

Conference call transcript

11 February 2025

Q3 FY2025 TRADING UPDATE

Operator

Good day, ladies and gentlemen, and welcome to the Telkom Q3 FY 2025 trading update for the quarter ended 31 December 2024. 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 Nondyebo Mqulwana. Please go ahead.

Nondyebo Mqulwana

Thank you, Irene. Good afternoon, everyone, and welcome to our third quarter FY 2025 conference call. I am Nondyebo Mqulwana, Head of Investor Relations at Telkom. Our group CEO, Serame Taukobong, and group CFO, Nonkululeko Dlamini, will take you through the salient features of our performance for the third quarter and nine-month period ended 31st December 2024. Thereafter, we will take your questions. We also have Beauty Apleni on the call, our Chief of Staff Strategy, as well as the IR team.

Just as a reminder, the commentary on this call is on continuing operations, that is, the Telkom Group excluding Swiftnet, our mast and towers business, as it is disclosed as a discontinuing operation. All numbers and growth rates quoted are year-on-year and refer to the quarter ended 31st December 2024 and are compared to the quarter ended 31st December 2023.

When speaking to year-to-date numbers, growth rates are on year, meaning that they are being compared to the nine months ended 31st December 2024 versus the nine months ended 31st December 2023. Furthermore, year-to-date adjusted group EBITDA and adjusted EBITDA margin excludes restructuring costs as well as the impact of the conversion of the Telkom retirement fund. Serame will now take you through the key highlights of our performance.

Serame Taukobong

Thank you kindly. Good afternoon all and thank you for joining us on the call. We are pleased to report strong operational results for the third quarter, reaffirming our position as the backbone of South Africa's digital future. Our data-led strategy continues to deliver impressive performance across key metrics, underscoring our competitive advantage in our diverse businesses working together to realise the results as One Telkom. With strong momentum across our business units, we

remain confident in achieving our medium-term objectives as we continue to invest in our infrastructure, network and digital services, delivering profitable growth.

We have maintained our momentum in the third quarter with year-on-year group revenue growing in line with our medium-term guidance, while adjusted group EBITDA growth exceeded expectations at 21.4% and increased the adjusted group EBITDA margin by 4.3 percentage points to reach 26.5% for the nine months.

Turning now to the quarter's key highlights. The 28% growth in group EBITDA for the quarter reflects operational excellence achieved across the group, driven by a commitment to enhancing efficiencies and scaling our strategic initiatives. Our mobile business continues to deliver robust growth while Openserve's fibre data revenue also saw growth. BCX IT services revenue demonstrated positive growth for the quarter. The disposal of Swiftnet has progressed as planned. The bulk of transfers for property sales were completed during the quarter ahead of time.

I will now turn to operational results for each of our business units, starting with the mobile business, which sits under consumer. Mobile service revenue increased by 9.6% and continues to grow ahead of the South African market as demand for our reliable connectivity increases. Prepaid subscribers grew strongly, driven by the optimisation of our proposition called Mo'Nice, our channel and consumer insights utilisation, as well as the introduction of affordable 4G devices in the past quarter.

The prepaid ARPU at R61 was within our optimal range. The prepaid ARPU decrease is attribute to the non-metro regions that while they attract a lower ARPU, do drive increased volumes. The post-paid segment has started to show signs of recovery. The ARPU of this base has improved to R185.

Turning to Openserve, Openserve grew fibre service revenue by R121 million, reflecting the strength of our infrastructure investments. External revenue driven by fibre connections increased by 9.2%. Openserve will continue the growth in fibre revenue passing and connecting homes.

On BCX, BCX IT services revenue increased by 6.8%, highlighting the success of our tailored solutions in meeting evolving customer needs in a highly competitive environment. The low margin hardware and software sales were deliberately moderated, which supported the EBITDA margin for this business. The focus is to continue to grow the high IT margin services for BCX.

Overall, the data led strategy supported by a smart capex deployment continues to yield results. Mobile data revenue increased by 10.8%, benefiting from mobile subscriber and traffic expansion. Mobile data subscribers are now almost 15 million subscribers. Fibre-related data revenue was up by 14.7% across the group. Data services grew by 5.9%, driven by growth in fibre, and uplifted revenue from the converged communication business as BCX continued to manage the transition to fibre-related services.

