Conference Call Transcript

21 July 2016

RESULTS ANALYST PRESENTATION

Operator

Welcome to the Vodacom Group Ltd results conference call for the quarter ended 30 June 2016. Vodacom Group CEO, Shameel Joosub, will host the conference. I will read the forward-looking disclaimer before handing over to Mr Joosub.

This announcement which sets out the results for Vodacom Group Ltd for the quarter ended 30 June 2016 contains forward-looking statements. These statements have not been reviewed or reported on by the group's auditors with respect to the group's financial condition, results of operations and businesses and certain of the group's plans and objectives.

In particular such forward-looking statements include statements relating to the group's future performance, future capital expenditures, acquisitions, divestitures, expenses, revenues, financial positions, dividend policy and future prospects, business and management strategies relating to the expansion and growth of the group, the effects of regulation on the group's businesses by governments in the countries in which it operates, the group's expectations as to the launch and rollout dates of products, services and technologies, expectations regarding the operating environment and market conditions, growth in customers and usage and the rate of dividend growth by the group.

If you do not have a copy of the results announcement it is available on the investor relations website on www.vodacom.com. All participants will be in listen-only mode and there will be an opportunity for you to ask questions later during the conference, if you need assistance during the call please signal an operator by pressing star and then zero. Please note that this call is also being recorded. I would now like to turn the conference over to Mr Shameel Joosub. Please go ahead, sir.

Shameel Joosub

Thank you. Good afternoon everyone and good morning to those joining us on the call from the US. I'm joined by our CFO, Till Streichert, and Shaun van Biljon from our investor relations team. On this call I will take you though some key highlights and a bit more insight into the South African and international segments, after which we will open the line for questions before wrapping up. For this quarter the key takeaways are the following.

Our strategy continues to deliver strong performance. Group service revenue was up 7.3% with the South African segment up 5.6% and the international operations growing 13.5% in reported numbers. In South Africa we added just under 1 million customers in the quarter as our superior network and value offers continue to draw new customers.

Growth in our international operations has been boosted by currency translation benefits but also negatively impacted by customer registration processes in both the DRC and Mozambique. Our international operations increased its contribution to group service revenue to 27%. The continued investment in our network has seen LTE 4G coverage in South Africa improve from 41% to 64% in a year, while we have also launched our 4G services in Tanzania during May.

And finally our CARE programme has produced further innovation to try and improve customer experience with better bundle depletion notifications and improved My Vodacom app functionality. Our net promoters score shows we are improving on our significant lead to our competitors.

From an overall results perspective I am pleased with what we have achieved this quarter. Let's unpack it a bit for you. Before getting into the numbers there will be some instances when I talk about normalised growth. This is in reference to currency adjustments and excludes M&A, so really on a like for like basis. Group service revenue was up 7.3% in this quarter as revenue grew by 5.8%. Normalised growth was at 4.6% and 3.4% respectively because of the effect of customer registration in our international operations. Our accelerated capex programme came to an end last year. However we continue to invest significantly with R2.7 billion in the quarter enabling us to expand our coverage and improve quality.

If we just take a look at the highlights for South Africa this quarter we have seen strong customer additions, high demand for data services and improved voice revenue growth trends. The result was a 5.6% increase for the quarter in service revenue despite the increasing pressure we have seen on consumer spending. We have added 883,000 prepaid customers to reach 30.1 million prepaid customers in the quarter. This was driven by the continued success of our Just4You offers – remember that is our personalised pricing offers. On the contract side we have had the highest net adds in over a year, adding 51,000 new customers, and also achieving an all-time low churn of just 5.3%.

Our bundle strategy continues to appeal to our customers with 14.9 million customers now using bundles, and we sold 329 million bundles in the first three months of the year. Data revenue in South Africa now contributes 38% to service revenue and is growing at 18%. Underlying demand for data remains strong with data customers up 6.1% to 19 million. We are improving the data customer journey through the improved notifications when bundles are depleted. Bundle sales are performing well including more affordable daily bundles. As a result we saw the 106 million data bundles in the three months up over 52% year over year.

