

Conference call transcript

4 August 2021

Q1 UPDATE

Operator

Good day ladies and gentlemen and welcome to the Telkom SA Ltd Q1 update. All participants are currently 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 Mr Siphso Maseko. Please go ahead, sir.

Siphso Maseko

Thank you very much, Claudia. Thank you and welcome to everybody, and really good afternoon to those in this side of the world and good morning to those in the US. With me I have our group CFO, Dirk Reyneke, our Head of Investor Relations, Babalwa George, and our CEO elect, Serame Taukobong, who is joining us on this call. Today we published our first quarterly results. We now have officially adopted the quarterly reporting process and we will report four times a year in line with our peers. For any feedback on our quarterly report please refer any questions or feedback to our investor relations teams.

I'd like to unpack the trading update published today as follows. Number one, I will start by addressing the business trends we've witnessed in the first quarter of the year. Secondly, Dirk will come in and detail the financial performance and touch on the impact of the recent protest actions on Telkom operations. And then lastly I will come back and conclude with the value unlock programme and the regulatory environment.

Safe to say that I'm very pleased to say that the group delivered a very solid set of results for the first quarter in a very difficult trading and economic environment as we all know. Despite the South African economy gradually opening up, customers remain under severe financial pressure due to job losses, reduced income, small businesses being challenged, and large businesses as well are finding it very difficult to get back to full stride.

So looking at the overall business trends I'll start with our consumer business. Our consumer business continues to be the key driver of growth in our portfolio of businesses, and in this area the consumer business grew about 8.3% to R6.5 billion. We continued to see the mobile business driving growth, partially offset by the fixed line business which continues to face some decline due to some levels of migration to next generation technologies such as LTE and fibre and ongoing pressure in the SME segment.

In mobile our mobile service revenue grew about 13% to about R4.4 billion supported by 36.3% year on year growth in active customers which now are at about 16.1 million. Mobile broadband customers grew about 31% to about 10.5 million customers. That actually represents about 65% of our active customer base. The post-paid market remains very challenged in terms of growth due to consumer patterns that are changing but also some level of pressure from a weak economy. We also have witnessed a continued change in customer behaviour in this segment as customers or corporations are seeking to

manage their spend. We saw a reluctance to renew post-paid contracts with some customers opting to switch to prepaid propositions or what one might call hybrid propositions.

As we have done in the past we remain very prudent with our credit management approach, focussing on our customer value management to preserve and grow the average revenue per customer in the post-paid segment. Despite this difficult environment, our post-paid customer base was relatively flat compared to the year before at about 2.6 million with the ARPU up at about 3.8% year on year to about R221.

The prepaid market remains the big driver of new connections. Prepaid customers grew by about 46.8% to about 13.5 million with ARPUs declining by about 15% to R68 compared to about R80 reported in the prior year. Largely this is due to the significant slowdown in working from home and online schooling and some level of migration as well to things like fibre and so forth.

I will then move on to BCX. BCX continues to remain under pressure. As indicated, the South African economy has not performed to the levels that are expected of it, and BCX has a direct exposure to how GDP performs given the fact it serves all sectors of the economy. This correlation is almost similar to South Africa's GDP. We continue to see sluggish IT spend and investment by corporates as the country battles with the impact of COVID-19 but also with the migration to online performance requirements which actually calls for a different kind of IT spend to what we would be traditionally accustomed to.

COVID-19 for us we see as an ongoing risk and managing it begins to really inform us as to how we mitigate this risk. BCX maintains an annuity revenue mix of between 70% and 75% which continues to cushion the revenue decline during this pandemic. And these results reflect the challenging environment with its revenue down about 5% compared to the similar period.

On the converged communications side, which is the telecommunications side, we have seen very encouraging trends with a 3.2% year on year growth in revenue. The stability in the fixed business is attributable to a slowdown in fixed voice churn and an increase in usage as there were improved economic activities but also the migration to new technologies. I think the converged comms team, led by Julian who works in Jonathan's team, has been doing a fairly sterling job in making sure that this particular part of the business can show some level of resilience and adaptation in these times.

