Telkom

Conference call transcript

21 November 2023

INTERIM RESULTS ANALYST CONFERENCE CALL

Operator

Good day, ladies and gentlemen and welcome to Telkom's interim results analyst conference call. All attendees will be in listen only mode. There will be an opportunity to ask questions when prompted. If you should need assistance during the call, please click on operator by pressing * and then 0. Please note that this event is being recorded. I'd now like to hand the conference over to Serame Taukobong. Please go ahead, sir.

Serame Taukobong

Thank you kindly. Good afternoon, everyone. Welcome to our Q&A session for the F24 interim results. On the line, I have with me Dirk Reyneke and the investor relations team. Dirk is our CFO. We've published our interim results this morning. This will be a Q&A session, but we'll start with giving highlights of the results. The first half of the year saw the economy struggle to grow with high inflationary environment, propelling the highest interest rates we've seen in South Africa in the past 14 years. We, however, have delivered solid results earning despite the tough trading environment.

Load shedding has been a recurrence feature for a period, load shedding days increasing by 79% and rebased our operating expenditure, placing pressures on margins. We are investing in alternative backup energy to reduce diesel usage in response to recurring load shedding. From a revenue perspective, gross revenue from total operations advanced by 2.5%, driven by growth in mobile traffic, monetisation of the rollout in fibre infrastructure, and growth of the IT business. Revenue from next generation entities grew by 8.1%.

Total operating revenue from Openserve declined by 2.7%, impacted by legacy revenue declines. Next generation revenue, on the other hand, increased by 6.9% for Openserve. Telkom consumer, revenue grew by 1.4% driven by the value-compelling propositions on our mobile business. Total external revenue from mobile operations grew by 4.1% with mobile service revenue growing 5.8%. Revenue increased marginally for BCX, primarily due to the double digit growth in the IT business that was offset by legacy declines in converged communications. Revenue from continuing customers increased by 6.8% for Swiftnet, while the total revenue was impacted by terminations and marginally reduced 1.2%.

Group EBITDA increased by 1.7% as cost reduction initiatives bore fruit, partially offset by inflationary increases and resulted in operating expenses increasing below inflation. EBITDA growth was limited by higher bad debt provisions. Excluding the restructuring costs, free cash flow was positive R517 million and was primarily driven by a significant increase in cash generated from operations due to efficient working capital management and increase in profit before taxation. Our capital investments had a capex to revenue ratio of 14.4%, which is below our guidance, but it is strategic in terms of the cyclical nature of capital expenses.

Strategy update. We are embarking on a journey to transform and reorganise Telkom as an InfraCo to harness energies across businesses while maintaining each business unit identity and disposing of non-core assets. The journey of Telkom Tomorrow is anticipated to be in full effect by the end of 2025. In terms of commitment to realising asset value, we've made progress on our value unlock strategy, with Swiftnet now being in the final stages of disposal and have entered into an exclusivity agreement with the preferred bidder.

Accordingly, Swiftnet has been classified as an asset held for sale. Once the InfraCo structure is in place and the disposal of Swiftnet is concluded, we will consider further opportunities to realise value in the relations of the minority partnership for Openserve and strategic partner for BCX. This concludes my remarks. I will now hand over to the operator for Q&A sessions. Thank you.

Operator

Thank you very much, sir. Ladies and gentlemen, if you'd like to ask a question, please press * and then 1 on your telephone keypad or the keypad on your screen. A confirmation tone will indicate that your line is in the question queue. You may press * 2 to exit the question queue. Our first question comes from Nadim Mohammed of SBG Securities. Please go ahead.

Nadim Mohamed

Good afternoon. Two questions from my side. Firstly, if I look at SA Mobile, it seems like if I look at the Q2, we had a slower customer acquisition, but ARPUs picking up on a quarter-in-quarter basis. So, I'm trying to understand what could be driving that. Is it more of the airtime advance and Mo'Nice resonating in the market? Or are you seeing a very different picture when you look at it on a 30 day active subscriber basis? And then just secondly, if my calculations are right, it seems like the EBITDA margin in Q2 was 25% at group level. That seems quite substantial. I just want to understand, what's some context on that number? Are there any one-offs in there that are maybe exaggerating it or pushing it down? Is there a sustainable way to look at it for the rest of the year? Thank you.

