Conference call transcript

5 August 2025

Q1 FY2026 TRADING UPDATE

Operator

Good day, ladies and gentlemen, and welcome to the Telkom Q1 FY 2026 trading update for the quarter ended 30 June 2025. 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 * and then 0. Please note that this call is being recorded. I would now like to hand the conference over to the Investor Relations team. Over to you, Nondyebo.

Nondyebo Mqulwana

Good afternoon, and welcome to the Q1 conference call for the 2026 financial year. I am Nondyebo Mqulwana, Head of Investor Relations at Telkom. We published our Trading Update for Q1 earlier this morning and we hope you've had a chance to go through it. Joining me on the call today are our Group CEO, Serame Taukobong, and Group CFO, Nonkululeko Dlamini. They will present the key performance highlights for the quarter ended 30 June 2025 and we'll then move to a Q&A session.

Please note that, all financial metrics and growth rates referenced during this call are on a year-on-year basis, meaning Q1 FY2026 compared to Q1 FY2025, unless otherwise indicated. This call and trading update may contain forward-looking statements, which are based on management's current expectations and are subject to risks and uncertainties that may cause actual results to differ materially. With that, I now hand over to our Group CEO to take us through the key highlights of the quarter.

Serame Taukobong

Thank you, Nondyebo, and good afternoon to everyone joining us on the call. We appreciate your continued interest in Telkom and welcome all analysts and investors dialed-in today. As we commence the 2026 financial year, we do so with good momentum carried forward from our strong FY2025 performance. This continued progress is a direct result of our data-led strategy, which underpinned our performance for the quarter.

Our unwavering focus on operational excellence across all business units, along with our OneTelkom ways of winning, has enabled us to sustain our performance and we remain focused on delivering results as we build the backbone of South Africa's digital future.

These solid Telkom Group results were disappointingly affected by BCX's performance, with BCX's revenue declining by 8.3% while its annuity-based revenue remained flat. Aligned with our focus of delivering results and maintaining our say-do ratio, a specialised team has been put in place to continue its work and to foster an effective BCX delivery, driven on people, strategy and proposition execution.

The continued effective execution of our data-led strategy, cushioned Group revenue. As a result. Group data revenue grew by 7.1% and represented almost 60% of total Group revenue. Mobile data revenue increased by 9.6%. Openserve fibre data revenue grew by 11.3%. BCX fibre-related revenue within Converged Communications, improved by 6.8%. It is the performance of data revenue that gives us confidence that, we are heading in the right direction to achieve our new medium-term guidance of mid-single digit growth. Group EBITDA advanced 6.5%, at an EBITDA margin of 25.9%. Nonku will touch more on EBITDA and margins of our various BUs later.

We received R158 million in proceeds during the quarter from 8 out of the 30 properties that were in the conveyancing process at the end of FY2025. The remainder of the properties with a sales value of R121 million, remain in the conveyancing process and we expect to receive the cash during the year.

We would like to reiterate that we don't anticipate the disposal of non-core properties to be significant going forward. They will be reliant on the decommissioning and exit of properties by Openserve.

With that, let's take a closer look at operational results for each of our business units, starting with the Mobile business. Mobile service revenue grew by 7.8%, tapering down in line with our expectations and as indicated when we engaged with you in June, due to a higher base we're growing from for the prior period, along with an intensified competitive landscape.

The business now boosts 17.2 million data subscribers, comprising 72.1% of the total subscriber base. 1.9 million mobile data subscribers were added in Q1 alone. Pre-paid subscribers continued to grow robustly. The pre-paid ARPU was at R58, and it reflects the continued growth, higher-volume non-metro regions. Concurrently, the share of acquisitions in the under serviced regions improved by 5.4%. While growth in non-metro regions may dilute pre-paid ARPU, the priority remains driving recharge activity, to grow service revenue. Post-paid subscribers increased marginally, with the ARPU for this base improving to R187. Mobile data traffic grew by 15.9%, as we maintain a high conversion rate of traffic to data revenue.

Openserve recorded overall revenue growth of 2.8%, as fibre data revenue grew by R254 million. Fibre revenue contributed 86% towards operating revenue. External revenue increased by 5.9%, driven by a 9.3% growth in fibre products and services. Customer experience continues to be central for Openserve, as its world class Interaction Net Promoter Score improved to 80.1 from 72.3 at the end of March.

BCX is focused on the transformation to higher-margin, recurring IT and fibre-led services. To this end, fibre-related data revenue grew to now comprise 89% of data services. In the IT business, the reduction of exposure in hardware and software sales, which declined 9.8%, aligned with our shift to scalable, service-based revenue. The IT services revenue decrease reflected resilient client demand in a tough environment. BCX is gaining share in high-value segments.