The IT business, as I've indicated, is hardest hit with revenue down about 11.8%. We continue to see massive delays in investment and even tenders that would have been put out there in the past are not executed at the speed that we had anticipated.

I'll now move on to Openserve. Openserve we've seen a strong recovery in revenues following the four previous successive years of significant decline in revenue. And this recovery path in Openserve is very encouraging. Although the overall fixed business is still declining driven by the SME segment, offset by the enterprise segment, we noted positive recovery in the fixed voice usage and fixed data connectivity revenue compared to the prior year, boosting the performance of Openserve.

The demand to upgrade the carrier sites to high capacity sites by our customers in the mobile industry contributed significantly to the fixed data revenue growth in this period under review. We've also made significant strides in fibre, in particular FTTH. The number of homes passed increased by 34% to about 612,000 following the fibre rollout and supply chain challenges during the first lockdown in the previous year. The number of homes connected with fibre increased by 32% to about 307,000, which represents a fibre connectivity rate of about 50.1%, which remains highest in the market.

We truly believe that now we've reached an inflection point where our number of homes connected with fibre surpassed the number of homes connected with copper at about 307,000 versus 264,000 respectively. Although overall fixed broadband numbers declined year on year, we've seen an increase in fixed traffic. More than 60% of our broadband customer base utilises speeds exceeding 10 mbps.

I'll now move on to Gyro Masts & Towers. Our Mast & Tower portfolio sustained its growth trajectory from a revenue and footprint perspective as we continued to commercialise the portfolio. The tower build programme remains on track with about 26 towers that we constructed in the first quarter compared to none in the prior year as a result of the full extent of the COVID lockdown period last year. The number of external leases compared to the prior year increased by about 7% with a total number to about 8,685.

The selected property development opportunities are in various stages of development planning phase and many are nearing investment decision and construction phase. We continue to explore development partnership opportunities with experienced property investors which will help us manage the capex intensity of these projects whilst also will ensure that we support the transformation of the property sector through investment and development activity opportunities. I will now hand over to Dirk to unpack some of the key financial messages, and thereafter Dirk will come back to me. Over to you, Dirk.

Dirk Reyneke

Thank you, Siphon, and good afternoon everyone. I'll deal with the financial messages along three broad terms. I think the first one is revenue growth, then strong profitability and then capital investment, which are the three main themes. The group revenue returned to growth, increasing by 3.5% to R10.6 billion following the prior year of no growth. Group revenue is based on the mobile business that sustained growth in the period under review. I think Siphon referred to the 18.5% up to R5.2 billion year on year supported by service revenue and mobile handsets and equipment revenue.

Service revenue is up 13.5% on the back of 36.3% growth in active customers, and then significant growth in mobile handsets and equipment sales, revenue up by 78%. But here we should note that the prior year revenue in Q1 of the prior year was impacted by the total national lockdown. Although the fixed business declined in the period, we saw a significant slowdown in the rate of decline, fixed voice declining by 13.6% year on year compared to 33.5% in the prior year. And then fixed data connectivity revenue grew by 1.2% year on year compared to a decline of 15.6% reported in the prior year.

This recovery translated to a better performance in Openserve and BCX converged communication business. Openserve reported 1.4% decline and BCX converged comms grew 2.3% year on year. Our data-led strategy continues to deliver as planned with mobile data revenue growing by 11.1% supported by the growth in mobile broadband customers. Fixed data connectivity is up 1.2% supported by 9.1% growth in fixed traffic. And I think it's important to note that more than 60% of our broadband customer base currently utilises speeds exceeding 10 mbps. The Mast & Tower portfolio sustained its growth trajectory on the revenue side into the first quarter while the IP business remains under pressure.

If we then look at strong profitability underpinned by our sustainable cost management, the group EBITDA grew faster than revenue with an increase of 7.3% to R2.7 billion for the quarter. This was underpinned by our effective sustainable cost management as opex growth was contained below inflation despite an average salary increase of 6% across the group with effect from 1st April.