The effect has been a decline in the price per MB by 16%. The average MB on smart devices was up 20% to 632 MB per device with traffic growth of 41%. With the impact of currency deterioration on device prices I'm excited to say that we launched our new Vodacom branded devices. This is in line with our strategy of driving smartphone pricing down and giving customers a wide range of affordable data devices including for the first time a high-end premium device which we call the Smart Platinum.

We spent R1.9 billion in the quarter to improve quality and coverage on our network. We expanded our LTE 4G coverage from 41% to 64% in a year while 3G coverage is now 99%. I spoke previously about taken a more segmented approach to addressing customers' different needs, wants and demands. We have taken the first steps to this approach with the launch of our new youth proposition known as Next Level. The proposition especially made for youth under the age of 25 is built around data, community, access to education and job portals for first-time job seekers. Registrations are progressing very well. We continue to perform well in customer satisfaction surveys and are maintaining a very competitive lead to our customers. That's the South African highlights.

Let's now move on to international. The growth in our international operations was impacted by customer registration processes and competition mainly in Tanzania. Service revenue grew 13.5% with normalised growth only 2.8%, receiving a boost from exchange rates when translating to Rands. Contribution has grown to 27% of group service revenue from our international operations.

Customer registration requirements for new customer activations have slowed the activation of customers thereby negatively affecting net additions mainly in Mozambique and the DRC. As a result the total customers declined by 11.5% to 26.7 million from the previous quarter. We are now starting to turn positive again as the process becomes more efficient across all channels.

Data is our key growth area. Data revenue grew 26% year over year and now comprises 24.4% of our international service revenue. The percentage of total customers actively using data improved from 34.1% to 40.9% in a year. M-Pesa revenue grew strongly at 47.5% adding 1.3 million customers in the quarter to now reach 10.6 million customers across our operations. While Mozambique and DRC now have 1.4 million customers respectively using the system with this critical mass we are seeing positive increase in the number of transactions per customer. The ecosystem continues to expand and improve in all our markets. We invested R809 million in infrastructures in these markets representing 18% of revenue. I am pleased that we have launched our 4G network in Tanzania in May, bringing high-speed internet access to more and more people.

There has been a lot of debate around spectrum, so let me maybe give a couple of highlights on that. As you will know the regulator issued an invitation to apply on Friday inviting networks to apply for spectrum. The highlight of this is the R3 billion reserve price for the auction. That's the one side. There are four blocks available for auction of spectrum. The other big highlight is that there is a BEE requirement that is included. Not a lot of clarity, so some questions that need to be answered on the 30% BEE requirement that is included in the legislation.

There is quite a tight timeline for the spectrum auction with proposals having to be in by October or at least an indication of interest. The auction is in January and the allocation by March. It is not clear yet how the digital migration will happen by March. That is also an interesting part that needs to be dealt with. I think on the positives we have the invitation to apply and basically that is positive if we are considering the alternative which was the discussions where the Minister were talking about the open access network principles and so on.

The other concerns that we need to address is the issue around the 100% coverage. That won't be achievable. So I think one has to go back and all networks have been doing the same in asking for a bit of reality there, a little bit of a reality check. It is not possible to get to 100% population coverage. There are also speed requirements included in the ask which is 30 MB per second on the downlink and 30 MB on the uplink. Those two we need further clarification on.

That concludes our highlights for the two segments. We can now take some questions before concluding.

Operator

Thank you very much. Ladies and gentlemen, at this time if you do wish to ask a question please press star then one on your touchtone phone. If you decide to withdraw your question please press star and then two to remove yourself from the queue. Again if you wish to ask a question please press star and then one now. Our first question is from Chris Grundberg of UBS. Please go ahead.

Chris Grundberg

Hi guys. Thanks very much for taking the questions. Just a couple from my side. Just on spectrum I wondered if you could talk a little bit more about the BEE ownership requirements. I appreciate there are a lot of questions that need to be clarified there. But just in terms of how things stand today if you took a worst case scenario would you envisage a further BEE scheme being launched? And if so, what is your stance on what you consider your current ownership to be? That's the one side. And then just a second one just on the Neotel telecoms deal that has been proposed. I wondered if you could give any thoughts on how that does or doesn't change the telco landscape in South Africa. Thanks.