Mobile and fixed data traffic grew by 22.2% and 23.7% respectively. In the past year to date, we have invested R3.6 billion in capex and our smart capex deployment has resulted in the following. following, 142 mobile sites integrated year on year,

155,000 additional homes passed in the past year with a matching 100,000 homes connected, and a high connectivity rate maintained at 49.8%. We still expect our capex intensity at the end of the financial year to be closer to the midpoint of our guidance, that is the 12% to 15% range. Additional capex has been allocated to mobile for capacity expansion, given their growth, and further to invest in power resilience, as we think, in our network.

Our execution of cost optimisation initiatives resulted in solid EBITDA growth. Mobile optimally managed to mix up their devices and improve their model. Open network simplification and energy transformation programs delivered cost savings. BCX has started to see cost savings from the staff restructuring and managed debt recoveries with work also underway for facilities consolidation which will add to cost savings. The team in Gyro transferred 22 properties ahead of time, realising cash of R417 million. We have concluded the sale of high value properties and any future property sales will be dependent on the optimization of our property portfolio.

In terms of the Swiftnet transaction – that is our tower transaction – ICASA approved the Swiftnet disposal in December and we are on track to close the transaction and receive the cash by the end of this financial year or soon thereafter. This transaction marks a key milestone in our portfolio optimisation efforts. Nonku will now take you through the financial performance and I will come back to conclude.

Nonkululeko Dlamini

Thank you, Serame, and good afternoon to everyone on the call. Our revenue increased by 0.9% in the third quarter to R11 billion and 1.6% to R32.4 billion for the nine months. For the third quarter ended 31st December 2024, Telkom Consumer revenue increased by 4% to R7.2 billion. Mobile revenue was up 6.5% to R6.3 billion. This was driven by a steady mobile service revenue growth. Openserve revenue declined marginally by 0.4% to R3.1 billion. However, fibre data revenue increased by 5.4%. Although BCX revenue declined overall, IT service revenue grew by 6.8% and converged communication revenue increased by 1.7% to R1.4 billion.

Group EBITDA was up 28% in the third quarter to R3 billion and the group EBITDA margin improved to 27.2%. Excluding property sales, group EBITDA margin was 25.1%. The main contributors to the improved profitability are the following. Telkom Consumer EBITDA increased by 51.4%, supported by the robust mobile service revenue growth and cost optimisation initiatives, leading to a 6.5 percentage points uplift in its EBITDA margin to 20.8%. Mobile EBITDA grew by 46.9% to R1.8 billion, resulting in an EBITDA margin of 27.6%. The reduced cost of handsets and equipment and the decline in the impairment of receivables, amongst others, contributed to the improved mobile EBITDA margin.

Openserve EBITDA increased by 5.4% to R1.1 billion and the EBITDA margin improved to 34.4%. This was driven by the efficiencies emanating from the network simplification and energy transformation programme. BCX grew EBITDA by 36% in the quarter to R438 million, and EBITDA margin was 16% of this third quarter. As a result of the strategic focus on higher margin IT services and the proactive management of receivables, with a shift of the product needs towards IT service supporting the margin. However, BCX EBITDA year to date remained lower by 6.1% at R991 million, with the EBITDA margin stable at 11% compared to the prior nine months in the prior year.

Adjusted group EBITDA year-to-date amounted to R6.8 million, with the adjusted group EBITDA margin at 26.5%. The group financial position remained resilient and we further reduced interest-bearing debt by 2.7% to R12.6 billion. We repaid maturing bonds amounting to R400 million in November without the need to refinance in the bond market. As a result, our net debt to adjusted EBITDA improved from what we had reported at the half-year level.

On the free cash flow funds, although we don't report on this on the quarterlies, we are pleased that it remains positive and it is on track in line with our expectations. We concluded another handset sale during the quarter, bringing the total cash flow received from handsets to over R750 million for the nine months to December 2024. I now hand back to Serame to conclude.

Serame Taukobong

Thank you Nonku. In closing, Telkom's strong financial results reflect our relentless commitment to executing our InfraCo strategy as One Telkom. These results provide clear evidence that we are on track, delivering profitable growth while reinforcing our role as the backbone of Africa's digital future. By leveraging our unique capabilities, we continue to meet the growing demand for data link services while driving improved operational efficiencies across all our businesses, remain confident in our strategic direction and our ability to create sustainable value for our stakeholders. Thank you for your time and continued support. I will now hand over to the operator for Q&A.