Mobile cost to serve ratio is optimised despite the increase in service revenue. We continued to demonstrate efficient mobile growth with cost to service ratio improving from 31.6% in the prior year to only 28.3% in the current quarter. As a result the mobile EBITDA margin was maintained at 28.4%. As I said, the businesses that are under revenue pressure such as Openserve and BCX contained their cost as a response to the challenging trading environment and both expanded their EBITDA margins. This has then culminated into a group EBITDA margin expansion of 9% to 25.9%.

The third area I would like to cover is the capital investment where we will continue to invest in a focussed manner in key growth areas. Capex Q1 versus Q1 of prior year is up 29.1% at R1.5 billion for the quarter, rather invested in key growth areas such as mobile business and fibre. On the mobile side capex of R535 million was invested in capacity and coverage with 6,646 base stations to date reflecting an 8.8% year on year increase in mobile base stations.

The investment in capex on the fibre side of R800 million enabled Openserve to continue to carry the increased demand in data services through upgrading the high capacity sites and expanding its fibre footprint. The tower build programme remains on track with 26 towers constructed in the first quarter compared to none in the prior year as a result of COVID-19. Overall it's fair to say that we will remain disciplined in capital allocation. We will keep the flexibility in terms of how we roll out capital, but we will certainly continue to invest in the areas which we identify for business growth.

Lastly, the impact of the mass action on Telkom operations. Telkom operations were impacted by disruption in trade and losses due to rolling mass action that took place largely in KwaZulu Natal and Gauteng. This rolling mass action resulted in damages to exchange buildings, warehouses and retail outlets. It also disrupted supply chain and product distribution. Although the direct financial impact resulting from damages is nominal, the combined loss in trading days including those of our distribution partners will impact our performance for the first half of the financial year as a result of the delivery channel being affected. Thank you, Siphho. I will hand back to you to discuss the value unlock.

Siphho Maseko

Thank you very much, Dirk. Just to reiterate that from our perspective we are on course with our value unlock strategy. We are committed and firmly on course with it. Unlocking value from our portfolio of businesses is a key component of our strategy but also of our capital allocation framework, and will afford us with the flexibility to rebase the balance sheet and reinvest in the business that we believe will look after us in the long term. We have continued to explore several options in this area, especially with Masts & Towers, and we also are reasonably further down the road with some of the options that we are looking at. As you well know, we have operated our Mast & Tower business as a separate standalone company for over three years. We hope that further unlocking of value will affirm the valuation of the tower company and its contribution to the overall valuation of the Telkom business.

On the regulatory environment, especially spectrum, as you may well remember the High Court interdicted the licensing of high demand spectrum early in the year, which essentially preserved the status quo until it can finally determine the lawfulness of the process. The review application is expected to be heard in September 2021. In the meantime all the parties, including ICASA and Telkom, are exploring a settlement. The use of the temporary spectrum license to us and other mobile operators has been extended until the 31st August. We are looking at this settlement alongside the expiry of the extension and other factors that come into play in this regard. I've personally been actively involved in these settlement agreements with Serame as well, given his role as head of the consumer/mobile business.

And I think that we've put our best foot forward, and what we are hoping for is that whatever settlement is reached we would want to make it an order of court so that no one would be able to back out of it without essentially being in violation of a court order. The licensees continue to pay pro rate spectrum fees in terms of the prescribed spectrum fee regulations for the use of these frequency bands and obviously to apply the prescribed obligations such as the deployment of virtual classrooms and the zero rating of access to education and health websites. We anticipate that the authority, ICASA, will extend the use of temporary spectrum for the duration of the declaration of the state of national disaster or the conclusion of the spectrum auction. So that's with regards to spectrum.

With regards to the mobile broadband service inquiry, which we normally call MBSI, maybe just to give a bit of context around this. ICASA will be holding public hearings on 12th and 13th August. ICASA has found some of our competitors to have significant market power in certain retail and wholesale markets as a result of their vertical construct and relationships. We've responded to ICASA in our submissions in relation to the draft regulations and finding documents that the draft regulations do not go far enough to address the duopolistic market, and instead of focussing on increased reporting requirements they need to consider more appropriate remedies such as accounting separation and regulated site access and national roaming in order to make competition more effective.

