Conference Call Transcript

16 November 2020

INTERIM RESULTS

Operator

Welcome to the Vodacom Group Ltd results conference call for the six months ended 30 September 2020. Vodacom Group CEO, Shameel Joosub, will host the conference call. Before I hand over to Shameel I would ask that you refer to and familiarise yourself with the Vodacom's forward-looking disclaimer, this is set out on slide 36 of the interim results presentation and can be allocated on www.vodacom.com. Alternatively if you would like a copy of the results announcement or presentation please email investor relations website at vodacomir@vodacom.co.za. Shameel over to you.

Shameel Joosub

Thank you. Good afternoon everyone and good morning to those joining the call in the US. I'm joined by two new members of our team, our Group CFO, Raisibe Morathi, who joins us from Nedbank where she has spent the last 11 years as Group CFO as well as our Head of Investor Relations, JP Davids, who joins us from JP Morgan. We are very pleased to have both Raisibe and JP join our team and wish them long and rewarding careers at Vodacom. I am also joined by Sitho Mdlalose who is our Financial Director of Vodacom South Africa, welcome Sitho. Our organisation is purpose-led, this means that we strive to balance economic growth with social inclusion, environment protection in our vision of connecting for a better future.

This purpose underpinned our response efforts to COVID-19 and our six point plan to support a resilient recovery for all markets. For those of you who were not able to join our webcast this morning I would encourage you to download our slides and announcement to get a better sense of our interventions. Also this morning I provided an update, I would suggest you progress notably our accelerated evolution from a telecommunications to a technology company. We continue to expand our eco system of products across connectivity, digital and financial services to deliver a 360 degree customer experience. We believe our product suite gives us a sustainable system of advantage.

Moving to the Group highlights. I am pleased that our Group results for the six months and particularly in the strong performance in South Africa. Revenue growth filtered down, the P&L and I'm happy to report that our interim dividend grew 9.2%. Safaricom contributed R2.5 billion in after-tax profits. Safaricom's COVID-19 interventions including free person-to-person transfers weighed heavily on the underlying financial performance in the first half. Encouragingly, free peer-to-peer transfers accelerated platform growth. Safaricom's MPESA customer base increased 13.2% while transactions per customers increased 47.7% to 19 transactions per customer in the six months.

And then on the merchant side Lipa na MPESA merchants increased 77.2% to 245,000. The extent of this platform growth supported improved service revenue momentum in the second quarter despite the free person-to-person fees and set-up exciting medium-term growth prospects for MPESA. At a Group level financial services continues to scale rapidly and we now service over 55 million financial service customers. In the second quarter and including Safaricom we processed $20.5 billion of investor transactions per months.

Our lending and savings products also continue to scale rapidly as we tap the Nano market opportunity. In the six month period our Songesha and Fuliza lending products dispersed $1.5 billion in loans while in South Africa airtime advance accounted for 38% of pre-paid recharges. For those not able to join our webcast this morning I will summarise the key operating metrics at a Group South Africa and international level. Where relevant I will call out the normalised growth which excludes the translation effects of foreign exchange.

From a Group perspective we have reported strong service revenue growth of 7.0% with revenue up 7.8%. We added 4.1 million customers in the Group including Safaricom to reach 120 million. We added 1.8 million data customers across the Group to reach 63.1 million with just over half of our customers using data. We still see an exciting growth opportunity for connectivity. EBITDA increased 7.0% and on a normalised basis was up 5.1% supported by positive JAWS in South Africa but off-set by revenue pressures in our international operations. Our headline line earnings per share was up 6.1% after taking into account the impact of the tax rate changes in Kenya. We have spent R6.6 billion in expanding and improving all our networks, this enabled us to meet the surge in demand as customer changed usage behaviours.

At a segment level starting in South Africa, service revenue grew 7.1% or 6.5% after adjusting for a loyalty program provision of R142 million in the current period. This is an excellent result especially given the backdrop of economic disruption in the substantial data price cuts we implemented on the 1st April. In the contract segment we gained 66,000 since March supported by innovative work from whole solutions in the enterprise space.

