

Conference call transcript

5 August 2024

Q1 FY2025 TRADING UPDATE

Operator

Good afternoon, ladies and gentlemen, and welcome to the Telkom Limited Q1 FY 2025 trading update for the quarter ended 30 June 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 Group CEO, Serame Taukobong. Please go ahead, sir.

Serame Taukobong

Thank you kindly. Good afternoon. Welcome to our Q1 update. In the room, I'm joined with Nonku, our Group CFO, the IR team, as well as Beauty, our Chief of Strategy. In the morning, we published our Q1 trading update, which I'm sure you've all read, and I'll provide the key highlights of the trading update, beginning with the business performance. Nonku will then give an update on revenue and EBITDA performance at group and BU level for the first quarter. I'll return to give an update on the Swiftnet disposal, touch on the regulatory environment, as well as phase two of the BCX staff restructuring. We'll then take any Q&As that you have for us.

We've had a good start to the financial year, achieving positive quarterly results in weak economic conditions and challenging trading environment with pleasing performance in the top line, benefiting from our data-led strategy and compelling value propositions. Our NGN revenue streams continued their positive momentum and grew by R576 million, an increase of 7%, and they comprise of 80.7% of group revenue in the quarter.

We saw good growth in EBITDA and an improvement in the Group EBITDA margin. Demand for data traffic continued, with fixed and mobile data traffic growing substantially during the quarter. We welcome the recommendation of the Swiftnet disposal by the Competition Commission to the Competition Tribunal for approval, which takes the transaction a step towards its finalisation. Let me now go through the performance of our business units, starting with Telkom Consumer.

Telkom Consumer expanded revenue low single digit on the back of data-centric approach, stemming from both the mobile business and the expansion of fibre offerings. The fibre subscriber base within the Consumer grew by 8%, with fibre ARPU

increasing by 12.5%, and revenue growing 25.1%. Legacy revenue in consumer continues to decline in line with the strategy of transitioning customers to next generation technologies, and now makes up 3.1% of total revenue. Mobile sustained its mid-single digit revenue growth driven by the continuous delivery of innovative and value-driven offerings. Propelling this growth was an impressive mobile service revenue growth of 9.5%.

Increasingly, customers saw the value from our CVM platform, Mo'Nice, which now accounts for 35.4% of total service revenue. The driving force behind the mobile performance stems from the strengthening of our subscriber base, which rose by 14.6% to 21.2 million total subscribers, while blended ARPU largely held at R81. Our prepaid segment experienced an increase of 17.4% to 18.2 million subscribers year on year, whilst maintaining ARPU at R62 at the end of June. In the first six months of the calendar year, we added 1.4 million prepaid subscribers, with just over 50% of the additions coming from Q1 F2025.

The post-paid subscriber base remains steady at approximately 3 million subscribers, with ARPU remaining unchanged at R183, compared to the same period in the same previous year. Mobile data traffic increased by 25.8% to 414 petabytes. The data growth was bolstered by a 15.1% increase in mobile broadband subscribers to 13.5 million, comprising 63.5% of total subscribers. As a result, our mobile data revenue had a positive growth of 12.9%. We continue to experience robust growth of our beyond connectivity services with revenue holding at R407.5 million. A significant contributor to this growth is the Airtime Advance product, which increased 32.3% year on year, and now represents 32.9% of our total recharges.

Looking now at Openseve, next generation products and services maintain the upward trajectory, showing continued growth with fixed data NGN revenue increasing by 7.1%. As Openseve tries to differentiate its product portfolio and strengthen its external wholesale channels, its contribution to Telkom's overall revenue grew by 9.2%. The external wholesale channels experienced NGN revenue growth of 9% and are now representing 94% of overall external wholesale revenue.

Openseve overall revenue continued to decline below single digits, primarily driven by a decline in voice and legacy revenue. Homes passed by Openseve increased by 13.4% to 1.3 million and this connect-led strategy continued to deliver positive results with an increase of 19.5% in the number of homes connected to 615,000, resulting in a connectivity rate of 49%, which continues to be market-leading. With the increase in demand for connectivity and high-speed broadband, as it advanced by 33% to 681 petabytes for the quarter.

