

Telkom SA SOC Ltd

Interim Results Presentation

For the six months ended
30 September 2022

Telkom

Group salient features

Telkom

Operating revenue

marginally down
by 0.7% to
R21 150 million

HEPS

down 51.9%
to 137.2 cents
per share

Capex

up 2.2% to
R3 689 million

EBITDA

down 17.3% with
EBITDA margin at
23.4%

Free cash flow

down 124.9%
to negative
R1 887 million

BEPS

down 52.5%
to 131.6 cents
per share

Net debt
to EBITDA
up to 1.7x

New technologies driving growth

Telkom

Telkom
Consumer

10.9%

Mobile
subscriber
growth



**Broadband
Growth**



550
petabytes
of data

14.1%

Increase in
broadband
traffic



open serve

Highest

Connectivity rate
in the country at
46.2%



**Leading
fibre
network**

919
petabytes

13.6%

Increase in
fixed
broadband
traffic



BCX

**IT
Growth**



25.8%*

Growth in IoT
solutions



swiftnet



**Increase
in productive
portfolio**

**26
New
towers**

**5
In-Building
Solutions**

Pipeline
of permitting
for over

2 000



* Revenue growth in IoT solutions

Transitioning revenues

Telkom

Telkom
Consumer

22.8%

Growth in
NGN
revenue



34.8%

Decline in
fixed line
legacy revenue



open serve

10.8%

NGN revenue
growth



25.1%

Decline in
legacy & voice
revenue



BCX

13.7%

Growth in
IT revenues



17.6%

Decline in
legacy voice &
data revenue



swiftnet

7.6%

Growth in
continuing
customers



12.9%

Decline in
Openserve legacy
decommissioning





Financial Overview

2

Telkom

Group financial performance

Telkom



Revenue
R21.2bn



EBITDA
R4.9bn



EBITDA margin
23.4%



HEPS
137.2 cps



Net debt to EBITDA
1.7x

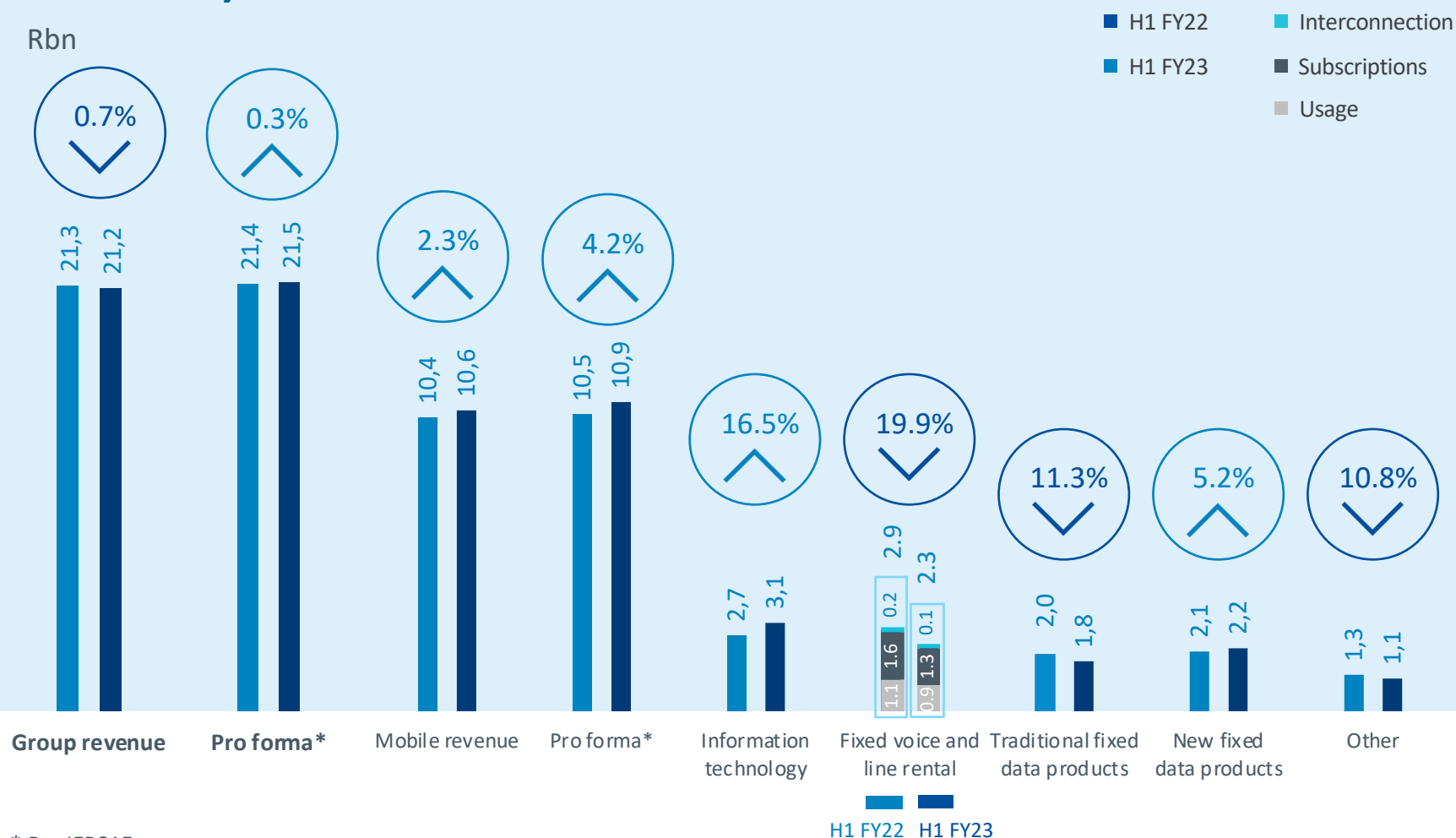


Negative Free Cash Flow
R1.9bn

Group revenue holding

Revenue by stream

Rbn



Decline in revenue mainly driven by:

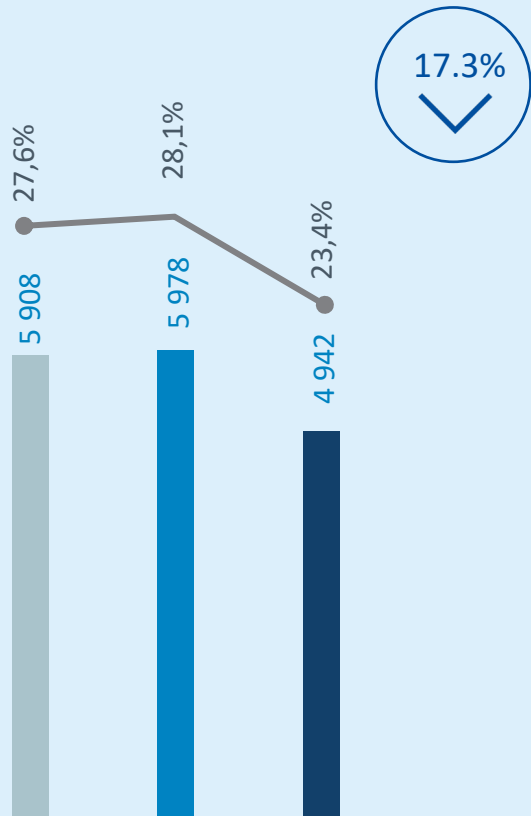
- Continued decline of legacy revenue
- Replacing high margin business with lower margin business
- Impact of repositioning of the pre-paid/ post-paid mix in mobile
- Although impact on revenue and FCF is negative, this is offset by:
 - Lower acquisition costs
 - Higher lifetime value of customers

EBITDA impacted by increased expenses

EBITDA analysis

Rm

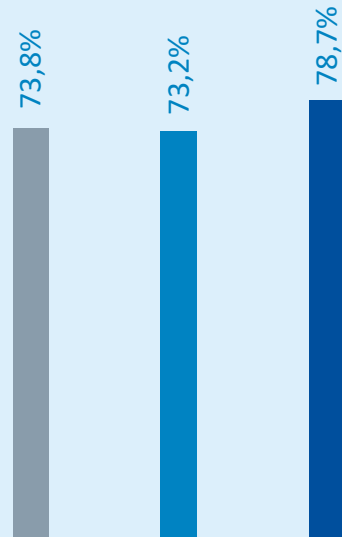
■ EBITDA margin



EBITDA

 ■ H1 FY21
 ■ H1 FY22
 ■ H1 FY23

5.5ppts



Total cost to revenue ratio*

Major contributors:

Replacing higher margin legacy revenues with lower margin NGN revenues

Mobile product mix

- Continued growth in post-paid mobile sales
- IFRS15 impact
 - Deferral of revenue
 - Cost of handset recorded immediately

Operating expenses increased 5.0%



Opportunities to recalibrate sustainable cost levels:

- Further reduce direct costs
- Channel optimisation
- Address legacy cost base to address cost to revenue ratio growth

