Conference Call Transcript

15 November 2021

INTERIM RESULTS ANALYST CALL

Operator

Welcome to the Vodacom Group Ltd results conference call for the six months ended 30th September 2021. Vodacom Group CEO, Shameel Joosub, will host the conference call. Before I hand over the call to Shameel I would ask that you refer to and familiarise yourself with Vodacom's forward-looking disclaimer. This is set out on slide 39 of the results presentation and can be located on www.vodacom.com. Alternatively, if you would like a copy of the results announcement or presentation sent to you, please email investor relations at vodacomir@vodacom.co.za. Shameel, over to you, sir.

Shameel Joosub

Thank you Claudia. Good afternoon and good morning to those joining the call in the US. I am joined our group CFO, Raisibe Morathi, as well as Head of Investor Relations, JP Davids. Our interim results round off a very exciting period for Vodacom. We delivered on several major strategic milestones including the launch of our app, VodaPay, and the announcement of two transactions that will be transformational for the group. In addition, we have delivered a strong set of interim results while continuing to deal with the widespread effects of the COVID-19 pandemic consistent with our purpose-led business model.

I'm particularly proud of the way we focussed on the delivery of our social contract to ensure that we make meaningful contributions to digital and financial inclusion and the economic recovery in markets where we operate. We assisted governments and communities in Africa through the deployment of a wide range of technical solutions that helps mitigate the effects of the pandemic and bridges the digital divide.

One of the most impactful of these initiatives is our partnership with the African Union Development Agency to accelerate the COVID-19 vaccine rollout across the continent. We are leveraging our mVacciNation technology platform to provide this vaccine support and additionally have made financial contributions to support with cold chain logistics for the state delivery of vaccines to rural areas. We believe that vaccine support is key to accelerating return to normality, restarting economies and stimulating employment across the markets.

As mentioned earlier, we made major progress on strategic ambitions in recent times and we tabled two significant transactions last week. These M&A transactions in Egypt and South Africa fibre advances Vodacom's strategic connectivity and financial services ambitions and will diversify and materially enhance our growth profile. In Egypt, we intend to acquire a controlling 55% share in Egypt. The company is a market leader and this supports scale and attractive returns. For example, Vodafone Egypt generated return on capital employed of greater than 30% in the last financial year.

Vodafone Egypt has a strong growth outlook even before we contemplated synergies. In the current six-month period Vodafone Egypt accelerated revenue growth to 17.3% supported by leadership across both the consumer and enterprise segments, a clear network and spectrum advantage versus peers, a brand synonymous with technology leadership, and a Software Factory that facilitates leading big data and AI capabilities.

In addition to being an attractive asset on a standalone basis, we see scope to create significant value in Egypt by scaling our multi-product strategy, which we refer to as the System of Advantage. With more than 80% of Egypt's 100 million population unbanked, we see a massive addressable market for mobile money into which we can leverage our financial service platforms, including our super app, bringing together our capabilities across merchants and consumers by delivering payments, lending, investments, insurance and e-commerce solutions. As this is a related party transaction we implemented appropriate governance controls to ensure the transaction was and is negotiated, evaluated and executed on an arm's length basis. This is consistent with the governance approach we adopted with Safaricom.

Secondly, we announced a major step in scaling our fibre offerings in South Africa with a strategic investment in Vumatel and Dark Fibre Africa. Vodacom will gain exposure to South Africa's largest open access fibre players, which are highly attractive and fast growing businesses. With our initial cash and asset injection we expect to acquire 30% and co-control of Vumatel and DFA. We have an option to increase our stake to 40%.

We believe this fibre investment is closely aligned with the build out of our System of Advantage and will support us in delivering versified and differentiated connectivity offerings to our customers and optimise our network infrastructure. Further, we expect that this investment will accelerate fibre reach in South Africa, fostering economic development in helping bridge South Africa's digital divide.

In addition to the M&A transactions, we delivered a very exciting strategic milestone by launching our highly anticipated VodaPay super app last month. The app truly is a game changer and we are seeing strong initial adoption. The app brings together the best in technology with our investments across the fintech value chain supporting greater digital and financial inclusion.

