Vodacom Group – 03 February 2025

SHAMEEL JOOSUB

Good afternoon and good morning to those joining the call from the US. I am joined by our Group CFO, Raisibe Morathi, as well our Head of Investor Relations, JP Davids.

We delivered an excellent third quarter, with our normalised service revenue growth tracking nicely above inflation. While currency headwinds continue to impact our reported results, the execution of our strategy has resulted in a strong operational response, and we remain well on track to deliver on our medium-term financial targets. Additionally, recent stability in currency markets, particularly in Egypt, bodes well for the Group's reported results for the year end.

The third quarter result was positively impacted by accelerated growth in South Africa's prepaid market, in addition to another stellar performance in Egypt and Tanzania. In Mozambique, post-election tensions dampened the overall market, but fortunately did not detract from an excellent Group result. On a normalised basis, which removes the impact of currency fluctuations, Group service revenue accelerated to 11.6%, which is comfortably ahead of our medium-term target of high-single digit growth.

In line with our purpose of connecting people for a better future, we partnered with Orange in DRC to accelerate rural coverage, launched a new wealth product in Tanzania to drive savings and expanded our smartphone financing model with more daily price points. The arrangement with Orange is a first of its kind, TowerCo partnership in Africa. Through this partnership, we will collaborate to build, own, and operate solar-powered base stations in underserved areas of DRC. The initiative will extend network coverage and enable access to telecommunications and mobile financial services to up to 19 million people in less densely populated rural communities, reinforcing our commitment to bridging the digital divide.

As part of our inclusion drive across our footprint, we serve over 210 million customers, including Safaricom, with our sights firmly set on connecting the next 100 million Africans to the digital economy. Ethiopia, the continent's second most populous country, is expected to play a significant role in this ambition, and is already making impressive progress, with our customer base having increased 63.6% to 7.1 million.

From a mergers and acquisitions perspective, our proposed acquisition of a joint control stake in South African fibre operator Maziv is expected to reach the Competition Appeal Court for consideration. Vodacom believes that the Competition Tribunal ruling, to prohibit the transaction, is counter to our ambition of accelerating fibre reach in South Africa, fostering economic development, and helping bridge South Africa's digital divide.

Switching back to our trading update for the third quarter, we believe it was a good result. At a Group level, revenue of R39.5 billion was up 1.6%, despite foreign exchange rate headwinds. On a normalised basis, and equivalent to a constant currency measure, Group revenue increased 12.6%, a clear step up from the last quarter. The difference between reported and normalised growth, highlights the impact of currency headwinds in FY2025. As we move into the next quarter of the financial year, we lap the devaluation in Egypt, which resulted in a 56 cents per share FX loss in the prior year.

At a product level, Beyond Mobile services, reached 21.4% of Group service revenue. Beyond mobile includes fixed, IoT, digital and financial services, and we target a 25% to 30% contribution in the medium-term. Financial services is key to our growth ambitions and the largest component of Beyond Mobile. We remain Africa's leading Fintech operator with 438 billion US dollars of transactions processed through our mobile money platforms over the last twelve months, including Safaricom. That's an impressive 1.2 billion US dollars a day. Our financial services business was up 5.7% in rands, or 17.2% on a normalised basis, and reached 11.9% of Group service revenue. The scaling of this business is important to our earnings and returns outlook, given the lower capital intensity of financial services.

Shifting focus to South Africa. Service revenue grew 3.2% to R16.2 billion, a clear improvement from the 0.7% growth in the prior quarter. The key change from the prior quarter was the prepaid result. Mobile prepaid revenue grew 5.6%, with data revenue growth of 15.5%. Our prepaid result was supported by seasonal campaigns, which leveraged an improved consumer environment. In addition to prepaid, we delivered good growth in consumer contract, financial services, and fixed. Wholesale remained a pressure point, negatively impacting service revenue growth by 1.8 percentage points. This means, in the absence of the wholesale headwind, we would have reported service revenue growth of 5% in the quarter. The improved momentum from the third quarter, and our focus on costs efficiencies bode well for an improved second half result for South Africa, as we indicated at our interim results.

Egypt delivered another excellent performance. Service revenue in local currency was up 44.3%, despite lapping a strong comparative period. The result was broad-based with strong growth in consumer mobile and fixed, business and Vodafone Cash. In December, we received an additional 30% price up across mobile and fixed products. This was the third increase of calendar year 2024, with additional price increases in January and September. We expect that the most recent price adjustment and an ongoing focus on costs, provide a healthy outlook for Egypt's growth into FY2026. Vodafone Cash revenue grew 77.7% to 1.6 billion EGP and increased its contribution to 8.5% of Egypt's service revenue. In rand terms, Egypt's revenue was R7.8 billion, and declined just 7.5% despite the material impact from the pound's devaluation. In local currency, revenue growth was 54.9%, tracking ahead of service revenue, as a result of fee income on Vodafone Cash deposits. The year to date trend of revenue growth tracking ahead of service revenue growth is expected to narrow into the final quarter of this year, as we begin to lap the income impact in revenue.