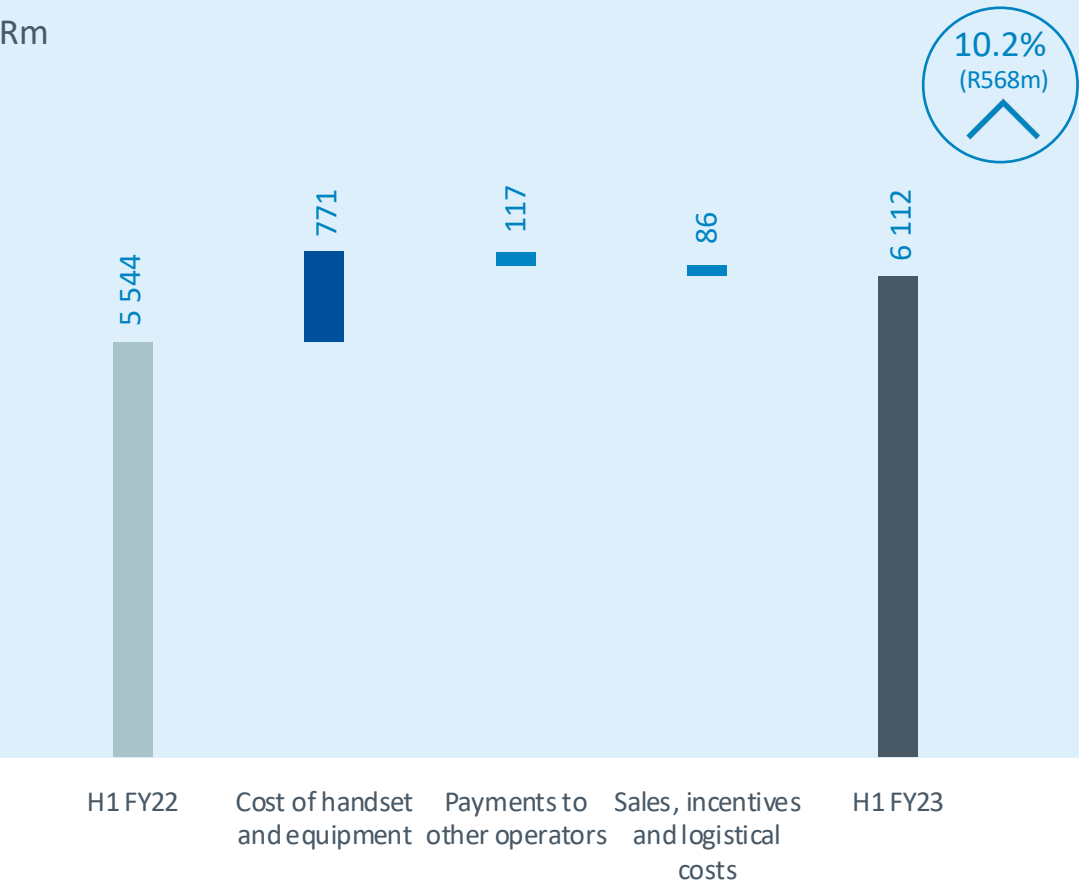


* Total cost includes direct and operating expenses

Strategy to grow mobile post-paid sales having short term impact on mobile costs

Direct expenses

Rm

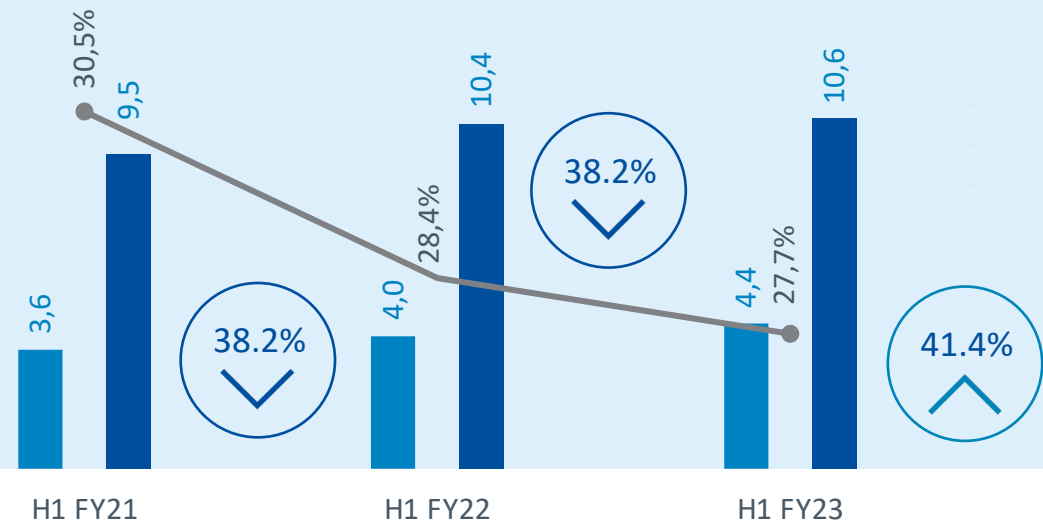


Mobile cost efficiency ratios

Rbn

Cost of handsets is higher as a result of the change mix from pre-paid to post-paid sales while the cost to serve efficiency improves.

- Direct expenses
- Mobile revenue
- Costs to serve*



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

Capital allocation prioritises growth



Sources of Capital

- Operational cashflow
- Debt issuance - adequate debt capacity
- Value unlock proceeds
- Opportunistic property disposal



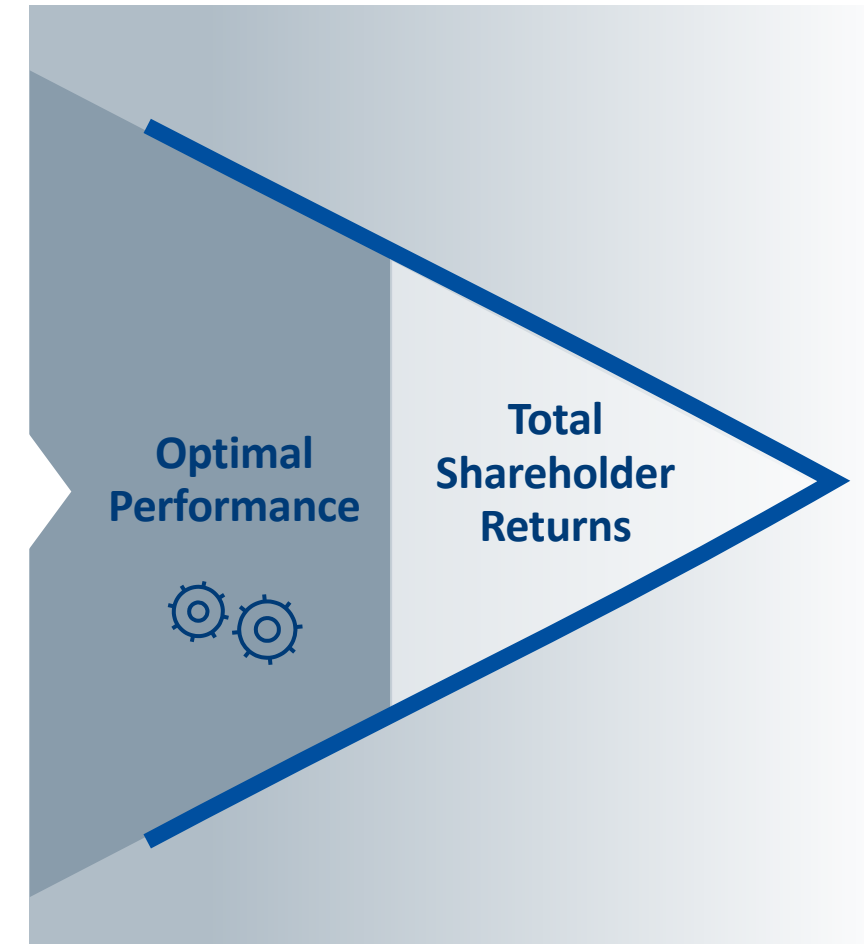
Uses of Capital

- Re-balance balance sheet and gearing
- Prioritise growth to ensure sustainability of the business
- Hurdle for organic growth: WACC



Shareholder returns

- Remains a key component
- Dividend policy re-instated at the end of FY23



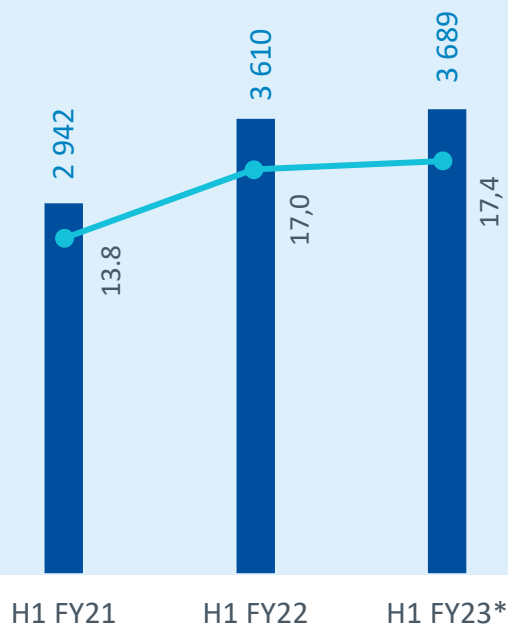
Spectrum took priority in line with capital allocation framework

Capex

Capex spend and intensity

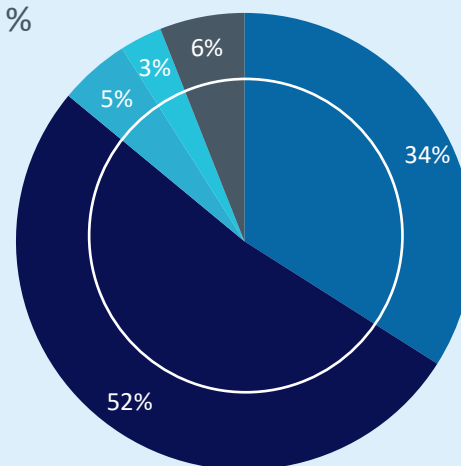
Rm

- Capex spend
- Capex intensity



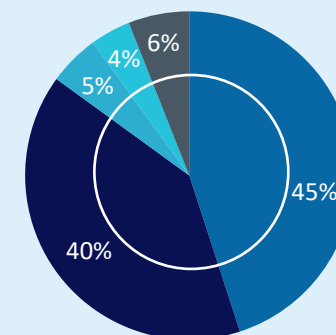
Capex investments allocation

%

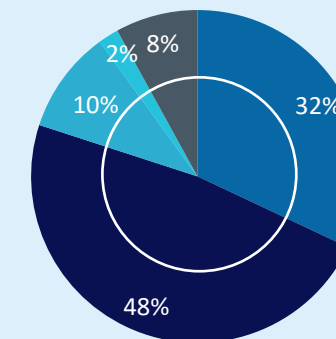


H1 FY23

- Fibre services*
- Mobile
- Information technology solutions
- Mast and towers
- Other



H1 FY22



H1 FY21

Fibre homes passed and connected

	H1 FY23	H1 FY22	H1 FY21
Fibre to the home	960 801	707 399	458 791
Homes connected	443 469	331 735	247 019
Active fibre connectivity rate %	46.2	46.9	53.8

Mobile footprint

	H1 FY23	H1 FY22	H1 FY21
Mobile sites integrated	7 384	6 910	6 159

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

Cash flow performance

Free cash flow (FCF) movement

Rm	H1 FY23	H1 FY22	%
Cash receipts from customers before working capital impact	21 220	21 062	0.8
Movement in net working capital	(860)	167	(615.0)
Cash receipts from customers	20 360	21 229	(4.1)
Cash paid to suppliers	(17 513)	(16 700)	(4.9)
Cash generated from operations	2 847	4 529	(37.1)
Repayment of lease liability	(523)	(474)	(10.3)
Interest received	102	119	(14.3)
Finance charges paid	(654)	(577)	(13.3)
Taxation paid	(301)	(433)	30.5
Cash generated from operations before dividend paid and received	1 471	3 164	(53.5)
Cash paid for capital expenditure	(3 358)	(4 003)	16.1
Free cash flow	(1 887)	(839)	(124.9)

Decline in FCF mainly driven by:

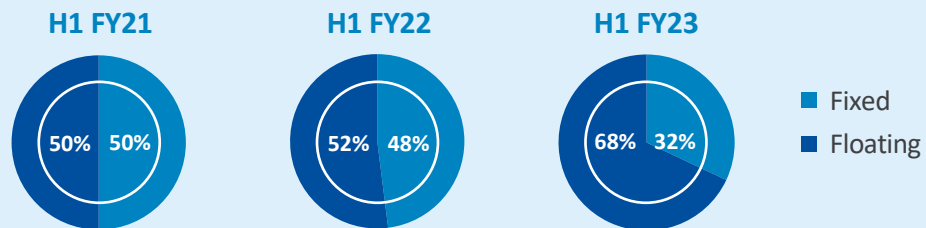
- Decrease in profitability
- Delay in cash flows due to continued growth in post-paid contracts. The collections derived from post-paid sales are deferred over the contract period while the cost of sale (trade payable) are recorded immediately causing a timing difference in cash flows.