Shifting to capex, we invested R1.1 billion in the first quarter and our smart capex deployment led to: 56 mobile sites being added. 36k homes passed and 29k homes connected during the quarter, resulting in the connectivity rate improving to 51.1%. This means we connected around 80% of the homes we passed this quarter, obviously with a portion from old inventory. The capex was primarily invested to expand the Mobile and fibre networks and to modernise the Openserve network. Although capex declined by 32.8% year-on-year, this was partly due to higher capex in Q4 FY2025, particularly in the Consumer business. We foresee capex largely realigning to our typical year-on-year investment trajectory, as the financial year progresses.

Although capex intensity for the first quarter is at 10.2%, we do anticipate being within our guided range of 12%-15% by the end of FY2026. Nonku will now take you through the financial performance and I will come back to conclude.

Nonkululeko Dlamini

Thank you, Serame and welcome to the call everyone. Let me start with revenue performance for the quarter. Our Group revenue grew to R10.8 billion in the first quarter and it was driven by data revenue growth. Telkom Consumer revenue increased by 5.5% to approximately R7.0 billion. Mobile revenue grew 7.2% to R6.1 billion and it was driven by mobile service revenue growth. Openserve overall revenue increased to R3.1 billion while BCX revenue declined by 8.3% as indicated by Serame earlier. Group EBITDA increased to R2.8 billion and Group EBITDA margin excluding property sales improved to 24.7%, highlighting the strength of our underlying operations.

The performance of EBITDA and EBITDA margin was as follows at a BU level. Telkom Consumer EBITDA grew by 18.5% to R1.4 billion, leading to an EBITDA margin of 20.5%. Mobile EBITDA saw growth of 5.8% to R1.6 billion, attributable to service revenue growth, resulting in an EBITDA margin of 26.4%. Openserve EBITDA increased marginally by 0.9% to R1.0 billion, while EBITDA margin contracted slightly to 32.8% year-on-year.

The BCX EBITDA decrease to R189 million and margin compression to 6.5%, were primarily driven by the revenue decline. The margin compression for BCX was partly offset by cost efficiencies from the FY2025 cost initiatives, which supported operational expenditure reducing by 11.9%. Mobile and Openserve delivered solid EBITDA margins in Q1, however, we recognize the need for continued focus and execution to enhance the margin of BCX.

Our financial position remains strong following the settlement of R4.8 billion interest-bearing debt post-year end, from the R6.6 billion proceeds from the Swiftnet disposal concluded in FY2025. The remainder of proceeds have been retained to maintain financial flexibility for growth opportunities without compromising our resilience. We concluded a handset sale during the quarter and we continue to target R800 million to R1 billion for FY2026 in handset receivables. Thank you and I now hand over back to Serame to conclude.

Serame Taukobong

Thank you, Madam Nonku. To conclude, this is the first quarter of our financial year, and while we are encouraged with the momentum that we have carried forward from the previous year, we remain firmly committed to delivering on the targets we have set for F26 and in the immediate term. We believe our data-led strategy will remain the foundation of our performance as we reinforce our position as South Africa's digital backbone.

Revenue is receiving heightened attention and we are laser focused to uplift in line with our medium term guidance. We will continue optimising selling channels, improving customer experience on our networks and providing customer-centric value through flexible and affordable offerings. I will now hand over to the operator to open up for Q&A's. Thank you.

Operator

Thank you, sir. Ladies and gentlemen, if you would like to ask a question, you are welcome to 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 however wish to withdraw your question, you may press * and then 2 to remove yourself from the question queue. Once again, if you would like to ask a question, please press * and then 1. The first question we have is from Preshendran Odayar of 361. Please go ahead.

Preshendran Odayar

Good afternoon, everyone, and congratulations on the results. I've got three questions if I can, Serame and team. Firstly, just on BCX, can we expect more pain for the rest of the year? I know you guys are focusing on the higher margin revenue opportunities, which is your cloud and your hosting, but it doesn't seem to be materialising in terms of your actual EBITDA that you achieve. So, other than the cost optimisation initiatives, which I know you guys are very good at doing, what else can be done to actually improve the profitability of BCX? If you can give us some plans on what you're going to do and what we can expect for the rest of the year.

Then on capex, it seemed quite low for the quarter. Is there an expected ramp up for the rest of the year? Is there any particular reason it was relatively soft for this first quarter? And I'm going to take my chance on this one. I know you guys don't disclose balance sheet metrics, but thinking about your lower capex, your working capital, lower debt, your free cash flow generation looks to be quite strong. And that probably ties into your gearing, which, by my numbers, look like it's the lowest of all the listed telcos in SA. I mean, is that right? Could you share what your gearing is at the end of the quarter if possible? Thanks.