In the pre-paid segments net additions increased 3.4 million in the quarter and 1.5 million in the half as we managed to attract share award to accelerated investment, reasons to consume and active day's management initiatives. Our underlying data metrics were strong with data customers increasing 1.1 million in the second quarter and 409,000 in the half to 22.3 million. Data traffic increased 86% in the six months. We sold 580 million data bundles so far this year up 23% year-on-year. Encouraged by this behaviour as it means that we are making data more affordable but also that customers are truly growing into a higher data usage.

Financial services continue to perform well with the revenue increasing 15% to R1.5 million for the six months. 10.1 million customers have made use of our airtime advance platform in the first half which in times of the lockdown has proven to be very effective. We advanced 5.7 billion of airtime up 16.6%. Our insurance revenue increased 13.5% with policies 23% to 2 million as we continue to expand our portfolio products. EBITDA grew 9.9% with margins improving 0.6 percentage points to 41.7%. Excluding the impacts of the loyalty provision of 142 million in the current period and the IFRS 15 adjustment of R177 million in the prior period growth was 7.4% still ahead of adjusted service revenue growth.

The performance of our international operations was impacted by disruption to our control activities as a result of the informal structure of the economies in which we operate as well as the free person-to-person money transfer interventions for COVID-19 relief and the barring of 2.9 million customers as a result of biometric registration as expected. Service revenue declined by 5.2% on a normalised basis reflecting the increased pressures on consumer spend. The reported growth excluding the sale of VBA assets was 8.9% benefitting from Rand weakness. EBITDA declined by 8.1% on a normalised basis despite the cost containment initiatives.

Data revenue increased 4.8% with the normalised basis and we added 459,000 data customers in the six months to end at 20.4 million. MPESA revenue growth is impacted by the discounted of free P2P transactions in all our operations except in Tanzania. We are encouraged by the increase in the value of multi-transactions in the second quarter by 23% quarter-on-quarter to $4.3 billion on average per month. Active MPESA customers increased 8.8% to 15.6 million and now represents 40.3% of our active customer base in the internationals.

On the regulatory front I wanted to provide some context in an update on the license in Lesotho. Late last year the Lesotho Communications Authority or LCA issued a notice of enforcement proceedings against Vodacom Lesotho on the basis of its opinion on non-independence on the company's external auditors. Despite several engagements with the LCA in September 2020 the LCA notified Vodacom Lesotho that it was to be fined either 34 million of which 70% would be deferred. And in October the LCA issues a notice of revocation regarding our operating license in Lesotho, the very next day on the 9th October Vodacom Lesotho launched an application to the Lesotho High Court to have both the determinations of the LCA, namely the R134 million fine and the license revocation, reviewed and set aside.

As a result of the application the Lesotho High Court issued an interim order interdicting the LCA from enforcing the payment of the fine and revoking the operating license. The matter will be heard in the High Court on the 27th November this year. Finally with respect to the alleged non-independence of the external auditors of Vodacom Lesotho the Group is firmly of the view that appropriate safeguards were put in place to mitigate potential conflicts of interest.

While positively and moving to South Africa we are pleased on the progress on spectrum assignment. ICASA issued to separate ITAs with the auction for high demand spectrum to take place on the 31st March next year. The validity of the allocated temporary spectrum has been excluded until the auction date. We look forward to participating in the auction process and see spectrum as critical to the pricing outlook for the market.

Before we take questions I would like to leave revisit our COVID-19 response and the impact on our operations. We are in a privileged position as a Telco to both maintain our business during this time but also play a key and vital role in enabling governments to respond to the pandemic, business to continue working and customers to remain connected. As the COVID-19 pandemic escalates across our operations, Vodacom is the forefront of lending support. This intervention showcased the importance of being a purpose-led business. We will continue to support our staff, our governments and our customers to fight the spread of the Coronavirus and look forward to a just economic recovery across all our markets.

Before I conclude my comments I would like to thank Sitho Mdlalose for being the interim CFO, his sterling stewardship and dedication over the past four months has been exemplary. Sitho will revert back to his role as the Financial Director of Vodacom South Africa and facilitate the smooth hand-over to Raisibe then. Sitho is joining us for the Q&A now. Thank you.

Operator
Thank you Ladies and gentlemen, if anyone would like to ask a question you are welcome to press * and then 1 on your touchtone phone. If you however wish to withdraw the question you may press * and then 2 to remove yourself from the question queue. If anyone would like to ask a question you're welcome to press * and then 1. Our first question is from Preshendran Odayar of Nedbank CIB.