**Handset financing
of R730 million included in
cash generated from
operations**



Balance sheet gearing within acceptable limits

Rm	H1 FY23	FY22	%
Cash balances	2 499	3 239	(23.0)
Interest bearing debt	13 113	11 932	(9.9)
Opening balance	11 932	10 866	(9.8)
Net funding raised/(repaid)	1 135	(193)	(688.1)
Spectrum funding	-	1 150	100.0
Other	46	109	57.8
Lease liabilities	5 712	5 374	(6.3)
Opening balance	5 374	4 972	(8.1)
IFRS16 lease liability raised	338	402	15.9
Net debt	16 326	14 067	(16.1)
Net debt/EBITDA (times)	1.7	1.2	(0.5)
Average cost of debt (%)	7.5	6.5	(1.0)



Bank balance
R2.5bn



Adequate liquidity





+

Unutilised facilities
R2.3bn



Enough headroom
for future growth

Financial framework to drive sustainable growth

Inputs	Drivers	Medium term guidance FY2023 – FY2025 (CAGR)	H1 FY23 Actual	Outputs
Annual strategic review >	New revenue streams (Fibre, Mobile & IT businesses)	Low to mid single digit Revenue growth 	(0.7%)	> Sustainable organic growth
	Sustainable cost management program (roaming, channel optimisation and legacy costs)	Low to mid single digit EBITDA growth* 	(17.3%)	
	Capex to fund growth	16-18% 	17.4%	
	Adequate balance sheet capacity to fund growth (incl. spectrum)	Net debt to EBITDA of less or equal to 1.2x 	1.7x	



Outlook

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Accelerate NGN growth and manage costs

Telkom Consumer

Continued growth in subscribers

- Drive mobile broadband
- Expand channels, optimise pre/post-paid mix
- Adjacent revenues
- Capex investments to reduce roaming costs, manage cost base and claw back margin
- Continue legacy exit



Fibre roll-out continues

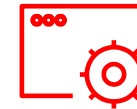
- Broadband subscriber growth driven by continued fibre roll-out
- Retain leadership in carrier and FTTB channels
- Targeting 50% homes connected
- Actively manage costs to improve margins – decommissioning legacy assets, power initiatives to limit load shedding impact
- Continue legacy exit



BCX

Product sales to drive growth

- IT business expected to continue driving growth
- Improved performance in Converged comms but highly contested
- Costs closely managed



Additions to productive portfolio

- Incremental towers/IBS's
- Lease renewals and increased tenancies from continuing customers
- Termination and continued optimisation by Openserve
- Healthy margins



Future ready – 5G roll out



Telkom Mobile launches 5G network

- >160 active 5G sites throughout the country
- Immediate focus is providing superfast 5G fixed wireless access solutions
- 5G network supported by high-speed fibre



Openserve

- Scalable capacity across the network for future 5G demand
- Provide small cell connectivity utilising fibre ready nodes
- Fibre footprint to cater for 5G backhaul requirements of low latency and high-speed experience

BCX

- Co-build with Telkom Mobile
- 5G smart solutions for Enterprise Market
 - Sector focused local private 5G use
 - Develop own IP and capacity to grow the 5G ecosystem through R&D



Swiftnet

- Infrastructure capabilities for 5G small cell site rollouts



Our Strategic Priorities

Strengthen our core businesses

Focus and capitalise on our strength

Robust partnerships to address scale and capabilities to drive value in businesses



Strategic themes

Core Businesses drive growth

Value unlock to create value for shareholders

Adjacencies to support growth



Strategic initiatives

- Invest in infrastructure to drive 5G
 - Broadband leadership – fixed and mobile
 - Manage migration from legacy to next generation
 - Drive converged IT solutions and fixed mobile convergence
 - Continuously monitor and manage cost base
-
- Affirm valuation of underlying businesses and Telkom Group
 - Reviewing shareholder rewards
-
- Partnership for capabilities
 - Customer centric innovative solutions



Affirming our valuation

BCX

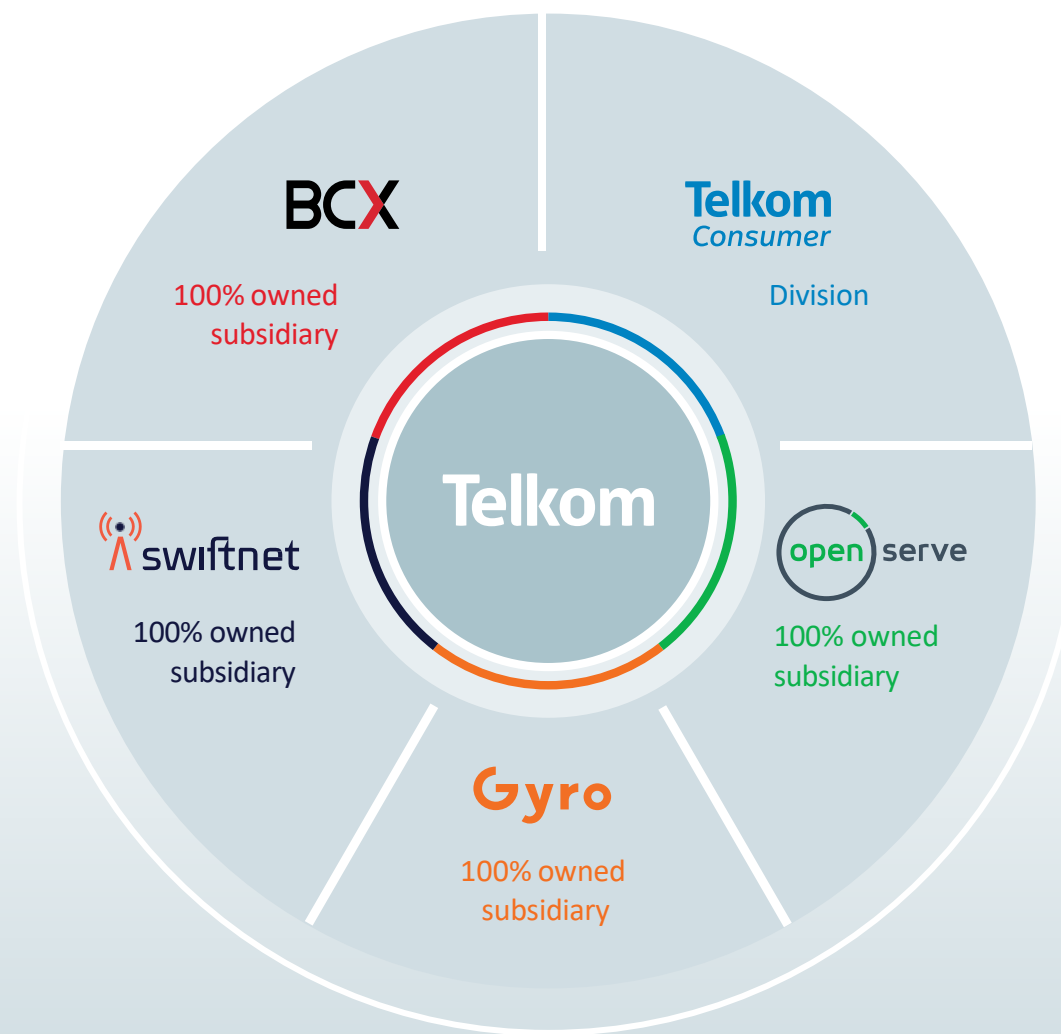
- Focus on IT high growth areas
- Improve EBITDA

Swiftnet

- Affirm and **realise value of masts and tower** business

Gyro

- Realise value of legacy assets through **property development partnerships**
- **Drive property operating cost efficiencies** for Group



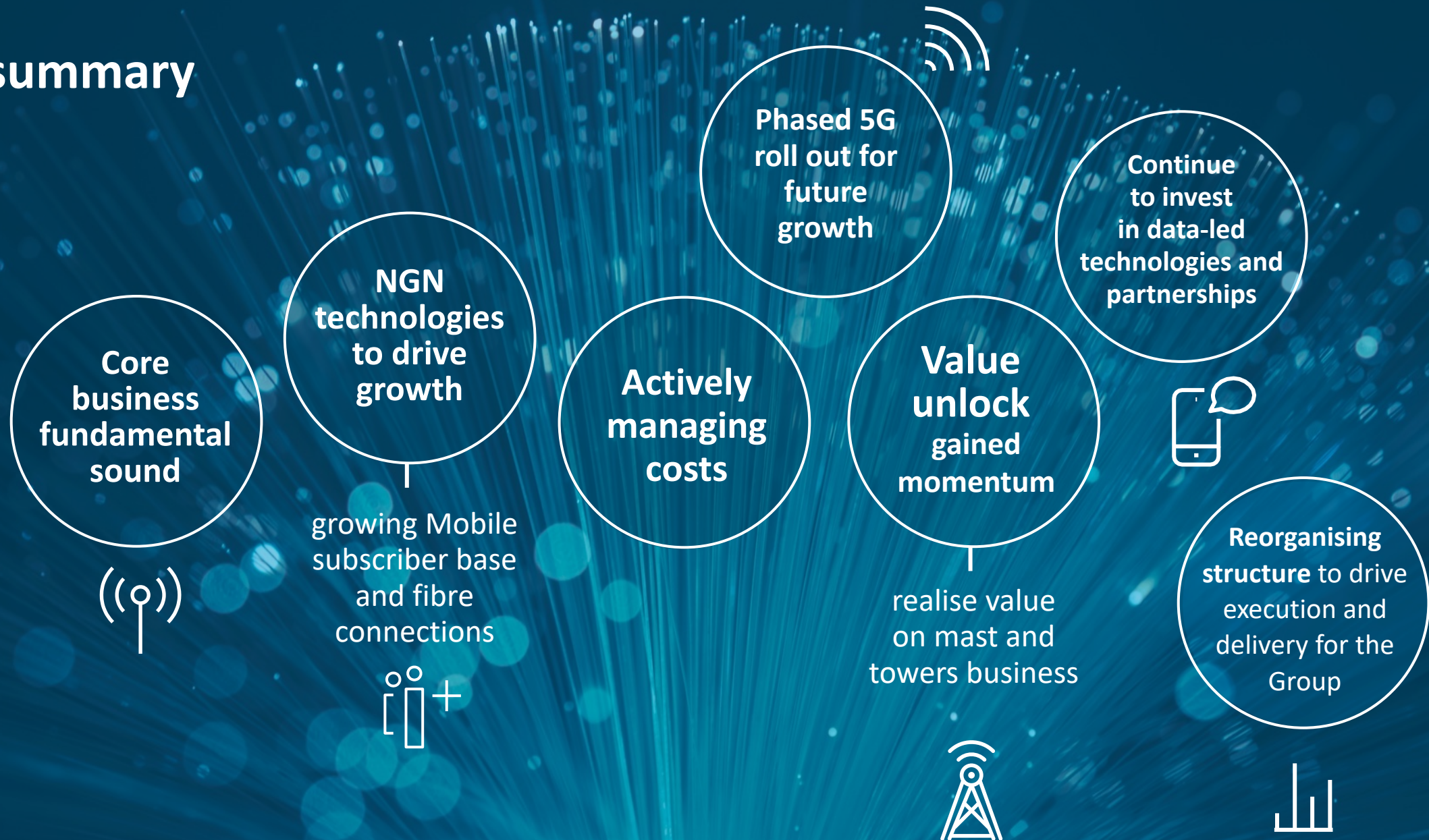
Telkom Consumer

- **ISP** to support legacy migration, reduce costs & improve EBITDA
- **5G rollout** adds momentum

Openserve

- Commercialisation & monetising dark fibre
- Emerging niche markets

In summary



A photograph of a group of people in a meeting. In the foreground, a woman with dark hair in a bun is laughing heartily, looking down at a laptop. To her right, a man with glasses and a beard is smiling broadly, looking towards the camera. In the background, two other people are seated at a table, looking towards the left. The scene is set in a modern office with large windows. A large blue abstract graphic is overlaid on the left side of the image.

