

Conference call transcript

31 March 2025

SELL SIDE ANALYST PRE-CLOSE UPDATE

Operator

Good day ladies, and gentlemen, and welcome to the Telkom sell side analyst pre-close conference. 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 turn the conference over to Nondyebo Mqulwana. Please go ahead.

Nondyebo Mqulwana

Thank you, Irene. Good afternoon, everyone, and welcome to our pre-close conference call. My name is Nondyebo, and I'm Head of Investor Relations at Telkom. Today we will provide trends for the 11 months ended at the 28th of Feb, which is the year to date, before we go into closed period ahead of the announcement of our full year results on or about 10th of June. Our group CEO, Serame Taukobong and group CFO, Nonkululeko Dlamini, will give a brief overview followed by a Q&A session. Joining us on the call is Beauty Apleni, our Chief of Strategy, as well as the rest of the investor relations team.

Please note that commentary on trends is for continuing operations and therefore excludes the mast and towers business, Swiftnet, which is classified as a discontinuing operation unless otherwise stated. Adjusted numbers exclude the impact of the restructuring costs and the Telkom retirement fund conversion as disclosed for the interim period. I now hand over to Serame Taukobong.

Serame Taukobong

Thank you, Nondyebo. Good afternoon, everyone. I'm pleased to announce that we have continued and maintained good performance from the Q3 results. And this demonstrates our ongoing commitment to strengthen our position as the digital backbone of South Africa. Before I get into the results, let me update you on the successful conclusion of the Swiftnet disposal. We have delivered on our promise and met the deadline of the 31st of March 2025 for concluding the sale of Swiftnet to the purchasing consortium led by Actis LLP and Royal Bafokeng.

All suspensive conditions were fulfilled by the 24th of March 2025, and the provisional consideration received in cash of R6.575 billion on the 27th of March 2025. Telkom's intentions for the utilisation of the proceeds remained as initially pronounced. Part of the proceeds will be allocated to strengthening our balance sheet and reducing debt. This will position us for future growth and innovation to meet the evolving needs of our customers and the market.

Now on to the group trends. We continued our strong performance we saw in the third quarter, driven by our data-led strategy, sustaining impressive trends for the year to date. We are confident that we will achieve our medium-term

guidance. Group revenue performance has held into the fourth quarter from Q3 year-to-date revenue. Adjusted group EBITDA continued to grow with the adjusted group EBITDA margin in line with Q3. Continuing momentum across the business units, driving the results. Mobile data revenue grew comparable to the third quarter, along with mobile data subscribers. Fibre-related revenue grew at similar levels to Q3, as Openserve maintained a steady connection rate for fibre to the home. IT service revenue and fibre data also sustained their growth at BCX. Mobile and fixed data traffic continue to grow strongly in double digits.

We made further capital investments into the fourth quarter. As expected, our capital intensity will be within our 12% to 15% guidance for total operations. Cost optimisation remains a focus in the following categories. Roaming costs for the mobile businesses remains comparable to Q3 as a percentage of service revenue. Openserve continue to deliver cost savings through the network simplification and energy transformation programmes. Ongoing cost optimisation programmes delivered expected savings at BCX.

Turning to year-to-date trends of our business units. Starting with mobile, the mobile service revenue is still holding at Q3 levels and continue to grow ahead of the reported South African mobile market growth rates. The mobile business subscriber base remains stable at Q3 levels as we streamlined our prepaid base. The post-paid base was also firm. We expect both prepaid and post-paid ARPU, which remain firm, to be in line with the Q3 for the full year.

Openserve's fibre revenue growth and channel diversification efforts continue to yield results we sustained in Q3 performance growth. Consistent with our focus to grow higher margin IT services in our ICT business, BCX full-year revenue will show the continued impact of reduced hardware and software service sales. In Gyro, we have concluded the sale of high value properties and any future property sales will be dependent on the optimisation of our property portfolio. I now hand over to Nonku to give an overview of our group financial trends year to date.

Nonkululeko Dlamini

Thank you, Serame, and good afternoon to everyone on the call. I'll focus on updating you on the consolidated group financial trends. Individual business units performance will be covered in detail with the release of our financial year 2025 annual results. Serame has already covered revenue trends along with our cost optimisation initiatives that have contributed to our group EBITDA growth and margin expansion. Adjusted group EBITDA continued to grow in double digits similar to Q3 year-to-date growth, and the adjusted group EBITDA margin was sustained from the third quarter as a result.