Shameel Joosub

Okay. I think from a spectrum perspective where we stand today is we have 19% BEE ownership. We basically have plans in place or rather let's say there has been a lot of communication around the PIC who intend to sell and do a BEE deal and so on. We have opened the engagement with them and essentially that could get us closer to the 30%. We want to basically clarify the requirements for the 30% to be clear on the requirements for existing operators with new operators and that type of thing. But I think it is our clear intent that we will meet the minimum requirements for the spectrum auction. We will reassess the situation once we know where the PIC stands on its deal. If there is a residual that we need to do… by all calculation the PIC part which they sell could be quite substantial which will take us very close to the 30%. So we see the residual as being very small.

On the Liquid Neotel part I think the issues around Neotel and capital investment remain. So it really depends on how much money Liquid is willing to put into Neotel. I think that is the part which determines how big a player Neotel becomes into the future. I have always maintained that telco's are about capital investment. You've got to put the money in if you want to see results. So I think time will tell in terms of how aggressive or not Liquid is in terms of putting in capital. If it doesn't then I think Neotel growth will be subdued. If it does there is opportunity in the fixed market. I do however think there is enough space for everybody in this space. Remember Neotel is an enterprise player and there is a lack of infrastructure in the market. So I think they could potentially start to grow from that.

We still get very strong growth in our enterprise business, service revenue up 11.6% and contributes 24.4% to South Africa service revenue. So we are quite pleased about the progress that we're seeing in enterprise. We expanded our services into cloud and hosting. You may or may not know that we signed the only IBM infrastructure deal for the entire Africa and the Middle East and will be hosted out of the Vodacom data centre here. I think that this is a very positive development. It allows people who have IBM infrastructure to basically virtualise that into the cloud. So that is a very powerful part. And we also get the connectivity on top of the revenue share that we get from IBM. What I'm really stressing is that we have continued to expand on our enterprise services and we are seeing very good traction in the marketplace.

Chris Grundberg

That's great. Thanks very much guys.

Operator

Thank you. Our next question is from David Lerche of Avior. Please go ahead.

David Lerche

Hi. Good day everyone. Just two questions from me please. Firstly the number of smart devices that you have active on your network in South Africa seems to have remained flat at about 14.1 million for the last couple of quarters. Can you just comment on that? Have we reached some sort of limit? Is it that people are sweating a bit for money in this economy? Can you give us an indication of whether you expect that to continue to grow or not? And then secondly the Mozambican Metical has depreciated a lot since the beginning of this financial year. And already last year we saw some additional costs coming through relating to intergroup loans and cash balances. Can you give us an indication of the size of the intergroup loan to the Mozambican operation that may be subject to adjustments based on currency moves?

Shameel Joosub
Okay. On the device side I think the big thing is that there has been a little bit of a slowdown over the last quarter. I think it has been very much driven by the impact of currency. So we continue to sell a lot of devices but it has been more replacement. We are launching a whole new batch of low-cost devices and so on, and we have a very strong 4G price point planned which will bring down the 4G price point quite significantly, which we are quite excited about. It is one of our new devices. And we think that will help us to further accelerate the growth. We have launched layby schemes and those types of things with stores which we think will also help to drive up further growth in terms of devices. There is a close linkage in data growth with the number of devices, so it is a big focus area for us to try and get that number to grow more substantially.

Till Streichert
On your question on intercompany loans into Mozambique what you are talking about is basically a little bit less than $100 million. It is a $90 million facility that we've got into Mozambique, which is obviously part of revaluation at reporting period as you have highlighted.

David Lerche
Excellent. Thank you very much.

Shameel Joosub
Just on the devices itself, I think the big change for us is actually coming from the move from 3G to 4G.

David Lerche
Understood. Thank you.

Operator
Thank you. Our next question is from Jonathan Kennedy-Good of SBG Securities. Please go ahead.