Operator

Thank you. Ladies and gentlemen, if you would like to ask a question, please press * and then 1 on your touchtone phone or on the keypad on your screen. You will hear a confirmation tone that you have joined the queue. If you decide to withdraw the question, please press * and then 2 to remove yourself from the question queue. Once again, if you would like to ask a question, you may press * and then 1. Please note that we will be taking three questioners at a time. The first question we have is from Preshendran Odayar of 361 Asset Management. Please go ahead.

Preshendran Odayar

Hi everyone. Congratulations on another consistent set of good results. I've got three questions if I can. The first one is on the mobile side, what percentage of your mobile recharges actually comes from airtime advance? I know you mentioned it grew by 35%, but I just want to know overall what percentage is actually coming through the advance book as opposed to the cash book.

And then two for Nonku. I know you mentioned that your gearing level has improved. Are you able to share with us what it is at the end of this quarter? And then the second one for Nonku as well is I'm just trying to work out what is your expected net cash that you will receive from the Swiftnet sale, because I remember that there is a loan balance of around R200 million there. There is also some taxes. So, I just want to know what would be the amount that you see in your bank account when you get that SMS when the money flows in. Thanks.

Serame Taukobong

Thanks Presh. To your first, It's to the accurate last decimal, 31.59%. Did you get that?

Preshendran Odayar

Yes, perfect. Thanks, Serame.

Nonkululeko Dlamini

All right, thank you. So, on your first question on the gearing, yes, we have seen an improvement. And at this point in time, you would recall at H1 we had reported around 1.5x and we are trending at about 1.3x at this point in time on net debt to EBITDA. Then on the cash that we expect from the Swiftnet sale, you would recall we have indicated that the price is R6.75 billion. And the minor adjustments would really relate to little things like where the working capital is at the point of closing the transaction. So, we're not necessarily expecting very significantly different set of numbers from the price on the table, but obviously it will be determined by, at that point in time, minor movement in some of the working capital amongst others.

Serame Taukobong

You covered, Presh?

Preshendran Odayar

Yes, yes. Thank you very much, Serame. Happy with the answers from both you and from Nonku.

Operator

The next question we have is from Nadim Mohamed of SBG Securities. Please go ahead.

Nadim Mohamed

Good afternoon, Serame and team. Presh asked a few of my questions, so just two from my side. Just on the prepaid net adds of another 1.2 million, that's really impressive and no sign of churn in the last quarter. I just want to understand, what should we expect? Should we expect some deceleration in growth now that you have passed the 20 million mark. I just want to understand what kind of strategy you're leveraging to keep that momentum going.

And then secondly, just to give us some colour on what you're seeing on the ground in the December quarter. You're obviously seeing the red team push a higher prepaid data growth and higher data volumes, but it seems like Telkom the capture of volumes versus revenue has been quite good, like in 32% versus 11%. So, I'd like to get a sense of what kind of promotional and other stuff you're seeing on the ground and where you think you're gaining or losing share. I would appreciate that. Thank you.

Serame Taukobong

Thanks, Nadim. I think not everybody has obviously released their results, but I think from the market activity – and this is my personal push with the team – I think overall the market was far more responsible, for lack of a better word, in the prepaid drive. If you look at December last year, I think everybody went quite crazy in prepaid acquisition. I think the total gross acquisitions across all three networks, the big ones, were almost over 5 million. It looked far more tempered this year in terms of gross acquisitions. I think everybody went for more responsible acquisition, which is good in the market.

So, yes, you are right. The red came back fighting, but we had also quite solid propositions in the market. The big focus area is in that 2G acquisition, where those customers are migrating to data. Propositions that the team have put in place really talk to our strength. So, amongst other things, making sure that some of the packages they have built in have, for instance, WhatsApp and Facebook built into some of the devices, which is quite attractive for the customer base moving in.

The balance, in terms of your third question, is with the guys having now crossed 20 million. It is a key focus on maintaining acquisition with retention. So, we are not going for a spray and cook. We have to make sure that it is a cost-effective acquisition, because if you're going to a washing machine, you really are just putting money down the drain. So, Lunga and his team have a big focus on ensuring that as they bring the base in, they move them quickly into a recharging mode, which is why they're focusing quite a high attention on the amount of recharges and their recharge activity, and they've seen that continuing quite well. So, it's a strong balance between acquisition with a more and more focus on retention to hold that base as you bring them in. I hope I've covered you there, Nadim.