We continue to maintain a resilient financial position following the repayment of interest-bearing debt since the beginning of the financial year from strong operational performance and the proceeds from the property disposals. Gearing improved as a result from the 1.5x at H1 to better than Q3 level of 1.3x on the net debt to EBITDA. This along with the lower interest rate will benefit the net finance cost for the year.

At the beginning of the financial year, we targeted an improved free cash flow from the R424 million that we reported at FY 2024. In the first half, free cash flow remained positive at R768 million, benefiting from the strong operating cash generated from operations and a measured approach to capital expenditure. Free cash flow has continued to track positively in line with our expectations, and we expect it to improve for the full year relative to H1. The board will consider the dividends in line with the policy once the audited financial results process is complete.

Our medium-term guidance is coming to an end in FY 2025. We are assessing the guidance and will update the markets when releasing our annual results on and about the 10th of June 2025. And just to close off the overview of the financial performance, we issued an initial trading statement last week, Friday, which represented minimum expected performance for the total operations. A final range will be shared in due course with the finalisation of the audited financial results as well. I will now hand over to the operator for any Q&A. Thank you.

Operator

Thank you. Ladies and gentlemen, if anyone would like to ask a question, you're 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 decide 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, you may press * and then 1. The first question we have is from Jonathan Kennedy-Good of Prescient Securities. Please go ahead.

Jonathan Kennedy-Good

Good afternoon and thanks for the call and the update. I just wanted to ask, could you remind us how much of the Swiftnet proceeds you intend on allocating to debt and what would be utilised for growth initiatives? And then I think I've noticed that on the mobile front, Telkom has moved to increase tariffs. Correct me if I'm wrong. And would there be any plans to increase tariffs given the growth rate that you've seen? Presumably, at some point, you would need to put in a little bit more capex on the mobile front. If you could comment on that please.

Serame Taukobong

Thank you. I think we'll take one more.

Operator

We have no other questions in the queue.

Serame Taukobong

Perfect. So, Nonku, let me take the mobile question. Thank you, Jonathan, for that. So, we've taken a positioning twofold on the tariffs. On post-paid the team is looking at following the market trend in terms of the post-paid tariffs that the market has taken. On prepaid we are looking at a differentiated approach. I think in line with the market pressures that we see, on the lower end of the market, where we've said that the lower end bundles is where we remain competitive. The trend is to keep those steady and flat.

We will look at a tiered prepaid price increase proposition, looking at where there is an opportunity to increase tariffs in the prepaid segment. The team is looking at that as a whole. So generally, I think, Jonathan, we will be taking an increase on mobile tariffs. It will be segmented. It will not be a blanket headline tariff approach. We would look at the sensitivity to the market. So, post-paid will follow the market trend. Prepaid, it will be segmented. I hope that covers the prepaid tariff and post-paid tariff approach. Nonku can comment on the approach with the proceeds.

Nonkululeko Dlamini

Thank you, Serame. So, Jonathan, in the proceeds, we are looking at close to R5 billion that will still go to debt in line with the circular. But we are also just doing the final analysis on the debt levels now, just to make sure that when we pay debt, we get into the levels of net debt to EBITDA that we are going to be announcing when we issue new guidance. If you recall, when we started the process, we were looking at getting to the levels below 1.5x. We're now trending below 1.3x.

And I think what we have done internally is to look at what is that level that will ensure that the balance sheet is resilient enough. And when we look at where the numbers are, we'll probably land it close to R5 billion of that R6.5 billion that we have received. But we will give you the final analysis once we have actually done all the allocations to debt. But it will still be a significant portion of the proceeds that will go to debt. And yes, the difference as indicated is going to be targeted for any capital investment that is required as we indicated in the circular. Thank you.

Jonathan Kennedy-Good

Thank you. If I could just follow up on your post-paid tariff increases, when will those be implemented?

Serame Taukobong

Jonathan, traditionally we do that in the next quarter, so that will be our Q1.

Jonathan Kennedy-Good

Okay, great. Thank you.

Operator

The next question we have is from Jono Bradley of Absa. Please go ahead.

