Telkom SA SOC Ltd
(Registration Number 1991/005476/30)
JSE share code: TKG
JSE bond code: BITEL
ISIN: ZAE000044897
(Telkom, the Company or the Group)
Group Annual Results for the year ended 31 March 2021

Key highlights
- EBITDA up 11.7% with EBITDA margin at 27.7%
- HEPS and BEPS up 53.4% and 89.6% to 561.5 and 529.1 cents per share respectively
- FCF improved by 15.8% to R2 063 million
- Mobile data revenue up 41.0% to R12 211 million
- Mobile customer base up 27.8% to 15.3 million
- FTTH connectivity rate at 51.1%

The year under review was characterised by a tough economic environment exacerbated by COVID-19, creating an unprecedented and uncertain environment which saw the South African economy stagnating in the first half of the year. We saw our vision of "seamlessly connecting South Africans to a better life" come alive as telecoms was declared an essential service, necessitating our people to continue enabling connectivity through the lockdown. Our disciplined and focused financial framework allowed us to weather the COVID-19 storm. We are pleased that we completed the year with improved profitability, robust earnings, strong liquidity and a strengthened balance sheet.

Over the past five years, we have been investing in new revenue streams to evolve our business from a legacy to next-generation business. Today, next-generation revenue contribute more than 65% of Group revenue. We have also reached the inflection point where the profitability of the new revenue streams exceed legacy. Through our capital investment in our data-led network and infrastructure, we have established and continue to strengthen broadband leadership across our businesses as well as build a formidable mobile business, becoming the third largest mobile business in South Africa.

Operating environment
The outbreak of COVID-19 and resultant lockdown came at a time when South Africans were reeling from a weak economy and recessionary fears. In combination, these two drivers saw businesses embarking on the suspension of salary increases, retrenchment of employees and delaying project spend to preserve cash due to the heightened uncertainty.

The resultant impact on available financial resources and disposable income of our customer base negatively impacted certain areas of our business. Competitive responses were intensified as promotions and pricing became a tool for competitors to attract and retain customers.

The regulatory environment remains challenging and uncertain. The spectrum auctioning process has been delayed, and we believe the allocation needs to promote competition and be informed by prevailing market conditions. The process to date has been disappointing and curtails our ability to create additional long-term sustainable value across our stakeholder base. We took full advantage of the temporary spectrum to address the shift in traffic patterns prompted by COVID-19.

Performance overview
In the face of a challenging environment, Group revenue grew 0.4% to R43 222 million. This growth continues to be driven by our Mobile business with revenue growth sufficient to offset the fixed-voice revenue decline and revenue pressures emanating from COVID-19. Our sustainable cost management programme continues to underpin improved Group profitability and EBITDA margin. We optimised direct costs and contained operating expenses below inflation. Consequently, EBITDA grew 11.7%* to R12.0* billion with EBITDA margin expanding by 2.8 ppts to 27.7%*.

The performance of our business units varied as each was uniquely impacted by COVID-19, which demonstrates the diverse nature of our underlying business unit portfolio.

Our Mobile business continued its growth trajectory as we surpassed 15 million subscribers during the year with an average revenue per user (ARPU) of R104. As a growth area of our business, our intentional and focused allocation of capital to a data-led and fibre-enabled mobile network successfully prepared us for the significant increase in data demand and broadband mobile services brought about by more people working from home. Mobile broadband traffic increased 53.2% to 942 petabytes, resulting in mobile data revenue growing by 41.0% and underpinning the 34.5% increase in mobile service revenue to R16 938 million.

BCX suffered a decline in revenue as the national lockdown and the work-from-home response impacted fixed-voice revenue from enterprise customers. Information technology (IT) revenue also came under pressure as corporates deferred capital expenditure (capex) and delayed projects given the increased levels of uncertainty. Supply chain disruptions also impacted businesses as countries were locked down across the globe. In response, BCX successfully focused on optimising its cost base with a clear focus on cash preservation, resulting in EBITDA increasing by 6.6%*.