So those would be the two key highlights both in terms of the regulatory world, the MBSI and spectrum that dominates our timelines quite a lot, and obviously around value unlock. So that's in a nutshell what we are able to share with you today.

Given that we still have a bit of time, what I'll ask Claudia to do is maybe open it up for some questions. We can take between myself, Dirk and Serame.

Serame is on the call. I actually wanted to formally introduce Serame before I hand to you, Claudia. Serame was announced today around 13:00 as the CEO elect. He and I will be working together. He starts formally as CEO elect on 1st October. He will also join the board. We've already worked out a transition plan for my office which will be socialising with Serame in terms of the different themes that we'll be following to manage the transition. And he will remain CEO elect working very closely with me from 1st October until the 30th June where after he will then assume the role of the group Chief Executive Officer for Telkom on 1st July as I disappear into the sunset.

This has been a very important thing for us and especially for myself to ensure that first and foremost we put in place a succession plan. And a succession plans that we've been working on over the last couple of years we've seen them come to fruition. When unfortunately Tsholo left we were able to activate it with Dirk coming into the role very speedily and effectively, and part of the design for me to indicate very far in advance that I'll be leaving is to also make sure that my successor does not walk into an empty office. My successor walks in whilst I'm still there. We can work together on a number of issues as well and make sure that probably for the first time in more than 15 years the transition at Telkom will be seamless, will be drama-free.

We have a very strong team that we have assembled over the last couple of years. The energy is the right energy. The cohesion, the strategic clarity is there. And I think we are now executing consistent with that plan and consistent with that objective that we have set ourselves. It's a different era. Maybe just on a lighter note, when I worked with Jabu Mabuza I called it the era of short people. Jabu was a short guy and I'm also a short guy. Now we are getting into an era of tall people. Sello is a relatively tall fellow. Serame as well is a tall guy. And maybe there is a bit of a symbolism there. Clearly there are probably greater heights that this firm will still scale going forward. Serame will be working with me and his announcement was made public earlier on today. Claudia, back to you. We'll take questions on all of the issues that we have raised on the performance and we will share those questions between Serame, Dirk and myself. Thank you.

Operator

Thank you very much, sir. Ladies and gentlemen, if you would like to ask a question, please press * then 1 on your touchtone phone or on the keypad on your screen. If you decide to withdraw the question, please press * then 2 to remove yourself from the list. Again, if you would like to ask a question, please press * then 1. The first question comes from Jonathan Kennedy-Good from JP Morgan. Please go ahead, Jonathan.

Jonathan Kennedy-Good

Good afternoon and thanks for the call. Just a quick one on your quarterly EBITDA numbers given it's the first time we're seeing a time series here. It looks as though there is some seasonality in Q2 and Q4 where EBITDA margins expand quite dramatically. Is that just coincidence given the limited time series we see, or are there specific drivers in those numbers at the EBITDA level? And then you've made some comments about Openserve and BCX revenue slowing quite markedly. I wanted to pick up on that and try to understand whether you see this as a permanent trend change. We've had false starts on these numbers before. I just wonder if there is anything from a pricing perspective perhaps or volume uptick that is going to change this trend or continue this better trend into the quarters ahead.

Dirk Reyneke

Jonathan, let me take that. It's Dirk here. Thanks for the question. I think in terms of the quarterly EBITDA margin certainly there are some cyclical trends in there, and we will continue to see those. Whereas in Q1 definitely you normally have your incentives, your large incentive pay-outs affecting it, I think the bigger anomaly is the Q1 of the prior year which was really an anomaly as a result of COVID. There we saw the group EBITDA margin coming down mostly on the back of the slowdown in BCX in the comparative quarter. But we think that the cyclical trends will continue, perhaps not as severe as what you see Q1 last year to Q1 this year.

In terms of Openserve and BCX recovery, I think the revenue recovery in BCX when we did the year-end numbers we did say that we expect a turnaround in the IT revenue. I think that was slower than expected certainly on the back of a third wave of COVID. But the good indication was the uptick in fixed line revenue. Certainly I think we've addressed the churn and that churn is reduced. And we do believe that trend will continue. Similarly in Openserve I think Siphso has referred to the inflection point where at year-end we said in terms of revenue the legacy revenue was less than 15%.