Q&A
Thank you

Telkom



Telkom SA SOC Ltd

Annexures

Business Unit performance

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Telkom
Consumer

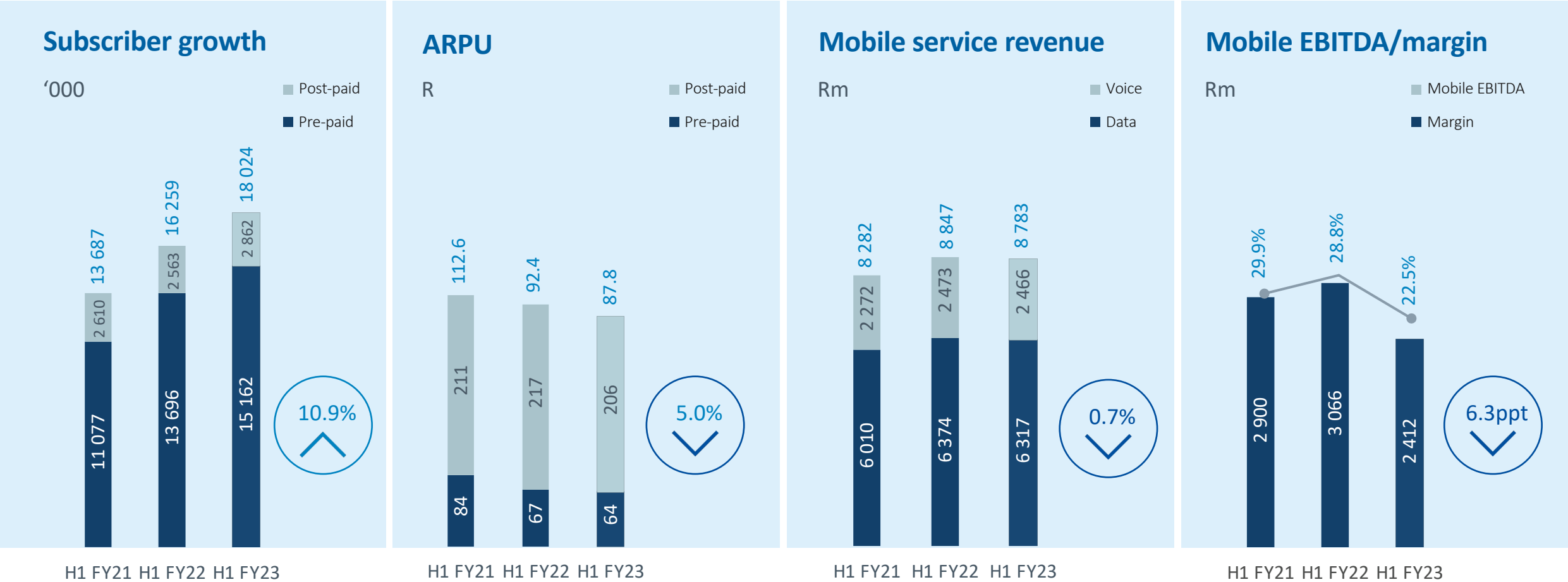
Growth in
mobile
subscribers

• **10.9%**

Increase in 4.5G
integrated sites

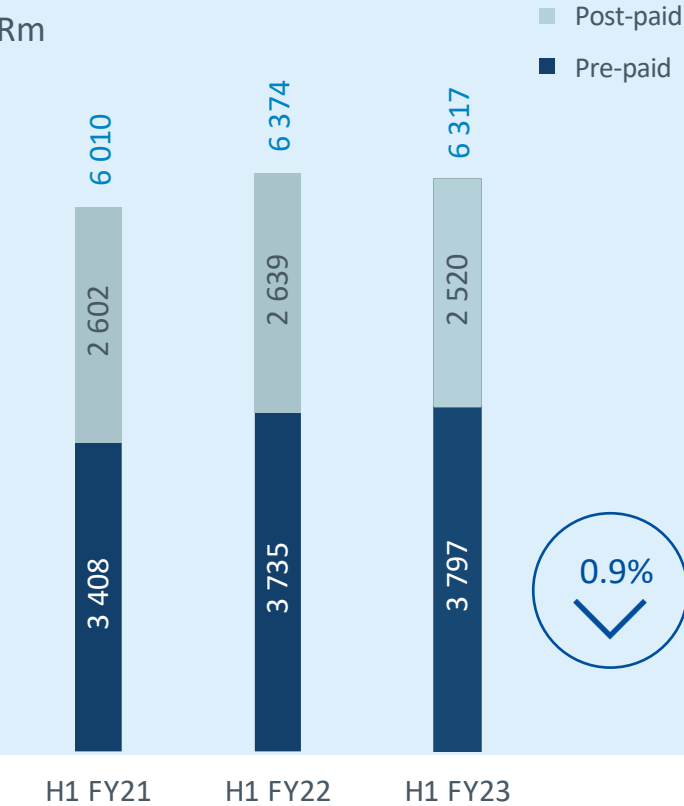
• **18.1%**

Solid performance against strong prior year

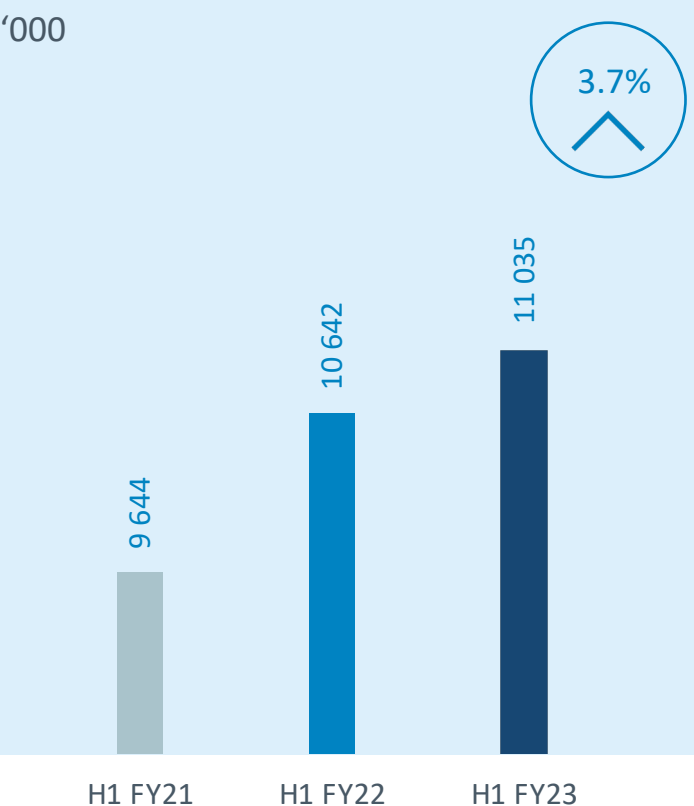


Broadband traffic continued growing

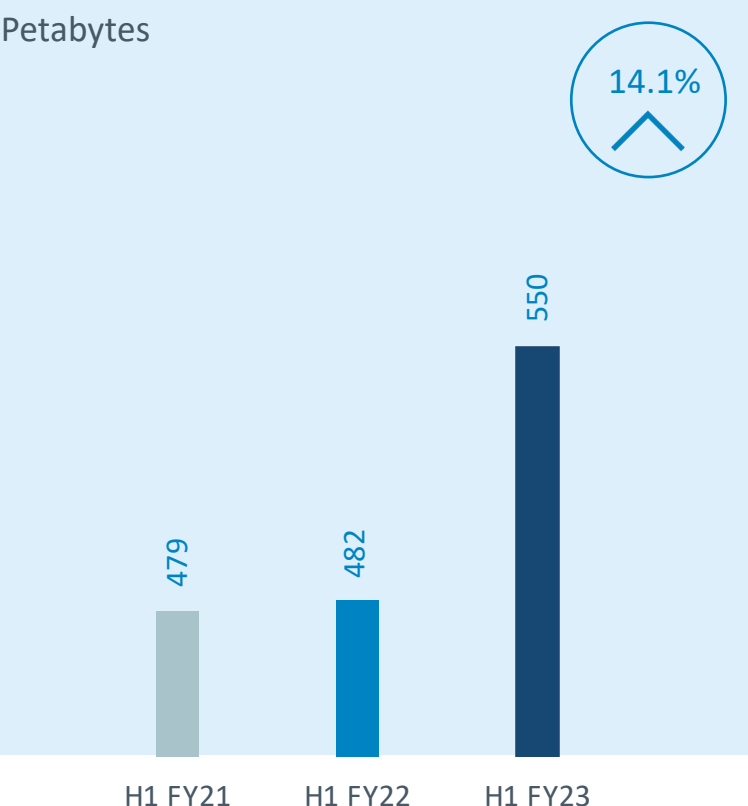
Mobile data revenue



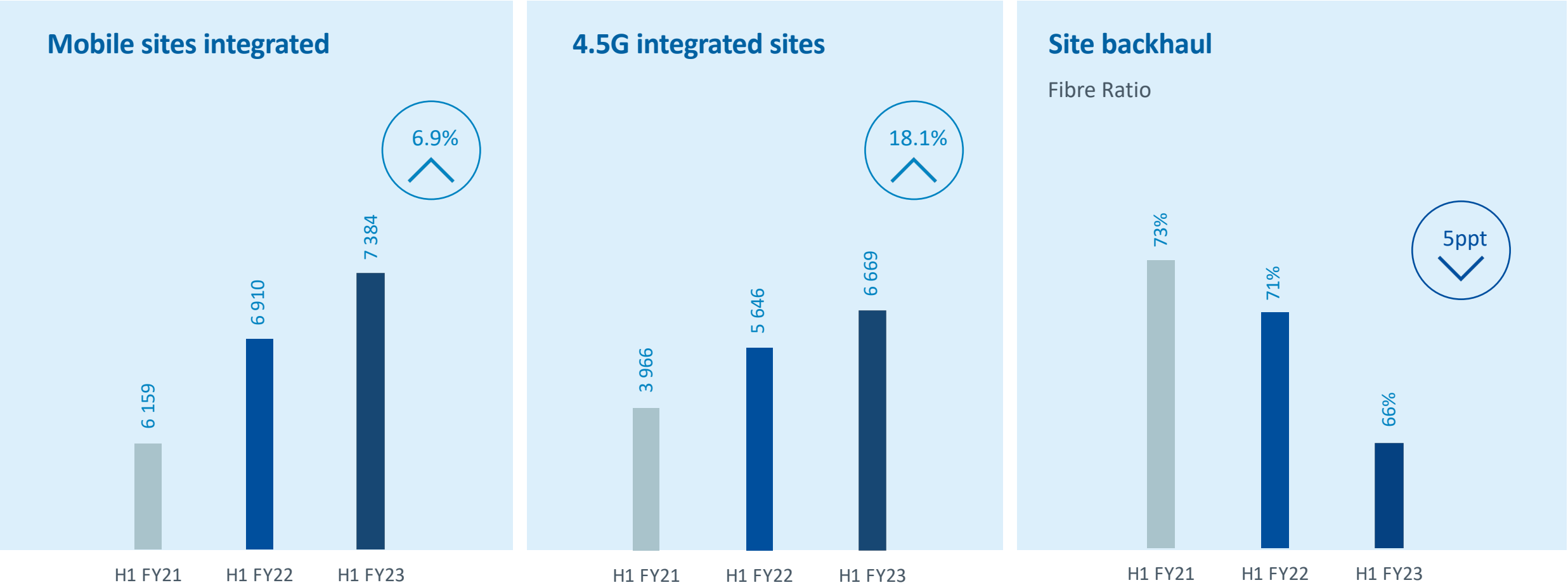
Total mobile broadband subscribers



Mobile broadband traffic



Consumer: Ongoing network investment