The opportunity and economics of our super app are compelling. The super app gives us the ability to open up the system from a few partners to thousands of service providers. It ignores the barriers of physical limitations for both consumers and merchants, which can then expand well beyond their geographical boundaries. Put simply, as soon as transactions compound we take our cut, a bit like an iOS or Google Playstore.

The super app also gives us the ability to aggregate the digital shopping mall experience with entertainment and our broader fintech services like money transfer, lending and savings. The consumer experience is further enhanced through big data driven personalisation offers loyalty that helps shape behaviour. Of each of these components there is a revenue opportunity which in some cases can be compounded by combining services. For example, in e-commerce transactions we can generate revenue from a merchant on listing and payment fees and also on commission on the loan origination when credit is provided. This is an exciting opportunity for us.

Switching back to results, we reported strong service revenue growth of 5.4% with revenue up 7.9% on a normalised basis, supported by resilient performance in South Africa and improved performance in normalised service revenue growth in our international OpCos. We added 6.2 million customers and now serve a combined 130 million customers across the group including Safaricom.

Our financial service business is a clear strategic differentiator and continues to scale at a rapid pace. Over the last 12 months, we processed more than $300 billion of transaction volumes across our M-PESA platform, an impressive number. We now service over 57 million financial customers across the group reaffirming Vodacom as the leading fintech operator on the continent.

Group EBITDA increased 5.7% on a normalised basis to R20.1 billion with an EBITDA margin of 40.3%. Headline earnings per share declined 5.1% but when adjusted for once-off deferred tax rate adjustment in the prior period it grew 3%. We reported strong growth in our new services category reflecting our multi-product strategy. Our new services which comprise fixed, IoT, digital and financial services continue to scale, making up 18% of service revenue. IoT revenue was up an impressive 39.3% while financial services was up 22.7% on a normalised basis. The low capital intensity profile of financial services means that it generates a higher profit margin than our core mobile business. 90% of our group's proportionate profit before tax comes from financial services at a margin of around 40%. This equates to R2.4 billion or $170 million for the period.

Turning focus to South Africa, service revenue grew 3.6% to R28.6 billion and was supported by continued demand for connectivity, internet or wholesale revenue and growth in our new services. Adjusting for R142 million once-offs in the prior period, service revenue increased 4.1% in the half, an impressive result given the demanding comparative associated with lockdowns in the prior period. Revenue increased by 7% supported by strong recovery in equipment sales, as the prior period was impacted by lockdown restrictions on physical channels.

New services such as financial and digital services, fixed and IoT delivered strong growth in the period and contributed R4 billion of South Africa's service revenue. IoT revenue delivered excellent growth of 36.6% while financial services revenue increased 15%. The financial service performance was supported by Airtime Advance and our insurance products. We advanced R6.5 billion in airtime during the period amounting to 46% of total prepaid recharges. Our insurance revenue increased 11.8% with policies up 6.8% to 2.1 million, as we continue to expand our portfolio of products.

Vodacom Business has had another strong period with further growth up 11.5% supported by fixed, our innovative work from home solutions, and wholesale revenue. The contract segment performed well revenues up 4% and we added over 140,000 customers in the period. Prepaid performance was broadly flat in the quarter as ARPU normalised post last year's strict lockdowns. Also we further reduced monthly data pricing bundles in the Competition Commission glide path, which is now complete.

From a subscriber base perspective strong commercial initiatives supported second quarter net additions of 1.2 million with prepaid customers up 6.4% year on year. Data metrics remained strong. The number of subscribers increased 11% to 24.5 million, while the average usage per smart device increased 7.3% to 2.2 GB per customer. EBITDA grew 3.7% while margins contracted 1.3% to 40.4%, negatively impacted by the R142 million loyalty provision released in the prior period and the phasing of cost versus the prior year. Adjusted for these impacts, margins were flat and I would encourage you to review Raisibe's video for details on this.

