S&P Global
Ratings

RatingsDirect®

Telkom SA SOC Ltd.

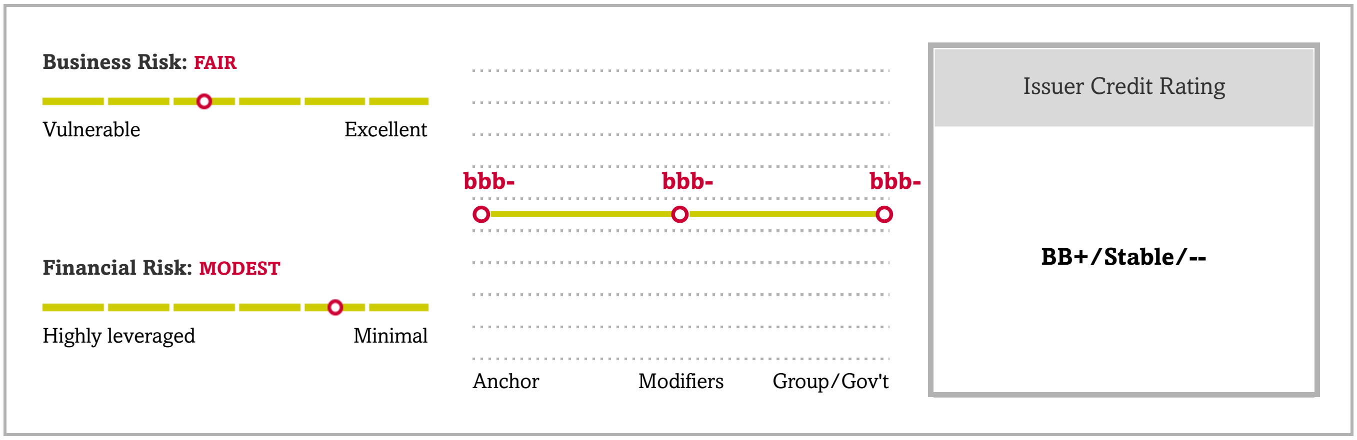
Primary Credit Analyst:
Omega M Collocott, Johannesburg (27) 11-214-4854; omega.collocott@spglobal.com

Secondary Contact:
Rishav Singh, Johannesburg (27) 11-214-4856; rishav.singh@spglobal.com

Table Of Contents

Table Of Contents (cont.)

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, 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 a disciplined integrated capital expenditure (capex) deployment.	Weak margins relative to the domestic peer group, largely attributable to the sizeable fixed-line business orientation, and a rigid cost structure.
Modest leverage and capital structure featuring a funding base well diversified by instrument, maturity profile, and interest rate exposure.	Negative working capital movements and shareholder-friendly dividend policy place negative pressure on discretional cash flows, which were expected to turn positive in fiscal 2019 (fiscal year ends March 31, 2019).
Strategic focus on high growth, with fiber to the home (FTTH) and mobile business supported by a better position in terms of spectrum inventory than other South African mobile operators.	Challenging operating environment, encompassing regulatory uncertainty, and an evolving political landscape.
	Sovereign risk exposure in 40.5% state-owned Telkom SA SOC Ltd. (Telekom) 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 trajectory in the top line. Telkom has been able to generate revenue growth of 5.3% year on year (YoY) in fiscal 2019, despite structurally declining fixed line revenue (fixed line and interconnect revenue fell by 14.3% YoY in fiscal 2019). Active mobile subscribers increased by 86% YoY and mobile broadband subscribers increased by 76% YoY.

Telkom's stable margins are still comparatively lower than other South African peers', given the company's unique business mix. Telkom's cost saving initiatives, investment in network optimization, and new technologies and products such as FTTH, LTE, and bundled plans, for example, supported the company's adjusted EBITDA margin of about 27% in fiscal 2019. However, any positive margin effect from these initiatives will likely be deferred until the new operations reach a more substantial scale. Furthermore, high maintenance costs in the fixed line business continue to negatively affect EBITDA margins, largely counteracting margin gains through new initiatives.