Jonathan Kennedy-Good
Good afternoon. I just wanted to return to this notice put up by ICASA and ask you to explain whether this is now law as enacted by the government of South Africa and whether you are required to comply with these detailed plans that they have. And if memory serves me correctly we have seen a number of these types of notices being issued but with no real follow-up. I just wanted to know what the legal process is and whether this holds that type of weight. And then in terms of your equipment sales – I know there has been some discussion on it already – which has turned negative in Rands. So if you could give us a sense of what handset volumes have actually done during the quarter it would be useful, and whether you see that increasing with the introduction of your newer Vodacom branded handsets. And then finally just on the international business. If you look at data revenue and you strip out M-Pesa it looks like data revenue was flat in local currency. Is that broadly because of what we're seeing on the disconnections or is there something else happening within the base and competitive pricing in those markets?

Shameel Joosub
Firstly let's start off with the ICASA note. The previous versions were information. This is a final regulation. It's a final regulation that has been set out by ICASA or a final invitation to apply. So it is not a draft. It is final. That said, I think there is noise that the departments and so on are not completely on side. But I think that is something for government to reconcile and to consider how they deal with. But this is a final regulation. I think all things considered quite clever in terms of

basically pushing a speed requirement. You end up pushing investment. And by fuelling a coverage requirement you also land up pushing investment, which is quite smart. But also the reserve prices I think will generate a good set of revenue for them as well. So by all accounts I think the next two weeks or so will be crucial in terms of seeing does this now finally bed down and there isn't really any challenges and so on. But by all accounts this is a final regulation. On the equipment sales…

Till Streichert
On the equipment sales, equipment revenue declined 3.9% year over year. So in essence we have sold in the quarter 2.4 million devices which in essence is 15% more than we sold last quarter. So quarter on quarter there is actually good growth. It is pretty much as a comparative. If you go back one year in time we had a mass of equipment sales in particular on the entry smartphone when we launched the Kicka smartphone. A huge volume driver at that point in time. And equally tablet sales. One year ago in the quarter it was extraordinarily strong. If you look at it again quarter on quarter growth in terms of handset sales or device sales, year over year a little bit battling against a very strong Q1 last year. And that is really what sits in the comparative and then also in the revenue as you translate into value.

Shameel Joosub
Okay. And then on your question on international data revenue I think the international data revenue has been impacted by customer registration. If we look at absolute customers using data it is just short of 11 million customers that are using data in international. That is up 6% year over year. So it has been impacted and that obviously has impacted your growth. If you look at the international, and maybe just to give you a little bit more colour around the international segment I would say Mozambique is flying, Lesotho is flying, DRC is under pressure from the deletes that we made in the last quarter of this year flowing into this quarter. And obviously with new customer registration requirements, 3.5 million customers were deleted in the DRC. And then basically what happened was is we reset the connection path. You drop all the way down to zero and then slowly start recovering. It goes from 200,000 to 300,000. Last month we were up to 430,000 customers. Prior to registration we were doing about a million a month. So that's the first impact.

The second impact is when you stop it you're still picking up the churn from historically and it is a couple of months of negative that you are still impacted by customer registration. Last month was the first month that we actually landed up being positive net adds again in the DRC. But obviously all operators are impacted in the same way, so the whole market has taken a hit from customer registration and is recovering accordingly. It affected more your growth rate if you like because in fact you're then negative growth in customers. In Tanzania I would say increased competition, so more competition from Halotel. It has been more of a flattish quarter in terms of growth. So there we are impacted by I would say aggressive competition.

Jonathan Kennedy-Good
Thank you. That was helpful.

Operator
Thank you. Our next question is from Mike Gresty of Citi. Please go ahead.

Mike Gresty
Good afternoon guys. Just a couple from my side. Could you perhaps elaborate just on the data side? The growth is now at about 18%. It is still very respectable. The base is obviously getting bigger. But maybe it is slowing a little bit. I just wanted to get a sense whether that is competition starting to come in. the point was made about smart devices having plateaued a little bit. Then just chatting about the ebitda flow of subscribers as well. It was a very good quarter in South Africa, obviously a highly penetrated market. I'm never sure how much we should focus on these things

from quarter to quarter. But it looks very good on the face of it. I'm just wondering what you are seeing in the market from a competitive perspective and what the others are up to.

