

Conference call transcript

16 February 2026

Q3 2026 TRADING UPDATE

Operator

Good afternoon to everyone who has joined. Welcome to Telkom SA Limited's Q3 FY 2026 trading update. All attendees will be in listen-only mode. There will be an opportunity to ask questions when prompted. If you should need assistance during the call, please signal an operator by keying in * and then 0. Please note that this event is being recorded. I will now hand you over to Kamohelo Selepe of investor relations. Please go ahead.

Kamohelo Selepe

Thank you, Judith. Good afternoon. Welcome to our conference call for the third quarter of FY 2026. My name is Kamohelo. I'm part of the investor relations team at Telkom. In the morning today, we released our trading update for the third quarter ended 31 December 2025, which also covers our year-to-date performance. It can be found on our investor relations website, and we hope you had a chance to go through it. In the room with me for this call are our Group CEO, Mr Serame Taukobong, and our group's CFO, Mrs Nonkululeko Dlamini. They will be taking you through the key highlights of today's announcement, largely covering our year-to-date performance.

Mr Taukobong will touch on our original performance, while Mrs Dlamini will walk you through our financial performance. Our group CEO will then come back to conclude. We'll then move to the Q&A session to take questions you may have for us. After the Q&A session, Mr Taukobong will provide closing remarks. Before I hand over to our group CEO, please note that all financial metrics and growth rates referenced in this call are year-on-year for the third quarter and year-to-date, and that is Q3 FY2026 compared to Q3 FY2025. For year-to-date, it is the nine-month period ended 31 December 2025 against the nine months ended 31 December 2024. Furthermore, the normal disclaimer in terms of our forward-looking statements applies for this call, and it is included in our trading updates. With that, I will now hand over to our group CEO. Over to you, sir.

Serame Taukobong

Thank you, Kamo. And a quality good afternoon to all of us joining on the call today. I'd like to welcome all our analysts, investors, and various stakeholders who have dialled in today. Your continued interest in Telkom is much appreciated. We are delighted to announce that we have been certified as a top employer for 2026, our fourth consecutive year of this prestigious recognition. The disciplined execution

of our data-led strategy continue to deliver quality data revenue growth, demonstrating our strength as South Africa's digital backbone and our competitive edge with our One Telkom approach.

As a result, we sustained the data-led strategy growth year to date, leading to group data revenue growing by 8.5% to contribute 60% to total revenue. Fibre-related data revenue at group level increasing by 11.1%, and mobile data revenue improving by 11.2%. Group revenue year to date grew by 2.7%, mainly driven by our data-led strategy, but offset by revenue decline in BCX. Continued cost focus initiatives resulted in Group EBITDA increasing by 7.8%, with EBITDA margin expanding to 27.9%. Madam Nonku will update and unpack EBITDA and margins of our business units later.

Looking at capex, we invested R1.3 billion for the quarter, which resulted in 150 sites being added in the quarter, close to 48,000 homes passed, and equally 30,000 homes connected during the quarter, with the industry-leading connectivity rate remaining at a robust 52.4%. We continued to invest to primarily expand capacity and upgrade base stations in the mobile division, whilst for Openserve, the expansion was to focus on expanding and modernising the network.

Our capex investment amounted to R4.2 billion year to date, at an intensity ratio of 12.6. Thus, for the financial year so far, we've added 356 mobile sites to cater for the prepaid growth we're experiencing, passed approximately 122,000 homes, and connected around 92,000 homes. The investment has also resulted in Openserve continuing to maintain exceptional network reliability, leading to an uptime of 99.84%, 99.92% and 100% across access, transport, and core networks respectively.

On property disposals, six properties were transferred during the quarter and received R6 million in proceeds. As a result, 21 properties have transferred year to date, receiving R243 million in the proceeds. Nine properties at a sales value of R66 million remain in the conveyancing process. There is one property at an estimated sales value of R49 million that we expect to transfer in F27. The delay in transferring this particular property emanates from the subdivision subsequent to its disposal, which requires multiple submissions to the council in the municipality concerned.

Let me now move to the performance of our business units, starting with the mobile business. Mobile service revenue expanded by 7.6% year to date, driven by the prepaid service revenue growth of 11.1%, which was powered by our customer value management, our CVM propositions, Mo'Nice, and more recently, Mo'Town, which both collectively contribute to 50.3% of prepaid service revenue. Our under-indexed regions continue to improve, driven by our focused regional activation efforts and our Mo'Town CVM initiative, as we expand our regional network presence too.

