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Telkom SA SOC Ltd.

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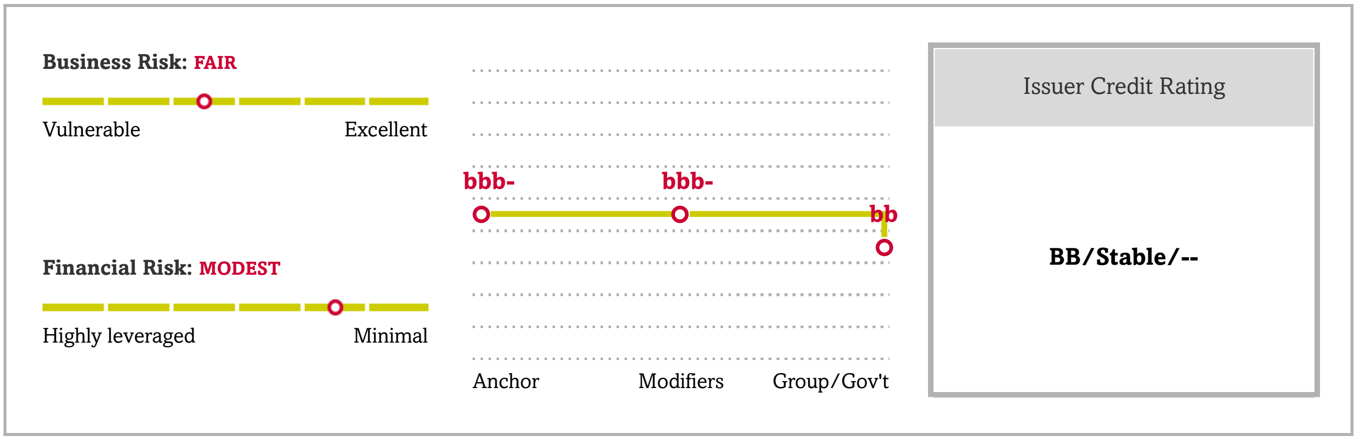
Telkom SA SOC Ltd.



Credit Highlights

Overview

Key strengths	Key risks
Diverse product offering as the dominant provider of fixed-line services and fiber infrastructure in South Africa, with increasing presence in mobile and next-generation data business.	High exposure to structurally declining fixed voice and data business, given its status as the former fixed-line incumbent.
Strong free operating cash flow (FOCF), supported by disciplined, growth-focused capital expenditure (capex) deployment and no dividends for the next three years.	Weak margins relative to domestic peers, largely attributable to the sizable fixed-line business orientation, and a rigid cost structure.
Modest leverage and stable capital structure, featuring a funding base well diversified by instrument, maturity profile, and interest-rate exposure.	Challenging operating environment, encompassing regulatory uncertainty and an evolving political landscape.
Strategic focus on high growth, with fiber to the home (FTTH) and mobile business supported by a modestly better position in terms of spectrum inventory than other South African mobile operators.	Sovereign risk exposure in 40.5% state-owned Telkom SA SOC Ltd. (Telkom) encompasses the potential for change in government policy toward the entity, or a negative rating action on the sovereign.

Telkom's continued investment in the mobile business is yielding strong growth in mobile subscriber numbers, supporting a modest positive revenue growth trajectory. Telkom generated revenue growth of 3% year on year (YoY) in fiscal 2020 (ended March 31, 2020), despite structurally declining fixed-line revenue (fixed-line and interconnect revenue fell by 22.2% YoY in fiscal 2020). Mobile revenue increased by 40.9%, driven by active mobile subscribers increasing by 23.9% YoY and mobile broadband subscribers increasing by 28% YoY. However, in a competitive and operationally challenging environment, blended average revenue per user declined by 9.1%.

Limited COVID-19 effect on Telkom's revenue, but COVID-19's economy-wide effects are expected to manifest in fiscal 2021. A national state of disaster was declared in South Africa on March 15, 2020. To mitigate the spread of COVID-19, various measures were instituted by the national government, including a national lockdown. Many companies adopted work-from-home strategies. As a group belonging to the information communication technology sector, Telkom's operations were considered essential services, which allowed the company to continue operating during the lockdown. Moreover, the group witnessed a surge in fixed and mobile network traffic from telecommuters. As a result, there was an only immaterial negative impact from COVID-19 on mobile revenue. However, we expect the economy-wide impact of COVID-19 (including negative GDP growth, lower consumer affordability, constrained eEnterprise business) to materially affect revenue growth in fiscal 2021. We also note that supply chain disruptions and customers' financial stress may result in working capital inefficiencies.