Our international operations reported a strong recovery with normalised growth of 9% in the period having declined by 5.2% in the prior period last year. The improvement was underpinned by return to charging for M-PESA transactions and a strong demand for data. Our customer base increased 10.1% to 42.5 million with net additions of 2.2 million in the second quarter reflecting strong commercial traction across the portfolio.

Data services remain the key driver of growth. We added 724,000 new customers to end the period at 21.4 million data customers, supporting data revenue growth of 16.6%. M-PESA revenue on a normalised basis was up 27.4%, contributing 22.4% of international service revenues. The performance was supported by growth in the DRC and Mozambique, both recovering from our free P2P interventions during the height of COVID.

In contrast Tanzania posted normalised M-PSA revenue growth of just 1.1% in the period, negatively impacted by new mobile money levies introduced in July 2021. The impact of the levies was R220 million in the quarter. We are engaging with the Tanzanian authorities to assess the impact of the levies on the industry, financial inclusion and the wider economy. A reduction of 35% has already been achieved with the Tanzanian authorities and we see a slow recovery back to growth in M-PESA revenues, but further engagements are ongoing for further declines. Normalised EBITDA was up 15.8% and margins expanded by 3.4ppts to 39.3%, reflecting accelerated cost containment initiatives, particularly in Tanzania.

Concluding my review with Safaricom, we made the strategic investment in 2017 and it has proven to be very value accretive, generating an annual total shareholder return of 26%. From a numbers perspective, Safaricom contributed R1.7 billion to operating profit, up 14.3% excluding the once-off deferred tax adjustment in the prior year. Safaricom delivered a strong set of results with growth in M-PESA and fixed revenues supporting service revenue growth of 16.9%.

M-PESA revenue grew 45.8% in the period supported by strong platform growth, product production and updated P2P pricing on 1st January this year. M-PESA customers grew 7.1% and the total value of M-PESA transactions in the period was up 51.5%. Safaricom also launched its new M-PESA app in the period and now has 2 million monthly active users and increasing mini-app partner adoption. The strong revenue recovery supported 21.3% EBITDA growth with margins expanding 2% to 52.9%.

The strong results supported an upgrade of Safaricom's EBIT guidance for Kenya. Additionally, Safaricom provided FY2022 and medium term financial targets for Ethiopia. On Ethiopia, Safaricom is currently In the process of setting up operations and preparing plans for operational readiness ahead of next year's launch. We are cognisant of the current evolving situation in Ethiopia. We are proceeding with our plans, adapting and assessing the situation on ground as it evolves. We are for hopeful of fast and peaceful resolution to the current situation.

On the regulatory front our key focus area remains spectrum in South Africa. Despite our disappointment in the delays to the ITA process, we remain optimistic that South Africa will reach consensus on the growth potential of issuing high demand spectrum, and we look forward to the revised for the auction in March 2022.

We are encouraged by the progress and allocation of provisional spectrum by ICASA. It is estimated that around 10 million South Africans have benefited from the service that operators have been able to provide as a result of the temporary spectrum allocation. Again in Tanzania, we will continue to engage with the authorities regarding the introduction of mobile transaction levies in the country so as to not interrupt the significant strides made in the last decade and reduce the barriers to financial inclusion. Raisibe and I are now ready to answer any questions you may have.

Operator

Thank you very much, sir. If you would like to ask a question, please press * then 1 on your touchtone phone on the keypad on your screen. If you decide to withdraw your question, please press * then 2 to remove yourself from the list. Again, if you would like to ask a question, please press * then 1. The first question comes from Preshendran Odayar from Nedbank. Please go ahead, Preshendran.

Preshendran Odayar

Thanks, Claudia, and good afternoon, everyone. Thanks for giving us the opportunity for questions and congratulations on your results. I've got three if I may. Firstly, can you share with us what was the net impact on EBITDA from your roaming and facilities leasing arrangements? Were there lower roaming costs or higher leasing revenue in the period? Because your South African EBITDA performance was quite good, and I remember from memory the last time we spoke the net impact of your roaming and facilities leasing arrangements was around R200 million for one H1 2021 and about R600 million for H2 2021. So I just wanted to see how that's progressed.

