

Research Update:

South African Telecom Operator Telkom 'BB' Rating Affirmed; Outlook Positive

August 22, 2025

Rating Action Overview

- Most of the proceeds from Telkom's sale of its subsidiary Swiftnet were applied toward debt repayment after the end of fiscal 2025 (ended March 31); S&P Global Ratings-adjusted leverage declined to 0.9x in fiscal 2025 from 2.0x in fiscal 2024 and is expected to stay at 0.8x-1.0x in fiscals 2026-2028.
- We expect Telkom can maintain conservative credit metrics and an improving margin profile, underpinned by its data-led strategy; therefore, we have revised our assessment of its stand-alone credit profile (SACP) to 'bbb-' from 'bb+'.
- We have affirmed our 'BB' long-term ratings on Telkom, maintaining our cap of one notch above the sovereign credit rating; we have also affirmed our 'zaAAA' South Africa national scale rating on the company.
- The positive outlook mirrors that on the sovereign credit rating on South Africa.

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Rating Action Rationale

The completion of Swiftnet's disposal has strengthened Telkom's credit metrics. In March 2025, Telkom concluded the sale of Swiftnet, its masts and towers subsidiary, and received sales proceeds of South African rand (ZAR) 6.6 billion (about \$370 million). Most of the proceeds (ZAR4.75 billion) were used to reduce debt after March 31, 2025 (the end of fiscal 2025), with the remainder going toward shareholder distributions (ZAR500 million) and cash on the balance sheet. This has resulted in S&P Global Ratings-adjusted debt to EBITDA of 0.9x in fiscal 2025 versus 2.0x in fiscal 2024, and we forecast it at 0.8x for fiscal 2026. The transaction has not only strengthened Telkom's credit metrics but also improved the company's debt-maturity profile. The company's debt reduction and commitment to maintaining lower leverage over the medium term, with a publicly stated target range of reported net debt/EBITDA of 0.5x-1.5x, support our view that Telkom will maintain more conservative credit metrics in future.

Telkom's focus on a data-led strategy and cost optimization across the business has resulted in margin expansion. At the end of first quarter (Q1) 2026 (ended June 30, 2025), the contribution

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from data revenue represented ZAR6.3 billion or about 60% of the group's revenue, up from 56% in fiscal 2024. The company continues to increase the contribution from data, with revenue from mobile data at the consumer business rising by 9.6% to ZAR4.2 billion. This was thanks to an uptick in mobile data subscribers and higher data traffic, aided by the focus on value offerings across the network, which has also supported healthy EBITDA margins of 26.4% at Telkom Consumer. Openserve's fiber data revenue increased by 11.3% to ZAR2.5 billion in Q1 2026, supported by investments to modernize the network, which continues to drive growth, with connected homes increasing by 17.5% during the period. Cost optimization has also been supporting higher margins across the business. In fiscal 2025, Telkom increased its use of solar power and lithium-ion batteries across the network, which, combined with reduced loadshedding, has resulted in diesel cost savings of roughly ZAR378 million. Several other cost-reduction initiatives have been implemented, including decommissioning legacy network systems and workforce rationalization within BCX. At the BCX segment, revenue declined by 8.3% to ZAR2.9 billion as the company continued to prioritize portfolio optimization through developing higher-margin IT solutions. This segment's earnings are likely to remain depressed in the short term. However, over time, Telkom should remain well placed to meet robust demand for data from consumers and enterprises, supported by its strong mobile and fiber network capacity. We expect S&P Global Ratings-adjusted EBITDA margins to increase toward 24%-25% in fiscal 2026 and 25%-26% in fiscal 2027.

We expect meaningful free operating cash flow (FOCF) in fiscals 2026-2027. Network investments remain a key focus for Telkom as it looks to reinforce the network infrastructure to continue to benefit from growing data demand. We expect capital expenditure (capex) will be contained at ZAR6 billion–ZAR6.5 billion, broadly in line with recent years, as the company makes targeted investments across its network. This, combined with higher EBITDA generation, supports our forecasts of FOCF of ZAR1.7 billion–ZAR2.2 billion in fiscal 2026, and ZAR2.5 billion–ZAR3 billion in fiscal 2027. As part of the company's resumption of dividends, we assume a dividend payout of 30%-40% of FOCF, which translates into about ZAR700 million–ZAR800 million (excluding special dividends in 2025) over fiscals 2026-2027. As such, we estimate discretionary cash flow to debt will remain healthy and contained well within our modest financial risk category, at 15%-25% on a weighted-average basis over our forecast period.

Outlook

Our positive outlook mirrors the outlook on the South Africa sovereign. Given the company's predominantly domestic operations and the government's significant minority ownership stake, we do not rate Telkom more than one notch above our 'BB-' long-term foreign currency rating on South Africa (see "[South Africa 'BB-/B' Foreign Currency And 'BB/B' Local Currency Ratings Affirmed; Outlook Remains Positive](#)," May 16, 2025). At the current SACP level, we expect the company to maintain at least adequate liquidity.