Accelerating decline in fixed voice revenue is putting downward pressure on EBITDA margins. Telkom's unique business mix, which comprises a significant legacy technology-based segment, continues to weigh negatively on group EBITDA margins (for fiscal 2020, EBITDA margins declined to 24% from 27.1% in fiscal 2019). While the traditional fixed-line business is in decline, it is a high-EBITDA-margin business and the investments in the new technology-based businesses do not yet offset the decline in the higher margin fixed voice business. As a result, Telkom's margins are still comparatively lower than other South African peers, which have more mature and larger mobile exposures. However, we expect that Telkom's cost-saving initiatives, including staff rationalization, and continuing investment in network optimization and new technologies will support margins in the short term. In the long term, the pace of revenue mix evolution and the scaling up of new businesses will be crucial for EBITDA margin expansion.

A three-year dividend suspension is positive for credit metrics. Dividend payout is a key tool for Telkom to manage its balance sheet, in our view. In an effort to preserve liquidity, Telkom has opted to suspend dividends for fiscals 2021-2023. We believe this corporate action signals Telkom's intention to actively manage its discretionary cash outflow amid weak and uncertain operating conditions. The careful management of dividend payouts should help Telkom soften the impact of COVID-19 on its balance sheet and provide a cushion for any spectrum purchase considerations in the forecast period.

S&P Global Ratings' ratings on Telkom are influenced by those on the South Africa sovereign, even though we assess the likelihood of support or negative intervention as low. Our ratings on Telkom are constrained at one notch above the foreign currency rating on the South Africa sovereign, and a change in our rating on the sovereign or Telkom's status within the state-owned company (SOC) framework, could affect our rating on Telkom. Currently, the South African government owns about 40.5% of Telkom, and therefore we consider the company a government-related entity (GRE). We view the likelihood of state intervention in Telkom's operations as low, based on the government's current policy, the company's for-profit focus, and the governance and management structures in place. Nonetheless, a risk remains that key exemptions from provisions applicable to SOCs could be altered.

Outlook: Stable

The stable outlook reflects Telkom's 'bbb-' stand-alone credit profile (SACP) and our view that the rating cannot exceed our long-term foreign currency rating on South Africa by more than one notch, given the company's predominantly domestic operations, as well as the government's significant minority ownership stake.

Downside scenario

We could revise the outlook on Telkom to negative if we took a similar action on South Africa, which could occur due to a lasting weakening economic and fiscal trajectory of the country, and a surge in related operating constraints in South Africa. The ratings on Telkom could also come under pressure if, in our view, its SACP were to deteriorate by more than two notches. We could also consider lowering the rating if weakened liquidity left Telkom unable to pass our sovereign stress case, and we capped the rating at the level of our foreign currency rating on South Africa.

Upside scenario

We could raise the rating on Telkom if we took a similar action on South Africa.

Our Base-Case Scenario

Assumptions

- South African GDP growth of -8.2% in 2020, 5.0% in 2021, and 2.3% in 2022.
- Revenue growth of -6.9% in fiscal year 2021, mainly due to COVID-19 and slow economic growth affecting growth of all business segments. We see revenue picking up between 4%-6% in fiscals 2022 and 2023, based on the recovery in South Africa's GDP growth rate to 5.0% 2021 and 2.3% in 2022.
- Stable EBITDA margins in the range of 23.5%-25.0% aided by ongoing cost reductions, yielding EBITDA of South African rand (ZAR) 9.6 billion-ZAR11.2 billion over the forecast period.
- Capex of about ZAR7.6 billion-ZAR8 billion in fiscals 2021-2023.
- No acquisitions, disposals, or dividends during the forecast period.

Key Metrics

Telkom SA SOC Ltd. -- Key Metrics*

	--Fiscal year ended June 30--				
(Bil. ZAR)	**2019a**	**2020a**	**2021f**	**2022f**	**2023f**
Capital expenditure	7.6	7.7	7.6-8.0	7.6-8.0	7.6-8.0
Debt	11.3	12.1	14.5	16.7	17.1
EBITDA Margin (%)	27.4	22.5	23.5-25.0	23.5-25.0	23.5-25.0
Debt to EBITDA (x)	1.0	1.3	1.3-1.5	1.5-1.7	1.5-1,6
FFO to debt (%)	82.5	57.1	40.0-45.0	40.0-45.0	45.0-48.0
FOCF to debt (%)	4.9	21.2	(14.0)-(16)	(5.0)-(2.0)	0-2.0
DCF to debt (%)	-11.8	4.3	(14.0)-(16)	(5.0)-(2.0)	0-2.0

ZAR--South African rand. FFO--Funds from operations. FOCF--Free operating cash flow. DCF--Discretionery cash flow. a--Actual. f--Forecast. *All figures adjusted by S&P Global Ratings. 2020 year-end debt of ZAR12.1 bil. consists of gross financial debt of $12.2 bil. with key adjustments being ZAR4.8 bil. in operating leases and ZAR4.9 bil. in cash.