Our mobile business now exceeds 25 million subscribers. Mobile data subscribers increased by 29.3% to 19.3 million, to now represent 76.5% of the total subscriber base. Prepaid subscribers grew to 22.2 million at a stable ARPU of R61. Post-paid subscribers increased marginally, with an ARPU improving to R187 compared to the prior period. Mobile data traffic grew by 20.4% to 544 petabytes, and we continue to maintain a high conversion rate of traffic to data revenue.

In Openserve, overall revenue grew for the third consecutive quarter with year to date revenue increasing by 2.5%. Fibre-related data revenue improved by 9.6% year to date. The broadband segment grew by 6.9%, while the enterprise and carrier segment revenue rose by 15.4% and 4.2% respectively. External revenue increased by 10.7%. Openserve's interaction net promoter score remained strong at 79.2.

In BCX, revenue declined 5.9% year to date, reflecting the continued market pressure as the business navigates cautious enterprise spend and revenue strain in the converged communications. The IT services revenue declined by 4.8% year to date due to the constrained enterprise spend, lengthy sales cycles, and delays in project implementation in certain clients. Hardware and software revenue increased by 5.6% and the strategy to curtail low margin revenue in this segment continues.

Cyber security services revenue increased by 13.2% while performance remained under pressure for cloud. Converged communication revenue declined by 13.5% year to date. due to the ongoing managed migration to fibre-based platforms, reduced usage, and line rental revenue. The businesses experienced overall demand pressure for fibre-related platforms in the third quarter. Nonku will now take you through the financial performance, and I'll come back to conclude.

Nonkululeko Dlamini

Thank you, Serame, and good afternoon to everyone on the call. I'll start with the revenue performance. Our group revenue grew to R33.2 billion year to date and driven by the data revenue growth. Telkom Consumer revenue increased by 5.7% to R21.7 billion. Mobile revenue grew 7.1% to R19.4 billion and it was driven by the mobile service revenue growth. Openserve overall revenue improved to R9.5 billion supported by the fibre monetisation. BCX revenue, however, declined to R8.5 billion, and Serame has unpacked some of the elements and the drivers thereof. Group EBITDA increased to R9.3 billion year to date, and group EBITDA margin, excluding property sales, improved to 27.3% on the back of our cost optimisation initiatives.

The performance of EBITDA and EBITDA margin was as follows at BU level. Telkom Consumer EBITDA grew by 19.9% to R4.9 billion resulting in an EBITDA margin of 22.6%. Mobile EBITDA increased by 10.9% to R5.5 billion due to service revenue growth while impairments declined on our receivable. This led to an EBITDA margin of 28.3%. Openserve EBITDA increased by 1.4% to R3.2 billion, largely driven by revenue uplift at an EBITDA margin of 33.7%. BCX EBITDA declined by 13.6% to R856 million as management of cost was not sufficient to offset the lower performance in the higher margin IT services and converged communication. EBITDA margin for BCX was stable at 10.1% compared to the first half that we reported in the financial year. I'll hand back to Sir Rami to conclude.

Serame Taukobong

Thank you, Madam Nonku. Before stepping into outlook, I thought I'd touch on a topical regulatory item. On the 23rd of January, ICASA published the new regulations to the End User Subscriber Service Charter relating to bundles, rollover, and transfers. The regulations will be effective in January 2027, following a 12-month implementation period. During this period, we will analyse the regulations, assess our product portfolio, and network capacity for potential impact. We will also engage with the regulator on a consultative basis on these regulations.

We appreciate that the regulator considered some of our inputs, like the exclusion of bundles that are seven days or less. Regarding our bundles, some of them, including FWA, currently have a validity of 60 days, and have been structured this way for several years. We also have data packages, including some of our 5G packages, with a 14-day validity, which are essentially seven-day bundles. As a result, we've been providing customers with an additional seven days, and we'll have to review them. However, a significant portion of our bundles especially on our CVM platform, currently have a validity of less than seven days.

Moving on to the outlook, we remain committed to delivering our medium-term guidance objectives. Revenue continues to receive focused attention, and we are encouraged by the solid performance of data revenue, which aligns to our data-led strategy and remains a key driver of growth. Our mobile business will continue to drive service revenue growth, particularly in prepaid, and executing on the regional strategy to further increase our market share in non-metro regions, strongly supported by our CVM propositions and more town expansion.

Openserve will remain the focus of growing revenue across broadband, enterprise and carrier services, and continue to extend fibre connectivity to homes to sustain the industry -leading connectivity rate. Focused management actions remain in place in BCX, to support operational stabilisation and margin discipline. The business continues to navigate cautious enterprise spending as clients contain costs while progressing its planned portfolio and revenue transitions.