S&P Global Ratings' ratings on Telkom are are influenced by 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 South Africa sovereign foreign currency rating, 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 42% 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 the government's current policy, the company's for-profit focus, and the governance and management structures in place. Nonetheless, risks remain that key exemptions from provisions applicable to SOCs could be altered.

Outlook

Our stable outlook on Telkom reflects the stable outlook on South Africa, and incorporates our expectation of top-line growth for Telkom of 2%-4%, supported by a modest pickup in the economic outlook for the country and, consequently, Telkom's operating environment.

Our 'BB+' rating on Telkom reflects our expectation that the company will maintain our growth and margin expectations such that adjusted debt to EBITDA will remain about 1.0x, funds from operations (FFO) to debt over 70%, and discounted cash flow (DCF) to debt will slowly become sustainably positive by fiscal 2021. The rating also reflects our expectation that the company's liquidity will remain at an adequate level, with sources of liquidity fully covering uses over a 12-month horizon starting April 1, 2019 even in a stress scenario associated with a hypothetical sovereign default.

We could revise down Telkom's stand-alone credit profile if we were to expect prolonged negative DCF to result in adjusted debt to EBITDA rising above 1.5x. This could occur if cash flows weaken considerably due to persistent working capital outflows, sustained aggressive capex, or dividend policy. This could also result from poor operating performance, such as weak traction in the broadband business or a failure to maintain at least breakeven earnings in the mobile segment. However, all else being equal, a one-notch reduction in the SACP would not necessarily cause us to lower our rating on Telkom.

Downside scenario

We could lower the rating on Telkom if we lowered our foreign currency issuer rating on South Africa to 'BB-', reflecting persistence of the weakening economic and fiscal trajectory of the country, and related increased pressures of operating in the South African market. We could also consider lowering the rating if a decline in liquidity left Telkom unable to pass our sovereign stress case, and we capped its rating at the level of our foreign currency rating on South Africa.

Upside scenario

We could raise the rating if we took a similar action on South Africa, or if we believed the company's ability to withstand sovereign stress had improved, either as a result of significantly higher liquidity levels or moderated risk of negative intervention by the South African government.

We would also require the operating performance to be in line with our base case, and a supportive financial policy, with sustainable positive DCF and adjusted debt to EBITDA below 1.5x. However, we could accept leverage as high as 2x, if combined with stronger adjusted DCF of at least 15% of debt.

Our Base-Case Scenario

Assumptions

- Revenue growth of 2%-4% in fiscals 2020 and 2021, based on marginal improvements in South Africa's GDP growth rate to 2% by 2021 from 0.8% in 2019.
- Stable EBITDA margins at about 25% (about 27% including our adjustments), yielding EBITDA growth broadly in line with revenue growth.
- Capex of about South African rand (ZAR) 7.5 billion-ZAR8 billion in fiscals 2020 and 2021.
- No acquisitions or disposals during the forecast period.
- Dividends of about ZAR1.7 billion-ZAR1.9 billion in line with the stated dividend policy of 60% of headline earnings and 40% of interim headline earnings.

Key Metrics

	2019a	2020e	2021e
EBITDA margin (%)	27.6	27-29	27-29
Capex/revenue (%)	18.2	17-18	16.5-17.5
Debt/EBITDA (x)	0.9	0.9-1.1	1.0-1.2
FFO/debt (%)	90.2	70-90	70-90
DCF/debt (%)	(12.9)	0-(5)	0-(5)

All figures are S&P Global Ratings adjusted. a--Actual. e--Estimate.

Base-case projections

We anticipate stable overall revenue growth as mobile business and data offerings replace fixed voice. We forecast revenue growth of 2%-4% in the forecast period of (fiscal 2020-fiscal 2022), linked to good traction in mobile and fixed broadband services, falling fixed service revenue, and low but marginally improving GDP growth.