Preshendran Odayar
Hi everyone. Thanks for the opportunity to ask some questions. I've just got three quick ones if I can. I heard in the presentation earlier today you mentioned that you know you only looking for a 5% stake in Ethiopia and I think that gives you some head room to you know do some other M&A so the question is what are you guys thinking about you know CIBH? I mean your fibre connection rating is quite high at 74% so how are you looking at CIBH or any or any other partners to grow your fibre business? That's the first question.

SA Enterprise was strong, just want to know what exactly is driving that, I know the service revenue was up quite strong, double digits as well, is it more your mobile Wi-Fi devices, hand-set related contracts or just like SIM only contracts that you guys there? And lastly, your roaming costs seemed – I mean it was a decent jump in roaming costs on your expense side for SA and this is despite you having additional spectrum in the period, so I just want to know like what is the head room that your network has or how capacity constrained are you guys despite having temporary spectrum being allocated? That's it for me, thanks very much.

Shameel Joosub
Okay. So maybe to start off with on Ethiopia, I think firstly what we've decided to do is that the consortium be led by Safaricom and that we play more of a supporting role and that our investment is via Safaricom. So 51% will be Safaricom, 5% Vodacom and the rest will be strategic financial investors that will be part of our consortium. The reason why we've kept our powder dry is not because there's a pending investment just to be clear but that said it does give us opportunities to pursue opportunities that may present itself.

The reason we've done it through Safaricom is because we felt that that was the best vehicle given the proximity, given the you now Safaricom's strong balance sheet and also I think given that it will be good exposure being a neighbouring country to Kenya, so we felt that that was the most appropriate way to make the investment.

In terms of fibre honestly speaking I think, yes, very good performance during the half. I think what's important is that from an ISP perspective we earning more credibility given the investment we have made into our service levels and so on. I think fibre by its nature is not easy you know from an ISP perspective but I think you know more and more people choosing to use us as their chosen ISP which I think is encouraging. So, very good momentum there given the investment we have made in that regard.

That said we don't have enough homes passed let's be honest and I think the Telco's if I'm fair and under indexed in that space and I think we need to step up the you know the amount of homes passed and coverage in that area and in that regard we would consider organic as well as inorganic opportunities going forward because you know I think the homes passed in South Africa is still low so there is still a latent opportunity in that space. We don't comment on market speculation of any particular investment so I won't be able to answer that question. On the enterprise side?

Sitho Mdlalose

On the enterprise we've had a really strong half and you know you quoted an 11% growth on service revenues, the core driver in that was our customer revenue which is up 7.7% in the half and the core elements of that was really all of the solutions that we were able to provide to our customers for working from home, for all the big corporates, equally from education and all the universities where we were able to provide intermittent solutions for them to be able to connect and continue with their education during the lockdown period and actually until today as we speak.

That's on customer revenue but I think all the lines saw good growth, we had good growth on for example the IOT, our IOT revenues were up 45% as we saw an increase in the IOT connections now sitting at 5.5 million which is great. And equally we've had growth in cloud services driven by growth in our infrastructure as a service. Our Cloud business is up 40% in the half so all round a good performance primarily driven by customer revenue but supported by the other lines as well.

Shameel Joosub

On the roaming part I think the important part is that of course we have seen a massive increase in traffic and I think what we've done is look at which is the most optimal way to manage that traffic given the temporary spectrum, given the roaming arrangements that we have with Rain, given the need to build more sites to cope with an 86% traffic increase and in each case we look for the most optimal way to utilise those sites. I think what's important when you look at the roaming costs of

Rain you must also consider the roaming revenues for Rain as well and you will see on a net-net basis of course it hasn't had a big impact on the numbers.

Preshendran Odayar
Perfect. Thanks, thanks very much guys you were very clear and congrats again.

Operator
Our next question is from Myuran Rajaratnam of MIBFA.

Myuran Rajaratnam
Hi guys, thanks for the opportunity to ask questions, I've got two. The first one is on VodaPay, are you in a position to disclose how many active subscribers you might have on it currently and the second part of that question is so if I load let's say a R1,000 into my VodaPay account using my card who is paying – because it leaves as R1,000 from my account and arrives as R1,000 on your side as well, onto my VodaPay account I'm presume and who is paying for the searching fees or the flight fees on my card here? Thanks.