Downside scenario

We could revise the outlook on Telkom to stable if we took a similar action on South Africa. This could occur because of a weakening economic and fiscal trajectory, combined with a surge in related operating constraints in South Africa. We could also consider lowering the rating if Telkom's liquidity deteriorated so that it no longer passed our sovereign stress test, causing us to cap the rating at the level of our foreign currency rating on South Africa.

Upside scenario

We could take positive action on Telkom if we took a similar action on South Africa and Telkom continues to pass our sovereign stress test, allowing it to be rated one notch above the foreign currency rating on South Africa.

Company Description

Telkom owns and operates South Africa's largest national wholesale telecommunications infrastructure, comprising integrated fiber lines linked to a high-speed backhaul network. Fixed broadband internet and mobile voice and data services are available to individuals and small and midsize enterprises, while a diversified information and communications technologies product offering--including access to telecommunications, data centers, and IT services--is aimed at the enterprise market.

Telkom generated annual revenue of ZAR43.5 billion (about \$2.46 billion) and S&P Global Ratings-adjusted EBITDA of ZAR9.9 billion (\$0.56 billion) in fiscal 2025 and is listed on the Johannesburg Securities Exchange with a current market capitalization of ZAR27.85 billion (about \$1.57 billion) as of Aug. 21, 2025.

As of June 30, 2025, Telkom had 17.2 million active mobile subscribers (+27.5% year on year) and homes connected with fiber also increased by 17.5%, with a 51.1% connectivity rate.

Our Base-Case Scenario

Assumptions

- South Africa GDP growth of 1.3% in 2025, 1.4% in 2026, and 1.6% in 2027.
- Revenue increasing by 2%-3.2% in 2025-2027 driven by growth in next-generation revenue led by mobile, fiber, and IT business.
- EBITDA margins of 24%-26%, supported by ongoing cost optimization initiatives and business growth.
- Stable working capital.
- Capex of ZAR6.0 billion-ZAR6.5 billion in fiscals 2025-2027, reflecting capex intensity of 12%-15%.
- No potential acquisitions during the forecast period.
- Inflows of ZAR250 million-ZAR300 million in 2025, mainly from disposal of noncore property assets during the fiscal 2026.
- Dividends of ZAR1.3 billion in fiscal 2025 including the ZAR500 million special dividend following the Swiftnet sale and paid in July 2025.

Key metrics

Telkom SA SOC Ltd.--Key metrics for fiscal year ended March 31*

Mil. ZAR	2023a	2024a**	2025e	2026f	2027f
Revenue	42,086	43,520	44,000-44,500	45,500-46,000	47,000-47,500
EBITDA	9,065	9,942	10,700-11,200	11,500-12,000	12,000-12,500

Telkom SA SOC Ltd.--Key metrics for fiscal year ended March 31*

Mil. ZAR	2023a	2024a**	2025e	2026f	2027f
Capital Expenditure	6,292	6,117	6,000-6,500	6,300-6,800	6,000-6,500
Debt	18,186	8,488	8,000-8,500	10,000-10,500	11,500-12,000
EBITDA Margin (%)	21.5	22.8	24.5-25.5	25.0-26.0	25.5-26.5
Debt to EBITDA (x)	2.0	0.9	0.7-1.0	0.8-1.1	0.9-1.2
FFO to debt (%)	34.6	88.1	85.0-90.0	80.0-85.0	70.0-75.0
FOCF to debt (%)	10.8	60.2	20.0-25.0	25.0-30.0	23.0-28.0
DCF to debt (%)	10.8	58.8	5.0-10.0	17.0-23.0	15.0-20.0

*All figures adjusted by S&P Global Ratings. **For the year ended March 31, 2025. a--Actual. e--Estimate. f--Forecast. FFO--Funds from operations. FOCF--Free operating cash flow. DCF--Discretionary cash flow. ZAR--South African rand.

Liquidity

We assess Telkom's liquidity as adequate. We anticipate that Telkom's cash flows and available facilities will exceed its commitments and obligations by more than 1.2x over the 12 months started July 1, 2025.

Principal liquidity sources

For the 12 months started July 1, 2025, we estimate the following principal liquidity sources:

- Unrestricted cash and cash equivalents of about ZAR5.8 billion.
- Undrawn committed revolving credit facilities totalling ZAR4.6 billion.
- Cash funds from operations that we estimate at ZAR5 billion-ZAR5.5 billion.
- Proceeds of about ZAR200 million-ZAR300 million from disposal of non-core assets.

Principal liquidity uses

For the same period, we estimate the following principal liquidity uses:

- Debt maturities of about ZAR3.1 billion.
- Capex of about ZAR6 billion-ZAR6.5 billion.
- Dividend payments of about ZAR1.1 billion-ZAR 1.3billion (including an announced special dividend, which will not be recurring).
- No planned acquisitions.