Jono Bradley

Yeah, thanks very much for the call. Just two questions from me, please. On the Swiftnet sale, I'm not sure if you're able to give a sort of rough timeline of when that sort of debt would be paid down. Is this in the first quarter of the new financial year, second quarter, or sort of beyond that, that you actually look to settle that debt? And then the second question is just on the property sales in, I think it was the third quarter that would have been closed and the fourth quarter. Can you remind us of what that amount was? And then just to clarify, those proceeds have actually been received in the fourth quarter.

Serame Taukobong

Thank you. Do we have any other questions in the queue?

Operator

We have no other questions at this time.

Serame Taukobong

Perfect. Nonku, I'll hand those to you.

Nonkululeko Dlamini

Thank you, Serame. So, in terms of the debt repayment, we have some maturities that are coming up already in April, and we've taken a position that for the April maturities, we're not going to refinance at all, and we will then use the proceeds because we've already received the proceeds. We then have some maturities that are coming up around June, and some a little beyond that. We are engaging the lenders that are actually involved in the debt that's maturing in the coming months. And our approach is going to be the immediate maturities are paid off. Those that were coming out a bit later. It's the conversation we have already started with the institutions concerned to pay those off. And the big consideration obviously is going to be making sure that we do not land with a big breakage fee, which is something that we are handling in those engagements.

So, there is maturities now and a few maturities beyond June, but we are having those engagements to pay them earlier so that we do not keep the facilities in low interest earning short term. Instead, we paid that as quickly as possible. So, we will then update you when we meet in June, what we have been able to close out before we release the financial statements. But there are those that are maturing that are not even a conversation.

And then the other question was around the properties that we have sold and the continued close out of those through the deeds office and the collection. And indeed, we've continued with those collections over the period, and there is a few additional properties that we have been able to properly transfer in the fourth quarter that have also improved our liquidity position. So, I think if we look at what we had indicated in Q3 when we met you around January/February there's an additional six properties that have been transferred since and the overall cash realised has then been added to the numbers we would have announced at Q3.

Operator

We have a follow-up question from Jonathan Kennedy-Good of Prescient Securities. Please go ahead.

Jonathan Kennedy-Good

I just wanted to check with your comments on EBITDA margin. Should we expect Q4 EBITDA margin to be similar to Q3 or for the full nine months? I don't think there's much of a difference, but I think there was Q3 was a bit stronger, just over 27% margin for the group.

Nonkululeko Dlamini

Yes. Hi. Jonathan, I'll take that one as well. So, in terms of the performance, and in fact, we've done a check on our H1 versus H2, and I think the performance is largely holding when you take off the ones of items that we've indicated, and from the margin expansion perspective, we are expecting it to hold largely to similar level as we have reported.

Jonathan Kennedy-Good

Okay. I'm just looking at – sorry, just to avoid any confusion – the year-to-date margin to December adjusted was 26.5%.

Nonkululeko Dlamini

Yes, we're still looking at the similar rate.

Jonathan Kennedy-Good

Thank you.

Operator

We have a follow-up question from Jono Bradley of Absa. Please go ahead.

Jono Bradley

Thanks very much. Sorry, just one quick clarification. Just around the free cash flow number, you talked about the first half number of around R758 million and then full year you're expecting an improvement from the first half. Should we take that to mean the second half being better than the first half or just that the full year is sort of ahead of what was done in the first half? Thanks.

Nonkululeko Dlamini

All right, maybe I can take that one as well. We are expecting to improve on the first half, not that the second half will be much more than the first half. So, if we're saying cumulatively, and that's how we're checking the free cash flow number, if we're saying at H1 we reported R768 million, we're saying for the full year we're expecting to report a better number than this R768 million number.

Jono Bradley

Okay, thank you very much. Thank you.

Operator

At this time, we have no further questions and I would like to hand back to Serame for any closing remarks.

Serame Taukobong

Thank you very much. We are pleased with our strong performance year to date. And as we close the financial year, we are certainly on track to deliver even stronger results for the year 2025. As I said earlier on, the Swiftnet disposal conclusion allows us to focus on the core business, operational and strategic ambitions in building the Telkom of the future and strengthening our position as a digital backbone for South Africa. I'll hand over back to Nondyebo.

Nondyebo Mqulwana

Thank you all for joining us and for your continued interest in Telkom. We look forward to engaging with you again in June during our annual results. Any updates necessary will be made through the JSE Stock Exchange News Services. A recording of the call will also be available on our website later on today. We'll speak to you soon. Bye.

Operator

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

END OF TRANSCRIPT