Till Streichert

Okay, let me maybe start with your first question. Indeed data is 18% up in South Africa against a bigger base obviously from previous years. It is slightly softer than we were actually aiming. We continue to aim for the above 20% mark. Data traffic increased 41%, so we are happy with that. Data bundles actually were up year over year for the quarter by 52% which was pretty good. And I think the good thing for us is we still see a lot of consistency in the ARPU uplift. For the full year we have been talking about a 20% ARPU uplift on device migration. We are seeing that actually being continued for the first quarter. And 4G customers moved up by 86%. So you see there has been good growth coming through on that side. In that sense on the data revenue in South Africa while a little bit softer the key drivers of it are still quite pleasing and consistent with what we've seen in previous quarters.

Shameel Joosub

Maybe just what I see, just to add to what Till said. For us why is there a slight weakening? If you look at your traffic growth it is slightly down from about 45% in the last quarter down to about 41%. Maybe I will just talk a little bit about the corrective action to try and get it up as well. Basically we front loaded sites again so a big chunk of sites have come through in the first quarter. So that will help to boost the addressable market if you like. That's the first thing. Customers up 6%, data customers that is. So effectively 18.8 million customers now using data. So that's the one part. But the big impact has come from pricing. You are getting this massive uptake of data bundles but it has diluted pricing slightly. Recovery, one is to increase the addressable market. Two, introduce the cheaper price points. Device growth has been impacted by exchange rate. I think as we go into the second quarter the price with the help of Brexit the exchange rate has recovered, and that will have a positive impact on device sales and also drive up the number of devices for the year.

So we are still on target to deliver the number of devices for the year, although a little bit softer in the first quarter in terms of device sales. I think all things considered we are still confident and we will be pushing to push up the data growth. We are going to do a couple of price-ups. We are introducing two things. One is a couple of price-ups that we will put through on a couple of bundles and those types of things, more revenue assurance if you like to give us a little bit of cover. That will come through. we have also launched a whole set of new contract plans where effectively we will be migrating customers and new customers onto the plans which give us a bigger committed revenue or a bigger subscription but with an increased data allocation to try and get more committed spend out of customers. That we have launched in July.

Mike Gresty

The other questions is just on strong net adds in SA. It would suggest you are taking market share from somebody. I am just wondering what you're seeing.

Shameel Joosub

I think from a competitive perspective I think we're taking market share I would say predominantly from MTN. But from a contract perspective also I think what we're very pleased about is that both acquisitions, Nashua and Autopage, are behind us. So the sins of the past are also behind us, meaning all the bad business that generally came back to bite us months down the line to try and get to the minimum commitment is now behind us. So cleaner, a lot of that churn has been taken, so now you're starting to see us back into growth. So we are quite excited about that in terms of contract net adds. But also the improved customer experience and so on and network performance is decreasing churn, which is also a big positive for us. So yes, we are gaining share. As I said before I think the big opportunity in the South African market is not the gains that you make in the contract part and the prepaid part. The biggest is obviously in monetising data into your base. But obviously we take another million adds in the quarter and celebrate it.

Till Streichert
Adding to it on the value side obviously a highlight for us is a continued strong contract ARPU growth. It grew by 5.2% in the quarter year over year which I think is a very good result, in particular taking into account that we were batting against the price increase on contract that we put through a year ago. So we are very happy with that. And in prepaid the ARPU contraction is pretty much a function of adding more customers with lower ARPU from the lower income segments, and of course a little bit of economic pressure. I mean you are all aware Q1 was a negative GDP growth and of course some of those effects we are seeing also in the income constrained part of our customer base.

Mike Gresty
Great. Thanks very much guys.

Shameel Joosub
Thank you. Our next question is from Richard Barker of Credit Suisse. Please go ahead.

Richard Barker
Thank you. I've got two quick ones if that's okay. Can I take you back to Tanzania? I just noticed this morning that Millicom has also reported and has talked about taxation and regulatory impacts in Tanzania specifically. You haven't referred to that. And I also know that you haven't highlighted SIM registration issues there. But obviously your subscriber numbers are down. I just wonder if you could clarify that. Are you are basically saying you've lost subscribers in absolute terms to the competition rather than there being any disconnections? I mean the reason I ask is I have read some press reports about some SIM disconnections in Tanzania as well. So just a bit of clarity there. And a broader question really is on the tax and regulatory changes side. Can you just talk a bit more broadly about any changes that have been or that there are likely to be in the next few quarters across all of your different markets. I mean I guess you probably have a reasonable view in South Africa, but in the international businesses. And the second question was a relatively easy one, which is if you could maybe update us on your fibre progress. How many homes are passed and how many homes connected you have that would be great. Thank you.