Telkom's credit metrics are strong and stable, but higher levels of planned capex and negative discretionary cash flow in fiscals 2021 and 2022 could weigh on credit metrics in 2021-2023. We expect Telkom's capex to remain in the upper end of the capex cycle due to continual investment in strategic areas, which include expansion of existing networks and services and mobile networks, the Next Generation Network program and Network Evolution initiatives. However, we view the company's commitment to its financial policy as strong, and note that it is currently below its target reported leverage range of 1.5x (at 1.0x reported debt to EBITDA as of fiscal 2020), which implies ample headroom on both net debt and EBITDA.

Company Description

Telkom owns and operates South Africa's largest national wholesale telecommunications infrastructure, comprising integrated copper and fiber lines linked to a high-speed backhaul network. Fixed broadband internet and mobile voice and data services are available to individuals and small and midsize enterprises, while a diversified information and communication technology (ICT) product offering including access to telecommunications, data centers, and information technology (IT) services, is aimed at the enterprise market. On March 31, 2020, Telkom had 0.7 million fixed broadband subscribers, 1.6 million fixed access lines, and 12 million mobile subscribers. The company also undertakes property and tower management services (through Gyro) and print and digital marketing services (through Yellowpages). Telkom generated annual revenue of ZAR43 billion (about $2.5 billion) in fiscal 2020 and is listed on the Johannesburg Securities Exchange with a current market capitalization of ZAR14.4 billion (about $0.8 billion) (as of Aug. 17, 2020).

Peer Comparison

Table 1

Telkom SA SOC Ltd. -- Peer Comparison

Industry sector: Diversified telecom

	Telkom SA SOC Ltd.	**MTN Group Ltd.**	**Rostelecom PJSC**	**Turkcell**	**Turk Telekom**
Rating as of Oct. 12, 2020	BB/Stable/--	BB-/Stable/--	BB+/Stable/--	BB-/Stable/--	BB-/Stable/B
	--Fiscal year ended--				
(Mil. ZAR)	**March 31, 2020**	**Dec. 31, 2019**			
Revenues	42,764.0	151,029.0	76,046.3	57,025.5	55,631.2
EBITDA	9,642.0	63,657.0	22,844.7	20,343.6	24,340.4
Funds from Operations (FFO)	6,896.0	38,014.3	17,575.6	13,954.4	18,765.7
Interest expense	1,623.0	19,464.7	4,631.5	2,558.3	6,010.4
Cash Interest paid					
Cash flow from operations	10,222.0	31,300.3	22,406.8	19,014.2	20,302.6
Capital expenditures	7,660.0	27,040.0	22,420.8	10,822.9	9,831.0
Free operating cash flow	2,562.0	4,260.3	(14.0)	8,191.3	10,471.6
Discretionary cash flow	519.0	(7,794.7)	(2,843.6)	5,498.7	10,471.6
Cash and short-term investments	4,935.0	26,130.0	6,410.6	24,077.0	10,388.4
Debt	12,076.4	161,491.5	55,358.7	25,978.8	43,120.3
Equity	29,475.0	86,100.0	59,090.6	40,189.3	22,205.5
Adjusted ratios					
EBITDA margin (%)	22.5	42.1	30.0	35.7	43.8
Return on capital (%)	7.0	15.3	7.2	16.1	22.6
EBITDA interest coverage (x)	5.9	3.3	4.9	8.0	4.0
FFO cash interest coverage (X)	5.8	3.1	4.8	3.6	4.6
Debt/EBITDA (x)	1.3	2.5	2.4	1.3	1.8
FFO/debt (%)	57.1	23.5	31.7	53.7	43.5
Cash flow from operations/debt (%)	84.6	19.4	40.5	73.2	47.1
Free operating cash flow/debt (%)	21.2	2.6	N.M	31.5	24.3
Discretionary cash flow/debt (%)	4.3	(4.8)	(5.1)	21.2	24.3

