good monetisation rates. There isn't a lot of aggression in the market. The trouble with over-burdening your network and over-loading it is that if something goes wrong you are really in trouble and you'd have a network that is red flaming hot everywhere for lower ARPU customers, and you are then not able to remunerate that investment to support that. So I think rationality will prevail. Everybody will have to go and invest in capacity to carry the traffic. Everybody will have to. Luckily we've been investing a lot in building the capacity. We think we will continue to hold it that way.

Ziyad Joosub

Excellent. Thank you Sipho.

Operator

Thank you. The next question is a follow-up question from Dilya Ibragimova from Citi. Please go ahead, ma'am.

Dilya Ibragimova

Thank you very much. I wanted to follow up on the working capital, whether you expect the debtor days to stay stable from here, so you would expect that the benefit that you have seen in the third quarter will remain from here. And the second question is on investment plans. You mentioned that going forward you plan to compete on both mobile and like two hands on the fibre as well. Does that imply that you plan to perhaps accelerate or resume investments in fibre? Because so far it seems like the focus has been on mobile. And how do you plan to use this benefit of the working capital release that you have – it appears to be much stronger than what you have guided or what you have planned to release – whether you plan to reinvest that into network, maybe use the benefit to strengthen your competitive position. If you could give us insight on investment plans and the working capital it would be helpful. Thank you.

Sipho Maseko

Sure. Dirk, do you want to deal with that?

Dirk Reyneke

Shall I do that? In terms of working capital I think the way we should think about this is that in the first two quarters of the year our debtors' days actually moved out as a result of COVID in the corporate sector, medium business as well as large business. We had many concessions. And then in the third quarter when the country went to better lockdown rules we managed to claw back on that. I'm comfortable that as late as in the review of the December and January numbers we don't believe there are any further substantial outstandings in relation to the payment concessions. So if we look at credit risk, expected credit losses, we think the current provisions are adequate. They are in terms of the international standards and we do not believe we will need further abnormal credit loss provisions. So we think that position has now normalised and that will continue. In terms of the cash release initiatives to fund the handsets, as an example, we have completed one of those initiatives only to the level of roughly R170 million. We are looking at more of them and we will continue to look at rebalancing the balance sheet where it makes commercial sense through better commercial products. So I think from a working capital point of view there are very few anomalies if any that could change the picture.

In terms of the capital investment, your question around will we monetise on mobile and fibre, we will certainly invest in both those growth areas. We have been in Q3. We will also in Q4 and thereafter. So from a fibre side we are focussing on accelerating the footprint. We do see our penetration in the last quarter moving up from below 50% to roughly 57%. So we are starting to monetise the existing footprint. But it's important to continue to put inventory in the market for the retail channels to be able to sell. So yes, we will continue to invest in both the fibre area as well as the mobile area because we really deem both those areas to be the two growth areas from a connectivity point of view. Thank you.

Sipho Maseko
Maybe just to add that we'll do all of that within our capital intensity framework that we've guided on before which is between 16% and 20%, largely targeting on the mid-range. And we will not be doing it for the sake of getting the inventory in. That connection ratio needs to continue to trend up in order for us to be able to maintain almost the midpoint of that capex to revenue intensity.

Dilya Ibragimova
That's very helpful. Thank you very much. Thank you.

Operator
Thank you. Sipho, we have no further questions in the queue. Do you have any closing comments before we conclude?

Sipho Maseko
Sure. Thanks a lot, operator. So thanks very much guys for joining us today. The team has been working very hard. Actually I'm pretty pleased with the effort that all of the business unit leaders have been putting in. They may not be showing revenue growth but actually some of them are showing much better cost management that is sustainable. They are hunting in the right bush. They are looking for optimisation opportunities. Everything that is within their control they are taking control of. Number two, the regulatory issues I think I've ventilated enough on it.

Number three, we continue to support our staff insofar as COVID is related, both in terms of not just PPE but also exploring other things as well. Can we partner with some of the big hospital groups etc. so that when the right time comes we are able to provide vaccinations for our staff and not have them queuing in public hospitals so that we can have them safe and secure. So we continue to have a 360 view of the totality of the business, and we don't take our eye off the ball in making sure that especially during these trying times as we're expecting so much from our staff we also provide the right levels of support so that they can deal with all of the uncertainties and difficulties occasioned by COVID as well. So we'll conclude there, and hopefully we will speak again sometime in May when we come back to you with our full year results to those we will not be talking to again over the next two or three days. Thank you very much, Claudia.

Operator
Thank you very much, sir. Ladies and gentlemen, that concludes today's conference. Thank you for joining us. You may now disconnect your lines.

END OF TRANSCRIPT