66.5%

Revenue %
from NGN

10.8%

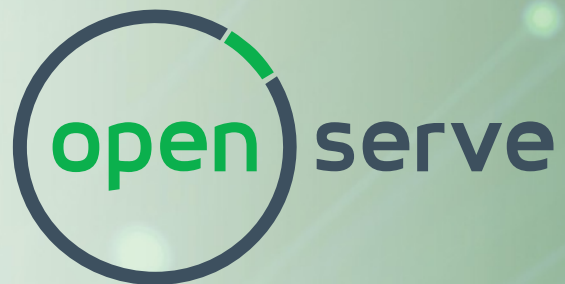
NGN revenue
growth

FTTH
connectivity
rate

46.2%

Fibre access as % of
fixed line broadband
access connections

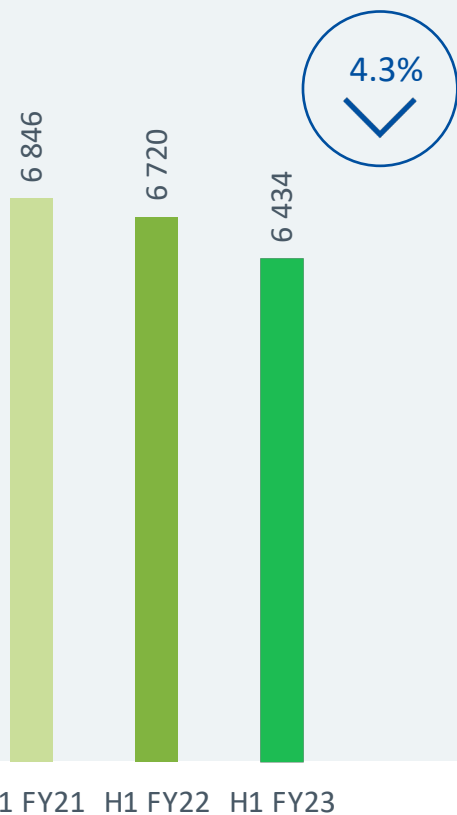
72.6%



De-risking financial dependency

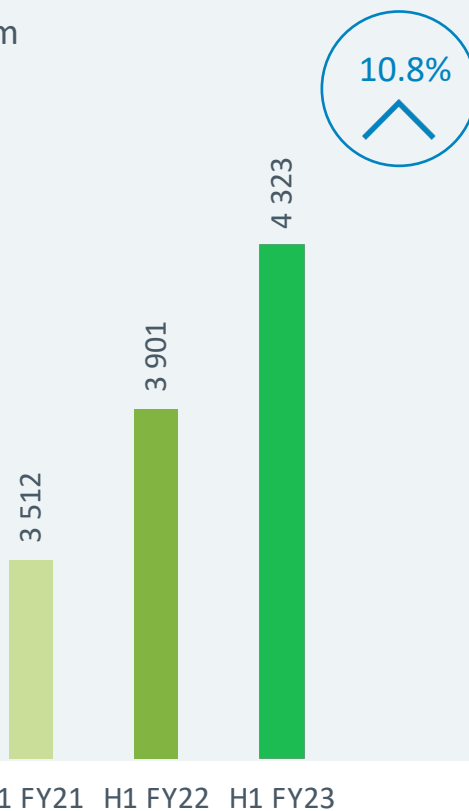
Revenue

Rm



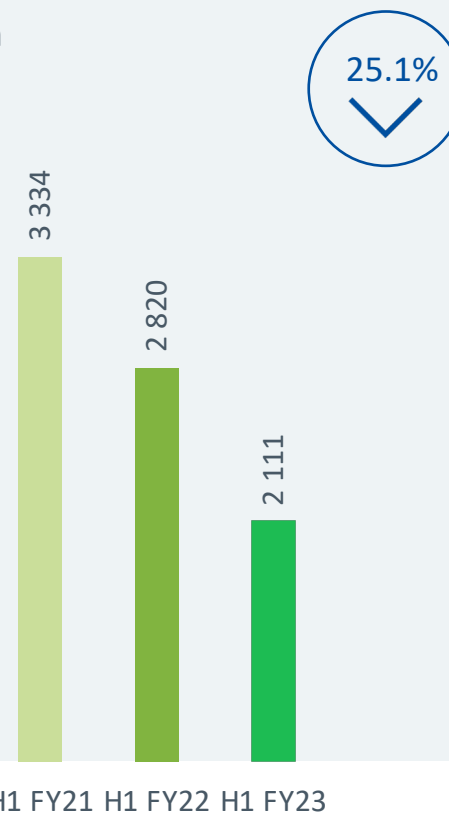
NGN & Other Revenue¹

Rm



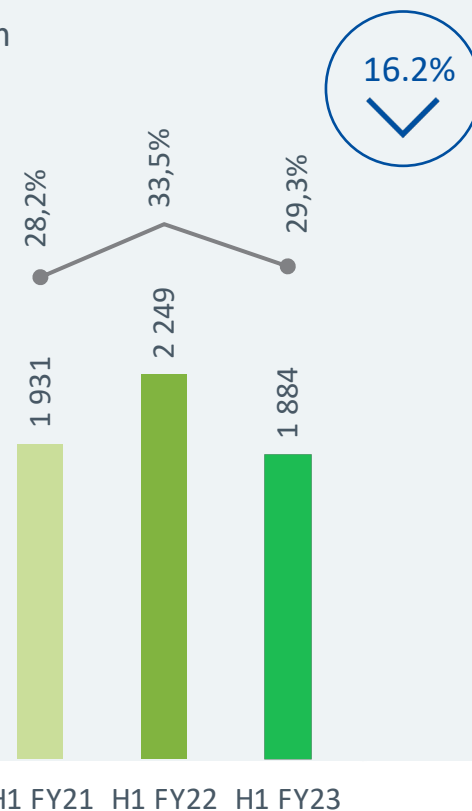
Legacy & Voice Revenue²

Rm



EBITDA/EBITDA margin

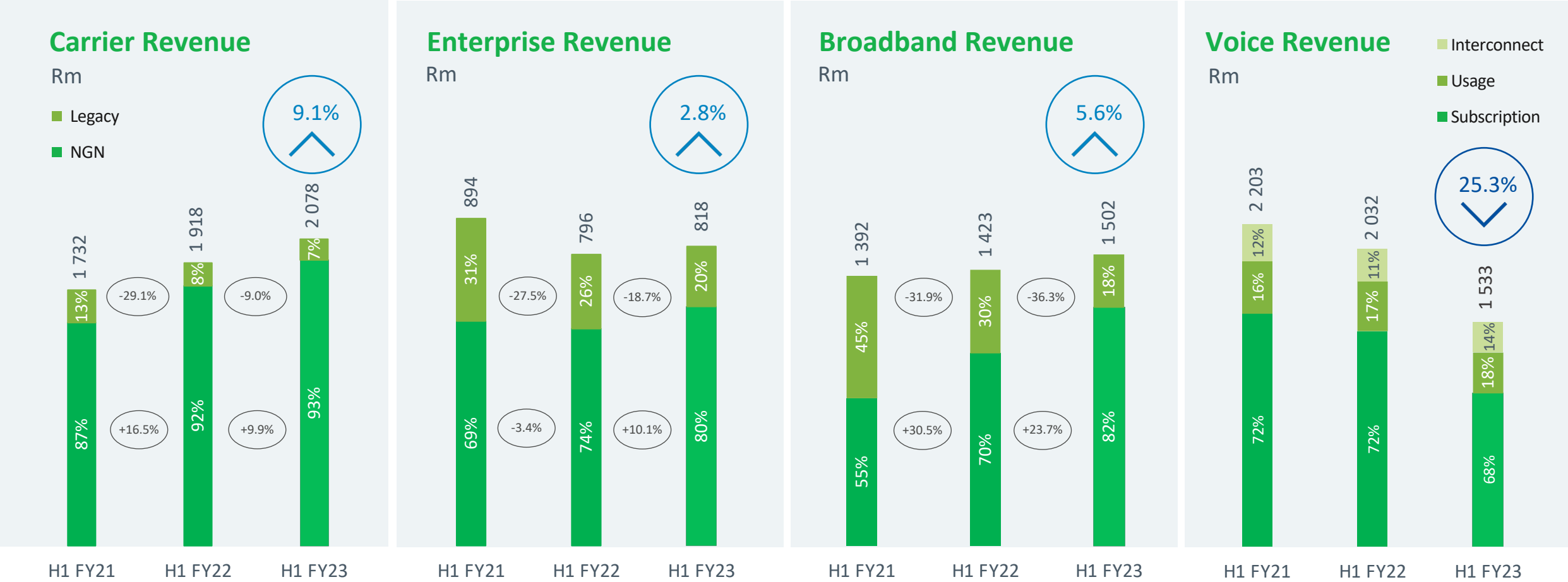
Rm



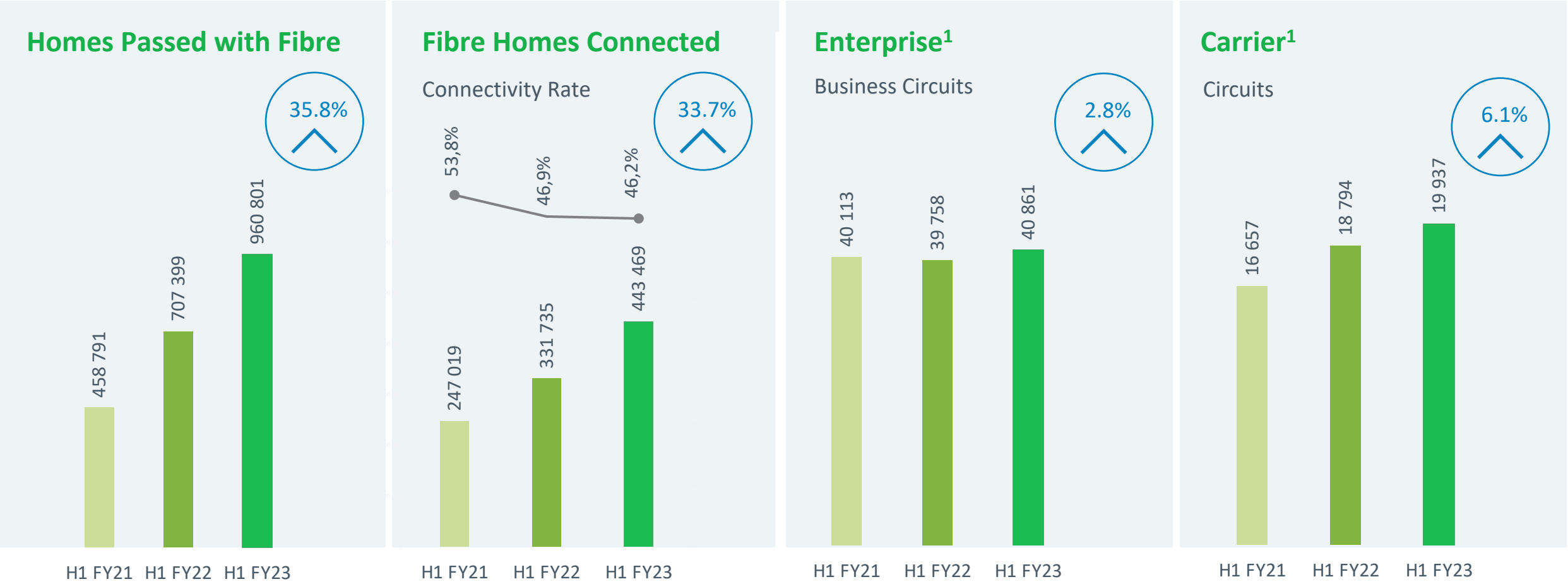
¹ Inclusive of NGN, Managed Services and Other Operating Revenue