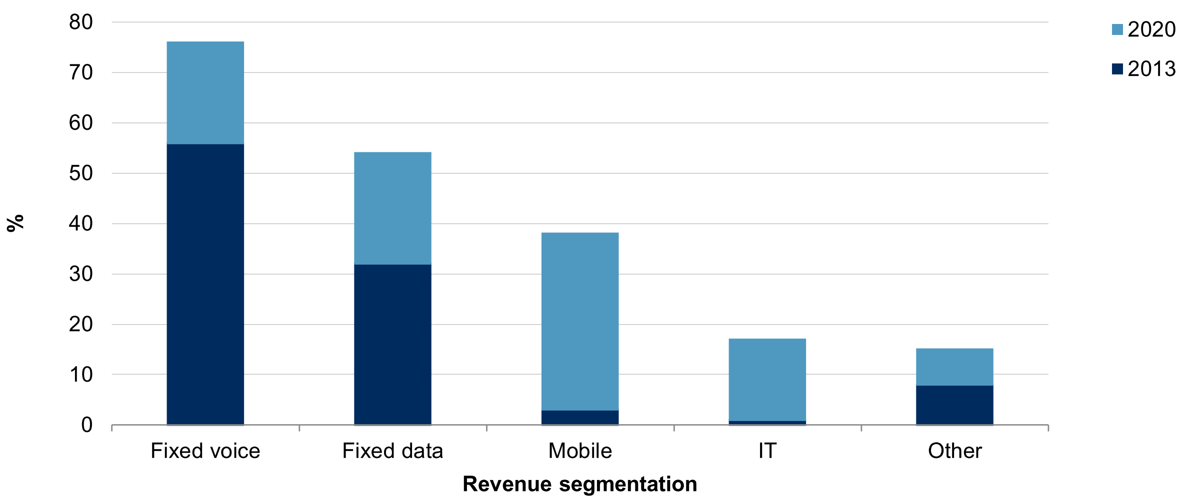
ZAR--South African rand.N.M.--Not meaningful.

Business Risk: Fair

Our assessment of Telkom's business risk reflects the company's continued efforts to counteract the effects of the structural decline in fixed voice, its largest division. Telkom has invested heavily and successfully in new technologies, with capex in fiber and mobile networks and infrastructure providing required growth platforms. As a result of the investments, particularly in mobile and IT, Telkom has managed to diversify its revenue streams and offset the declines in traditional fixed voice and fixed data. As at the end of fiscal 2013, fixed voice and fixed data constituted a combined 88% of revenue. By 2020, revenue from fixed voice and fixed data had declined to 44%, with mobile and IT revenue increasing to a combined 25% from 4% . Moreover, the acquisition of BCX has further aided the shift from voice reliance by increasing Telkom's footprint in the Enterprise business. Although the current environment (COVID-19 and slow economic growth) has increased pricing pressure in Enterprise, we believe Telkom is well positioned to capture new business models and data, use cases that are emerging in the future digital economy, and enjoy some normalization in business operations post COVID-19.

Chart 1

Telkom SA SOC Ltd. -- Revenue Mix
2013 versus 2020



IT--Information technology. Source: S&P Global Ratings, Telkom SOC Ltd. Annual Report 2020.

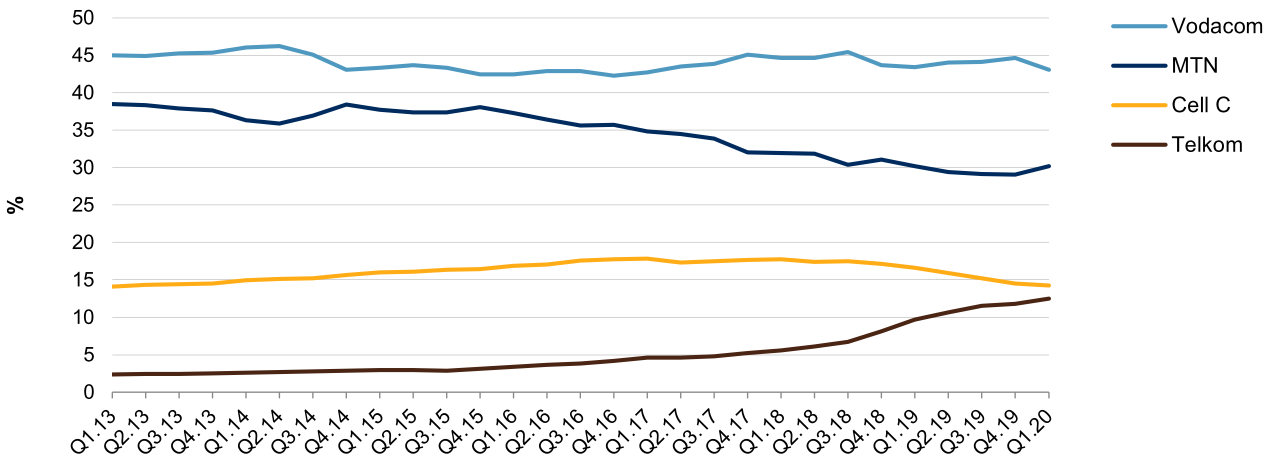
Telkom has been able to leverage its legacy fixed line infrastructure to roll out fiber networks, and has the largest fiber network in South Africa, with 163,800 kilometers (km) deployed. Furthermore, the 2.9 million premises passed represents a significant share of the FTTH market in fiscal 2020. Telkom's fiber connectivity rate reached 48.2% (leader in the market) in fiscal 2020 versus 38.4% in fiscal 2019, despite the comparably slower 1.9% growth in the number of fiber to premises passed in fiscal 2020.