The legacy voice revenue is now only 12.7%. So that will continue to go down, so even though you will continue to have the slowdown in legacy revenue in Openserve, the proportion becomes much smaller and therefore the impact overall becomes much smaller as you see the growth in new generation revenue specifically on the back of data. So we don't think that's a false start. The converged comms in BCX was ahead of expectation for Q1 and I think the jury is still out. We will see how that unfolds. But in terms of Openserve certainly we think that that trend will continue.

Jonathan Kennedy-Good

Thank you. That's helpful. Thank you.

Operator

Thank you. The next question comes from Preshendran Odayar from Nedbank. Please go ahead, Preshendran.

Preshendran Odayar

Hi everyone. Thanks for the opportunity to ask some questions. I've got three from my side if I can. Firstly your mobile revenue that grew 11%, it's quite good considering your mobile data traffic looks like it was down about 5% to 6%. What was your mobile data revenue growth for the prior period quarter, so like Q1 of last year? I just want to determine how high of a base you are batting against in this quarter. The second question is I remember in your last quarterly release you mentioned some free cash flow numbers. I think we also quizzed you on some balance sheet metrics. Are you able to share any of those with us in this release, particularly around gearing if you can?

A last question, a bit of a big question a lot of investors are asking about is timelines for your infrastructure carve out. Firstly, congratulations again to Serame for taking over the reins. Deconstructing or splitting up the Telkom business is a mammoth and very complicated endeavour. It is evidenced by how long it is taking you guys to do this. It was announced well over two years ago, and we're still on this journey. Siphso, will this be done before you leave or will this be something that Serame will have to inherit and finalise? Thanks guys.

Siphso Maseko

I'll take the second question. You take the first one.

Dirk Reyneke

I thought Serame was going to take the first question on data growth. I'll take the free cash flow one. We're not in a position where we're going to share free cash flow and balance sheet ratios and numbers, Preshendran. Fair to say that we still expect our free cash flow and our balance sheet ratios to be within guidance as given at the year end. Always I think there is a big cyclical impact where free cash flow is always slightly under pressure in Q1 and Q2 and then recovering in Q3 and Q4.

As I said specifically, last year we had the big saving in terms of your direct cost in the mobile and consumer space in Q1, and we didn't have salary increases and incentives, and then we had the big tax outflows mostly spread during the year. This time we won't have the big tax outflows during the year, but we certainly have the incentives and salary increases in Q1 and Q2. So free cash flow is always under pressure in the first half, but we still think that the guidance will hold for the full year. And similarly we will be within our balance sheet metrics as shared previously.

Serame Taukobong

Thanks Dirk. On the Q1 are you talking about Q1 2021 versus Q1 2020?

Preshendran Odayar

100%, Serame. This year's April to June versus last year's April to June.

Serame Taukobong

I'll get you the exact number, but it was quite a significant push because of the impact that we saw in COVID. But I can definitely get Babalwa to give you the exact numbers.

Preshendran Odayar

We can touch base about that offline, no problem.

Dirk Reyneke

I think what's important to note, Preshendran, is that in Q1 last year the mobile data revenue of roughly R2.9 billion was just over 28% of our total revenue, whereas this year our mobile data is 30.2% of total revenue. So certainly in terms of proportion it is growing faster than the others. And I think that's the good trend that we're banking on.

Sipho Maseko

So that's the first point. The proportion of data revenue growth continues to trend upwards. And maybe just going back to the earlier point that was asked by Jonathan, the influential role that is played by fixed voice is diminishing by the year. And I can't wait for a time when the contribution of fixed voice falls below 10%. We would have de-risked ourselves substantially. And the big play, Preshendran, is we want to make sure that our proportion of revenue, fixed and mobile, continues to lead the market. And in essence you can almost use that as a directional statement in terms of where we're looking to go.

Insofar as the value unlock you are right. We've been chasing more doing it proper than doing it fast, and we've been chasing more making sure that every time we put our foot forward it is not tentative. It is firm and we do it properly rather than doing it fast. Many transactions that were done in the past, if you recall our adventure into Nigeria and all of that, we chose speed rather than quality and I think it hurt us really badly.