Openseve's interaction net promoter score, IPS, was at 72.3%, a 3.3% increase year on year, while its network reliability remained at the forefront of the industry with an exceptional performance of 99.9 across access, transport, and core network. The continued execution on improved green energy mix through the deployment of lithium batteries and solar energy solutions together with an improved diesel delivery model coupled with upgrades of technologies and infrastructure at key central offices along with the improved stability of the electricity grid resulted in a diesel spend decreasing by 84.6%.

On to BCX. BCX revenue increased low single digit on the back of strong performance in the IT hardware and software business. The IT reported revenue grew mid-single digit, primarily driven by the continued performance of the software and hardware businesses. While the low margin hardware and software businesses sustained revenue, it's time to strategically

allow BCX to gain access to a wider client base and facilitate expansion into high margin IT services in order to improve the product mix. The growth in the IT hardware and software business is primarily due to the growth in the local business unit with an increase of 29.8%.

The converged communications business revenue declined driven by the continued migration from legacy services. Legacy telephone lines continue to decline and resulted in a voice revenue decline of 14.6%. Data connectivity revenue, which contributes 33.9% to the converged communication revenue, increased the NGN revenue share to comprise 78.2%.

On the Swiftnet side, the tower build programme remained on track with additional towers being added and in-building solutions sites being constructed during the quarter. Revenue from growing customers increased in the early teens underpinned by inflationary 5G expansion, antenna upgrades, as well as new tower builds. The planned rollout of Power as a Service is in execution phase and on track with 141 solutions built and connected to customers during the quarter under review. Power as a Service has started to generate revenue on sites connected to customers, and Swiftnet expects it to contribute significantly to revenue growth in the current financial year.

Gyro disposal of non-core properties. Gyro continued to rationalise the property portfolio through accelerated disposal and transfer of properties that are no longer core to the Group's operational requirements. This ongoing process will continuously reduce the property footprint, optimise property operating costs, and release cash for Telkom. We began the year with 42 properties with a sale value of R287 million undergoing the conveyancing process with a target to transfer them during the new financial year. 19 properties were successfully transferred and sales proceeds of R161 million realised in the first quarter.

The first auction for additional properties approved during the quarter was completed in June, resulting in sales offers for nine properties to the value of R33 million, with signature of sales agreements in progress for these properties ahead of commencement of the convening process. Gyro plans to dispose of more non-core properties, including these previously earmarked for property development during the rest of the year. I'll now hand over to Nonku to go through the revenue and EBITDA performance for Group, as well as per business unit. Nonku.

Nonkululeko Dlamini

Thank you, Serame, and good afternoon or greetings ladies and gentlemen. Now I'll take you through revenue and EBITDA performance for the quarter starting with the group view. Group revenue interest within the guidance by 3.9% to R10.9 billion. And this was driven by growth in demand for NGN offerings. Group EBITDA grew significantly by 24.1% to R2.8 billion. And this was due to NGN revenue growth. And this was supported by direct cost resulting from our ongoing cost optimisation project. We also benefited from the stabilised electricity supply in South Africa during the quarter. Group EBITDA margin improved 4.2 percentage points year-on-year to 25.5% for the quarter.

If I look now at each BU and I will start with the revenue performance and then I'll move to the EBITDA performance. Telkom Consumer recorded a 2.6% increase in revenue to R6.6 billion. Mobile revenue increased by 5.3% to R5.7 billion. And as mentioned by Serame, this growth was propelled by mobile services revenue, increase of 9.5% to R5 billion. Mobile data revenue saw a solid growth to R3.8 billion rands.

On Openserve, revenue declined by 2.4% to R3 billion. This was primarily driven by a decline of R188 million in voice and legacy revenue, despite the ongoing growth that we've seen in the NGN services. BCX revenue increased by 2.4% to R3.2 billion. The IT business reported revenue grew by 7.1% to R1.8 billion. And this was primarily driven by the software and the hardware business, which saw growth of 22.5%. Converged communication revenue declined by 3.2% to R1.4 billion. Swiftnet revenue increased by 5.2% to R343 million with revenue growth that we saw coming from customers that continue to increase by 14.5% to R285 million.