Our International business reported service revenue of R7.8 billion, up 1.4%.
The reported growth rate was impacted by a stronger rand. Normalised service revenue growth was 7.0%, improving from the second quarter rate of 6.6%. Tanzania grew 20.5% in shillings, Lesotho was up 15.0%, while the DRC grew 8.1% in US dollars. While Mozambique's commercial momentum improved into the third quarter, political unrest and the impact of repricing resulted in service revenue declining 14.1%. I would also like to take this opportunity to thank our team in Mozambique for their unrelenting focus on our customers over this trying period. Interestingly, we were the only Telco in Mozambique to keep a Call Centre operational during the unrest.

Our fourth business segment and an important earnings driver, is our associate Safaricom. The results for the Safaricom Group are disclosed on a bi-annual basis and therefore not included in the quarterly update. However, we did provide a short KPI update on Ethiopia. By the end of the quarter, customers increased to 7.1 million, from 4.3 million a year ago. Encouragingly, in addition to the subscriber momentum, we have also seen price increases in the market. Safaricom will provide a trading update for Ethiopia in the coming days with more details. Further, Safaricom will host an investor event on 13th and 14th February to unpack our growth aspirations for Kenya and Ethiopia. We hope you are able to join this event, and the one we are hosting in Midrand on the 19th of February for Vodacom Group. If you still need the details for these events, please reach out to our investor relations team. That concludes my review, Raisibe and I are now ready to answer any questions you may have.

JP DAVIDS

Super, thanks Shameel, so we've received a number of questions online, and as a reminder, that is the best way to send questions through to us on the Corpcam link. Kicking off with South Africa, a couple of questions on a very similar theme. So perhaps we can just start with the way it's put by Jono from Absa or Nadim from SBG, which is just around the quarter itself. Prepaid data growth accelerating, is this the highest you've seen for five consecutive quarters, you know, what's worked in the quarter, and more importantly, to what extent is this repeatable into future quarters. So, there's quite a lot to get through there. So let's start with you Shameel, on the prepaid pricing environment and prepaid performance in South Africa.

SHAMEEL JOOSUB

Ja, I think it's a culmination of a lot of efforts through the year. Of course, we've had price ups during the year, we've had a lot of focus on growing the number of smart devices. We've had our easy to own, prepaid financing schemes. We've grown the number of data users. We've seen a very good growth in data subscribers, and data revenue growth up 15%. We've contained the voice decline, we've seen a big growth in content, so it's really broad based in terms of the overall result. We think the hard work will continue to pay off, and I think we've created the right commercial momentum, and we were competitive in the period.

JP DAVIDS

Okay, so that, I think, deals with the looking back aspect, and, to an extent, the looking forward. There's a follow up from Jonathan Kennedy Good, of Prescient, just sort of reflecting into FY26 and specifically around the roaming of the wholesale revenue outlook, asking what the expected trend is there, further cuts to expect, or are we through the worst.

SHAMEEL JOOSUB

I think we through the worst. A lot more stability expected next year. We have certain extensions in place. Of course, the Cell C one is a longer term contract. The Telekom one we still busy negotiating, but we have got an extension in place which will ensure that the revenue during the year is stable.

JP DAVIDS

Perhaps you can start the answer with the answer to this question, Shameel, and then Raisibe can add to it. I guess there's been an observation from Rohit, at City, that the Capex intensity for South Africa has moderated a bit in the year, given we spending less on network resilience. What are the key focus areas for the investment into South Africa, and particularly looking forward. So maybe explain a little bit about what's happened, and then particularly where to from here for South African Capex?

SHAMEEL JOOSUB

Ja, so the spend during the year will be between 11 and 11.2 billion. I think what's come off is the load shedding part, minding the load shedding that we had over the weekend, but effectively, there's been a lot more stability in the availability of power, and of course, we've built a lot of resiliency over time. We've also seen a big decrease in the number of incidences of theft at the site level. So that's all helped to reduce the level of capital intensity. Of course, going forward, we'll continue to invest in the South African network, specifically to unlock the benefits of the spectrum that we acquired, specifically to cater for more data traffic increasing 40% in the quarter. So we have to keep making sure that we build, enough capacity into the network itself, and so that will be an ongoing trend, and also putting out more 5G going forward.