Shameel Joosub
Let's start off with the different markets. So in Lesotho nothing really happening there. In Mozambique I would say your biggest part that is coming up is customer registration is ongoing. We have deleted customers in Mozambique, although revenue growth has been very strong. So no real impact in the numbers coming through. Sorry, there is an impact, but still strong growth in Mozambique. They're talking about a spectrum auction later this year in terms of a 4G spectrum auction, maybe in the second half of the year. That I think is potentially one to highlight to you. In the DRC I would say the biggest impact on our numbers has come from customer registration with 3.5 million customers deleted. That did have a big impact on our international portfolio performance if you like. In terms of taxes not really too much. These are more or less the normal status quo if you like. We would like more spectrum there, but no clarity yet. We did acquire more spectrum in December last year so we are sitting on spectrum. But we are asking for more spectrum clarity because Orange have bought Millicom. So that's one of the things. But we did acquire 1800 and 1900 spectrum in December last year.

From a Tanzania perspective customer registration… just to put it into perspective the base growth in Tanzania is flat or 0.5% up in customers. So there have been a couple of deletes in customer registration as pushed out by the regulator. But specifically on grey devices as an example where it was decreed that we had to delete all grey devices on the network and we deleted something like half a million devices on the network. All operators had to do the same. There is also a committee that has been set up with the regulator to manage customer registration. And they have also asked us to delete all unutilised or unregistered SIMs in the market. But there will be a more robust process in terms of new activations from 1st August. So that is there.

The Tanzanian market is a bit tricky at the moment in that there has been more regulatory intervention with the new president coming in. The one is the need to list. And effectively they have now asked us that we have to list 25% of the company in Tanzania. They have given us a deadline by the end of the year. We are challenging that in terms of saying it's unrealistic. We are willing to list, and why we are willing to list is our local partner has indicated his willingness to list. He owns 17.9% of the shares today. He is willing to list it. So the discussion at the moment is along the lines of reducing the 25% minimum requirement down. Secondly it is the timing of the listing because we all can't list at the same time. Those are the big things on the listing requirements, timeline, size of listing and so on. That was a reversal of what was previously agreed which was list or pay a fixed percent of revenues, which we were doing. That is now a reversal and basically taken us back to the minimum requirement which has been around for a while.

And then lastly from a tax perspective they have pushed through an excise duty on M-Pesa of 10% which we would normally pass through to the consumer. There has been a strong recommendation from the regulator that we don't pass it through. For now we have not passed it through, but we are challenging that in terms of legally saying that we have to pass it through to the consumer.

Richard Barker
Thanks Shameel. On the fibre?

Shameel Joosub
Sorry, on fibre we have just passed 26,000 end points, almost 27,000 end points. The connection rate is still small, so about 10%. But what we're seeing is the rapid… We have a rapid uptick plan in the next couple of months. Now that the fibre is actually there we can get on with the sales.

Richard Barker
Great. Thank you very much.

Operator
Thank you. Our next question is from Madi Singh of Morgan Stanley. Please go ahead

Madi Singh
Hi. Thanks for the call. A few questions. Firstly on the voice revenue trends in South Africa it seems like the voice revenues have slipped again. Is there any specific reason for that? Especially given some of the [unclear] raised prices in South Africa on all the plans. So do you plan to follow them, maybe raise prices as well? And finally on the data growth in South Africa as well, was there any specific data price action taken or more promotional activities during the quarter which led to lower monetisation of the traffic growth. Thank you.

Shameel Joosub
Sorry, I didn't get the second question. I got the data voice part.

Madi Singh

MTN for example has raised prices on some of their contracts. I was just wondering whether you are also going to follow them.