Serame Taukobong

Thanks, Presh. Can I take one or two questions, operator?

Operator

The next question we have is from Madi Singh of HSBC. Please go ahead.

Madhvendra Singh

Thanks for taking the question. I have two quick ones hopefully. The first one is on BCX as well. As you know, we see some stabilisation in BCX performance, then we have l another weak quarter. I know that you had said in the past, the recent past, that you are not looking to monetise it. As such, you're focusing on changing the business and structurally fixing it. I wonder whether that is still the view and you are not looking to monetise the asset at all, because I think from a market perspective, this remains probably one of the last underperforming units within the business. So, wondering if there is any change in the view there on BCX.

And then, secondly, I just wanted to hear your views on the prepaid market. I think the quarter itself, you again outperformed the peers, but your growth run rate seems to be coming down somewhat, from a double digit run rate to now high single. So, just wondering whether that means do you need to change any strategy here, or you are happy with the high single digit growth here, and you will continue with the current strategy of keeping the price differential with the competition. These two questions. Thank you.

Serame Taukobong

Thank you. Okay. So, let me talk to them. BCX overall. I think you and Presh asked the same question in terms of BCX. As I said, we have got a team in place. We are looking at BCX from quite a broad context in terms of people, strategy, execution. And as a part of the ongoing work of this we will make the right calls that align with our strategy accordingly based on those principles.

So, that is key for us that it is important that as a One Telkom proposition we all [unclear] the programme wholeheartedly and we are driving the focus to make sure. So, Presh, to your point, yes, it has been not the best part of the quarter but we do foresee that in the principles that we put forward along the lines of people, strategy, and process, particularly in a strategy execution, the big focus is on making sure that we deliver what is required of it.

I will talk to capex, which is also a point that you raised. The capex ramp-up will certainly, as I indicated, be in line for the year end to the 12% to 15% guidance that we've given. It is a function of seasonality in Q1, so we are comfortable with that capex growth. I will take Madi. In your principle you talked about prepaid. I think the key thing for us is yes, as we get into the market, that as the base gets bigger, we will see that revenue run rate coming down somewhat. But I think still at that high levels we're seeing right now, it is still quite ahead of market growth.

What's important for us is a couple of things. One is the type of acquisition that we are getting, which is important to be sure that we do maintain our data share of revenue at the highest levels. And that's a big focus for us. We continue to monitor for instance our daily recharges, which actually have been consistent and hitting to the levels that we want. So, as the base is growing bigger we are obviously experiencing the tempered growth that we see. It is still at high single digits, far higher than the market growth. And the key thing for us is to maintain that true growth without us diluting significantly that ARPU. If you look at the fact that we've grown our subscriber numbers by almost close to 2 million yet maintaining an ARPU drop of just under R2 over a quarter, and 6% year on year, that still shows the fact that the guys are continuing to make sure that we mine those new subscribers as they come in and get that data usage up to the right levels. Nonku, I think there was a question on balance sheet. Presh covered those.

Nonkululeko Dlamini

Yes. Thank you, Serame. So, Presh, on the balance sheet, and if we just go back to the year-end, the significant movement in the quarter would have been on the receipt of the proceeds at the last three days of the financial year and last year. We would have then in the financial year, the quarter, paid R4.75 billion of the proceeds to the debt that we had identified to be prepaid. And significantly, we had maturities that were largely in the first quarter, and we then settled those, which then resulted in us not having to raise any new debt. So, from the debt perspective, that is stable and we have paid back and even prepaid from the proceeds.

And then from the EBITDA level, as we have indicated here, there is 6.5% growth in EBITDA. So, it has not really changed much in our net debt to EBITDA level to any worse positions. We are fairly stable today. So, the free cash flow impact from where we are is largely going to align to what we said at the year-end where we indicated that we are driving towards a free cash flow position that will be stable and continue in the positive trajectory and largely driven by the performance that we are driving for the financial year.

The capex element is built in there, as Serame has indicated for the full year, and therefore there isn't any significant big numbers we would expect from there to change the free cash flow position as indicated. So, net debt to EBITDA is fairly stable as reported at year-end. Free cash flow, as we indicated, the expectation from year end is a fairly stable trajectory. And the once off elements we had built in, as an example, we spoke about the Google transaction which was last year and we indicated that it was not repeating, and that it is indeed not repeating. And there were once-off BXC costs. And in the new year, what we have then done was to build in the cash outflow expectation from having Swiftnet as an external entity.

Serame Taukobong

Have we covered you guys?