The second question, can you comment please on the impact of Telekom's new roaming deal with MTN? Is there a floor that you have with them, and what do you anticipate will be the impact on your services revenue from November onwards? And then the last, Shameel, I just saw a pop up on Bloomberg about some plans to carve out your SA business. I just want to know if you could just elaborate on that something that. It's something I saw pop up on Bloomberg, but I didn't see earlier in the presentation. So if you can give us more colour on that. Thanks very much.

Shameel Joosub
Okay, let's start with the last one. So we're definitely not carving out the SA business. They are busy fixing the article. What we said, which is what we said before, is that we will look at optionality on the financial services business if the markets don't give us credit for it. And of course, the South African financial services business is one of those opportunities. So that's what we said. They are busy fixing the article. That's the first one.

The second one is the impact of Telkom roaming. So in the agreement that we have with Telkom effectively Telkom can some of the volumes to another party, such that we retain the lion's share. And so MTN will get about 20% of the volumes in the contract itself. The impact of that, we're hoping that it can be offset with the continued volume growth. So we will continue to monitor the impact of that and try and offset it with increased volumes.

JP Davids
Preshendran, JP here. Just a little bit of colour on the roaming deals with Rain and Liquid. Our guidance was that from a net EBITDA perspective those deals shouldn't change much in profile from last financial year to this financial year, and that very much is the case. So, very consistent net EBITDA impact from both of those deals. Is that okay? Any follow ups on those answers?

Preshendran Odayar
No, that's okay. Thanks, JP. So just on your one, when you say net EBITDA, there shouldn't be a net EBITDA impact. You're saying it should almost be net zero.

JP Davids
Sorry, let me be clear on that. So the EBITDA impact, which is negative for both of the deals, is the same in quantum this year versus last year. So there will be no impact on EBIDTA growth, but there is still a net EBITDA cost that is going through our P&L. It's just the quantum of that EBITDA is not changing.

Shameel Joosub
Percentage of service revenue because it costed more or less the same in declines.

Preshendran Odayar
Okay. Cool. That's good. All right. Cool. Thanks very much, guys.

Operator
Thank you. The next question comes from John Kim from UBS. Please go ahead, John. John, you may proceed with your question. If your phone is muted, please unmute your phone so that you can pose your question.

John Kim
Hi. Is that better?

Operator
Yes it is. Thank you.

John Kim
Okay, brilliant. Thank you. Hell gentlemen. I'm wondering if you could spend some time talking with us in a little bit more detail about the SA broadband InfraCo deal. I'm wondering, what do you see left or as the opportunity within mobile in terms of price transformation? I.e., is there an ability to reprice this market given a more ubiquitous fibre backbone? I'm also wondering if you set your minds to perhaps targets on any sort of convergence footprint in South Africa, whether it be homes connected or market share. And lastly, is there any synergy or duplication in the fibre assets in the consortium pro forma? Thank you.

Shameel Joosub
Okay, so maybe a step back. I think if you look at our strategy, what we've been trying to achieve, firstly is you will see the growth in footprint which is Egypt and Ethiopia. We call it footprint finalised, which means we're not looking for markets. But then we are looking at how we deepen those relationships with the customer. And that's where our financial services and fintech play and our platform play comes into it, which is of course the financial services platform, the IoT platforms, the Mezzanine platforms and so on.

Part of that is of course fibre. So, we see that deal is exposure to a high growth potential asset, but also assets that are achieving much higher margins than what the normal telco margins are. So wholesale fibre assets are earning between 65% and 75% EBITDA margin versus our current 40%

EBITDA margin. So, you can see it gives you exposure to a higher margin business, but also with very good growth potential.