As I've indicated in our trading update, this coincides with the retirement of Mr Jonas Bogoshi, CEO of BCX. The incoming leadership will be responsible for accelerating the transformation initiatives that define our path forward. We have appointed Hasnain Motlekar as Acting Chief Executive for BCX, with effect from 1st March 2026. Hasnain has been with the group for over 28 years, with experience spanning both commercial and financial roles across the business. We thank Jonas for his leadership and wish him well in his transition into retirement. We will continue to reinforce our position as South Africa's digital backbone, executing and delivering as One Telkom. I will now hand over to the operator to open the line for Q&A.

Operator

Thank you, sir. Ladies and gentlemen, we will now be conducting the question and answer session. If you'd like to ask a question, please key in * and then 1 on your telephone keypad. A confirmation tone will indicate that your line is in the question queue. You may key in * and then 2 to exit the question queue. Just a reminder, if you'd like to ask a question, you're welcome to key in * and then 1. Our first question comes from Jonathan Kennedy-Good of Prescient Securities. Please go ahead.

Jonathan Kennedy-Good

Good afternoon and congrats on the results. I just wanted to get a sense of whether we can expect similar kind of incremental acceleration in prepaid service revenue growth. By the looks of things, your market share continues to grow, and I'm just trying to understand whether there's any potential pressure on pricing over the short term. And then just to follow up on BCX on the converged communication side. Is that mainly due to conversion of existing clients onto fibre-based products at lower pricing, or are you losing customers there as well? Thank you.

Serame Taukobong

Thank you. We'll take one more question.

Operator

Thank you, sir. The next question comes from Jono Bradley of Absa. Please go ahead.

Jono Bradley

Good afternoon and thanks for taking my questions. If I can just start with two, please. Just on the Telkom mobile margin improvement of around two or so percentage points, there's a portion from higher sales growth and then also from lower impairments from your statement. I just want to confirm, was it a reversal of impairments that's lifting the margin or just lower ECLs recognised year on year? And then

secondly, just on BCX, quite a bit of a reversal from the second quarter trends. Would you be able to give some colour on the fourth quarter so far? Has there been a noticeable improvement in the sales cycles at the start of this year, some of those delayed projects may be coming online, or is it much the same so far? Thanks.

Serame Taukobong

Thank you. So, let me start with Jonathan's questions. The pricing growth, I think on the prepaid side, we see us holding steady. I think we've seen market response come through. But what's been encouraging for us is what's been driving the growth for us is our CVM propositions, both in terms of Mo'Nice and Mo'Town. So, that's us really kicking in the CVM engine, a combination of also rolling out our AI as we expand our regional network and tapping into those areas where we've been under-indexed, we're able to offer those propositions. So, that's holding quite steady for us, Jonathan, despite the reaction we've seen from the market. So, we're quite happy with that.

In the converged comms you are absolutely right, it is the intentional migration from legacy to fibre. And as we've indicated, that does come at a lower margin because you don't have the monthly rental fee, plus obviously then the pricing point of fibre comes in lower than the legacy copper. But the trick now is to get the One Telkom team to come in, is that as you lay the fibre now offer more IT services coming through to that.

Jono, it then talks to what we see in BCX. I think it's holding at the same pattern. I don't think it's a reversal as such. The first quarter of the financial year, which is our third quarter, is usually a slow sales year in BCX patterns, so we're seeing the same trend holding, certainly in the first two months of the calendar year. The guys will be chasing quite hard, focusing more on collections and executing of those projects. Now, the way the BCX revenue works is that as the project is executed, that's only when you recognise the revenue. Do you want to comment on the margins on mobile?

Nonkululeko Dlamini

Yes. Thank you, Serame. Yes, Jono. On the ECLs specifically, we continually do a recalculation and a check on our ECL provision requirements based on what's coming through. And as we've indicated, we've focused on ensuring that our vetting processes are ensuring a better quality customer. And it has resulted in not necessarily a reversal, but rather a continued improvement in terms of what we see coming through in our customer base and therefore a positive impact in the income statement in terms of the required ECL level.

Serame Taukobong

I hope that covers you both, gentlemen.

Operator

Our next question comes from Nadim Mohamed of SBG Securities. Please go ahead.

Nadim Mohamed

Good afternoon, Serame, Nonku and team. Well done on a good set of results. Three questions from my side. Just on mobile, it seems like the percentage of your subscribers that is using data has grown quite impressively over the last few quarters, I think over the last three quarters about 10 percentage points from 66% to 70% of your base on data. I just want to understand what's the underlying dynamic there and what's driving that.