Operator

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

Jonathan Kennedy-Good

Good afternoon and thanks for the opportunity to ask questions. I just wanted to check in with you on your mobile data subscriber numbers. Those were up almost 2 million quarter on quarter, which seems to outpace the general subscriber growth by some margin. I’m just wondering what's driving that uptake. It must be within your base, I would think. And whether there are specific products that are driving that trend. And then just a question on I noticed there was some pricing pieces on the mobile side that got passed not too long ago. How have those been received by the market and are they accelerating revenue growth at the moment? Can you comment on that or provide any colour on that? Thank you.

Serame Taukobong

Sorry Jonathan, I didn't get the last question quite clearly.

Jonathan Kennedy-Good

So, the question was around pricing pieces that were put through by Telkom Mobile recently and how those are being received in the market. Are you seeing any churn elasticity changes or is it translating into stronger revenue growth?

Serame Taukobong

Thank you. Are we taking one question or are we taking two?

Operator

Jonathan, do you have any other questions?

Serame Taukobong

Or anybody else?

Jonathan Kennedy-Good

I had two questions there. Did they hear the first one?

Serame Taukobong

Yes, we did.

Operator

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

Nadim Mohamed

Good afternoon. Thanks for the opportunity to ask questions. Just two from my side, or rather three if I can. If I look at fixed data revenue, that did decelerate quite significantly to a growth rate of 2.7% year on year. Can you help us unpack that because my understanding is a lot of it was driven by fibre, so I would just like to understand where the detractors are on that growth rate.

Secondly, just unpack the strategy around regional activation. It seems like you do quite well in terms of gaining share in terms of those regional activations and the [unclear]. A sense of how that's playing out and what the strategy is there. And then lastly, just a follow on or add on to Jonathan's question, just on those price hikes Telkom put through, I noticed that the social bundles were included in that, especially lower value social bundles. Could you give us a sense of the thinking behind that? We thought that that was quite a sensitive area of the market and raising prices there might be quite risky. Thank you.

Serame Taukobong

Thank you. So, I'll take those two questions equally. So, if you take on the data subs, Jonathan, it is driven actually to probably Nadim’s questions, which is on the regional activation. So, what can I do in a mobile ecosystem without giving away [unclear]? It is quite a focussed approach to say where we've got mobile network capacity and we have a regional distribution of conference capacity, we align all those together to make sure [break in audio]. We've got a mobile network that is currently underutilised, which is in the regions. We are expanding outside. And we go then and require [break in audio] away from 2G and looking for 4G propositions. And that's where we're getting this attractive growth of those customers coming in.

Now, the key thing is bringing those customers in and as quickly as possible then because of the Mo'Nice propositions and active base management we then move those subscribers, watching particularly our 7 day active ratio, to keep those subscribers in the higher range. So, that's the insight that's driving those subscribers. So, it is moving predominantly competition's 2G voice subscriber to data, which is where you're seeing that lower ARPU lag. But it's intentional because we're taking the top end of that 2G voice in that regard. So, that talks to the regional activation and I guess the [unclear].

In the price bundles, as we indicated, where would we take price increases? It would be in the areas where we see that there is elasticity to respond to those price increases. And unlike taking a blanket inflation type 5% increase across the board, we have been selective in where we've taken the price increase. And so far the trends are showing that customers have not been too violently opposed to that. Yes, we've seen some customers who were not happy with that price increase, but overall, we're seeing that the continued growth both in data traffic and data revenue is in line with our expectations. So, those price increases were not too negatively received in that market.

You talk of fixed data revenue decline. The fixed data revenue decline that you referred to then would be the legacy fixed data revenue decline, which is intentional as you're moving from copper based or legacy based technology to fibre. So, that is predominantly us attacking ourselves. So, it is a managed decline because we are migrating those customers from your legacy copper to your next generation type propositions. And that's why you're seeing that your fibre revenue overall has improved and grown. Did I cover all the questions? Have I covered you both, Nadim and Jonathan?

Nadim Mohamed

Yeah, I think in general, more about those social bundles and how sensitive those are.

Serame Taukobong

Yeah. As we were saying, we were taking price increases. It's not across all the social bundles, but in some there was an increase. But obviously in the lower price points they were not too happy with the price increase. And we've seen it in the response to market. The data volume is still growing and the value is still growing in line with that. So, it's within a comfortable range that we wanted to go for. Did I cover you there?

Operator

Ladies and gentlemen, just a final reminder, if you would like to ask a question, please press * and then 1. We will pause a moment to see if we have any further questions. It seems at this moment we have no further questions on the lines and I would like to hand back to Serame for any closing remarks.

Serame Taukobong

Thank you very much for that. Once again, thank you for joining us on the call, and most importantly for your continued interest in Telkom. We will be meeting with some of you tomorrow and the next few days. But please, if there are any further questions, do send through to our team and we will try to respond as quickly as possible. And do have an amazing afternoon further. Thank you very much.

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

END OF TRANSCRIPT