If I move to the EBITDA details, Telkom Consumer EBITDA increased by 28.4% to R1.2 billion. This was at the back of a solid revenue growth and the prudent cost containment initiatives that we have been driving. And we saw an EBITDA margin improvement of 3.6 percentage points to 18.2%. Mobile EBITDA advanced, growing by 35.7% to R1.5 billion. And this was due to strong revenue growth and particularly in the prepaid domain and reduced load-shedding costs. And this resulted in an EBITDA margin of 26.8%.

Openserve EBITDA increased by 16.8% to R1 billion as a result of green energy mix, improved diesel delivery model, as Serame indicated earlier as well, and also coupled with upgrades at key central office locations, which also saw an improvement in stability of the electricity grid. This resulted in an increase of 5.5 percentage points in EBITDA margin to 33.5%. BCX EBITDA, however, decreased by 8% to R253 million. And this is as it continues to be impacted by revenue growth from low margin hardware and software business, along with converged communication legacy declines. However, this was offset by an improvement in impairment of receivables as collections improved. EBITDA margin contracted marginally by 0.9 percentage points, yielding a margin of 8%.

Swiftnet EBITDA increased by 7.7% to R252 million and a strong EBITDA margin of 73.5%. On other activities that we drove in the first quarter, we successfully issued two bond instruments with three-year and five-year tenures, raising R345 million and R410.5 million in these tenors, respectively, in our recent bond auction. We raised a total of R750 million, and this was debt in the 2025 financial year. The cost of the issuance that was achieved was really competitive pricing, improving the group debt maturity profile and liquidity position.

We consider this an affirmation of the group outlook by local debt capital markets that will continue to be a source for refinancing our maturing bonds. Also, in July, Moody's affirmed our corporate family rating at BA2 and national scale rating at AA2 with a stable outlook. And these ratings are supported amongst others by the expectation that Telkom's credit metrics will strengthen over the coming 12 to 18 months. I will hand back to Serame to go through the rest of our presentation for this afternoon. Thank you, Serame.

Serame Taukobong

Thank you, Nonku. Let me cover the last leg on the update on the Swiftnet disposal. As I indicated, we do welcome the recommendation of the Competition Commission to recommend the transaction for approval to the Tribunal with the following condition. The key condition is to address is the public interest concern where the purchaser has commitment to ensure continued procurement spending towards small and medium enterprises that are owned by historically disadvantaged persons for a period of five years from the merger implementation date. The main outstanding suspensive

conditions precedent to close the transactions are the regulatory approvals required from ICASA and the Competition Tribunal, and we are diligently working towards securing these approvals. So, very positive developments in that front.

On other regulatory matters, particularly in regard to ICASA, on 9th of May 2024, ICASA indicated that the licensing of additional high spectrum will be delayed to 2025-2026. This would allow sufficient time for the authority to consider all relevant issues in designing the process. Just to update the market even further, there has been current activity where a mobile network operator has launched a review application regarding spectrum sharing or pooling arrangements with other mobile operators. This may have a bearing on the design of the upcoming spectrum license process.

The second point in regard to updates with ICASA is the review of the call termination rates. The review of the call termination rates with the cost are ongoing. And at Telkom, we have provided written inputs on the proposed rates and costing methodology, which was followed by public hearings in June. Telkom looks forward to the publication of the final regulations and trust that these will facilitate pro-competition outcomes in the voice market.

As far as the SIU matter, the state attorney is progressing the appeal and on the 21st of June, we received an application for condemnation for the late filing of the SIU Notice of Appeal. The Supreme Court of Appeals subsequently issued a directive in terms of which it confirmed the lodgement of the Notice of Appeal and indicated that the record of High Court proceedings must be filed by the 27th of September. The matter is pending before the Supreme Court of Appeal and we will continue with the steps to uphold the High Court order which is in Telkom's favour.

The last matter is the BCX phase two staff restructuring. The market conditions remain challenging for BCX and industry dynamics represent a permanent reset, and this calls for us to relook at BCX structure as a business in order to ensure its sustainability going forward. We have initiated phase two of BCX's staff restructuring and served the relevant unions with the Section 189 notice and requested CCMA facilitation. This was done on the 1st of August. The group staff restructuring implemented in February 2023 was Phase 1 for BCX to allow them to apply measures to improve their position with the hope of further limiting the impact of employees.