² Inclusive of Legacy and Voice Revenue

Evolution of new generation revenue



Accelerated investment in fibre



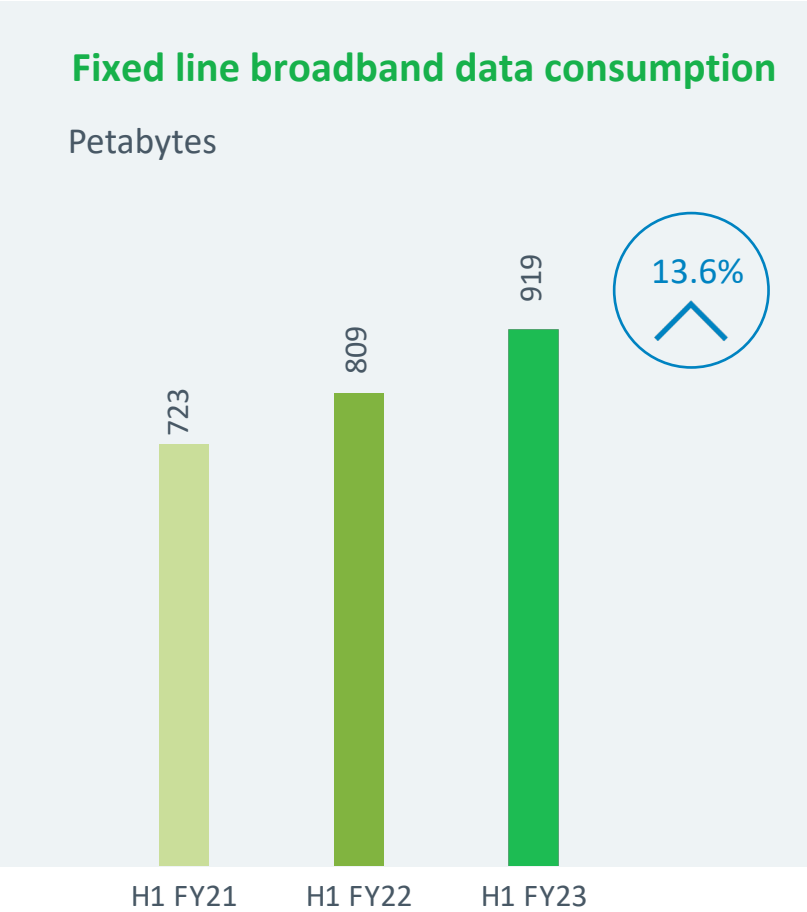
¹ Segment lead approach

Fixed broadband evolution



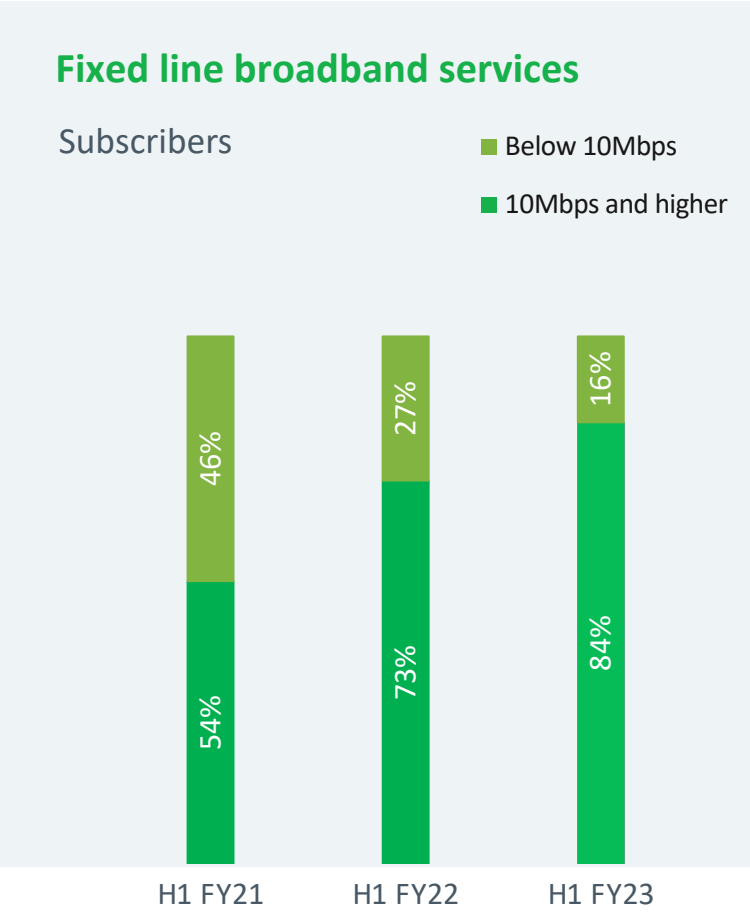
Fixed line broadband data consumption

Petabytes



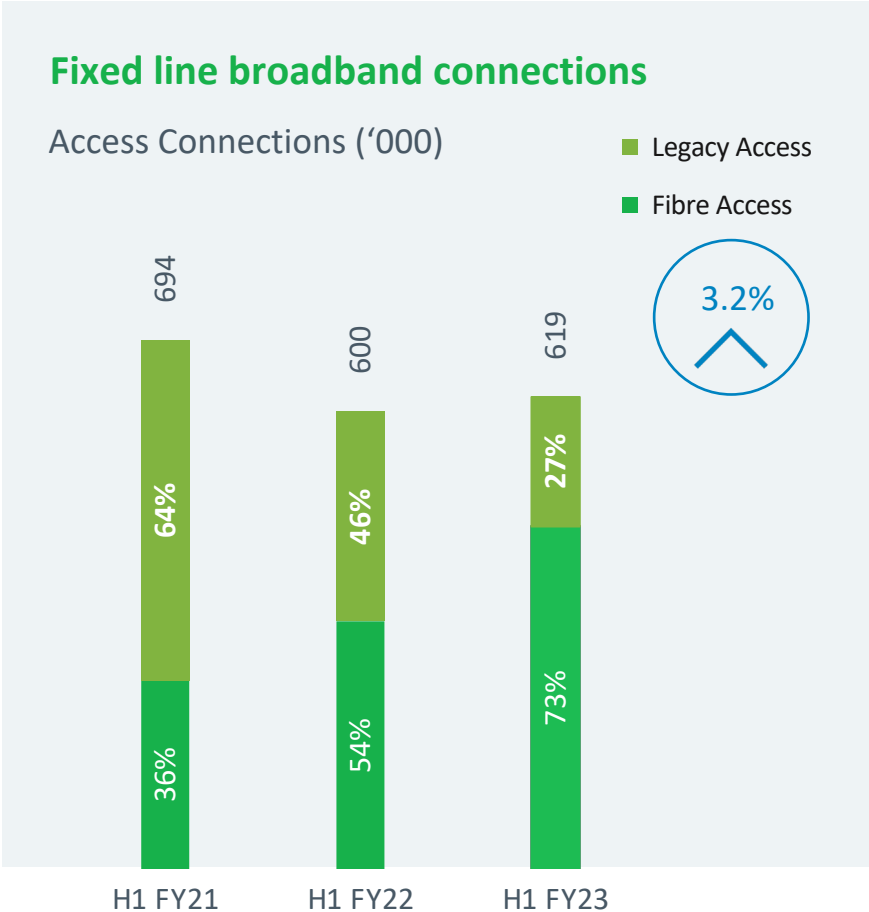
Fixed line broadband services

Subscribers



Fixed line broadband connections

Access Connections ('000)