Serame Taukobong

Thank you. Dirk, I'll take the first question. Thank you very much for that, Nadim. On the mobile perspective, we did do a significant clean-out of our base. What we have seen is certainly a far bigger uptake of Mo'Nice. So over 40% of our prepaid purchase is done through Mo'Nice. We've also seen a good uptake in our airtime advance proposition, which now sits at 30% of revenue. I think the EBITDA I'll leave to Dirk, but it is pretty much in line with what we've seen in the growth of our business. Dirk, do you want to add more colour?

Dirk Reyneke

Yeah. Thanks for that. In terms of EBITDA, 21% to just over 25% quarter on quarter, you're correct. I think firstly driven by the restructuring cost, employee cost, which you'll recall that we said that most of those people exited only by June. So, that benefit is now starting to come through for a quarter. Secondly, we saw a slightly lower impairment on assets, half and half, and then slightly lower service fees and the service fees mostly relating to the emergency power initiatives moving from diesel to batteries.

So, those are the main reasons. It's cost initiatives in quarter two versus quarter one. Yeah, I think those are the main reasons so if you say to me what is your model going forward, I think quarter two is closer to reality. I don't think we're going to maintain 25.5% or 26% yet, but certainly I think we've increased from 21%. The biggest influencer of sustainable margin will be revenue in BCX, how soon they get the product to services revenue mix sorted. I hope that helps.

Nadim Mohamed

Excellent, thank you so much. Appreciate that.

Operator

Our next question comes from Myuran Rajaratnam of MIBFA. Please go ahead.

Myuran Rajaratnam

Good afternoon and thank you for the opportunity. Congratulations. You seem to be close to some sort of closure on the tower deal, so well done on that. And secondly, also as Nadim pointed out, operationally you seem to be doing better than certainly what I expected at this stage of the year. So, maybe just on the power saving and diesel side of things, there's a double whammy, for example, in the mobile side. Your network availability goes down, so your revenue goes down, and there's additional costs to keep the network alive, like diesel or roaming more. Have you quantified what might be the impact in Q1 and Q2 from load shedding, just aggregating the revenue and the cost impact?

Serame Taukobong

In fact – sorry, I'm just looking at my notes here – we have quantified it.

Myuran Rajaratnam

You do provide details on what the diesel extra cost is, but it's hard for us on the outside to know what the revenue impact might be.

Dirk Reyneke

No, what I'm saying is you're right. We provide a number for diesel because that's direct, it's R160 million. I think in terms of roaming we work on trends and I'll have to come back with an actual number. I don't have the in hand.

Serame Taukobong

I do have it close by. So, in terms of the load shedding impact, the split between diesel and roaming costs, in terms of losses, we're quoting about R15 million. Batteries, R15 million. Site repairs in terms of damage to sites is about R30 million odd. And then roaming itself is R103 million. So, total cost is about R163 million. Did you get that?

Myuran Rajaratnam

And that's for the full two quarters, right? That's for the full half?

Serame Taukobong

Yeah.

Myuran Rajaratnam

Okay, okay. That's very helpful. The second question is following on from Nadim's question. The second quarter EBITDA definitely picked up quite a bit. But I also noticed Q2 last year was also a little peak of 24%. I'm just wondering if there's any seasonality in the numbers or is it just what you pointed out, which is the bad debts, the load shedding, the mix effects, and the restructuring of the employee costs. They've all left the building, so to speak, by June.

Serame Taukobong

Yeah, I think that would be the significant contributor to all of that. And obviously, if we look at your Q1, Q2, we do see seasonality in the market, which is traditional. But the big chunk of those costs has been the impact of the restructuring.

Dirk Reyneke

I think in Q2 of the comparative, in Q2 of 2023, we also still had the back end of restructuring drive in BCX specifically. It was small in the bigger scheme of things, but in BCX for that quarter we still had some drives which probably inflated the prior year Q2 number slightly. But that wasn't the main reason for the 24% at the time.

Myuran Rajaratnam

Great. Thank you so much, guys.

Operator

Ladies and gentlemen, just a final reminder, if you'd like to ask a question you're welcome to press * and then 1 to place yourself in the question queue. Ladies and gentlemen, it appears we have no further questions in the queue, and this concludes today's event. Thank you for joining us. You may now disconnect your lines.

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