On the back of continued mobile network investments, Telkom has seen continued growth in the mobile business.

Mobile service revenue increased by 54.4% to ZAR12.6 billion in fiscal 2020, and customers grew 23.9% to 12 million. However, Telkom mobile still has much lower market penetration than MTN Group's about 29 million South African mobile subscribers and Vodacom Group's about 39 million. Nonetheless, its scale is increasing and Telkom's mobile subscriber growth has significantly outstripped that of earlier-to-market peers in the last two fiscal years. Telkom's mobile market share as the No.4 player (as of March 2020) remains modest, but it has more than doubled to 12.5% as of March 2020 from 5.6% two years ago. Nonetheless, we view Telkom's current market share as sub-scale, given high operating leverage, resulting in a drag on profitability that will take a few more years to overcome.

Chart 2

Mobile Subscriber Market Share In South Africa (2013-2020)



Q--Quarter. Source: S&P Global Ratings.

Telkom has good growth prospects in its broadband (both fixed and mobile) and ICT solutions businesses, which helps it offset volume losses in the traditional fixed-line voice business. We believe that Telkom's commitment to directing its capex spend toward fiber and mobile, including long-term evolution rollouts, will enable a faster growth trajectory in the broadband business. We expect Telkom's operating efficiency to improve over time, as it realizes value from the gradual shift toward the mobile business, supported by robust cost-cutting initiatives. Telkom's business risk also reflects the challenging operating environment, including regulatory uncertainty, an evolving political landscape, and weak economic growth and consumer spending.

Financial Risk: Modest

Our assessment of Telkom's financial risk reflects our view of its strong and stable credit metrics, moderately offset by our expectation of capital intensity of about 18.0%-20.0% in fiscal 2021 (about 18% in fiscal 2020). In the forecast period, we expect Telkom's capex to remain in the upper end of the capex cycle, due to continual investment in strategic areas, which include existing networks and services expansion, Mobile network expansion, the Next

Generation Network program, and Network Evolution initiatives. We anticipate that capital intensity will moderate to 16.5%-17.5% by fiscal 2023 as the benefits of investment accrue more significantly.

We expect Telkom will maintain a conservative capital structure over through 2023, with revenue growth of about -6.9% in fiscal 2021 recovering to about 5%-6% in fiscals 2023-2023 and average adjusted margins of 24%-25%, sustainably yielding S&P Global Ratings-adjusted debt to EBITDA of about 1.3x-1.5x, and FFO to debt around 51%. On the back of high capital intensity and reduced cash generation in fiscals 2021-2022, we expect DCF will be negative in fiscals 2021 and 2022 and improving to positive in fiscal 2023.

In assessing financial risk, we also note that the suspension of dividends for the next three years starting in fiscal 2021, for liquidity management and spectrum purchase considerations, is supportive of current credit metrics. However, operational underperformance (relative to our base case) or sustained higher-than-expected capex, would likely lead to downward pressure on the SACP, if leverage were to exceed 1.5x as a result of prolonged negative cash flows. The company has a long track record of strong commitment to its financial policy, and we note that it is currently below its target leverage range (1.0x as of fiscal 2020), which implies ample headroom on both net debt and EBITDA.