Despite these efforts, BCX continues to face persistent operational and financial challenges which necessitates further business changes and phase two of the staff restructuring. The staff restructuring will only impact BCX and not other businesses. This concludes the call and I will now hand over to the operator for any questions and answers. Thank you.

Operator

Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer session. If you would like to ask a question today, please press * then 1 on your touchtone phone. A confirmation tone will indicate your line is in the question queue. If you decide to withdraw the question, please press * and then 2. Again, if you would like to ask a question, please press * and then 1 now. The first question we have comes from Myuran Rajaratnam of MIBFA. Please go ahead.

Myuran Rajaratnam

Good afternoon, guys, and well done for a good quarter. I suppose I've got two questions and one comment if I can. Just to confirm, I suppose it's more a clarification than the first one. Your mobile data traffic seems to be accelerating. If you just look at Q3, Q4 last year, and Q1 this year, the run rate seems to be accelerating. Is that correct? Mobile data traffic.

Serame Taukobong

Do you want to ask all the questions in one go, squire?

Myuran Rajaratnam

I can do that as well. Okay, I'll ask the second question and I'll keep the comment for the end. The second question is, at the full year results, in the presentation you pointed out that you optimised roaming for the mobile network and that the mobile roaming costs were down 8.5% if I remember correctly. That's FY24 versus FY23. Now, in Q1 25 versus the comparable quarter last year, how much did the mobile roaming cost come down by? If you can give us some steer there, that'd be great. So, I will wait for you to answer these two if I can.

Serame Taukobong

There was a question and a comment.

Myuran Rajaratnam

Do you want the comment as well? Okay. So, I'm seeing the chairman on Wednesday, right? And we are shareholders. And you mentioned before, Serame, that a range of anything between 8% to 14% is typical for fibre businesses. But this quarter you've shown, to some extent, the fibre to the home business has pricing power. The fact that your outputs are going up. And we've seen that in the mobile post-paid business in South Africa so far for a few years now. But you're showing that it can be done in the fibre to the home business, on the retail side.

So, with the pricing power that's latent in your business... how can I put this gingerly? Hell no, if it's anything less than 10%, is how I'm going to say it to your chairman. But I thought I'll say it to you as well, because we are keen that we get full value for this Openserve business. It might be a hidden gem. It might not be, but it looks like it might be a hidden gem if there is some pricing power in the business.

And just the last comment as well. I think we should focus on South Africa. There's been some talk in the market on the streets that you might be interested in something in SADC regions and things like that. There's enough to occupy Telkom, and I'm going to tell the chairman the same thing. There's enough to occupy Telkom in South Africa. Hell no, to anything else outside, unless it's on a one times multiple or something crazy like that. Maybe I'll leave it there. Thank you squire. Great quarter.

Serame Taukobong

Thank you, squire. Let me try and attend the first questions. You are right. I mean, if you look at the reported numbers, the mobile data has grown and is continuing to grow on a quarter-to-quarter perspective. So, that you're absolutely right on. Both what we reported in where we ended at the year of March, so, if you look at just the year ending March and where

we are right now. So, that's the positive trend that we're seeing. We have reported in the current just year on year, I think 25% or growth in mobile data traffic. So, that trajectory, we are seeing it holding in a positive growth rate.

In terms of roaming traffic, we did report a reduction, you're absolutely right, of a 1% decline at the year end. Hasnain in his cheat sheets did not give me the quarter on quarter declines. I'll have to go back to his numbers on that one. Can I come back to you on the quarter on quarter breakdown? Unless, Beauty, you've got up there in your cheat sheet. I don't have it, but I can definitely dig that out for you. Yeah, I will dig it out for you because if you look at the contribution that drove the relative cost down in mobile, it would be a significant contributor in the improvement in the mobile numbers was the payment to operators being lower. And the bigger contributor of that payment to operators is mobile. So, I can extract the exact number for you out of that.

Operator

Thank you very much, sir. The next question we have comes from Jono Bradley of ABSA. Please go ahead.