RAISIBE MORATHI

So maybe just to add to what Shameel is saying, so our guidance is to come slightly below target this year, and owing to this pace that we have taken in SA, and also with the great comfort that our investment cycle is on a consistent basis, year on year. So currently, the big saving grace is this energy resiliency, and through the cycle, our guidance of 13 to 14 and a half, still remains.

JP DAVIDS

Super, so a few specific questions from Preshendran, outside of the ones we've already covered, and congrats on the move Preshendran. Firstly, he's just asking around smart devices. He just wanted an update on that number, 32 million the last time we reported to give you the number for this quarter, it's 33.4 million, so it's continued to grow nicely, and yes, we still have a 3G base. It's about four and a half million at this point in time, but continues to come down at a very rapid rate. And that's quite deliberate, and I'll ask Shameel to speak to that initiative in a second, but perhaps when you answer that Shameel, you can also just talk to voice revenue, which is one of Preshendrans' other questions. Talk a little bit about the voice decline in the quarter and whether the strong data performance offset, some of the voice potential. So 3G migration and voice for South Africa.

SHAMEEL JOOSUB

Sure. So I think what we saw during the quarter was an acceleration on the data revenue, so that was 15% up. Voice decline was around about minus five, during the, during the quarter, and a strong growth in terms of content as well. So, and then coming back to the 2G, 3G migration, basically what is happening is that the industry is working with the regulator to set it in certain timelines, and deadlines, for 2G to 3G migration, and the idea being that will stop the inflow of 2G and 3G devices, and then, effectively have a review date in, say, two to three years' time, with an aim to reduce the number of 2G and 3G devices. So a lot of those devices, if you stop the supply, or the inflow will basically lead to most of it being reutilized before that spectrum can be switched off, or rather a thin sliver of the spectrum being kept whilst the rest is refarmed to give us more efficiency on 4G and 5G, and that's an industry wide initiative.

JP DAVIDS

Raisibe, a question for you, and it comes from a few different people on the call. Just an update on the "please call me" case in terms of potential timing there, please.

RAISIBE MORATHI

So the last big event was 21st of November, where the Constitutional Court heard the matter, debated the matter, and we are awaiting their next step. And in terms of the timelines and days, the Court, of course, they don't give you upfront, you know, what the timeline is. So we anticipate that in the next couple of months, noting that end of November, we were facing holiday time. So ja, I think in the next couple of months, we should be able to hear from them. So we don't control that timeline, the question that we have taken is still similar to what we had at half year.

JP DAVIDS

Shameel, back to you, a question from Maddie, from HSBC and others on the call, just around an update to the Masiv deal. Where is our confidence level now, and, if we've got any view on timing, that would also be appreciated.

SHAMEEL JOOSUB

Sure. So I think on the one side, we renegotiating the price, as we've said before, to make sure that the deal makes sense and is prudent. That's the one side and then on the other side, and that's why you're seeing some of the extension of the long stop dates and so on. Secondly, we have asked the court, we still awaiting, the Competition Tribunals reasons for the rejection. Very frustrating, because by now they should have basically published that, and that's what is needed for, of course, the appeal process. The appeal process is much quicker than the Competition Tribunal process, but we're waiting for that. We remain of the opinion, that, you know, we have a strong case, and that it could be hugely beneficial, and that the pro-comparative benefits of the deal far outstrips any competition issues. And of course, we dealt with a lot of the competition issues in the remedy spot. You would have also seen the support and the appeal from the Department of Trade and Industry on the matter, who's also joined in the appeal process itself.

JP DAVIDS

Super, so we're going to leave South Africa for a little bit. We may get some follow ups, which we'll come back to. Switching gear to Egypt. There's several people on the call acknowledging the price ups in the market, and the key question coming out of that is, to what extent does this, support the results going forward, and if there's any color you could give on what it did in the month of December, to the results. So, I guess quite a specific question on the elasticity of the price up. So perhaps just a sort of broader sentiments around the growth profile of Vodafone Egypt.

SHAMEEL JOOSUB

Ja, I think when you have a price up, you always see an impact in the first month. Of course, over the next couple of months, your volumes do recover, so you do see that. It was actually better than expected, the impact. So, I think, from that perspective, and you've seen the growth rate for the quarter, so the growth rate wasn't impacted at all. And remember, we were betting against a very strong quarter last year. So, it's kept the growth rates up, which will bode well into the following quarter. So we should see strong growth rates in Egypt, in the following quarter as well. Also important to note that the price up is a market price up, not a Vodacom price up. It's a market price up, which affects all operators equally. So, this is the adjusting of the price, the price regulation, or price clause, we call it, and so it affects the entire market.

JP DAVIDS

There's a follow, well, a question from Jono at Absa, just around the DRC, we obviously referenced a bit of Mozambique in the call script, can we just give an update on the DRC, any material impact on Vodacom.