Secondly, the opportunity then lies in as you grow fibre into businesses and into homes it also deepens our relationship with the customer. And so that we see as part of our system of advantage, our strategy. And what it will do is it provides us the connectivity. Of course convergence options will then exist and so on, but it is an open access vehicle which will give other players also the opportunity to acquire fibre from Vumatel. And in the case of DFA what it is allowing us to do is to basically build as we go into a 5G world fibre in a shared infrastructure vehicle. And therefore that reduces our costs and our backhaul costs, which will of course give you the opportunity to bring down your cost to produce a MB or a GB of data. So I think that's very encouraging but also gives you the ability to provide connectivity into enterprises.

In terms of duplication, very little to nothing, because generally, because we generally where we build fibre to the home today we have 150,000 homes and businesses passed. And where we’ve typically built is not where other players are prevalent. So, it actually adds quite nicely to the portfolio of asset. And today Vumatel passes 1.2 million homes. So, adding our portfolio that will take you to what 1.35 million homes passed. And of course they've got a great portfolio of businesses and fibre to the base station, and also helping to commercialise some of our fibre to the base station as well where we can increase the amount of tenancy. So a number of synergies I would say from the transaction that we see as being quite transformation to our business going forward.

John Kim
Great. Thank you.

Operator
Thank you. The next question comes from Vikhyat Sharma from RMB Morgan Stanley. Please go ahead, Vikhyat.

Vikhyat Sharma
Hi, guys. Thank you for the opportunity. I think two questions; almost follow up on the two questions that have already been asked. Shameel, I think with this InfraCo we've seen that you've taken the big step in fibre. And fibre itself is now moving into areas where we thought probably it’s kind of going into those second tier cities, if you want to call it that. And I just wanted to know, what is the impact potentially that it could have on those wireless LTE contracts that have been out? And could

it actually now start eating up into that kind of market? Because we are even now seeing a prepaid version of fibre come through. So I think first question is that

And the second question, considering you've said that the impact of the roaming deals is the same, when do you expect some kind of revenue contribution from the likes of at least Liquid frequency, that 5G, to come through an offset some of that cost?

Shameel Joosub

So on the fixed wireless part, the way we see it is a couple of fold. We think that all homes will need a form of connectivity. There are 18 million homes in the country. And we see an explosion of data going forward, which will be covered by both fixed, 5G and 4G mobile. So what we would like to prepare the network for is to capture all the different opportunities, so that you're capturing all the different – so where there is fibre, we use fibre. Where there's no fibre, we use fixed wireless, 5G preferred. Where there isn't 5G, fixed wireless preferred, we use 4G fixed wireless. And that's the way intend capturing. We see two use cases. We see mobile data being used outside of the home, and we see an opportunity for fixed wireless going forward as a big opportunity. And we just see the two being almost synergistic to each other.

JP Davids

And then on Liquid, I guess the question really is, when do you start commercialising 5G in South Africa?

Shameel Joosub

Yeah, I think what we are doing is you'll start to see us building out more 5G within the capex envelope. I need to stress that. So we're not going to increase the capex envelope. But as the ecosystems evolve, and more and more devices and affordability of devices come down, you will see us growing that ecosystem. We will build a little bit ahead of the curve but not get carried away, because you build too much ahead of the curve, what then happens is that a lot of that is not utilised. And that is simply a waste of capex.

We will also capture the ability for people to connect from home and from the office first and use 4G for their homes if you like initially. So I wouldn't say it's a 5G everywhere strategy, it will be 5G where you need it, type of thing. And part of that mix will be mobile and part of that will be fixed wireless. As we accelerate it, we will to the extent needed use the roaming arrangements with Liquid.

Vikhyat Sharma
Thank you.

Operator
Thank you. Ladies and gentlemen, just another reminder, if you would like to ask a question, please press * then 1. The next question comes from Nadim Mohamed from SBG Securities. Please go ahead, Nadim.