EBITDA margins will be stable as cost efficiency offsets top line margin pressure from intensifying competition. An improved cost structure following network modernization offsets low margins resulting from high operating leverage in the intensely competitive growing mobile and fixed broadband segments, and lower margins in the fixed-line voice segment. Some margin expansion may be supported by scaling up of the broadband business.

Continued capex spend supports EBITDA growth, with capex of about 18.2% of revenue in fiscal 2019. We expect capex intensity will moderate toward 17% by fiscal 2022. Capex is focused mainly on fiber rollout, network expansion and modernization, wireless base-station development, base-station connections to the backhaul, and information technology (IT) system improvements. New roaming agreements, which incorporate an element of infrastructure sharing, may assist in reducing capex intensity over time.

Company Description

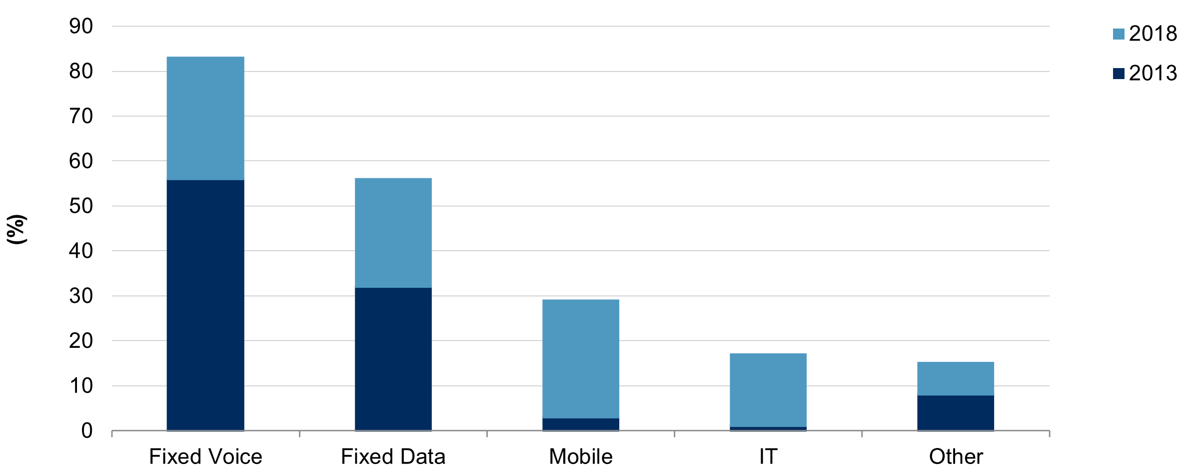
Telkom owns and operates South Africa's largest national wholesale telecommunications infrastructure, comprising integrated copper and fiber lines linked to a high-speed backhaul network. Fixed broadband internet, and mobile voice and data services are available to individuals and small and midsize enterprises, while a diversified information and communication technology (ICT) product offering including access to telecommunications, data centers, and IT services, is aimed at the enterprise market. At March 31, 2019, Telkom had 0.8 million fixed broadband subscribers, 2.3 million fixed access lines, and 9.7 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 ZAR42 billion (about $2.8 billion) in fiscal 2019 and it is listed on the Johannesburg Securities Exchange with a current market capitalization of ZAR42 billion (as of Aug. 21, 2019).

Business Risk

Our assessment of Telkom's business risk reflects its ongoing efforts to counteract the effects of 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.