Jono Bradley

Good afternoon and thanks very much for the opportunity to ask questions. Just three from me please. Firstly, on Telkom Mobile, post-paid subscribers have been largely flat over the past year. Are you expecting to aggressively push on the post-paid side again in the near future or is this the level you're looking to remain at? And most of the growth from here on out will be from price increases in post-paid and then growing the prepaid base.

And then secondly, just tied to that first question, but on prepaid pricing, are you planning to lift headline pricing in line with your competitors? Or is there still more to do on the CVM side before you look at headline pricing? And then lastly, just on the outlook for capex in the mobile business this year, given the robust data traffic growth, and last year you spent a bit less than normal, so just outlook for capex on the mobile business please. Thanks very much.

Serame Taukobong

Thanks Jono. On the post-paid, I think what we've indicated with post-paid as we said to the market 18 months ago, we went on that post-paid handset acquisition to recalibrate and get our prepaid post-paid shape in line to where we wanted to be. We were historically at about a 90/10 balance. I think we're quite happy with where we are right now in terms of the prepaid, post-paid mix. The focus now, we're driving strongly on SIM only proposition. We have changed the mix from a high handset type acquisition, focusing more on your mid-range, I think really driven by the cost and affordability in our market.

So, we do still keep our fingers in the handsets with an acquisition but lowering the mix to more your mid to lower end side of the market, reflecting of what we're seeing in terms of affordability in the market, but still maintaining SIM only propositions, particularly for renewals. So, that's working for the team. They do, however, also drive quite strongly with the RT15, particularly in acquisition in corporate and government where Telkom traditionally was not as strong. So, we will continue to drive that.

On prepaid in terms of pricing, yes, we did not trigger a pricing activity in line with our competitors, but it is something that I think Lunga and his team will look at in the long term, not right now. I think they will look at their CVM mix and make sure that they remain competitive. It's not something that we are writing off, Jono, but I think as market conditions prevail, we have lagged the market. We have been on par with the market in post-paid, but it is certainly something that we will not write off.

Our capex outlook, Jono, remains the same as we've guided when we spoke to the market, I think, a month ago. We are within the guideline. The guidance remains unchanged on mobile capex. We feel that in terms of what we have given the team, it's still within the ability to carry that data traffic. So, the capex guideline... Nonku is looking at me quite strongly. It remains unchanged at this point in time, Jono. I think I'll answer your questions.

Jono Bradley

Yes, thank you.

Operator

Thank you very much, sir. The next question we have comes from Nadim Mohamed of SBG Securities. Please go ahead.

Nadim Mohamed

Good afternoon and well done on an excellent set of results. Just from my side, all on mobile, firstly just on your prepaid subscriber acquisition. There seems to be an acceleration in the last few quarters and it looks like these are not low value subs because your ARPU has only gone down about 1% compared to the last quarter. So, I just want to get some colour into what's going on in the market. Are you taking care of any specific competitors? And on the trajectory of that, if you can continue acquiring customers at this kind of pace.

Secondly, if I look at the data volume growth of 36% relative to the data revenue growth of 13% year on year, it looks like you're giving me a lot less volume relative to the revenue growth. And your competitors seem to be giving me a lot more volume to get the revenue. I want to get a sense of how you differ from them, what could you be doing differently in this market to achieve those kinds of outcomes. And lastly, just give us some colour on the improvement in mobile with the margins to 26.8%. I want to understand what are the two or three main contributors towards that margin expansion? Thank you.

Serame Taukobong

Excellent. Thank you, Nadim. It's a good thing that I just spent a few good years in the mobile business, so I can try and answer your questions. So, if I take the acquisition, as I indicated, Nadim, when we last spoke, what the mobile team has really been focusing on, without giving away the secret sauce, at acquisition, it's been really a strong collaboration with our dealer network to really intrinsically focus on ensuring that they acquire the right shape in terms of a higher value subscriber and focusing strongly on retention.