Nadim Mohamed
Good afternoon and thanks for the opportunity to ask questions. Just a question on Vodacom Business where service revenue is quite impressive at 11.5%. I would like to understand what is driving that in terms of the mix within Vodacom Business. Is it the work from home solutions, the fixed line or the wholesale or IoT? If you just give us some colour on what's inside that. And secondly, just on M-PESA, on the disclosure it looks like the number of merchants in international is a lot lower than Safaricom. I think it's about 27,000 versus the current 87,000. So I'd like to get a sense in terms of development in terms of merchant payments, how far would you say is international relative to Safaricom. Is it many years behind? And what's the plan to scale the merchant acceptance up over time? Thank you.

Shameel Joosub
Okay, so underlying on where Vodacom Business revenue streams are coming from, firstly, one is of course the increase in customers. But secondly, I would say what's been very encouraging is the performance of the IoT business. That stands out. So a little bit from everywhere, but if you asked me to pull up what really stood out in half, then I would say it's the IoT business, which has given it an extra boost if you like.

And there we're starting to see a big demand for our IoT.nxt services, both locally and internationally, internationally being not in Africa, internationally being basically in Europe and so on. We are currently setting up our US office, where we will scale up because the platform that we have is really attractive. And so we've appointed a CEO for the Americas, and we will sign up local partners in addition to what we call VGD, Vodafone Group Enterprise Services, which are now selling our services.

Raisibe Morathi

Thanks for the question. So, the question was about the merchants at Safaricom versus the other markets. So, I think this is a matter of the period. So M-PESA started in Kenya with Safaricom and the level of maturity of M-PESA across all the different markets is definitely more visible in Kenya and continues to grow very fast. It is an e-commerce system where the merchants are also basically quite integrated in concluding the transactions as opposed to just money transfer, whereas in the other markets it is still building up. And if you look in terms of progression, Tanzania is the next is stronger one, and all the other markets.

So, the product offering is a lot deeper, wider in Safaricom. The usage of the product is also about high penetration of the customer base and the service revenue being 40% of service revenue versus the other markets which are about 20%, whereas Tanzania is closest to Safaricom. But we as part of the model are creating this hub that is a JV between Vodacom and Safaricom to improve the turnaround time in terms of the product development, where we develop once and deploy in different markets at the same time. So we expect that the lag will actually narrow as we go along over time.

Shameel Joosub

To Raisibe's point, there is a dedicated focus to improve the merchant play across each of the markets as we do see that we need to build both sides of the platform.

Nadim Mohamed

Excellent. Thank you so much. I appreciate that.

Operator

Thank you. The next question comes from Maurice Patrick from Barclays. Please go ahead, sir.

Maurice Patrick

Hi. It's Maurice here. Just a couple for me, please. Maybe I missed it in your prepared statement, Shameel, but if I could just ask you to provide a bit more colour on the Tanzania fees. You quantify the impact in the quarter from the increased mobile money fees. But maybe you could give some words in terms of you the current status. You say growth is coming back slowly. Was that it is coming back slowly, or you think it will come back slowly? No doubt you engage with the local regulator around financial inclusion. The nature of those conversations would be helpful.

And then just a second follow up to the FWA question earlier. Did I hear you say that it's fibre first in terms of what you want to offer customers when they have the choice of using the fibre or the Vodacom 5G? Or is it really very much what the customer wants they can have? Thank you.

Shameel Joosub

Yeah, so let me start with Tanzania. I think basically what happened was the government was under pressure and implemented a new levy on M-PESA effectively to try and collect taxes during COVID. I think they underestimated the impact, which then saw a massive decrease in the volumes of transactions that went through. We then flew up to Tanzania with the management team that met with the authorities and the other operators, and then there was a decrease of around 35%. But let's just say that the banks didn't have the same regulation that is applied to them. That was also implemented. And what we then saw was a recovery in the volumes.

We are still engaging with government in further decreases in the rate, specifically because it is impacting financial inclusion. So slowly the volume and revenue is coming back. We've seen it month on month as improvements. So it is coming back. But I think we need to solve the issue. In a separate development the Tanzanian authorities have also implemented a price floor on data, which is very encouraging ad essentially allows – one of the big issues is Tanzania has always been discounting. So now they've put a price floor, limited the number of promotional bundles and so on. And that will be very, very healthy in terms of recovering the margins on data, which will be good for us, but also will be good for investment going forward.