Shameel Joosub
Okay. Just a couple of things. Firstly on the voice decline you will remember us saying that effectively the voice decline was 0.5% in the last quarter. As long as we can keep it below 3% or 4% we would be happy because then we could get more of the data revenue coming through. Remember data is 38% of revenue, so 38% of revenue is growing at 18%. That is fast accelerating and within the next two years or so data could be as much as 50%. We are happy with the voice decline. You must always remember that we are also pushing price transformation with this, and the adoption of bundles is proving to be very successful. So what we are doing is especially in the prepaid segment we're using the opportunity to get people to buy bundles, get better value, stay more loyal, that type of thing. That does put a bit of pressure on pricing, but it does help us to reduce churn and get more effective customer growth. So that is also what is helping to contribute to the net growth that we've seen in the quarter.

Till Streichert
And remember we are battling on voice and also on data against the price increase that we put on the contract side last year in May.

Shameel Joosub
I think that is a very important point because this year we've only got one month of price increase in this quarter because the price increases went through 1st May last year. That obviously has affected your data growth as well because you had this price increase that was boosting both revenue and data. That has put a little bit of pressure on data. But I would say from a data perspective the bigger adoption of bundles and your price decrease of about 16% has impacted slightly in terms of that slight weakening.

And that leads into your next question about price increases. There are a few technical price increases that we will put through that will further enhance revenue. It is not across the board. It is not across contracts and those types of things. But there are a couple of technical moves specifically in some of the bundles where we've seen opportunity or we think we need to put up a little bit. So there will be adjustments in that respect.

Madi Singh
Okay. That's fine. Thank you.

Shameel Joosub
Remember I also mentioned the fact that we're launching a whole new set of contract tariff plans where effectively there has been a bigger monthly subscription but there will also be a bigger allocation of data.

Madi Singh
Thank you.

Operator
Thank you very much. Ladies and gentlemen, a final reminder, if you wish to ask a question please press star and then one. Our next question is from Ziyad Joosub of HSBC.

Ziyad Joosub

Hi everyone. Thanks for the question. My first question is just on the enterprise growth of around 12%. I think 9.5% was mobile and 23% was fixed line. If I recall correctly your internal target was 30% of service revenues to be enterprise driven by 2020. Just basic calculations it looks like you would need to accelerate growth from this 12% level to get there. Could you maybe give a bit more colour on where you see that growth coming from? Is it the mobile side or the fixed line side? Or is acceleration not on the cards, you're looking more for maintaining this growth? And just on your data conversions and the data bundle growth, I mean it was growing at 100% in H1 2016, 77% in H2 2016. I was quite surprised to still see 52% growth in this quarter. Do we ever lap this period of rapid data bundle adoption? So do we get this growth in data bundles sold ever slowing down or could you repeat that exposure? Is this a trend we should expect going forward? Obviously you had the price-ups but headline pricing looking pretty stable across the board in South Africa. Should we expect this dilution and price per MB for maybe two years, or will we get through this phase in the next year? Thanks.

Shameel Joosub

I think there are a couple of things. Firstly from an enterprise perspective you must remember the targets for enterprise are also group targets, so we see a bigger uplift coming from our international that will further uplift it. Revenues that you're reporting on is just South African revenues. You have seen a very good growth of fixed line and BMS revenue up 23% in the quarter driven by cloud and hosting. Our cloud business is growing so we are quite excited about what is going on there. Our IPVPN business is growing 26% or 27%. So really strong growth coming through in the enterprise part. The 11.6% in essence for us is… remember, the base is getting bigger and bigger. That for us is a really impressive growth and we are quite pleased about it. Our churn is extremely low, at 5%, so extremely strong positive results in the enterprise segment. We see strong traction there. We are further increasing our capability to deliver even faster as we are selling more. So I think that is one of the highlights of our results. We are consistently seeing that performance coming through, so I'm quite pleased about that.

In terms of the bundle adoption I think part of the strategy is pushing bundle adoption, so you should see bundle adoption continuing to grow. Yes, there will always be some little bit of decline coming through or a little bit of pressure on price per MB. And the price per MB will continue to come down specifically because of the bundle adoption. As we drive more people from out of bundle into in-bundle, as we drive more bundle adoption from smaller bundles to big bundles, that a slight pressure will come through. What we want to do with some of the changes we are making is to try and narrow that by a couple of percent so that we can get back into the 20s in data growth. I think that's one of the challenges for the rest of the year. Or faster traffic growth, one of the two to basically offset it. That is where a big focus area for us is going forward. But I think bundles will continue to grow both in voice and data. A clear strategy. Also what we have done is we have basically evaluated our bundle adoption and we do see a distinct decrease in churn where people meet a certain inflection point. The more customers we are getting to buy bundles the quicker reduction we are seeing in churn.