Chart 1

Telkom's Revenue Mix In 2013 Compared With 2018



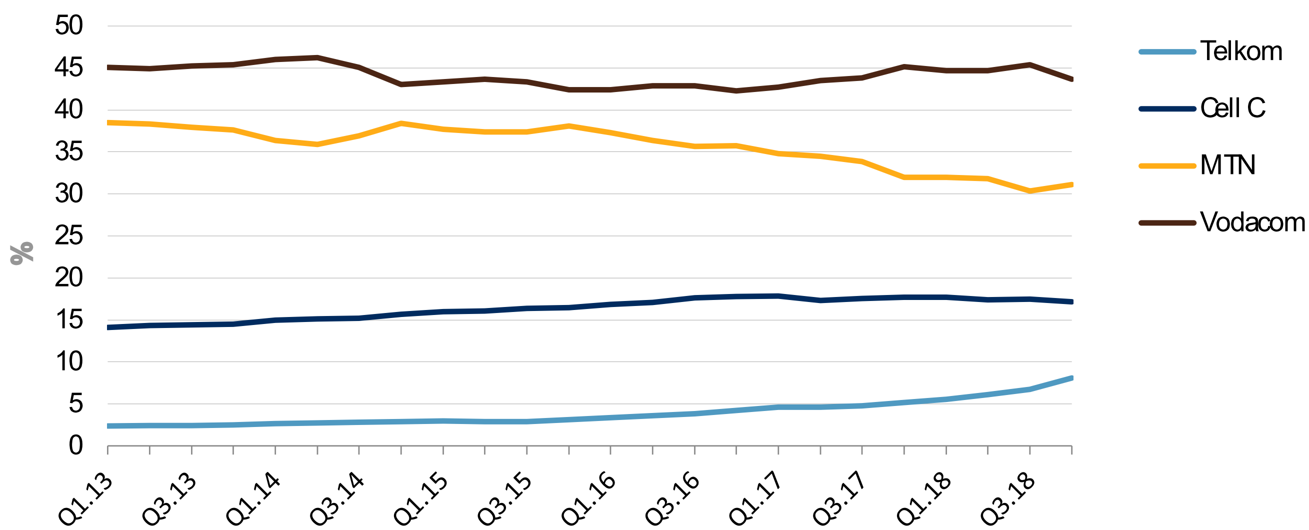
Source: S&P Global Ratings.

Telkom's fiber connectivity rate reached 38.4% in fiscal 2019 versus 30.7% in fiscal 2018, despite the comparably slower 8.8% growth in the number of 'fiber to premises passed' in fiscal 2019. Telkom has been able to leverage its legacy fixed line infrastructure to roll out fiber networks, and has the dominant position in fiber (163,800 kilometers (km)). Furthermore, the 2.8 million premises passed represents a significant share of the FTTH market in fiscal 2019.

Telkom's active mobile subscribers of 9.7 million (85% YoY growth) from 5.2 billion in fiscal 2018 is still much lower than the about 30 million South African mobile subscribers for MTN Group Ltd. and about 43 million for Vodacom Group Ltd., but scale is increasing and Telkom's mobile subscriber growth outstripped that of peers materially in fiscal 2019. Telkom's mobile market share as the No.4 player remains low, but it has almost doubled its market share to about 9.5% in March 2019 from about 5% 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 time to overcome.

Chart 2

South Africa – Mobile Subscriber Market Share (2013-2018)



Source: S&P Global Ratings. Company Records

Telkom has good growth prospects in its broadband (both fixed and mobile) and ICT solutions businesses, which help offset 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 likely enable a faster growth trajectory in the broadband business. We expect Telkom's operating efficiency will continuously improve, as it realizes value from the gradual shift towards the mobile business, supported by robust cost-cutting initiatives.

The business risk assessment of Telkom also takes into account the challenging operating environment, including regulatory uncertainty, an evolving political landscape, and tentative economic growth and consumer spending.

Peer comparison

Table 1

Telkom SA SOC Ltd. -- Peer Comparison

Industry Sector: Diversified Telecom

	Telkom SA SOC Ltd.	**MTN Group Ltd.**	**Rostelecom PJSC**	**Turkcell Iletisim Hizmetleri A.S.**	**Turk Telekom**
Ratings as of Aug. 22, 2019	BB+/Stable/--	BB+/Negative/--	BB+/Watch Neg/--	BB-/Stable/--	BB-/Stable/B
	--Fiscal year ended March 31, 2019--	**--Fiscal year ended Dec. 31, 2018--**			
(Mil. ZAR)					
Revenue	41,774.0	134,169.0	66,347.8	55,307.5	55,512.4
EBITDA	11,533.0	58,863.5	19,671.9	18,659.5	21,533.4
Funds from operations (FFO)	9,489.3	41,348.6	14,713.0	13,213.3	18,061.0