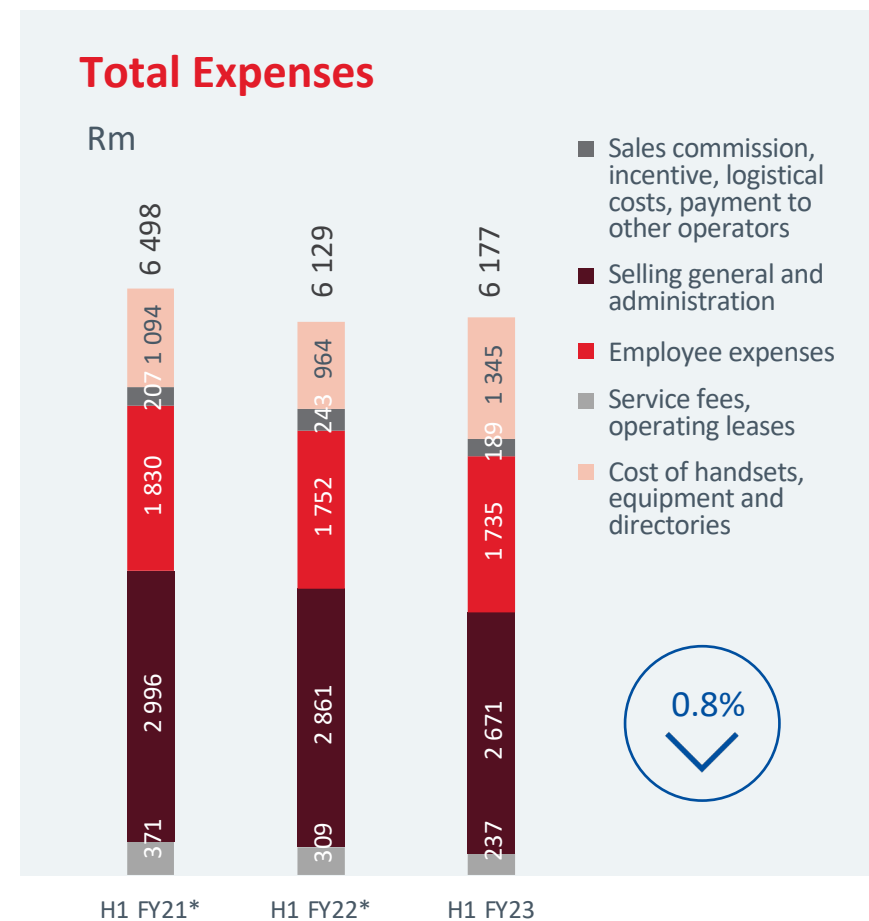
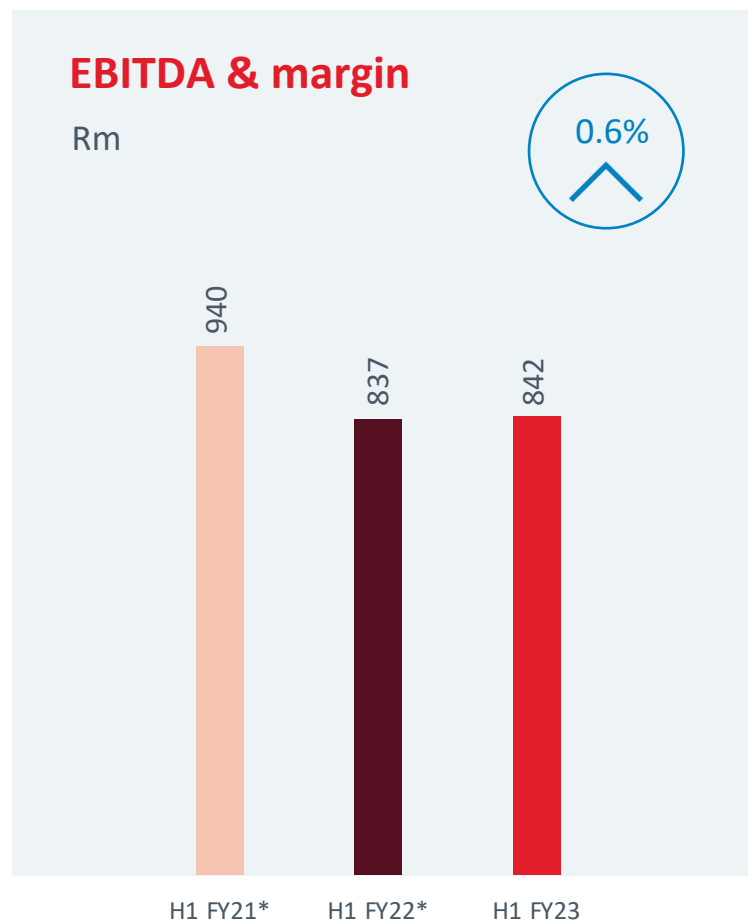
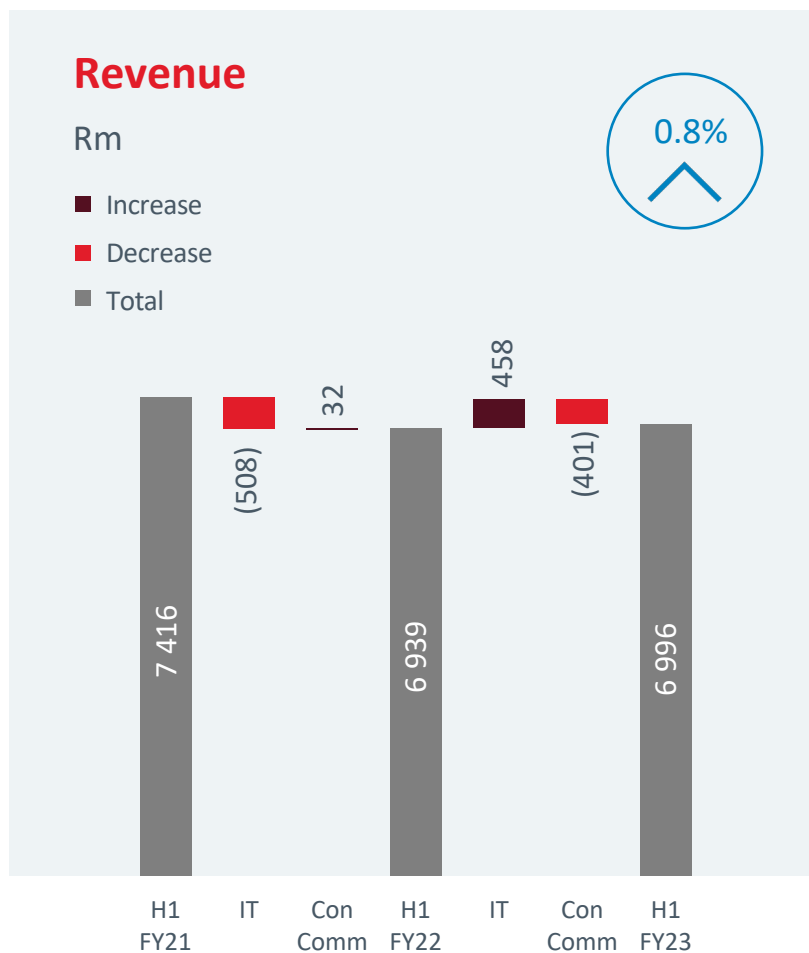
Revenue
marginally up
to R7.0 bn

0.8%

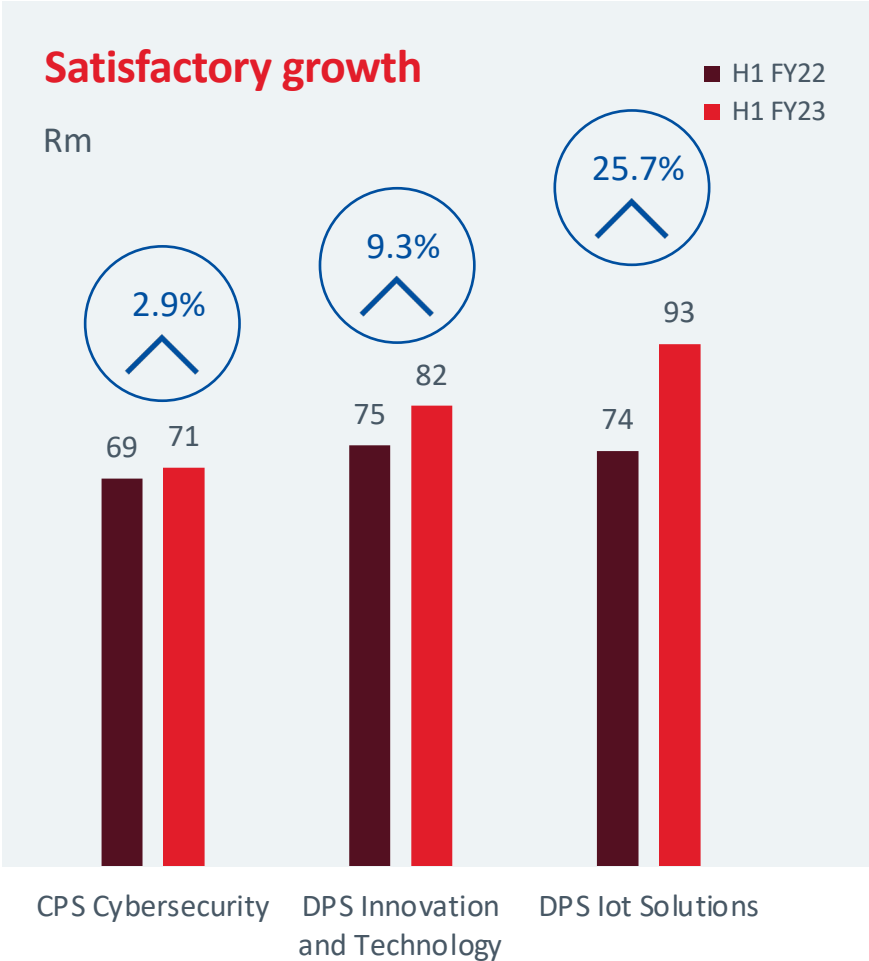
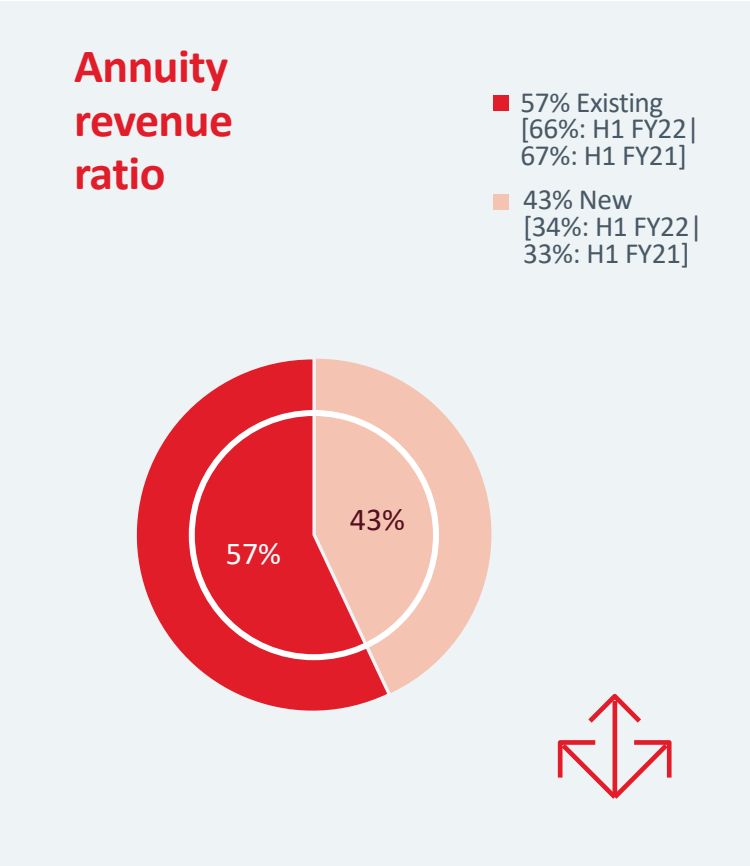
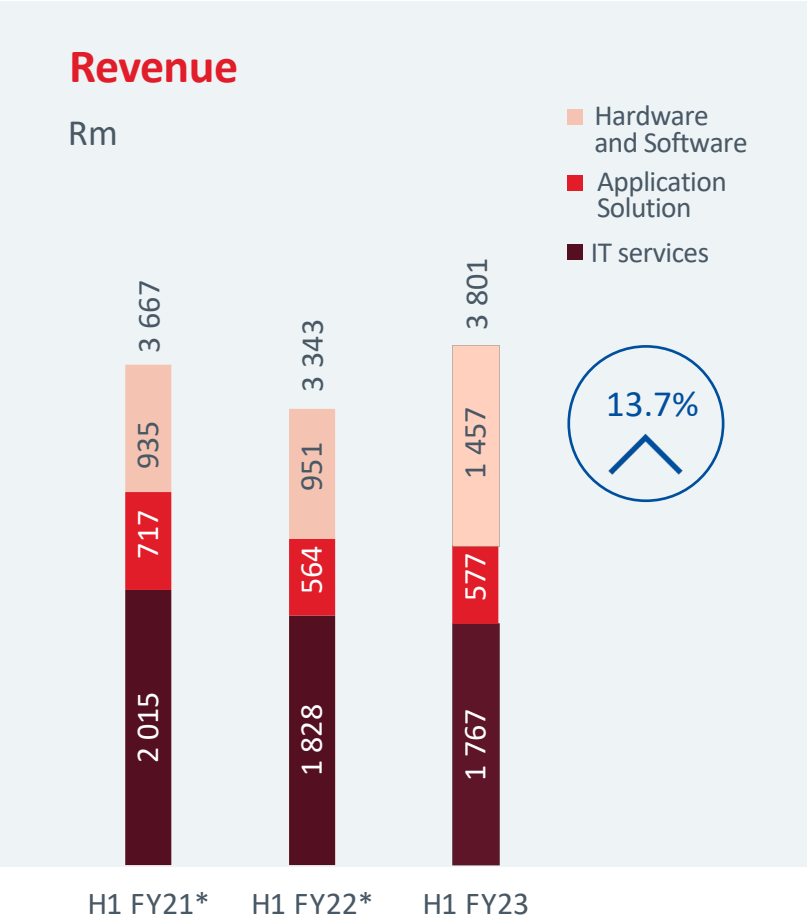
Total
expenses
marginally
down to
R6.2 bn