Financial summary

Table 2

Telkom SA SOC Ltd. -- Financial Summary					
Industry sector: Diversified telecom					
	--Fiscal year ended March 31--				
	2020	**2019**	**2018**	**2017**	**2016**
(Mil. ZAR)					
Revenues	42,764.0	41,583.0	41,018.0	40,970.0	38,606.0
EBITDA	9,642.0	11,394.0	11,301.0	11,581.5	11,779.5
Funds from Operations (FFO)	6,896.0	9,326.2	8,756.8	9,582.5	10,420.5
Interest expencse	1,623.0	1,213.8	1,273.2	1,017.0	825.0
Cash Interest paid					
Cash flow from operations	10,222.0	8,084.2	8,661.8	8,072.5	8,617.5
Capital expenditures	7,660.0	7,525.0	7,638.0	8,278.0	5,838.0
Free operating cash flow	2,562.0	559.2	1,023.8	(205.5)	2,779.5
Discretionary cash flow	519.0	(1,333.8)	(1,993.2)	(2,610.5)	1,377.5
Cash and short-term investments	4,935.0	3,001.0	4,237.0	1,612.0	2,548.0
Debt	12,076.4	11,309.4	8,974.5	8,550.5	6,774.4
Equity	29,475.0	29,768.0	27,385.0	27,906.0	26,607.0
Adjusted Ratios					
EBITDA margin (%)	22.5	27.4	27.6	28.3	30.5
Return on capital (%)	7.0	13.7	14.6	15.5	18.8
EBITDA interest coverage (x)	5.9	9.4	8.9	11.4	14.3
FFO cash interest coverage (x)	5.8	9.3	9.3	12.7	10.7
Debt/EBITDA (x)	1.3	1.0	0.8	0.7	0.6
FFO/Debt (%)	57.1	82.5	97.6	112.1	153.8
Cash flow from operations/debt (%)	84.6	71.5	96.5	94.4	127.2

Table 2

Telkom SA SOC Ltd. -- Financial Summary (cont.)

Industry sector: Diversified telecom

	--Fiscal year ended March 31--				
	2020	**2019**	**2018**	**2017**	**2016**
Free operating cash flow/debt (%)	21.2	4.9	11.4	(2.4)	41.0
Discretionary cash flow/debt (%)	4.3	(11.8)	(22.2)	(30.5)	20.3

ZAR--South African rand.

Reconciliation

Table 3

Telkom SA SOC Ltd. -- Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. ZAR)

	--Fiscal year ended March 31, 2019--								
Telkom SA SOC Ltd. reported amounts									
	Debt	**Shareholders' equity**	**Revenue**	**EBITDA**	**Operating income**	**Interest expense**	**S&P Global Ratings' adjusted EBITDA**	**Cash flow from operations**	**Capital expenditure**
Reported	12,005.0	29,504.0	43,043.0	9,602.0	2,687.0	1,570.0	9,642.0	10,274.0	7,712.0
S&P Global Ratings' adjustments									
Cash taxes paid	--	--	--	--	--	--	(1,320.0)	--	--
Cash interest paid	--	--	--	--	--	--	(1,374.0)	--	--
Reported lease liabilities	4,775.0	--	--	--	--	--	--	--	--
Postretirement benefit obligations/deferred compensation	--	--	--	9.0	9.0	1.0	--	--	--
Accessible cash and liquid investments	(4,889.0)	--	--	--	--	--	--	--	--
Capitalized interest	--	--	--	--	--	52.0	(52.0)	(52.0)	(52.0)
Share-based compensation expense	--	--	--	328.0	--	--	--	--	--
Nonoperating income (expense)	--	--	--	--	90.0	--	--	--	--
Noncontrolling interest/minority interest	--	(29.0)	--	--	--	--	--	--	--
Debt: Guarantees	9.4	--	--	--	--	--	--	--	--
Debt: Other	176.0	--	--	--	--	--	--	--	--
Revenue: Finance/interest income	--	--	(279.0)	(279.0)	(279.0)	--	--	--	--
EBITDA: Gain/(loss) on disposals of PP&E	--	--	--	(18.0)	(18.0)	--	--	--	--

Table 3

Telkom SA SOC Ltd. -- Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. ZAR) (cont.)

	Debt	Equity	Revenue	EBITDA	EBIT	Interest expense	Funds from operations	Cash flow from operations	Capital expenditure
Depreciation and amortization: Impairment charges/(reversals)	--	--	--	--	414.0	--	--	--	--
Total adjustments	71.4	(29.0)	(279.0)	40.0	216.0	53.0	(2,746.0)	(52.0)	(52.0)
S&P Global Ratings' adjusted amounts									
Adjusted	12,076.4	29,475.0	42,764.0	9,642.0	2,903.0	1,623.0	6,896.0	10,222.0	7,660.0

ZAR--South African rand.