Table 1

Telkom SA SOC Ltd. -- Peer Comparison (cont.)					
Interest expense	1,189.7	13,908.9	4,003.0	1,466.3	3,346.7
Cash interest paid	1,098.7	12,487.9	4,189.2	3,752.6	3,202.7
Cash flow from operations	8,056.3	38,012.6	15,721.4	14,782.6	17,300.7
Capital expenditure	7,525.0	28,196.0	14,737.5	12,394.0	9,249.0
Free operating cash flow (FOCF)	531.3	9,816.6	983.9	2,388.7	8,051.7
Discretionary cash flow (DCF)	(1,361.7)	(2,178.4)	(1,455.2)	(3,190.6)	8,051.7
Cash and short-term investments	3,001.0	19,677.0	3,639.6	20,158.7	10,591.4
Debt	10,516.1	166,140.9	43,669.1	26,514.7	51,404.3
Equity	29,768.0	88,226.0	51,992.9	41,461.4	20,252.1
Adjusted ratios					
EBITDA margin (%)	27.6	43.9	29.6	33.7	38.8
Return on capital (%)	13.6	11.7	7.2	18.8	20.7
EBITDA interest coverage (x)	9.7	4.2	4.9	12.7	6.4
FFO cash interest coverage (x)	9.6	4.3	4.5	4.5	6.6
Debt/EBITDA (x)	0.9	2.8	2.2	1.4	2.4
FFO/debt (%)	90.2	24.9	33.7	49.8	35.1
Cash flow from operations/debt (%)	76.6	22.9	36.0	55.8	33.7
FOCF/debt (%)	5.1	5.9	2.3	9.0	15.7
DCF/debt (%)	(12.9)	(1.3)	(3.3)	(12.0)	15.7

Financial Risk

Our assessment of Telkom's financial risk reflects our view of its strong credit metrics and positive FOCF generation, moderately offset by our expectation of capital intensity of about 17.0%-18.0% in fiscal 2020 (about 18% in fiscal 2019) and shareholder-friendly dividend policy. In the forecast period, we expect capex will largely be deployed in fiber rollouts, network expansion, wireless base-station development, and IT system improvements. We anticipate that capital intensity will moderate to 16.5%-17.5% by fiscal 2021 as Telkom begins to realize the benefits of its investment program.

We expect Telkom will maintain a conservative capital structure over our forecast horizon, with low-to-mid single-digit net revenue growth and average adjusted margins of 27%-29%, sustainably yielding adjusted debt to EBITDA of about 1x-1.5x, and FFO to debt of above 60%.

On the back of declining capital intensity from fiscal 2019, we expect DCF will improve but remain negative until fiscal 2021. In the event of operational underperformance or sustained high capex, dividend maintenance would likely lead to downward pressure on the rating, if leverage were to exceed 1.5x as a result of prolonged negative cash flows.

We see the current dividend policy (60% of annual headline earnings, or about 75% of S&P Global Ratings-adjusted earnings, resulting in average cash payouts of a ZAR1.8 billion a year over fiscal 2020-fiscal 2021), as quite aggressive.