And then just on BCX, I just want to dial in on the fibre-related data. It seems like there was a little bit of a turnaround in that the growth on the fibre-related data turned negative in the quarter. Was that a one-off or is there something else going on there? And then just lastly, on your EBITDA margins, it seems like for the nine months the EBITDA you've done 27.9%, which is well above your median term guidance. Are you thinking of upgrading and how are you thinking about your future margin going forward from here?

Serame Taukobong

Thanks Nadim. I think if we look at the data growth, it is maintaining what's the trend. One, as we add more of our regional sites, a combination of that, our regional-based CVM, the expansion of the Mo'Town proposition, which is predominantly data-based, that is driving that uptake and growth in data. And you are seeing it in the prepaid ARPU also starting to show. If you look at the quarter on quarter trend, I think at mid last year, we're sitting at 58. That's now coming back to 51. As we indicated, as we switch on that CVM plus smart AI, that's what's driving that growth.

That BCX decline, as we said, is driven more on execution. So, it's a once-off, and we continue to drive it and move it forward. The margins, Nadim, this is a medium-term guidance. As I indicated when we last spoke to you, we are in year one of that guidance. It is a function of all three engines kicking into play. So yes, if I had to take the quarter at an EBITDA of 29% at group level, you would all be screaming at us to change that. That was for the quarter. At year to date, it's 27.1%. And remember that EBITDA is all three engines kicking in in line. So, we need to make sure that that group guidance is a combination of all three businesses contributing to the guidance that we've been given. So, it's still early days for that to be reviewed, Nadim.

Operator

Our next question comes from Madhvendra Singh of HSBC. Please go ahead.

Madhvendra Singh

Yes, hi. Thanks a lot for taking my questions. And once again, congrats on a great set of results. I have two questions. The first question is on the prepaid performance, another very strong quarter. So, it seems like your strategy is working very well for you. So, is there any change planned at all in your approach to prepaid segment? And should we expect similar growth continuing in the segment? If you could talk about that. And also, I think I missed the post-paid growth, so if you could talk about how much was the post-paid growth in the quarter. And then second question is on your comment about the new data regulations from the regulator. I wonder, have you done any impact analysis for yourselves, and do you see any scope for rollback of these directives? Thank you.

Serame Taukobong

Thank you, Madhvendra. I think in terms of the prepaid, the strategy is working. I think for us it's to continue expanding and rolling it out as we have been. So, at this point in time, there is no plan to change the strategy, but to continue rolling it out. And as we said, the thrust of it has been the regional expansion, rolling out the CVM engine more, making sure that we keep a close eye on that ARPU, and balanced and responsible acquisition to focus on our daily recharges, which is a key indicator for us, and keeping that active base management going forward.

Post-paid, I think the post-paid, quarter to quarter, we saw much better improvement in the ARPU. It's also looking, making sure that it's driving more affordability in terms of the device change, because as we indicated, we looked at better ranging, making sure that we align the right package to the right price

points, so make sure that nobody's buying an iPhone on a lower-end package. So, that strategy continues.

On the regulations, the impact, as I've indicated, Madhvendra, is to look at, one, a significant portion of our CVM propositions are under seven-day validity. We will continue to study, especially on the higher-validity days and the impact thereof, along with the industry. In terms of the ability to reverse, that is the ongoing engagements, not just Telkom alone, but as an industry. Those are the engagements that we are having with ICASA and the regulator. And as I said, those are effective in January 2027, and we will continue those active engagements. But at least the regulator has been considerate and hearing of the inputs from the industry as a whole. I hope that covers you, squire.

Operator

Thank you. The next question comes from Preshendran Odayar of 361 Asset Management. Please go ahead.

Preshendran Odayar

Hi, good afternoon, everyone, and congrats on the results. I've got three questions from my side. First, can you please unpack the performance of Openserve? Your fibre, which is 87% of top line, grew at 8.7%, whereas overall Openserve revenue only grew at 2.2%. So, I'm assuming the drag is copper. But I mean, how bad was it? And when can this copper legacy business be negligible? Because that seemed to drag you down quite a bit.

Second question, Nonku, I'm going to try my luck here. I know you don't give balance sheet items at this quarterly update, but can you give us a sense of what your gearing and free cash flow is at the end of the quarter? And then lastly, on to BCX, I mean, firstly, congrats to Hasnain. I must say, Serame, you've done a really good job with managing talent within the organisation with Beauty, Hasnain, Kamal.