SHAMEEL JOOSUB

So of course, the disruption is there, and effectively what you then have in those areas, the first priority always, is to make sure that the staff is safe. We did have one staff member being injured and is in hospital. He was hit by a bullet, and so those are kind of things that you do, you have to, thank goodness he’s okay, but, those are things that you need to manage. And then, of course, it does affect the availability of the sites, because in the affected areas, it then becomes difficult to fully service the sites when they’re down. So access is still there on most of the sites, but you will have, invariably, some impacted sites. But, we've of course, learned over the years how to navigate these, and how to prepare for crisis such as this. Our first priority, of course, is make sure that our staff is safe, and of course, then our distribution channels, our people and so on, and also our assets.

JP DAVIDS

Perfect, there are a couple of follow up questions on South Africa. I think the key question that just keeps coming up, again and again, and I suppose there's no harm in reiterating the answer, is just around the sustainability of the prepaid performance. So, to what extent is this prepaid recovery sustainable going forward, and linked to that, what is the outlook for prepaid pricing in South Africa. Are we thinking about potential moves in the coming quarters, and, I think probably worth adding to that, what we think about in the contract segment at the same time.

SHAMEEL JOOSUB

Ja, so I think, let me start with a contract segment. So annually, we have a price up. The price up will happen from first of March this year. So effectively, customers would have been given notice now in February, or will have been given notice in the last couple of days, in terms of the price up that will take effect on the first of March. It's a more for more part again. So basically, customers will be getting more data or voice for the price increase. In terms of prepaid, we will continue with price optimization, and price changes. So that means sometimes optimizing some of the bundles, but also changing the prices. But again, with a more for more strategy, where we give the customer more resources, as we call it, voice and data for the price point. And that will be done through the year, as we did the last one, also through the year last year. In terms of the sustainability of the prepaid performance. I think it's a combination of different things that have happened through the year. It was a good holiday period and festive season promotion. But more than that, it was, you know, it's all the different activities in retail, in customer value management, in, you know, focusing on the base, getting more customers onto smartphones, you know, using the handset device financing, to basically shift customers into smart devices and so on. So it's a multitude of different things, of course, helped by a better, you know, better liquidity during the quarter as well. So there was help from that, but, you know, I think a lot of the activities through the year, culminating in the performance that you've seen in the third quarter, and the trend, or those activities will continue to benefit into the last quarter, and into the new year.

JP DAVIDS

A follow up from Rohit, around Egypt, just asking to what extent we could see these price increases in Egypt flowing through to the EBITDA line. So obviously, we don't, give guidance on EBITDA at the trading update point, but I think if anything you just want to do message more broadly around, EBITDA prospects for Egypt, Shameel.

SHAMEEL JOOSUB

I think, the strong performance that we saw in H1 will continue, you know, was projected, as we said, at H1 will continue into H2, so there's definitely a positive performance there. And, of course, the price ups do convert and do flow through to EBITDA performance as well.

RAISIBE MORATHI
Just the devaluation last year, which happened in March, where we picked up a 1.4 billion rands impact. So that is also a nice base for growth in EBITDA for Egypt in the fourth quarter this year.

SHAMEEL JOOSUB
Ja, it’s relapping it.

RAISIBE MORATHI
Ja.

JP DAVIDS
Super. So that is the end of the questions I've got for the moment. Shameel, did you want to conclude with any sort of thoughts, or observations, or any key messages.

SHAMEEL JOOSUB
Just looking at the portfolio, I think much more pleased with the stability of currencies, and especially in Egypt. So, that has been quite beneficial in terms of producing a good result, and the outlook seems to be a lot more stable, or more stable going forward, and so that should bode well for the fourth quarter, and then also into the new year. And I think the momentum that we've got in Egypt continues, and will continue well, given the traffic growth, given the regulatory environments, that bodes very well for the foreseeable future. From a Safaricom perspective, Ethiopia is gaining good momentum. You'll see that coming through in the update in the coming days, but certainly, you know, a good momentum, in local currency, despite the devaluation. You've seen some price ups already in the market. More price ups need to happen, to recover the dollar-based revenue, or performance, but certainly good traction and good growth in that market, and we are gaining more traction.

Kenya continues to perform well, so I think good momentum there as well. And then, of course, in the IB markets, I think a good set of results, nice step up from the last quarter. Of course, some of the tensions that we managing has been the Mozambique situation, which is a lot more stable now. Now it's the DRC. We will manage, we have to manage, through that will continue. And then South Africa in the quarter has been a sterling performance. I think costs very well under control, and the performance has been really strong. So very proud of the team in terms of the Step Up in performance there. So on that note, thank you, and thank you for joining us on the call. And if you have any other questions, please reach out to the investor relations team. Enjoy your day.