Shameel Joosub
Okay. So I think the important thing to remember is what's currently in the market is not VodaPay that's going to be launched in early next year which is the partnership with Alipay. What we have at the moment is basically a white labelled MasterCard offering that's out in the market and that was more kind of to gain more understanding of it. So numbers are still small. There's a couple of hundred thousand; nothing to write home about. But that's also intentional because the real play is the big platform that we launching next year. So that's the one part so don't look at the current VodaPay and see that it's a proxy for anything. Secondly, remember currently basically its card economics right because all you doing is linking your card to the platform so the transaction fees that you paying would be the normal transaction fees that you're paying on card.

What happens next year is with the Alipay launch is that full new platform which is a complete lifestyle platform which essentially is the market place which incorporates multiple merchants being able to sell their products from the platform itself so you will be able to shop for clothing, any type of service, travel you know wide goods, be able to pay your bills, your electricity, your water, pay for airtime, take loans and advances on it, overdraft facilities and so on. And that will be the initial launch and then in a few months after that we will launch the VodaPay store value that's when the economics changes because that's when, when you transact on VodaPay it's at a heavily discounted rate because it's not going to the card rails, it's going to the VodaPay rail. So effectively that's where we can discount, go to merchant as well as to the customer on those fees.

Myuran Rajaratnam

Excellent that makes a lot of sense. My second question is also similar to Preshendran on the Rain costs. I'm sorry I'm being a bit thick here, so for clarification and then I'll ask my question, right. So you say you know your operating expenses up at 6.9% and if you exclude the roaming, Rain roaming bit it would have been up 3% and with the Rain costs it went up 3.9%, it's slide 20 of your presentation. I just want to double check the 3.9% is the incremented cost from Rain, so the Rain cost is actually a lot bigger but that's just delta of your total cost that the Rain costs went up by, if you know what I mean?

Sitho Mdlalose

Sorry, yes that's correct, that's the correct interpretation the 3.9 is the delta in the bridge to the overall growth so it's the contribution to the growth in the direct costs on a year-on-year basis so you interpreted it correctly.

Myuran Rajaratnam

And normally that is netted off with your facilities leasing's and the roll-out course, right. Now but if Rain stops growing it sites and rolling out networks there will be a hole in the incoming site if I think about it and please correct me if I'm wrong and how much can the hole be if all else being equally if Rain stops growing its network today because then you will still get the facilities leasing part but you won't get the delta from growing the network or rolling the network or am I seeing this wrong?

Sitho Mdlalose

Yes, I think you seeing it slightly wrongly in the sense that then there's a line in other review which comes through for effectively the facilities leasing and then the direct cost element, those two largely net each other off and you have a small delta at EBITDA level. On a year-on-year basis that delta hasn't grown so ultimately net-net that's the position but I'm not sure if I've understood your question correctly. Does that help you?

Myuran Rajaratnam

So just to double check, so it's only for the facilities leasing you get incoming money from Rain, there is no fees or anything for actually rolling out the network for them because I understood that they don't actually don't do much in this relationship?

Shameel Joosub

Well I think the only ever network that we roam on but that's not much, I'm just being facetious, of course they – I mean we using their network so yes.

Myuran Rajaratnam

So you don't get a fee from them for actually building up their network only for leasing or leasing the – for using your mast and towers, it's almost like a tower fee, is that right or?

Shameel Joosub

No I mean we do provide some services to them and whatever services we provide to them we charge for of course.

Myuran Rajaratnam

All right thank you so much, I'll leave it for the next guy.

Operator

Thank you. Our next question is from Johnathan Kennedy-Good of JP Morgan.

Johnathan Kennedy-Good

Hi just one follow-up question from me on your temporary spectrum that you are utilising at the moment, are you able to utilise sub-1G spectrum that's been temporarily allocated to you and then following up from that once the auction happens presumably let's say on time next year would you be able to utilise that sub-1G spectrum as it stands today or would it need to be cleaned up further and how does that impact your decision to pay for it immediately?