So, it's really making sure that that circle between acquisition and retention is driven quite closely, avoiding your washing machine lower value type subscribers. So, it's a combination of if you get the subscribers at a higher value, so the higher

value proposition, you see that those subscribers tend to stay longer. Obviously for the dealers, a longer 10-year subscriber gives them a far better ongoing proposition. So, that mix seems to be working quite well. The team has also been piloting a combination as well of some low-entry smart feature phones or something along those lines, which also drives that data type proposition. So, it's a mixture of both at the retailers.

Where we seem to be growing is from both, as I've indicated, where we are saying that the target is your higher end of your 2G voice subscribers. So, those high-end 2G subscribers who are looking to now migrate into smartphones is where we are targeting intentionally to get those subscribers who want to move into your 4G and are your data subscribers. That's where we are targeting. Which talks to your second point of data value. Because of the ability of the Telkom mobile intrinsic design, we are able not to necessarily compete on price alone, but also offer more data at the same price point.

So, where the competition is being forced to drop at headline pricing, we are trying to make sure that we can at least maintain at a ASPU level, so your average spend per user, but then offer more data at the same price point, which then gives you that sweet spot of at least keeping the average spend but offering more value to the customer at that same price point. So, that takes care of your second question.

The EBITDA margin, if you look, it's a function of a couple of things on a quarter-to-quarter. One, it does talk to Myuran's question of your roaming cost reduction. So, that efficiency of roaming. Yes, you've got to say the lower load shedding does obviously have an impact, because lower load shedding means better efficiency for us, because the higher the load shedding, the higher the roaming, which therefore the higher the roaming costs. And also, as we indicated in our call, the reduction in overall roaming also has an improvement on your margin improvement over and above the other cost efficiency elements which the guys have been putting in. But roaming does play quite a significant part of that. I hope I have answered you there, Nadim.

Nadim Mohamed

Thank you so much. I appreciate that.

Operator

Thank you. Ladies and gentlemen, just a reminder, if you would like to ask a question, please press * and then 1 now. The next question we have comes from Pradyumna Mishra of HSBC. Please go ahead.

Pradyumna Mishra

Hi. Congratulations on a good set of results. I have three small questions. So, given the margins are now back to about 25%, should we take this as a base going forward, or there were some one-offs in it? And second one is, how strong mobile performance is likely to remain given the weak performance of other operators in South Africa and given the weak macro outlook also. Third one is about any other asset that you plan to monetise at year end. Thank you.

Serame Taukobong

Could you please repeat the first one for me please?

Pradyumna Mishra

Yeah first one is an extension of what Nadim asked, given the margins are now back to about 25%. Should we take this as a base going forward?

Serame Taukobong

I think I certainly would not model the first quarter for the year. I think certainly on a mobile side, we've been pushing the guys. Their target was to get 25% by 2025, I mean 25% by the year ending 2025. So, I think they've certainly started the year on the right note. It is one quarter. So, let's see how they end up here. I think it's also important to be quite prudent and say we are comparing what was a relatively soft quarter last year to a far stronger quarter this year.

And yes, one has to factor in the fact that it was a quarter with load shedding, a significant portion of load shedding in the first many days of last year compared to this year. So, all conditions being precedent, one has to be prudent in taking that forward right through. As the base is getting bigger as well, one has to be quite prudent in how we take that forward.

On mobile, we certainly are holding them firm to try and get to that ambition of holding 25% by 2025. That is by the year ending 2025. I think on the fixed line elements of the business, we are seeing the legacy part of the business coming down, and I think that's going to be quite continuing as we see that. And it's how we pick up for the rest of the business going through.

Your question in response to what is happening to the rest of the market, I can't comment, of course, on what competition is going to do. We stick to our path. And I think it's really one has to look at what are the microeconomic conditions in which we see ongoing in the country right now. Customers are under pressure, I think, as we all know in South Africa. And it really is how quickly can the end user recover. And I think from that perspective, that is going to put continuous pressure on affordability. And that is something that we need to be cognisant of.

And for us, it's really to maintain, to make sure that our value propositions reflect the challenges that our customers have in their pockets. So, the key thing for us is what we continue to do and drive and maintain the growth and maintain the performance for the rest of the fiscal. So, it is a tough market, and I think these numbers, encouraging as they are, have to be taken in the context of what was a relatively softer first quarter that we are comparing ourselves to.