Financial summary

Table 2

Telkom SA SOC Ltd. -- Financial Summary

Industry Sector: Diversified Telecom					
	--Fiscal year ended Mar. 31--				
	2019	**2018**	**2017**	**2016**	**2015**
(Mil. ZAR)					
Revenue	41,774.0	41,018.0	40,970.0	38,606.0	33,491.0
EBITDA	11,533.0	11,301.0	11,581.5	11,779.5	9,541.5
Funds from operations (FFO)	9,489.3	8,756.8	9,582.5	10,420.5	9,245.0
Interest expense	1,189.7	1,273.2	1,017.0	825.0	842.5
Cash interest paid	1,098.7	1,051.2	818.0	1,071.0	702.5
Cash flow from operations	8,056.3	8,661.8	8,072.5	8,617.5	6,822.0
Capital expenditure	7,525.0	7,638.0	8,278.0	5,838.0	4,977.0
Free operating cash flow (FOCF)	531.3	1,023.8	(205.5)	2,779.5	1,845.0
Discretionary cash flow (DCF)	(1,361.7)	(1,993.2)	(2,610.5)	1,377.5	1,724.0
Cash and short-term investments	3,001.0	4,237.0	1,612.0	2,548.0	3,616.0
Gross available cash	3,001.0	4,237.0	1,612.0	2,548.0	3,643.0
Debt	10,516.1	8,974.5	8,550.5	6,774.4	4,997.6
Equity	29,768.0	27,385.0	27,906.0	26,607.0	25,227.0
Adjusted ratios					
EBITDA margin (%)	27.6	27.6	28.3	30.5	28.5
Return on capital (%)	13.6	14.6	15.5	18.8	13.1
EBITDA interest coverage (x)	9.7	8.9	11.4	14.3	11.3
FFO cash interest coverage (x)	9.6	9.3	12.7	10.7	14.2
Debt/EBITDA (x)	0.9	0.8	0.7	0.6	0.5
FFO/debt (%)	90.2	97.6	112.1	153.8	185.0
Cash flow from operations/debt (%)	76.6	96.5	94.4	127.2	136.5
FOCF/debt (%)	5.1	11.4	(2.4)	41.0	36.9
DCF/debt (%)	(12.9)	(22.2)	(30.5)	20.3	34.5

ZAR--South African rand.

Liquidity

We assess Telkom's liquidity as adequate. We anticipate that Telkom's strong cash flows and available facilities will exceed its commitments and obligations by more than 1.2x over the next 12 months beginning April 1, 2019.

Principal Liquidity Sources	Principal Liquidity Uses
For the 12 months started April 1, 2019 we calculate the following principal liquidity sources: • Unrestricted cash of about ZAR3 billion, including ZAR1.5 billion in cash equivalent marketable securities, which Telkom intends to liquidate as required. • Undrawn committed revolving credit facilities (RCF) totaling ZAR4.1 billion (we discount ZAR1.2 billion issued under a commercial paper (CP) program, assuming the RCF is backstopping the CP). • Our expectation of cash FFO of about ZAR9.1 billion. • New debt issuance of ZAR2 billion post March 31, 2019.	For the same period, we calculate the following principal liquidity uses: • Debt maturities of about ZAR4.4 billion. • Negative (nonseasonal) working capital outflows of about ZAR400 million-ZAR500 million. • Capex of about ZAR7.8 billion, of which about 10% is considered discretionary. • A cash dividend of about ZAR1.8 billion, assuming a dividend payout ratio of 60% of annual headline earnings combined with 40% of interim headline earnings. • No planned acquisition or mergers.

Debt maturities

As of March 31, 2019:

- Maturity within next 12 Months: ZAR5.6 billion
- Maturity between next 12 and 24 months: ZAR0.8 billion
- Thereafter: ZAR4 billion

We note that between March 31, 2019 and the date of this report, Telkom issued a total of ZAR2 billion in new debt through two new long-term instruments and a tap issue on its existing TL28 bond. ZAR1.5 billion of the funds raised were used to refinance its TL20 issue maturing in fiscal 2020, leading to no net increase in leverage.

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 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 future. Given its mobile market challenger status, Telkom is currently significantly less spectrum constrained than MTN and Vodacom.

Government Influence

Our foreign and local currency issuer credit ratings on South Africa are 'BB' and 'BB+' with stable outlooks (see "Summary: South Africa" published May 24, 2019, on RatingsDirect). We consider Telkom a GRE, because the South African government owns approximately 40% of it and it is classified as a state-owned enterprise under South Africa's Public Finance Management Act (PFMA). That said, Telkom has been exempted from several PFMA provisions. The exemption is linked to its listed status and the government's stake in Telkom remaining noncontrolling.