Shameel Joosub

I think a few things. So I think the prices in the auction are coming in or the reserve prices are lower in auction so that's the first part and the second thing to remember is are we using the sub-1G today, yes but on the temporary spectrum but we using it where we can, let me put it that way. So in some areas the broadcasters are using 800 so then we can use 700 and where they using 700 we can use 800 provided that we have the radios in that particular area that can do it. So that's where – you know so are we getting the full benefit of it, no. Is it giving us some relief? Yes.

So that's the first part, the second part is that of course in the auction once you've paid for it you do get the full utilisation of the spectrum so the spectrum prices are lower than you know the numbers we were calling out before but they slightly different because you also have different locks and so on and so on so it's a different construct and it starts with the lower reserve price, when it's reached the numbers that we previously spoke about, maybe I don't know we will see but so that's the first part.

The second thing is I would say do we get immediate use of the spectrum? No. depending on which block we buy we will be able to use it again in certain areas. But at least the difference between now and then is if you know you've got the spectrum you can go and use it in all the radios and maximise the use wherever you can. If there is interference in a particular area then of course you won't be able to fully utilise it in that particular area or you'd be pushing for the clean up to happen in those areas first. So the 2.6 and 3.5 that I think will be completely usable from day one. The 700 and 800 will be a bit tricky initially. I think as part of the auction there has to be a definitive date of when the full digital migration would have happened. And I would anticipate that it would be within a year. Also if we've got clarity around the definitive date we'll use it where we can, build everywhere else, and then simply flip a switch when the digital migration happens.

Jonathan Kennedy-Good

Great. Thank you.

Operator

Our next question is from John Kim of UBS.

John Kim

Hi everybody. Congrats. Two questions please. Firstly on your ESG goals when you think about having a carbon footprint over the next four plus years should we be factoring this into our capex/opex outlooks? Is this cost neutral? And where do you see the savings coming from? A second question, completely unrelated. When you think about service revenue growth potential in South Africa for the next year and a half you did indicate that the consumer is going to be under pressure in H2 and fiscal year. Should we translate that in terms of lower ARPUs and service revenue growth starting to slow? What needs to be true to preserve your service revenue growth rate in South Africa going forward? Thanks.

Shameel Joosub

Okay, let me start off with the ESG goals. I think we largely see it as cost neutral. Of course what we are doing is we are utilising some of the capabilities that we've already built in-house to help us reduce our environmental footprint, specifically power consumption. Let me give you an example. We've created a very good solution in IoT.nxt which is deployable in buildings, base stations and so on which is allowing us to reduce power consumption by as much as 20%. And we've deployed that on already more than half of the South African network and now looking to expand that across the group.

We are also selling those solutions into the broader Vodafone and having discussions with Vantage Towers so that we can resell those solutions, which is by the way driving some of the growth in IoT because we've now signed up the UK, Germany, Netherlands and so on to all sell our IoT products both for self-consumption as well as a platform, so a strong part there. So I think on the ESG part it's largely the idea is that will largely be self-funding. Service revenue?

Raisibe Morathi

On service revenue we take encouragement from the number of clients that we have seen growing, data clients and also some increase in the smartphones as well as the usage, where clients have been using on average 2.2 GB. And obviously easing off the peak of COVID we expect that some of the trends could still remain. And most importantly also from the AI enablement that we have started building that allows us to be able to continue to get the bear's share of the wallet of the clients. You would have also noticed some positive trends in our financial services offering. That is also where we consider an opportunity to continue to sell more to our customers. And with the Alipay enablement that will enhance our ability to see revenue coming from customers continuing to come through. That is just in South Africa and obviously replication of that in our international markets as well.

Shameel Joosub

Maybe just to add, we think a stronger second half in the internationals. And then South Africa, as Raisibe says, the trends should continue. There should be a bit of a step down into the second half purely because the customer is under pressure, but more importantly I think because with lockdown it was the only modus operandi of transport. People weren't travelling by train, busses or cars. They were travelling on data, and data became the new mode of transport. I think as we go out of lockdown that will ease up a little bit. But remember the growth rates on data were still pretty strong even outside of COVID.

John Kim

Okay. Thank you.

Operator

Thank you. The next question is from Sunil Rajgopal of HSBC. Sunil, your line is live.

Sunil Rajgopal

Sorry, can you hear me?

Operator

We can hear you now, sir. Please go ahead.