Covenants

We expect Telkom will maintain sufficient headroom under its financial covenants, well in excess of 15%, on its interest coverage (3.5x) and net debt to EBITDA (3.0x) ratios.

Environmental, Social, And Governance

Environmental, social, and governance factors are an overall neutral consideration in our credit rating analysis of Telkom. We view the inherent social tensions and inequalities in South Africa as having the potential to translate into weaker business and investment conditions. Furthermore, increasing risk of infrastructure damage from human encroachment and criminality could affect the stability and quality of Telkom's network. We see potential exposure to governance risks stemming mainly from Telkom's state-owned company (SOC) status, and regulatory risks.

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Although Telkom is a SOC, we believe its listed status and solid management have protected it from the governance weaknesses that many other South African SOCs are exposed to. The regulatory environment exposes Telkom to mobile and data price reduction policies, plus data protection and SIM registration requirements, which may pressure future revenues or margins. We note the environmental efforts Telkom has made in terms of the increased usage of renewable power sources and the phasing out of legacy copper infrastructure. Both of which have resulted in a 46.9% reduction in scope 1 and 6.6% reduction in scope 2 emissions in fiscal 2025.

Government Influence

Our foreign and local currency sovereign credit ratings on South Africa are 'BB-' and 'BB' with positive outlooks (see [“South Africa 'BB-/B' Foreign Currency And 'BB/B' Local Currency Ratings Affirmed; Outlook Remains Positive,”](#) published May 16, 2025, on RatingsDirect). We consider Telkom to be a government-related entity, with a limited link to and limited importance for the South African government. We therefore believe there is a low likelihood of government support for Telkom, given the government's minority (about 40.5%) shareholding, the company's listed status, and the commercial operating model.

Rating Above The Sovereign

Telkom's 'bbb-' SACP is higher than the 'BB-' foreign currency rating on South Africa. Based on our view of the low likelihood of government support, we do not cap the rating on Telkom at the level of the foreign currency rating on South Africa. We assess that Telkom may be rated one notch above the foreign currency rating on South Africa, since it passes our hypothetical sovereign default scenario, which includes a 20% earnings stress and a 50% depreciation of the South African rand. In our view, the one notch above the foreign currency rating on South Africa considers the conditionality of Telkom's Public Finance Management Act exemption status, and its predominantly domestic operational focus.

Rating Component Scores

Rating Component Scores

Component	
Foreign currency issuer credit rating	BB/Positive/--
Local currency issuer credit rating	BB/Positive/--
Business risk	Fair
Country risk	Moderately high risk
Industry risk	Intermediate risk
Competitive position	Fair
Financial risk	Modest
Cash flow/leverage	Modest
Anchor	bbb-
Modifiers	
Diversification/portfolio effect	Neutral/Undiversified
Capital structure	Neutral
Financial policy	Neutral
Liquidity	Adequate
Management and governance	Neutral
Comparable rating analysis	Neutral
Stand-alone credit profile	bbb-

Related Criteria

- [Criteria | Corporates | General: Sector-Specific Corporate Methodology](#), July 7, 2025
- [Criteria | Corporates | General: Corporate Methodology](#), Jan. 7, 2024
- [Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities](#), Jan. 7, 2024
- [General Criteria: National And Regional Scale Credit Ratings Methodology](#), June 8, 2023
- [General Criteria: Environmental, Social, And Governance Principles In Credit Ratings](#), Oct. 10, 2021
- [General Criteria: Group Rating Methodology](#), July 1, 2019
- [Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments](#), April 1, 2019
- [General Criteria: Rating Government-Related Entities: Methodology And Assumptions](#), March 25, 2015
- [Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers](#), Dec. 16, 2014
- [General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions](#), Nov. 19, 2013
- [General Criteria: Methodology: Industry Risk](#), Nov. 19, 2013
- [General Criteria: Country Risk Assessment Methodology And Assumptions](#), Nov. 19, 2013

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- [General Criteria: Principles Of Credit Ratings](#), Feb. 16, 2011

Related Research

- [African Corporates: Rating Evolution](#), July 24, 2025
- [South Africa 'BB-/B' Foreign Currency And 'BB/B' Local Currency Ratings Affirmed: Outlook Remains Positive](#), May 16, 2025
- [South Africa-Based Telkom SA SOC Ltd. Assigned 'zaAAA' National Scale Rating](#), December 10, 2024
- [Various Rating Actions Taken On Four South African Corporate And Infrastructure Issuers On Outlook Revision To Sovereign](#), November 22, 2024
- [Telkom SA SOC Ltd.](#), September 19, 2024

Ratings List

Ratings list

Ratings Affirmed

[Telkom SA SOC Ltd.](#)

Issuer Credit Rating	BB/Positive/--
South Africa National Scale	zaAAA/--/--

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at <https://disclosure.spglobal.com/ratings/en/regulatory/ratings-criteria> for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at <https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352>. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings referenced herein can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.

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