And of course, data is a major revenue stream. So that's quite encouraging in that respect. So it's a little bit of a tale of two parts, negative on M-PESA, positive on data. M-PESA is recovering by pushing for more in terms of more decreases in the levies, because ultimately the customer, you charge them too much, they'll go back to cash. And then you're unravelling ten years of hard work of growing it. And then of course, if volumes move then even the taxes that you were going to collect decreases.

Maurice Patrick

Great. On the fibre?

Shameel Joosub

Yeah, so I think it's either or. The customers choose. But why I'm putting it that way is because where there isn't an opportunity to put down fibre, remember you're sitting at 2.5 million households. There are 18 million households. So most of it will be fixed wireless.

Maurice Patrick
I guess from a Vodacom perspective given the choice you would rather have them on fibre or rather on FWA?

Shameel Joosub
It depends on which one has got the better margin than the proportionate margin.

Maurice Patrick
All right, thank you.

Operator
Thank you. The next question comes from Jonathan Kennedy-Good from JP Morgan. Please go ahead, sir.

Jonathan Kennedy-Good
Good afternoon, just one follow-up from me on the Egyptian transaction and the funding of that transaction with I think 80% of the deal value in equity. You know, given your comments that the financial services unit is undervalued and there could they could be higher growth from these acquisitions, doesn't it make more sense to acquire these assets with debt and reduce your pay-out ratio accordingly? I just don't understand why you would issue lowly rated paper and give away or dilute minorities if you believe the financial services business is worth more in the future.

Raisibe Morathi
So, Jonathan, I think the play here is that financial services still leverages on their connectivity infrastructure. So here we are looking at a market in Egypt of nearly 100 million people. Penetration of financial services is quite low. The penetration of smartphones and the enabling environment is fairly robust. And we're looking at deploying their Alipay platform, which is kind of similar to the approach that we'll be taking in SA. So the acceleration of that growth, we see it as fairly a strong business case for our investment in Egypt. And of course, we're not just investing because of that, but it's just one of the key benefits in the business case.

Why we funded the transaction with 80% equity versus debt, this is a business that we see as value accretive even with that shape of funding. And of course from a funding pool perspective we're putting R8 billion, estimating the exchange rates, of course. And there is also about R13 billion that will come with the balance sheet of the target. So we'll be adding R21 billion on our debt. We don't expect that our net debt to EBITDA will go through the threshold of 1.5x. So it is still within the broad capital structure and management in that order. And then we also have another R9 billion of debt from CIVH that that will come through, and we have the option of increasing our stake from 30% to 40%.

So the broad planning around all of those is to take cognisance of – we have capacity to increase debt, but no one has to do it sensibly, noting that the interest rate is also on an upward cycle. But I think overall, the accretive nature of the transactions that we are doing is what informed how we ended up where we are. Financial services will not be disadvantaged by this capital structure, because the investments required are not that punitive. So you believe that we'll still be able to expand in the different markets. There's still good opportunities for expansion, both in terms of the supper app and product reach and so on. So there's a lot of scope for growth organically.

Operator
Jonathan, do you have any further questions?

Jonathan Kennedy-Good
That's it. Thanks.

Operator
Thank you. The next question comes from Myuran Rajaratnam from MIBFA. Please go ahead, Myuran.

Myuran Rajaratnam
Good afternoon, guys. Thanks for the opportunity. I've got two questions about Egypt. You know Fawry – presumably I'm saying the name wrong – came out with results today. They've got 35 million active network customers and a quarter of a million POS terminals and provide 1,500 unique payment or FinTech services through its network. Do you guys see them as a friend or more like what these youngsters call a frenemy – a friend and an enemy? I have a follow up.

JP Davids
Yeah, Myuran, we got the first part, which is the bit on Fawry and some of their impressive KPIs that you quoted around point of sale etc. And we'll give you a little bit of context around how Vodafone Cash fits into that. Sorry, we missed the second bit.