Sunil Rajgopal

All right. Okay, can you please comment on the trends that you are seeing in your international markets, especially Tanzania? And how do you see the markets develop from here? Are you still seeing strains in the economy? Is there any outlook on the improvements? Thank you.

Raisibe Morathi

Thanks for that question. The trend in Tanzania is the interventions of COVID as observed in other markets. Obviously the economies were slowing down a little bit. But in addition to that, perhaps more importantly, is the biometric issue where we had to disconnect 2.9 million customers. We have since reconnected 800,000 of those customers and continue to work through the system to see whether or not we can be able to get some of those customers back. Of course some of them may not necessarily be back. But that is part of the mechanics of working with the government or the regulator in that order. So there are still 1.6 million customers who are at risk as far as this biometric challenge is concerned. Fortunately in Tanzania unlike the other markets we did not have a free P2P so the MPESA component has continued to see some growth in terms of the trends of spending, and for that we expect that we will see further opportunities going forward. I guess in terms of the COVID risk that is something that we continue to see across all the different markets. Sitho, anything else to add?

Sitho Mdlalose

I think I completely agree. I think the data traffic in Tanzania shows good growth. We are up 43.8%, so really strong demand for data services that we're seeing. Our voice traffic was up 13.7% in Tanzania. So I think the vitals are there and the business will continue to pick up. Clearly there is an element for Tanzania where as an economy one of the biggest drivers they had there is tourism, and that still needs to pick up a little bit for the rest of the economic activity surrounding that to pick up as well. But nonetheless I think from the vitals of the business we're confident of the trends going forward.

Sunil Rajgopal

Sure. Thank you. Just if I may, I had one more question. Has the company quantified the targets in terms of homes passed etc. for fibre? Is there anything on the plans in South Africa?

Shameel Joosub

I think where we are currently is we've just got over 108,000 homes passed. And to be honest, below 10% market share, which we think is too small. So we would like to see that number increase over the coming years. And we would look at opportunities. Firstly organic opportunities to grow, as well as inorganic opportunities as well.

Sunil Rajgopal

Sure. Thank you.

Operator

Our next question is from Vikhyat Sharma of RMB Morgan Stanley.

Vikhyat Sharma

Hi guys. Thank you for the opportunity. Two questions if I may. The first is in the second half we will see Liquid Telecom roaming costs coming into play. If you can tell us whether that is going to increase the cost base and could there be a little more pressure? The second is in terms of the government contract which was extended for you guys. It looks like it is up for auction. If you could tell us what the revenue exposure is there that you have. Thank you.

Sitho Mdlalose

Maybe just on Liquid, that's already in the numbers so won't be an incremental drag on that. That's within the costs as it is and fairly well phased out across. Do you want to speak on national treasury or should I make a start on that? I think national treasury is a key account for us from a Vodacom Business point of view. It makes up close to 25% of our mobile customer revenue, our service revenue. So obviously it's fairly important. Clearly we will track the developments and participate in tender post the contract coming up of renewal. I'm not sure if there's anything you'd add.

Shameel Joosub

Maybe just to add, just to be clear, it's about R1 billion of revenue in terms of what the national treasury size of account is essentially what will happen is there will probably be more competition in that account and so we will land up losing some of the business. But that's the total exposure. Remember at all times there will be some that are in contract and some that are out of contract, so you will have some of the lines still being exposed. So it's not the full R1 billion that will be exposed. You can probably say half of that will be in contract, half of that won't be in contract. And I think it's fair to say we can probably anticipate potentially losing about half of it. That would be the downside. So I think if you're putting it down you're saying about R1 billion exposure. Half of that is in contract, half of it is out, so R500 million. Maximum loss is probably half of that. You're looking at about R250 million.

Sitho Mdlalose

That has been built in and considered in our medium-term forecast and guidance.

Vikhyat Sharma

Thanks.

Operator

Our next question is from Ziyad Joosub of Nedbank.

Ziyad Joosub

Hi everyone. Thank you for the opportunity. Just two questions from me please. The first one is on the 5,500 sites that you have spectrum roaming agreements with Rain. Does that 5,500 now cover all your high data traffic sites? And how should we look at that 5,500 growing over the next 12 to 24 months? Are you done or are we going to see you trying to incorporate more sites into the roaming agreement? The second question please is your interconnect costs came down but your MOU per sub has moved up quite significantly year on year. Are you seeing through the COVID period a higher proportion of on-net voice traffic from the South African network? Thanks.