Ziyad Joosub

That makes complete sense. Thank you. Obviously your data bundle base is also getting better so intuitively maybe the dilutionary impact from bundles should trend downwards.

Shameel Joosub

Correct. As you are getting more customers in-bundle… And we have got some nice plans of how we are going to attract some of the bundles, some nice new digital CVM additions which we think are quite exciting. An example would be building Just4You into the Vodacom app now, so a much more enriched experience which obviously as we push app adoption will then also lead to a better customer experience.

Ziyad Joosub
Thanks very much. And just one more question please. If I'm not mistaken on the equipment sales you guys passed all this forex impact on to the consumer, right? So from an absolute EBITDA perspective is it fair for us to take the drop in equipment revenue as EBITDA neutral or the impact to absolute EBITDA as being minimal?

Shameel Joosub
I think on the handset sales the margin as we've previously mentioned is very small. There is a 5% margin on devices. I think that is the maximum impact that you have from the device sales. On forex we don't pass all of it. We try and pass most of it through to consumers but there is some which you need to absorb to reach certain price points due to competition, due to elasticity of demand. So we monitor those quite carefully. Depending on how the exchange rate holds up we will be able to reach more of those price points. If we can keep with the current exchange rate that would give us an uplift in terms of the number of sales because we start to be able to reach certain price points which were difficult in the last quarter.

Ziyad Joosub
Around about the 5% margin level is still what we should keep in our minds. Would that be fair for this particular first half?

Shameel Joosub
Actually a little bit further depressed during the quarter because of the exchange rate.

Till Streichert
The first two months of the quarter again we saw the Rand depreciating against the Dollar and then since Brexit we have seen an appreciation, although there is a little bit of pressure on that line.

Ziyad Joosub
Thank you Shameel. Thank you Till.

Operator
Thank you. Our final question is a follow-up from David. Please go ahead.

David Lerche
Thanks everyone. Just a little follow-up relating to a spectrum issue in South Africa. Can you give as little bit of colour on what sort of impact getting additional spectrum will have on your capex? If we assume that you receive the 2.6 gigahertz spectrum at the end of March next year what will that do to the capex plans subsequent to that?

Shameel Joosub
Just to be clear our capex guidance will remain. The capex guidance will not go down because we have spectrum. What we will do is we will divert some of that into fibre and so on. We still believe there is a lot of opportunity in the market. Secondly I think what would happen is obviously you still invest to now add the 2.6 radios into the network. That will give you faster speed and you will be able to receive faster speeds. Faster speeds equates to more data growth.

Till Streichert
Just adding to that, as you know from the ITA there are still a number of requirements that need to be clarified in particular on rollout. I mean you are aware of this 100% coverage target. And of course those things will also impact your site numbers and also your capex investment. So I think

there are a still a couple of points that need to be fully understood and clarified and then we are going to have a view on the capex going forward. But once again our guidance as such remains unchanged.

David Lerche
Great. Thank you very much.

Operator
Thank you. Sir, that is all the questions we have in the queue at the moment. Do you have any closing comments?

Shameel Joosub
I think that's it. I think the big thing for us obviously the focus into the new year is really making sure that we get the data revenue growth back up in South Africa. We would like to see that number go to about 20%. That's the one part. I think fibre remains a key priority for us. We are seeing better tempo and we have a plan to deliver the budget in terms of that. And I think other than that we will be spending a lot of time preparing and getting ready for spectrum auction. If all holds true and it comes to pass in the format a lot of preparation for an auction and we take it quite seriously. So I think a lot of activity around that space in the coming weeks and months. With that thank you for joining us.

Operator
Thank you very much. Ladies and gentlemen, on behalf of Vodacom that concludes this conference. Thank you for joining us and you may now disconnect your lines.

END OF TRANSCRIPT