Liquidity: Adequate

We assess Telkom's liquidity as adequate. We anticipate that Telkom's cash flows and available facilities will exceed its commitments and obligations by more than 1.2x over the 12 months started July 1, 2020.

Principal Liquidity Sources

For the 12 months started July 1, 2020. we estimate the following principal liquidity sources:

- Unrestricted cash and cash equivalents of about ZAR4.9 billion.
- Undrawn committed revolving credit facilities (RCF) totaling ZAR1.5 billion.
- Our expectation of cash FFO of about ZAR7.0 billion.

Principal Liquidity Uses

For the same period, we estimate the following principal liquidity uses:

- Debt maturities of about ZAR1.9 billion.
- Negative (nonseasonal) working capital outflows of about ZAR1.0 billion inclusive of ZAR500 million–ZAR600 million increase in debt due to the impact of COVID-19.
- Maintenance capex of about ZAR8.0 billion, of which about 30% is considered discretionary.
- No planned dividends, acquisition or mergers.

Debt maturities

As of March 31, 2020:

- Maturity within next 12 Months: ZAR1.9 billion
- Maturity between next 12 and 24 months: ZAR0.2 billion
- Thereafter: ZAR10 billion

Covenant Analysis

Compliance expectations

We expect Telkom will maintain sufficient headroom under its financial covenants, with headroom well in excess of 15% on its interest coverage and net debt to EBITDA ratios.

Environmental, Social, And Governance

Social and governance factors are relevant to our analysis, but do not currently have a material effect on the rating. Potential exposure to governance risks stem mainly from Telkom's SOC status, and regulatory risks. While Telkom is a SOC, we believe its listed status and solid management have protected it from the governance weaknesses to which many other South African SOCs have been exposed. The regulatory environment exposes Telkom to mobile and data price reduction policies, plus data protection and SIM registration requirements, which may put pressure on future revenue or margin expectations. Furthermore, delays in new spectrum allocation have potential to drive up capex, if Telkom experiences spectrum constraints in the future. Given its mobile market challenger status, Telkom is currently significantly less spectrum constrained than MTN and Vodacom.

Group Influence

The Telkom SA SOC group comprises the parent company and its subsidiaries. In line with our criteria, we consider that an assumed group credit profile (GCP) is the same level as the issuer credit rating (ICR) on the parent company Telkom. The assumed GCP is based on the scope of consolidation and Telkom can be referred in terms of the assumed GCP in accordance with our criteria.

Government Influence

Our foreign and local currency sovereign credit ratings on South Africa are 'BB-' and 'BB' with stable outlooks (see our Full Analysis report, entitled, "South Africa" published May 22, 2020, on RatingsDirect). We consider Telkom to be a GRE, with a limited link and limited importance to the South African government. We therefore believe there is a low likelihood of government support for Telkom, given the government's minority (around 40.5%) shareholding, the company's listed status, and the commercial operating model.

Rating Above The Sovereign

Based on our view of the low likelihood of government support, we do not cap the rating on Telkom at the foreign currency rating on South Africa ('BB-'). We consider that Telkom may be rated one notch above the foreign currency rating on South Africa since it passes our sovereign stress test. This points to our view of the company's resilience under a hypothetical sovereign default scenario, which includes a 20% earnings stress and a 50% depreciation of the South African rand.

Ratings Score Snapshot

Issuer Credit Rating

BB/Stable/--

Business risk: Fair

- **Country risk:** Moderately high
- **Industry risk:** Intermediate
- **Competitive position:** Fair

Financial risk: Modest

- **Cash flow/leverage:** Modest

Anchor: bbb-

Modifiers

- **Diversification/portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Adequate (no impact)
- **Management and governance:** Fair (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Stand-alone credit profile : bbb-

- **Group credit profile:** bb-
- **Likelihood of government support:** Low (no impact)

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | Industrials: Key Credit Factors For The Telecommunications And Cable Industry, June 22, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013

- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012

Related Research

- Rating Actions Taken On Various Corporate And Infrastructure Issuers Following Downgrade Of South Africa, May 12, 2020
- South Africa Ratings Lowered To 'BB-' From 'BB' As COVID-19 Further Impairs Fiscal And Growth Prospects; Outlook Stable, April 29, 2020

Regulatory Disclosures

Regulatory disclosures applicable to the most recent credit rating action can be found at "Rating Actions Taken On Various Corporate And Infrastructure Issuers Following Downgrade Of South Africa," published May 12, 2020, on RatingsDirect.