And some parts of value unlock will probably be done during my time and some parts will be done during Serame's time. There is a reason that we have established in terms of the milestones that we are hitting and we continue to hit them on a monthly basis in terms of where we are. I'm not uncomfortable with the pace. All of the work that needs to be done is done. We get feedback regularly with Dirk. And we will pull the trigger at the right time to do the right transaction for us. Thank you.

Preshendran Odayar

Thanks very much, Sipho, Dirk and Serame.

Operator

Thank you. The next question comes from Cesar Tiron from bank of America. Please go ahead, Cesar.

Cesar Tiron

Hi. I have two questions if that's okay. The first one would be on the EBITDA growth that you posted in Q1. Could you please explain which costs grew less than revenue or obviously decreased on a year on year basis to allow for EBITDA to go up 7% despite the 6% salary hike? That would be helpful. And then I think the second question I have, you said that you don't give any indication on free cash flow, but can we at least understand if the working capital issue has improved probably in Q1 and will continue to improve in Q2? That would be helpful. Thank you.

Dirk Reyneke

Thank you. Let's start with the next one. Yes, in terms of working capital you will recall the big spike in accounts payable at year end on the back of the accelerated capex spend in Q3 and Q4 as we had the slump in capex in Q1 and Q2. Clearly that has normalised or that will be normalised, and that had a Q1 impact on cash flow. But the overall working capital trend will continue. In terms of the actual lines of cost in the group income statement, if you look at your opex year on year it is rather flat. It is 0.5% improvement year on year if I look at my total operating expenditure. And the biggest lines of savings are on the operating leases.

And then we see the impact of the restructuring of the employee expenses in the prior year. That is now coming through and that will be the full annualised benefit this year. That's still the biggest cost line on the income statement. I think if you say where the biggest growth is quarter on quarter it mostly relates to the slowdown of the comparative quarter. If you look at marketing, in Q1 last year we did nothing as we were in lockdown, and now we've normalised. Similarly if you look at service fees that's fairly flat. Impairment of receivables has grown slightly, but that's grown in line with revenue. So I don't think there is any specific line. I think the biggest line is still our staff cost. And there we see it being flat or slightly down from Q1 last year as a result of the restructuring.

Cesar Tiron

Thank you so much. If I can ask, what are those operating leases that you are referring to? Are those included into opex and not in interest expense?

Dirk Reyneke

That's the short-term portion of the IFRS 16 leases. In other words it is still your vehicle fleet management. There are still some property rentals. Those are the two large ones.

Cesar Tiron

Thank you so much. Very helpful. Thank you.

Operator

The next question comes from Myuran Rajaratnam from MIBFA. Please go ahead, Myuran.

Myuran Rajaratnam

Thanks guys. Firstly a quick comment to thank Mr Maseko for what I like to think of as an investor as a good job done at Telkom. Maybe it's a bit unfair, but I actually worked in one of the exchanges in the 90s and I've been witness to some of the misadventures. You have brought it to a sustainable place, so thank you very much. And secondly, congratulations to Serame. I think it's a good appointment.

Having said that I've got two questions. The first one is your prepaid ARPU. In the quarterly trend, except for the last quarter that you just published for, previously it was close to R80 per customer and it dropped to R67. I think you mentioned that part of that is the migration to fibre as well. And it sounds like some of them were high spending customers who migrated. Part of it is the consumer is under pressure. Is that a new reset level for ARPU? Because you used to have a much better ARPU, if I could put it that way. I have a follow-up question as well.

Sipho Maseko

Sure. Maybe, Serame, I'll throw that your way.

Serame Taukobong

Not a problem. Sure. You are right. There are two mixes to the prepaid ARPU. I think if you look at the first few months impact of COVID, because prepaid is a combination of both people using data on mobile and also on LTE, with schools returning and people also not working at home as much, that's why we're seeing the usage is low as such. But we're quite comfortable in terms of the level it's holding at.