Operator

Thank you, sir. The next question we have comes from Preshendran Odayar of Nedbank CIB. Please go ahead, sir.

Preshendran Odayar

Hi everyone. [Unclear] again over here. Congratulations on the results. A very strong performance from you guys in this first quarter. Seen that all the easier questions were answered and you've got a bit of time, I'm going try with the slightly trickier ones if you don't mind, Serame and Nonku. First one, can you give us an update of where gearing is at the end of this quarter? I know it's not going be materially different, but just want to see how some of the EBITDA initiatives that you've had, I mean the strong EBITDA performance has filtered into your gearing levels at the end of this first quarter.

Second question is a bit of a follow-up on Myuran's question. I don't know if you can give us some detail on how much are you actually spending on roaming. And that's across your 2G and your out-of-area roaming. I don't think it was last year. I think it was a year and a half ago in one of the presentations you gave a percentage of service revenue. I don't know if you can share that with us. And also, I'm going to try my luck here. You know, the percentage split of roaming between the two roaming partners that you now have.

And in the last one, following on your announcement of this phase two of BCX restructuring, would you be able to give us an assessment of what you think the EBITDA impact and potentially a cash impact might be either for this year, or will this carry on into next year? That's it. Thank you.

Serame Taukobong

Thank you, Presh. We would expect nothing less from you. Nonku, do you want to take the first one? And I'll one and three, I'll plot the figures on roaming in front of me.

Nonkululeko Dlamini

Yes. Thank you. Thank you, Presh. So, yes, the gearing levels, as we indicated when we reported at year end, we continue to focus to ensure that we stabilise and improve. And therefore, with this performance, you may recall at year-end, we reported a net debt to EBITDA level of about 1.7x. We've seen marginal improvement, just coming from the fact that we've been able to deliver improved performance.

But also, if you look at the debt, we spoke earlier about raising R750 million from the debt market to refinance. But the actual maturity was about R877 million. So, that gives you an indication that we continue to focus on reducing the debt levels, or at least keeping them stable to what we reported last year. But wherever possible, we continue to look for opportunities to reduce. And therefore, we are directionally still seeing an improvement. But the guidance currently remains at 1.5x to 1.9x as we've indicated. So, I'll stay with that one. And Serame, maybe you can touch on the next one.

Serame Taukobong

Q1 F24 roaming as a percentage of revenue was 8%. Q1 F25 roaming as a percentage of revenue was 5%, Presh and Myuran.

Operator

Thank you, sir. The next question we have comes from Jonathan Kennedy-Good of Prescient Securities. Please go ahead.

Jonathan Kennedy-Good

Good afternoon. Just two quick questions from me. First of all, with the change in government and some signs of improving sentiment within corporates, I'm just wondering how your pipeline looks at BCX on hardware sales, software sales, if there is some loosening in the budgets that corporates are deploying in those lines. And then also on your credit impairment side, in terms of realised credit losses on your accounts receivables, particularly with government, is there any improvement there or is it just too early to tell? Thank you.

Serame Taukobong

Thanks, Jonathan. I think at this point in time, it's too early to tell. I think the really biggest thing on BCX at the end of the last financial year, what really drove us was a big focus on collections. I think in the pipelines, certainly it's business as usual. Yes, I think as people settle, the spending on government which would have been slightly delayed because of the transition, I think now that everybody has settled and is in their current new roles, we are seeing certainly an acceleration of tenders and tender awards that were being delayed.

So, hopefully that will pick up in the next couple of months, particularly for BCX, given that government is the biggest vendor in the IC sector. So, even tenders that we are waiting for, that we were participating in, those have come through. So, we've had some positive awards, which unfortunately I can't mention because we're waiting for SETA's permission to announce, but we've been successful as well. So, these were processes that we've been waiting for the past six or eight weeks for those awards to be finally announced, which are good, where Telkom has won. But it means there'll be far better uptake as a whole. So, we are seeing at least those engines now beginning to kickstart because DGs, ministers, etc., have been approved. So, too early to tell, but at least the machinery seems to be working and getting back into place, Jonathan.

Jonathan Kennedy-Good

Thanks. And then just on the credit impairment side.