Glossary

- Anchor: The starting point for assigning an issuer a long-term rating, based on its business risk profile assessment and its financial risk profile assessment.
- Business risk profile: This measure comprises the risk and return potential for a company in the market in which it participates (its industry risk), the country risks within those markets, the competitive climate, the company's competitive advantages and disadvantages (its competitive position).
- Comparable rating analysis: This involves taking a holistic review of a company's stand-alone credit risk profile(SACP), because each of the subfactors that ultimately generate the SACP can be at the upper or lower end, or at the mid-point, of such a range. It may also touch upon the overall comparative assessment of an issuer in relation to its peers across industry and jurisdiction and may capture some factors not (fully) covered, such as a short operating track record, entities in transition, unusual structures, or contingent risk exposures.
- Competitive advantage: The strategic positioning and attractiveness to customers of the company's products or services, and the fragility or sustainability of its business model.
- Competitive position: Our assessment of a company's: competitive advantage; operating efficiency; scale, scope, and diversity; and profitability.
- Country risk: This measures a country's influence on the overall credit risks for a rated company with regards to a country's economic, institutional and governance effectiveness, financial system, and payment culture/rule of law risks.

- Creditworthiness: Ability and willingness of a company to meet its debt and debt-like obligations; measured by assessing the level current and future resources relative to the size and timing of its commitments.
- Diversification/portfolio effect: Applicable to conglomerates. An assessment of the extent to which an entity's multiple core business lines are correlated and whether each contributes a material source of earnings and cash flow.
- Earnings: Proxy for profit or surplus yielded by an entity after production and overhead costs have been accounted for in a given period.
- EBITDA margin: This is EBITDA as a fraction of revenues.
- EBITDA: This is earnings before interest, tax, depreciation, and amortization.
- Financial headroom: Measure of deviation tolerated in financial metrics without moving outside or above a predesignated band or limit typically found in loan covenants (as in a debt-to-EBITDA multiple that places a constraint on leverage) or set for the respective rating level. Significant headroom would allow for larger deviations.
- Financial risk profile: This measure comprises our assessment of a company's cash flow/leverage analysis. It also takes into account the relationship of the cash flows the organization can achieve given its business risk profile. The measure is before assessing other financial drivers such as capital structure, financial policy, or liquidity.
- Free operating cash flow: Cash flow from operations minus capital expenditure.
- Funds from operations: EBITDA minus interest expense minus current tax.
- Government-related entity: An entity that could, under stress, benefit from extraordinary government support in order to meet its financial obligations; or conversely an entity controlled by a government that could be subject to negative extraordinary government intervention if the government is under stress.
- Industry risk: This addresses the major factors that affect the risks that companies face in their respective industries.
- Leverage: The level of a company's debt in relation to its earnings before interest, tax, depreciation, and amortization.
- Liquidity: This is the assessment of a company's monetary flows, assessed over a 12 to 24 month period. It also assesses the risk and potential consequences of a company's breach of covenant test, typically tied to declines in EBITDA.
- Management and governance: This addresses how management's strategic competence, organizational effectiveness, risk management, and governance practices shape the issuer's competitiveness in the marketplace, the strength of its financial risk management, and the robustness of its governance.
- Operating efficiency: The quality and flexibility of the company's asset base and its cost management and structure.
- Outlook: This is the assessment of the potential direction of a long-term issuer rating over the short to intermediate term (typically six months to two years).
- Rating above the sovereign assessment: Our assessment of whether an entity can be rated above the sovereign rating on a jurisdiction it has a material exposure to.
- Scale, scope, and diversity: The concentration or diversification of business activities.
- Stand-alone credit profile (SACP): S&P Global Ratings' opinion of an issue's or issuer's creditworthiness, in the absence of extraordinary intervention or support from its parent, affiliate, or related government or from a third-party entity such as an insurer.

Business And Financial Risk Matrix

Business Risk Profile	Financial Risk Profile					
	Minimal	**Modest**	Intermediate	Significant	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	**bbb-**	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Ratings Detail (As Of October 12, 2020)*

Telkom SA SOC Ltd.	
Issuer Credit Rating	BB/Stable/--
Issuer Credit Ratings History	
12-May-2020	BB/Stable/--
02-Dec-2019	BB+/Negative/--
04-Dec-2017	BB+/Stable/--
10-Apr-2017	BBB-/Negative/--

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.