Myuran Rajaratnam

Levelling off Preshendran's question, it does sound like some of the traffic is shifting onto fibre. That is somewhat of a trend, but that's not a trend but a once-off event kind of thing. Is that the way to look at it?

Serame Taukobong

Well, I think it's two ways. What we do is we use LTE for instance for a leader for an indication of where there's a high demand for fibre. So once we see big growth in LTE we then quickly follow up with fibre rollout to offset that traffic onto fibre and increase our efficiencies to our LTE base stations. So it's a conscious effort particularly in LTE. Where we see high LTE growth it's a lead indicator that's big fibre opportunity and we attack quite quickly with fibre to make sure that we don't burn out those base stations and ensure that customers get the good quality data speeds.

Myuran Rajaratnam

Great. That makes sense. The second question is on Openserve. There is a recovery given the decline was much smaller than in the past. And you mentioned growth in high capacity links for carriers. Just confirming this is for mobile carriers, external mobile carriers, and whether this is dark fibre specifically. Perhaps some more colour on that please. Thank you.

Sipho Maseko

Yes. Thanks. It's external mobile network operators. It's not dark fibre. We're not offering dark fibre yet as a product within Openserve. So that has been one driver. The second river that we've seen in the overall fixed data growth is the relentless pursuit of home connection. And I think the team has really done well. In the time that I have been at Telkom, eight years and four months, I think it's the first time that I'm seeing Openserve grow. And we think that actually we may have succeeded in grabbing the tiger by the tail insofar as that side of the business, and as I indicated earlier on, the diminishing influential role that was played by what you would call legacy technology.

Myuran Rajaratnam

Thanks guys.

Sipho Maseko

Thank you very much.

Dirk Reyneke

If I can just go back, I think it was Preshendran's question in terms of the data growth base. So in the Q1 2020 to Q1 2021 the data revenue was 58% growth which is now 11%. So I think that talks to it coming off a very low base in the prior year and now probably normalising at normal growth on the mobile data side.

Operator

Thank you. The next question comes from Nadim Mohamed from SBG Securities. Please go ahead, Nadim.

Nadim Mohamed

Good afternoon. Thank you so much for the opportunity to ask questions. I just wanted to ask for some colour on the exceptional prepaid customer growth of 46.8% year on year. I was wondering, are those all high quality customers? How did you achieve such high growth rates? And secondly, if you could give us some sense on the timelines for your strategy on the Gyro Mast & Towers business. Last time you mentioned you were in the progress of doing a market sounding exercise. I was wondering where you are now in terms of that process. Thank you.

Serame Taukobong

I'll take the first one. The prepaid growth is a combination of better quality acquisition. So we've changed our dealer incentives to actually encourage them more on tenure of subscribers. Obviously for those dealers the higher value subscriber you connect at a higher tenure your incentive is better. Secondly, of course with the market still demanding quite significant data propositions we've done a mix of good low-end, high-value proposition as well as good high-end, high-

value propositions. The third layer of that is a big focus on retention. We actually are seeing a nice positive trend in the decline in churn. I hope that answers your question.

Nadim Mohamed

Thank you very much. Very clear.

Sipho Maseko

On the Mast & Towers, Dirk, do you want to take that?

Dirk Reyneke

No, you can take it, Sipho.

Sipho Maseko

The market sounding was done, so that helped us with very helpful reference points that we were looking at across several metrics. So that's behind us. And unfortunately I can't say much more, Nadim, without having to issue a cautionary. But we've made substantive progress and we will be pulling the trigger at some point. And I'm confident that by the time the financial year is out something will have happened.

Nadim Mohamed

Thank you so much. And by the way, congratulations to Serame on the appointment. Good luck for the future with that.

Sipho Maseko

Thank you very much.

Serame Taukobong

Thank you most kindly.

Operator

Thank you. The next question comes from Ziyad Joosub from Nedbank. Please go ahead, Ziyad.