Shameel Joosub

Okay, so just to be clear on Rain I'd say the contractual commitments have been met. There aren't more sites in terms of contractual commitments. Everything else that we use Rain for I think would be on a need basis where effectively they have coverage or it's the most optimal opportunity to use them versus building another site. So we've built quite sophisticated tool in terms of determining when we use Rain and when we build a new site. Remember the way it operates is that you'd add capacity to a site. When you run out of capacity you've either got to add more spectrum, which of course you know is in short supply, failing which you then have to go build another site or hand over to Rain. So we do the optimal moving of traffic.

And then of course if it's going to a certain extent on Rain and we need to still build a site then we've move it back again. So it's those kinds of opportunities that we're playing with to be able to do it. Of course if you bring spectrum into the mix then that gives you a lot more opportunity of where you're going to use Rain, where you won't use Rain, all of those types of things. That will become a different dynamic within the mix. Then of course 5G also gives you that capability as well, and as you're modernising the network that also gives you more capacity. Ideally you want to keep the traffic on your own network.

Ziyad Joosub

Okay. Sorry if I should know this, but beyond usage is there any inflation escalation on the roaming agreement or is it purely usage driven?

Shameel Joosub

It's only usage.

Ziyad Joosub

Okay. Okay.

Sitho Mdlalose

Ziyad, sorry, your second question, do you mind repeating that on the minutes of use just so I make sure I understand it?

Ziyad Joosub

I was just asking your on-net traffic, your voice traffic, have you seen an increase in the proportion of voice traffic that is on-net versus off-net over the past six months? Because your MOUs have moved up quite a bit but your interconnect has come down on the South African network.

Shameel Joosub

To be honest we don't even measure on-net and off-net anymore. I mean we do, but it's not really a big thing anymore because remember firstly the rates are much lower, the interconnect rate, and secondly, we don't sell on-net offers anymore. Everything is all-net.

Ziyad Joosub

Okay. Understood. Thanks very much.

Operator

Our next question is from Dilya Ibragimova of Citi.

Dilya Ibragimova

Hi. Thank you very much for the opportunity. I have three questions if I may. The first, I just wanted to check on your mobile backhaul. I think your annual report you mentioned that 47% of sites in South Africa are fiberized. Can I ask how much of that fibre you own as opposed to rent, and what are the plans going forward? What is your ideal scenario for backhaul for mobile network fiberized sites as opposed to microwave, considering the traffic growth that you forecast? My second question is on spectrum. Going into next year, assuming the auction takes place in March or starts in March, what is your priority or whether you have made up your mind what you plan to bid for? Do you plan to go for both upper above 1 GHz or below 1 GHz. It sounds like based on your comments earlier that you may consider sub 1 GHz as well. I'm just wondering what it means for your potential 5G strategy. Does that mean that with the spectrum cap you may need to take less spectrum above 1 GHz? I think for 5G the more the better. Any comment there on the spectrum cap versus what you would go for?

The last question is on lifestyle app. Earlier today in the presentation you mentioned that you are considering rolling out the lifestyle app in Kenya and Tanzania. I think when you did announce the Alipay agreement you mentioned that it will be predominantly for South Africa. I'm just trying to get an understanding what's changed between then and now. Why are you more optimistic about the adoption of the lifestyle app in the East African markets? Is there data penetration or maybe smartphone adoption? And also maybe in addition to that, is there any opportunity to maybe share a cost [unclear] sheet that you gave but you are also hiring IT staff. So any comment there would be appreciated. Thank you.

Shameel Joosub

Okay. Let me start off with the last one first. So firstly on the Alipay platform just to explain again in South Africa we're implementing the full Alipay A+ platform end to end. So there is no MPESA underpin on it. It's the full platform. So it will have its own store value. It's a full standalone platform. We have over 100 software engineers currently working on the implementation of the platform and are currently on-boarding merchants and so on onto the platform itself and busy with the user journeys and so on with the intention of launching in Q1 next fiscal. So that's the one.