Nadim Mohamed

Thank you so much. And just quickly, if you could give me a sense of how significant those smartphone sales are that you mentioned in the report. Are they in terms of the push to 4G smartphones?

Serame Taukobong

I think it's not extremely massive volumes, not to the quantum of peers, because it really is very focused and targeted. The guys were trialling some new devices in the market. It's 4G devices below R1,000. They were piloting a specific device, which they did through PEP. So, it's early days, and once again, it is cost-effective as opposed to just going quite crazy in that market. So, we're not talking millions here, Nadim.

Nadim Mohamed

Wonderful. Thank you so much. I appreciate that.

Operator

The next question we have is from Jonathan Kennedy-Good of Prescient Securities. Please go ahead.

Jonathan Kennedy-Good

Good afternoon and congrats on the results. I've been dropped off the call a few times. Sorry if I'm covering old ground here. But just wanted to ask you, the mobile margin expansion was quite strong and I think you mentioned that this is partially due to lower handset pricing and I think it was lower impairments as well. Should we expect a retracement in the margin? How should we think about mobile margin going into next year, fourth quarter next year? If you could help with that, that would be great. Thank you.

Serame Taukobong

Thanks. Thanks, Jonathan. We can certainly send the team from Openserve to deal with that connectivity for you. On the mobile, so it's a mix of two things in this corner. You absolutely are right. The mix of devices, it was looking at a lower range of devices. That was the one contributor. The second part, obviously the roaming agreements have also kicked in. So, we

have seen the roaming costs also come down to match that. Obviously, we pushed Hasnain on a mobile EBITDA to get to 25% by 2025. I think in terms of where they're heading in the year end, they will get there. I think what's key for us is we do have that horrible scare on the 31st of January where load shedding came in. Now, that does have an impact in many senses, both from recharges and also the impact of roaming. So, we're not sure how that is going to go on in the remainder of the quarter. So, I think for a year in perspective, they will be most probably on the other side of 25%. We are still pushing the guys in terms of the long-term ambitions that their next milestone is 27% by 2027, as I indicated, and I think that the team is pretty much holding steady towards that. I hope that covers you, Jonathan.

Jonathan Kennedy-Good

Yes, great. And if I just may follow up on Nadim's question regarding your strategy on the 2G customers. I presume you're targeting 2G customers from the other networks with these offers, given my understanding was that your 2G base would be quite small. And if so, is it really a price-driven strategy, or do you find that the handset strategy is the driver of how you're trying to take market share there? Thanks.

Serame Taukobong

So, definitely not our 2G base. You're right, we don't have much of that. It is a combination of both. So, if you look at what is attractive to those customers, it is the price proposition and the strong offer predominantly of WhatsApp and Facebook, which is built into that specific device, which is quite an attractive thing for these customers as they're moving from 2G to your 4G.

So, it is a holistic proposition. And because those packages are standard to us, we've not had to significantly drop pricing. I think all of you have seen Louise's latest price report. We remain quite confident in there. We have not had to significantly drop pricing. It's really been making sure that those devices are affordable and available.

As I indicated to Nadim, the guys were also pricing devices at below R1,000. And during the pilot with PEP on a unique specifically designed proposition for Telkom where the guys did put a bit of a subsidy, and it's I think at about R299 to get it to a price point closer to R799 for those customers. But we feel that the base introduction proposition is at the right spot for those customers.

Jonathan Kennedy-Good

Wonderful. Thanks so much for the info.

Operator

Ladies and gentlemen, just another reminder, if you would like to ask a question, you may press * and then 1. We will pause a moment here if we have any further questions. It seems that we have no further questions at this time, and I would like to hand back to Serame for any closing remarks.

Serame Taukobong

Thank you very much. I'm sure we'll be engaging with you more in detail in the next few days. Once again, thank you for joining the call and your continued interest in Telkom. As we mentioned, we are pleasantly and solidly on the path of executing our InfraCo strategy as One Telkom. And we wish you a stunning afternoon further on. Thank you.

Operator

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

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