But the question on BCX is, it's tough. I just want to know, what can you tangibly do to save this business? You've got your revenue going backwards. You're cutting the low margin business, but your margins are still going backwards. Software as a service globally is declining with AI. Data centres, while they are great to have the dual redundancy on the site, it seems like technology has moved on from that to now have multiple location redundancies. So, I'm just trying to get my head around what can you tangibly do or what magic does Hasnain still have in his bag after 28 years that he can sprinkle over this business to turn it around? Thanks.

Serame Taukobong

Excellent. Presh, you haven't got three questions. You've almost got 10. But I will try to answer as many as I can. So, if you look at Openserve, you look at the fibre and the components of all those revenues adding up to the top line. So, you are right in that, yes, at the top line it does translate to 2.2%. But you also have got to look at then the decline in the voice as well. So, that's significant converged comms waste which you see it in the BCX converged comm of almost R400 million, does eventually also have that drag down in Openserve. So, as we are, yes, detaching ourselves from that, it still does have that overhang on the Openserve side.

So, if you see it all the way through, that's where you start seeing that impact of it coming through in the mix. So, when you see it in the back, in the detail, you will see that voice revenue coming down overall. It does hit the factory, which is where it's being produced in Openserve. So, yes, we've now swung it more positive from a [unclear] side, but that's a big thrust of saying, how do we make up more of that

revenue on the fibre side, so that we are totally out of that drag of the voice? So, that's the first one. I'll let Nonku answer the second one.

But let me give you a thrust in terms of this is not just for BCX. It's really not a Hasnain one-man job. It really is talking to the One Telkom standing behind us in that. So, your analysis is spot on. BCX is undergoing exactly what its industry peers are going through, and it's how do we solve for this as a One Telkom and continue to do so. So yes, the internal intrinsics we've done or are doing to focus on cost, but it's looking at the external focus areas and say, what businesses do we need to get out of? And also, what businesses do we also need to start amplifying?

So, managed services, everybody's under the same pressure in managed services, because the shape of SI or system integrators like BCX is no longer the same shape of 2026. Equally, as I've said, you're looking at hyperscalers, so your Microsofts etc., are beginning to compete with us in the same ecosystem. That being said, if we look at what they don't have, what they don't have is connectivity, which is our core. If we can start increasing in emerging for instance, the government premises or those type of premises where we're extracting the copper, upgrading those premises now to fibre, can we now start selling more IT solutions to those ecosystems?

Because we've not done as good a job in getting those ecosystems where we remove the copper, move them to fibre, and sell better IT solutions and services in there. And that's what, for instance, Hasnain has been working on in the past 8 to 12 months, in converting that converged comms from a copper base to a fibre base. Now can we sell more IT solutions in that ecosystem, but equally get out of the low-margin businesses that are dragging down in BCX? So, that is part of the journey that we are now amplifying and trying to pivot BCX to. I hope that covers you, Presh. I think the second one was the balance sheet.

Nonkululeko Dlamini

Yes. Thank you, Serame. So, Presh, on the balance sheet, let's just start with the gearing. We've focused on ensuring that from the borrowing perspectives, we to pay back whatever was due in terms of whatever was amortising in the financial year. You'd recall in H1, we had dealt with most debts in April already of the financial year, so we've dealt with whatever was due in the quarter.

Secondly, in the gearing as well, with the Swiftnet now being external, we've had to cater for the lease liabilities as required. So, there's that element that came in as debt. But in terms of the gearing overall, it remained fairly stable in line with what we reported at H1. And for the year, we don't think that there will necessarily be much movement to any bigger gearing level in the financial year.

When you move to then free cash flow, what we are working on here, we've continued to monetise the handset by ensuring that where we are comfortable to sell the book, we've done that. And I think we had guided the market to target R800 million to R1 billion. So, we will probably be in that range or a little bit better. So, there is collections that we are driving in the business.

But also, we indicated at H1 that it's important for us that as we continue to improve in our prepaid, we strengthen the network and the infrastructure. And therefore, what you will see is that we continue to invest in our capex requirements, but still within guidance, which will be probably at the upper end of our 12 to 15 guidance that was given. So, those are some of the elements that we are focusing to manage for free cash flow purposes. And as you correctly say, we don't guide, but we are continuing to keep a sharp eye and a focus on our free cash flow performance for the year. Thanks, Presh.

Operator

Thank you. Ladies and gentlemen, with no further questions in the question queue, we have reached the end of the Q&A session. I will now hand back for closing remarks.

Serame Taukobong

Thank you very much. Thank you for joining us and thank you again for your continued interest in Telkom. We will be meeting some of you tomorrow. And do have a quality afternoon. Thank you.

Operator

Ladies and gentlemen, that concludes today's event. Thank you for joining us and you may now disconnect your line.

END OF TRANSCRIPT