In terms of the capabilities that we're building the agreement – just to be clear – for the full platform is for South Africa only. However, we've also managed to do a deal with Alipay off the back of the South African agreement where we can launch elements, not the full platform but elements of the platform on top of MPESA. And there's a particular capability called mini apps which is what allows merchants to expose their product. So in the South African context it's the full Alipay app. In the case of Kenya and Tanzania in time we will start to get merchants to expose their products into the M-PESA app through the mini app capability.

So it's a different play I would say than what we're doing in South Africa which is the end-to-end part. The concept is that of course the more learnings and the more stuff we can develop in South Africa we will then look to agree with Alipay to expand some of those services into the international markets on a case by case basis. But the full platform is going into South Africa. I think that also is a good platform for us to learn in our most highly penetrated smartphone market.

Dilya Ibragimova

Thank you.

Shameel Joosub

Okay, then in terms of spectrum what we would be bidding for is low band spectrum below sub 1 GHz. Given the restrictions on the way it's structured at the moment we'd probably get maybe 10 MHz below 1 GHz and then essentially we're looking for spectrum in the other bands above 1 GHz for 5G and also 4G. We would be looking for spectrum in the 2.6, 3.5 and 700 or 800, or 700 and 800 depending on which strategy we deploy in the auction.

Sitho Mdlalose

And then just on the backhaul question, 17,800 of our clients or 96.9% of our clients have high capacity backhaul, and that's roughly split almost 50/50. So 7,000 of those with microwave and 6,800 with self-provided on fibre.

Shameel Joosub

So of the fibre I would say probably two-thirds is long term leases with the likes of DFA and Liquid and the other third would be internal.

Operator

We have lost the line for Dilya. Our next question is a follow-up question from Sunil Rajgopal.

Sunil Rajgopal

Hi. Just a follow-up question. We've seen Vodafone taking initiatives on tower asset monetisation or spin-offs. I just want to check if there have been any further discussions on monetisation of towers at Vodacom? Thank you.

Shameel Joosub

To be clear, we're not looking at monetising any towers. We are looking at tower sharing opportunities in terms of how we take out more costs from that area through sharing initiatives like shared maintenance and all of these types of things. And also is there an optimisation of tower portfolios with another competitor in market that can give us improved return on capital in each market? But definitely what we're not looking at is monetising any of the towers.

Sunil Rajgopal

Thank you.

Operator

Thank you. We have Dilya back on the line. Please go ahead.

Dilya Ibragimova

Sorry about that. I disconnected. Just a quick follow up – I do apologise if it has been addressed – on the fibre strategy or the back haul strategy rather. What would be the optimal scenario for fibre versus microwave share for the mobile network as the data consumption grows?

Shameel Joosub

I think the way to think about it is 97% of the sites are self-provided, so about 3% you can say is with Telkom and others. So that's the first part, of which 50% is microwave. That's completely owned, and it's IP microwave so it's high speed microwave. Of course fibre is more future proof, so over time you put more. Where the capacity grows you replace the microwave with fibre, then you take the microwave and deploy it to another area and work down the 97% closer to 100%. So that's the kind of thinking and the logic that we deploy. Of the 7,000 odd sites that are fiberized today about two-thirds of that is with third parties and a third is internal. Third parties are the likes of DFA and so on where effectively we have 15 year IRUs on this fibre base. And because it's a shared infrastructure with long-term IRUs and leases of course the economics are very good for us.

Dilya Ibragimova

Thank you very much. That's very clear.

Operator

Thank you. It seems we have no further questions, sir. Would you like to make any closing comments?

Shameel Joosub

Just to say I'm very pleased with the overall results, especially in these trying circumstances. Our priority is to ensure the safety of our staff and customers while at the same time providing customers with high customer experience standards which they have become accustomed to. It's also a time when our balance sheet strength, prudent risk diversification and resilient business mode will stand us in good stead. Also for me what's pleasing about the results is a lot of work that we've been doing over the last couple of years is now bearing fruit, and you've seen that come out in the results with the diversification into new revenue streams, but also becoming more and more of a data-led organisation with artificial intelligence and machine learning at the core. Thank you for joining us today. If there are any other questions that you may have, please reach out to the Vodacom investor relations team. Enjoy the rest of your day. Thank you.

Operator

Ladies and gentlemen, that concludes this conference. Thank you for joining us. You may now disconnect your lines.

END OF TRANSCRIPT