This supports our view that the company is a self-governing GRE that has minimal operational, social mandate, and strategic interaction with the government. As a consequence of this, and the lack of historical interference in Telkom's operations, we see Telkom as having a limited link to the government. Furthermore, in our view, Telkom is of limited importance to the government--it is a for-profit enterprise and its operations can be easily assumed by other providers. We therefore assess Telkom's likelihood of receiving government support as low.

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. However, we do take note of the conditionality of Telkom's PFMA exemption status, and its predominantly domestic operational focus. Therefore, we cap our rating on Telkom at one notch above that on the sovereign after conducting a stress test on Telkom to assess the company's resilience under a hypothetical sovereign default scenario. The stress test includes a stress on earnings (20% haircut) and a 50% devaluation of the South African rand.

Reconciliation

Table 3

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

	--Fiscal year ended Mar. 31, 2019--							
Telkom SA SOC Ltd. reported amounts								
	Debt	**Shareholders' equity**	**EBITDA**	**Operating income**	**Interest expense**	**S&P Global Ratings' adjusted EBITDA**	**Cash flow from operations**	**Capital expenditure**
	10,198.0	29,573.0	10,581.0	4,767.0	885.0	11,533.0	7,552.0	7,584.0

Table 3

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

S&P Global Ratings' adjustments

Cash taxes paid	--	--	--	--	--	(945.0)	--	--
Cash taxes paid: Other	--	--	--	--	--	--	--	--
Cash interest paid	--	--	--	--	--	(847.0)	--	--
Reported lease liabilities	43.0	--	--	--	--	--	--	--
Operating leases	2,973.7	--	756.0	192.7	192.7	(192.7)	563.3	--
Postretirement benefit obligations/deferred compensation	302.4	--	63.0	63.0	53.0	--	--	--
Accessible cash and liquid investments	(3,001.0)	--	--	--	--	--	--	--
Capitalized interest	--	--	--	--	59.0	(59.0)	(59.0)	(59.0)
Share-based compensation expense	--	--	135.0	--	--	--	--	--
Nonoperating income (expense)	--	--	--	187.0	--	--	--	--
Noncontrolling interest/minority interest	--	195.0	--	--	--	--	--	--
EBITDA: Gain/(loss) on disposals of PP&E	--	--	(2.0)	(2.0)	--	--	--	--
Total adjustments	318.1	195.0	952.0	440.7	304.7	(2,043.7)	504.3	(59.0)

S&P Global Ratings' adjusted amounts

	Debt	Equity	EBITDA	EBIT	Interest expense	Funds from operations	Cash flow from operations	Capital expenditure
	10,516.1	29,768.0	11,533.0	5,207.7	1,189.7	9,489.3	8,056.3	7,525.0

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-

- **Related government rating:** BB
- **Likelihood of government support:** Low (no impact)

Related Criteria

- 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
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Group Rating Methodology, July 1, 2013
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Regulatory Disclosures

Regulatory disclosures applicable to the most recent credit rating action can be found at "South Africa-Based Telkom SA SOC Ltd. Ratings Affirmed At 'BB+' ON Solid Performance And Liquidity; Outlook Stable," published Aug. 7, 2018 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.
- Transfer and convertibility assessment: S&P Global Ratings' view of the likelihood of a sovereign restricting nonsovereign access to foreign exchange needed to satisfy the nonsovereign's debt service obligations.

Business And Financial Risk Matrix

	Financial Risk Profile					
Business 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 August 23, 2019)*

Telkom SA SOC Ltd.		
Issuer Credit Rating		BB+/Stable/--
Issuer Credit Ratings History		
04-Dec-2017	*Foreign Currency*	BB+/Stable/--
10-Apr-2017		BBB-/Negative/--

Ratings Detail (As Of August 23, 2019)*(cont.)		
04-Dec-2012		BBB-/Stable/--
04-Dec-2017	*Local Currency*	BB+/Stable/--
10-Apr-2017		BBB-/Negative/--
04-Dec-2012		BBB-/Stable/--

*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.

Additional Contact:
Industrial Ratings Europe; Corporate_Admin_London@spglobal.com