Serame Taukobong

Nonku, do you want to share more colour on that? What are you seeing on the side?

Nonkululeko Dlamini

So, on the impairment, we've not seen necessarily an increase. You'd recall last year we spoke about an improved collection levels from specifically government clients. We're still comfortable that we're not seeing a deterioration or rather requiring an increased provision. There is quite a focused team. And to the point you raise, we have taken a proactive approach to basically get a sense of where are the risks, where there may be changes to ensure that we have a focused approach, to make sure we foster relationships where there may be changes. But we're not seeing any risk of increase as such in requiring credit loss provisions from the government perspective.

And maybe while I'm on the podium, there's another question we didn't really answer from the Nedbank team around the expected cost of the BCX restructuring. For now, we may not be able to give you the numbers because the announcement was a few days ago. There's still consultations on the go, and we will basically finalise the calculation once we've done all the details in that regard. But it being phase two of what we started with the rest of Telkom, it would follow the same principles as we did for the other parts of the business. Thanks, Serame.

Operator

Thank you very much. The last question we have is a follow-up from Myuran Rajaratnam. Please go ahead, sir.

Myuran Rajaratnam

Thank you very much. You mentioned, Serame, that your roaming costs as a percentage of revenue is 5% for this quarter.

Serame Taukobong

5% of mobile services.

Myuran Rajaratnam

Yes, exactly. And can you give us a sense of firstly, from what I read for the last year, you've been optimising the amount of traffic you give to your roaming partners, but you're also busy negotiating a new roaming revenue contract with your mobile partners. So, is it more or less traffic that you've optimised that gives you the benefit of less cost, or is it the new contract that you're busy... I presume you signed it, or are you busy still to sign it? Where are we on those things? I have a follow-up.

Serame Taukobong

So, the update that we gave is that we have signed a one-year extension with Vodacom because we are in the midst of doing technical testing on proof of concept for new technologies. Oh, you're a very technical savvy person. So, we are testing out MOCN and MORAN technologies. So, whilst we are in the POC phase for that, that's why we extended the current contract. But we have also negotiated new tariffs with both MTN and Vodacom. So, it's a balance of both that is allowing us to benefit from the reduction in payments.

Myuran Rajaratnam

Right. And if I can just ask the follow-up. The 5% of costs that's roaming costs as a percentage of mobile revenue, part of it is voice roaming and part of it is data roaming, right? Now, which is the bigger component here? Do you spend more on voice roaming or do you spend more on data roaming? I'm not talking about traffic, I'm talking about Rands and cents here.

Serame Taukobong

Beauty would be more technically correct in this because she's more involved in this. I think, first of all, it's a... The volume is small.

Myuran Rajaratnam

Yes, that's why I'm asking about Rands and cents, which is bigger? Is it voice Rands and cents you pay to Vodacom and MTN, or data Rands and cents?

Serame Taukobong

Beauty, correct me if I quote wrong numbers. Voice, right?

Beauty Apleni

Serame, voice is the higher part of the roaming than data. Data, we roam quite a very small percentage based on our database that we currently have of data across the network. We carry a huge bulk of our data. Voice is the area that we roam quite the most on.

Myuran Rajaratnam

And that's in Rands and cents, right? Just to confirm.

Beauty Apleni

Right, in Rands and cents. But we can't give those numbers, Myuran.

Myuran Rajaratnam

Yes, no, no. I just wanted a sense of it. Thank you. Thank you so much, guys. This has been a good call.

Serame Taukobong

Remember, Myuran, a big chunk of our voice is actually carried on VoIP.

Myuran Rajaratnam

Yes.

Serame Taukobong

Because of our higher data proportion of our subscribers.

Myuran Rajaratnam

Yes. Well done, guys. Good quarter. Thanks very much.

Operator

Thank you, sir. Ladies and gentlemen, we have no further questions on the conference at this time. I will now hand back to Serame for closing comments. Please go ahead, sir.

Serame Taukobong

Thank you. Thank you all for attending our call. And please, if you do have any further questions, do fire away to my IR team. Thank you for your continued support and we look forward to always engaging with you. Thank you. Have a wonderful evening.

Operator

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

END OF TRANSCRIPT