Ziyad Joosub

Hi everyone. Thanks for the opportunity. Just a question from me please. It relates to mobile data again. [Break in audio]. It looks like effective prices year on year [break in audio]. Could you give us a bit of colour on how you actually get this sort of inflationary pricing coming through? Was the COVID quarter associated with a lot of free data offerings etc.? And just leading on from that, it was also pretty evident in Vodacom's Q1 results. Do you feel that after 12 to 24 months of a lot of data price transformation in South Africa we could be going into a very price rational phase for the data market in South Africa? And would that have any implications on your mobile capex going forward if pricing was sticky and traffic growth was slower? Thank you.

Serame Taukobong

Thank you. I just missed the first part of your question please.

Ziyad Joosub

Okay, sure. The first part was around data pricing on an effective basis appearing that it's grown 17% year on year for this quarter. Could you maybe give us some colour or talk us through how that has occurred? Obviously the traffic has slowed. Have you pulled out certain promotions or free data packages etc.?

Serame Taukobong

Sure. It's a function of two things. Obviously when we were doing promotional activity in the earlier days to meet the demands of COVID, some of the promotions had a double up bundle or a longer tenure. Those have now expired. Secondly,

I think what we're also seeing is a growth in the lower value data bundles because of affordability. But those lower value data bundles actually carry a higher margin. So it's your smaller purchases or people purchasing daily, weekly as opposed to monthly purchases. And we're seeing quite a growth in that in line with affordability for the market.

Ziyad Joosub

So overall for your prepaid segment are you seeing your subscriber base increasingly top up daily and weekly instead of monthly? [Overtalking]. And do you expect this trend to continue? Will the [unclear] continue to move, more data top-ups occurring on a daily or weekly basis than a monthly basis?

Serame Taukobong

I think in the short term given the uncertainty in the economy that seems to be the affordable way of purchasing. But you also do see on the higher end of the market, especially with the demand of working from home, lots of those purchases also occurring. So it's a balance, but obviously your lower value or prepaid market has a higher base.

Ziyad Joosub

Okay. Thank you.

Operator

The next question or the final question in the queue is a follow-up from Preshendran Odayar from Nedbank. Please go ahead, Preshendran.

Preshendran Odayar

Hi everyone. Sorry, just one final question. Just looking at your Masts & Towers business, it showed a pretty healthy margin. Can you share with us the split of what the margin is for intercompany transactions with Telkom Mobile versus external tenants that you have on your sites? I know Siphon did mention the 7% increase in external leases. Can you just share with us what's the margin differential between the two? Thanks.

Dirk Reyneke

In terms of margin differential there shouldn't be any. Clearly Gyro Masts & Towers as a standalone company charges market related prices for similar antenna spots. So at similar heights comparable products they will charge the same to the external and to Telkom consumer. So there shouldn't be a significant or any noticeable margin difference. Their costs are the same. They are charging market-related prices internally and externally the same in terms of Competition Commission rules. So there is no margin difference between internal and external business.

Preshendran Odayar

Thanks very much, Dirk. Very clear.

Operator

Thank you. Mr Maseko, we have no further questions in the queue. Can I hand back to you for closing comments, sir?

Siphon Maseko

Thank you very much, Claudia. Thank you very much for participating on the call. Just to reiterate the key messages on our side; a tough environment, the economy is still foul [?]; we are still taking a very cautious approach until we have seen the right markers that the economy is fully back on track. That informs our participation strategy in the market across all of the different areas. We have made a big bet in how we grow broadband, both fixed and wireless broadband. That informs our strategic play. Sustainable cost management remains a very key focus for us.

Disciplined capital allocation is absolutely paramount. And we continue to focus all of our energies on sound returns and cash-generative capacity of the business. Each of these businesses has to be very sound in terms of their cash-generative capacity. It's a lens that I've started to use quite significantly in the last couple of periods – who are the net users of cash,

who are the net contributors of cash – to make sure that we all march in step in terms of how we move forward. Serame now is on board, so the succession question has been answered. And it's a smooth transition that we are managing, and him and I will be working very closely over the next couple of months, obviously supported by Dirk to make sure that come June/July next year we won't even skip a beat in terms of getting into what I would call the next chapter in the transformation of the Telkom business going forward. Thank you very much to everybody, and have a good afternoon further. Cheers.

Operator

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

END OF TRANSCRIPT