0.8%

Financial performance stabilised

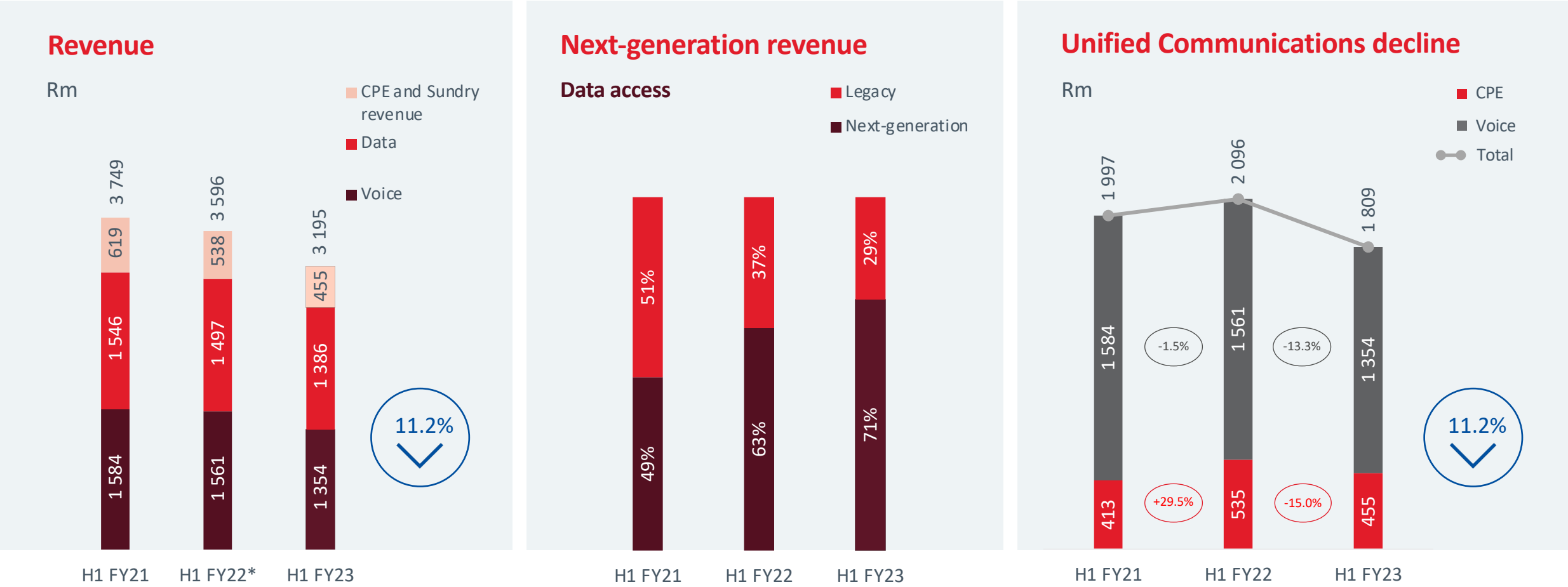


IT produced solid results in difficult economic conditions



* Restated to exclude TGIT

Converged communications nearing stabilisation



* Restated

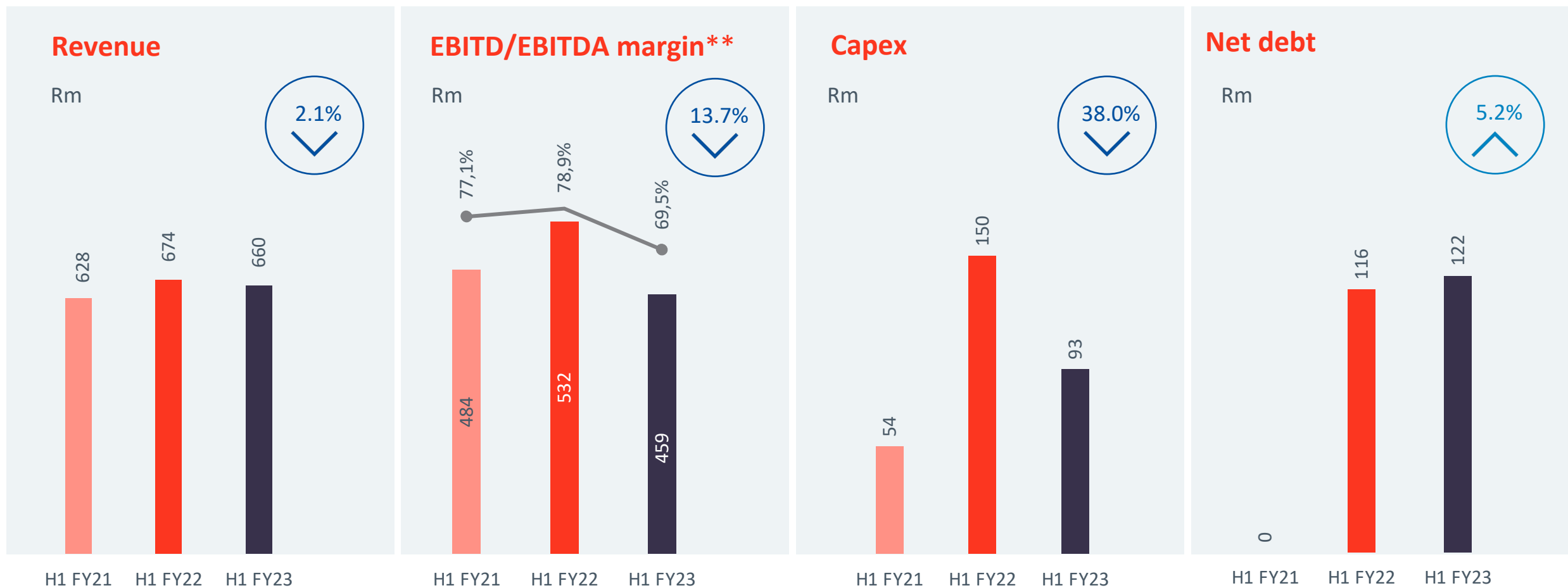


New towers
built • 26

Increase in
productive
portfolio • 2.9%



Satisfactory earnings performance

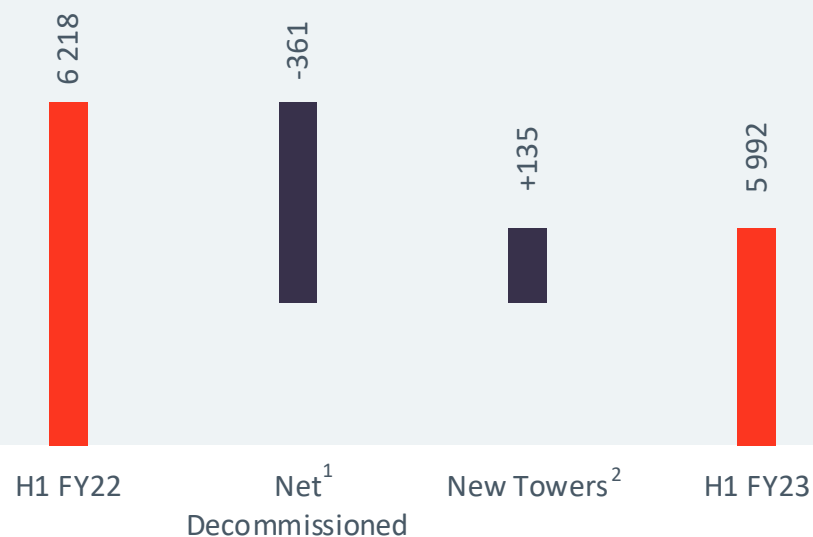


** The decline in EBITDA and EBITDA margin was driven by the refinement in the property operating cost allocation methodology across the business units and an increase in transaction related expenses.

Commercialised productive portfolio

Tower portfolio (all site types)

(# of sites)



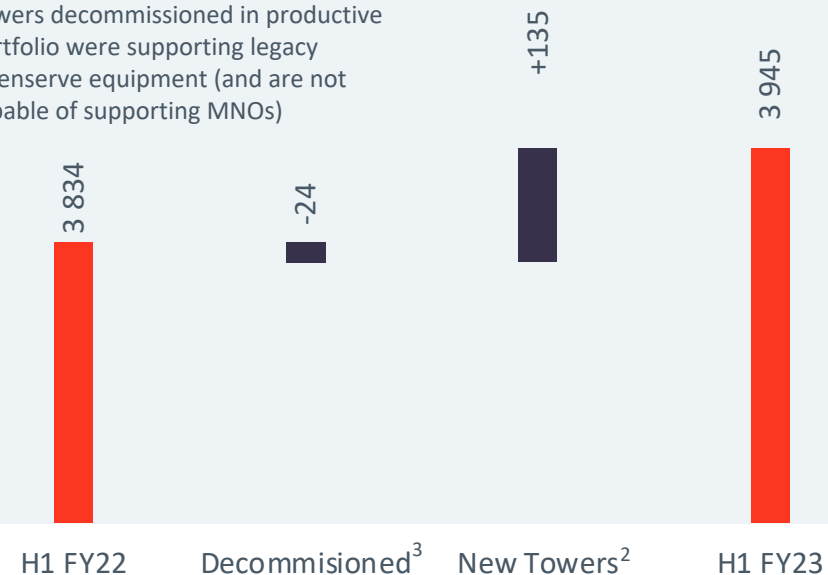
Notes:

- 1: Net decommissioned comprising of: -471 sites Decommissioned; +110 additional sites through additional database clean-up/adjustments
- 2: 135 New Towers includes 103 towers completed in FY22 and 32 towers completed in FY23. FY22 previously not included as they were awaiting power.

Productive portfolio growth

(# of sites)

Towers decommissioned in productive portfolio were supporting legacy Openserve equipment (and are not capable of supporting MNOs)



Notes:

- 3: Net decommissioned comprising of: -58 sites Decommissioned; +34 additional sites through additional database clean-up/adjustments