Myuran Rajaratnam
Yeah. So do you see them as a peer, a friend or an enemy, a frenemy? What do you see them as?

JP Davids

Fawry in particular? Okay. That's fine. So you quoted points of sale. That's quite right. They have a very extensive point of sale franchise in Egypt. And if you look at Vodafone Cash, they're also in the hundreds of thousands from a point of sale perspective in the market. And they're currently in the process of actually doing some M&A in the space to increase the exposure even more on that front. So I think in terms of the relationship with them, I'm not sure I would necessarily choose any of the words as an exact answer. We see them as both a competitor and also a channel into the market.

But I think the bigger picture here of what we're trying to land in Egypt is not just a point of sale solution, although that's important. It's a point of sale solution and a consumer proposition that we will bring together through a sophisticated platform. That will obviously be decided in time. But bringing both elements together, both the consumer and the merchant aspects. But I think relative to Fawry I think the probably the last thing I'd say is after some of the M&A transactions that Vodafone Cash is doing in Egypt, we're very nicely positioned in that point to sell space.

Shameel Joosub

Yeah, I would add that one of the big opportunities for us given the smartphone penetration in Egypt is to take VodaPay into the Egyptian market and leverage off the success that we're seeing here. And then, of course, also the full ecosystem of what we've built on the merchant side in South Africa with the lending, what the ordering, with the invoice financing, and so on. And so a big opportunity for us to really put a lot of focus on financial services. I think they're got a good base to start. We've got 2.4 million wallets today, so not starting from nothing. But I think re-platforming the business, putting a lot more focus on it, like we did in SA, leveraging off the strength of the platform that we've built here, and also building once and utilising the same platform, it could be very, very beneficial in the Egyptian market.

JP Davids

Yeah, the last thing from my side, just to round off the discussion, I think if you want a nice valuation comp for financial services, this is certainly a nice place to look. It trades at $1.5 billion market cap on around $100 million of revenue. Certainly a very exciting story.

Myuran Rajaratnam

Excellent. I just wanted to follow up on that. Egypt is actually a sophisticated market, right. I mean, you guys talk about data penetration, you talk about smartphone penetration. It's an educated market. Services, innovation, technology is all quite high relative to the rest of Africa. But banking, it's not so high. It's very low as you pointed out, and it's a very cash-based society.

Now, I'm just wondering, is there a requirement to educate the customer? Because there could be a reticence on handing over your money to an institution because that could be seen as usury or haram or something like that. Is there a reticence, because every other metric in Egypt over-indexes except on the cash based part of it? So I was just wondering why that is. Is that a cultural thing do you think and requires education of the market or things like that? Some thoughts maybe, Shameel. Thanks.

Shameel Joosub

Look, I think given the high smartphone penetration, I think if we go in with the right solutions, you can basically be able to capture that. But you tailor-make your products to the local market. And you tailor-make it to make sure that you're taking in religious and cultural differences. So an example would be one of the products I had the team launch in Tanzania, save towards Hajj. And it has been hugely successful. So you can cater for the different products through the platform itself.

You can cater for all the different nuances in terms of creating sharia products in the different markets. So you could have everything from Zakat to making sure you don't take interest and so on. So there are various different ways. We charge platform fees today on our products as opposed to interest. There are various ways in which you can cater for local nuances. And of course, that is something that given the amount of Muslim population across our 500 million addressable market now is definitely one of the one of the big focus areas, making sure that you have Islamic complying products.

Myuran Rajaratnam

Thanks. Thanks for the insights. Very helpful.

Operator

Thank you. Shameel, we have no further questions in the queue. Can I hand back to you for closing remarks, sir?

Shameel Joosub

Thanks for joining us for today's call. If there any other questions that you might have, please reach out to the Vodacom investor relations team. Enjoy the rest of your day. Thank you.

Operator

Thank you very much. Ladies and gentlemen that concludes today's conference. Thank you for joining us. You may now disconnect your lines.

END OF TRANSCRIPT