Yep!, which focuses on small and medium businesses, was negatively affected by the responses to COVID-19, which included a national lockdown, retrenchments, salary increase suspensions and small business closures. We are, however, excited about the digital, e-commerce and fintech business opportunities as adjacent revenue opportunities driven by Yep!. We have seen some good progress with a number of digital platforms being launched including the Telkom e-business platform which has an early uptake of 98 521 business customers on average using the platform on a monthly basis. We witnessed good growth in the early stages of our funeral cover and mobile device insurance products launched during the year.

The need to consume multiple digital services led to an increase in data consumption in Openserve, driven by a surge in data traffic across fixed fibre and carrier connectivity solutions. This drove an increase of 2.9 ppts in the fibre to the home (FTTH) connectivity rate to a pleasing 51.1%, as homes passed increased by 20.7% to 549 957. Despite the increased revenue growth in FTTH and carrier-based connectivity solutions, the ongoing impact of COVID-19 on the Enterprise segment saw a continued weakening in legacy voice and data requirements. This led to a revenue decline of 10.9% to R13 485 million. We are excited that our fibre-based transport and access infrastructure enables us to convert last mile infrastructure into a seamless end-to-end customer experience, providing scalable revenue-generating opportunities in the near future.

Gyro masts and towers continued to grow by commercialising existing towers and executing a new build pipeline. Masts and towers revenue increased by 6.6% to R1 237 million, supported by an 8.0% growth in the number of new leases.

BEPS and HEPS driven by operational growth
Notwithstanding the challenging trading environment, the Group delivered robust underlying earnings growth of 88.1%* to R2.6* billion, growing BEPS and HEPS by 89.6%* and 53.4%* respectively compared to the prior year.

Regulatory environment
The High Court interdicted the licensing of high-demand spectrum to preserve the status quo until it can finally determine the lawfulness of the process. Telkom contends broadly that the Invitations to Apply (ITAs) are flawed because of the following reasons:

- The Independent Communications Authority of South Africa (ICASA) seeks to license sub 1 GHz without having regard to the fact that it is not available on a national basis
- ICASA sought to license spectrum before it concluded the Mobile Broadband Services Inquiry
- The ITAs are designed to perpetuate the skewed market structure
- The design of the auction lots disregards the impact of the spectrum arrangements between the major and smaller operators
- The spectrum reserved for the wholesale open-access network contradicts the ministerial policy directions

Telkom contends that lawful spectrum licensing promotes competition between operators and does not entrench the current duopolistic structure. Thus, there is merit to ensure that the public interest of promoting competition stated in the Electronic Communications Act Amendment Bill are adhered to. It will ensure fair competition and competitive prices for consumers in the longer term. Spectrum is licensed over a 20-year period.

Outlook

Our capital investment over the past five years, has enabled us to successfully evolve the business. With next-generation revenue streams contributing more than 65% of Group revenue and driving growth, we have derisked the business. A large portion of our growth is driven by the mobile business which has consistently outperformed expectations in the last five years. We expect the mobile business to continue with its growth trajectory in absolute service revenue terms continuing to be the driver of growth, offsetting the decline in fixed voice which now contributes only 15% of the business. Based on this change in revenue mix, we believe that our Group revenue will grow mid to high single digit over the medium-term guidance period. In the first year of this guidance period we expect to be at the lower end of the range due to the impact of a possible third wave of COVID-19.

Our focus on sustainable cost management enabled an improvement in EBITDA while the group transitioned from high margin legacy business to a lower margin next-generation business. Following the structural changes in our cost base in the current year, we expect our continued focus on a sustainable cost base to drive efficiencies within the business. With the expected revenue growth and further optimisation of certain identified buckets of costs, we believe that Group EBITDA will grow mid to high single digit over the medium-term guidance period.

We will continue to invest in our growth areas and expect to spend between R8.0 billion to R8.5 billion a year while continuing to grow our revenue. Discipline in capital allocation will be exercised as we seek to improve returns on capital investment. We will continue to focus on FCF generation and maintain the momentum demonstrated in the past two years. Net debt to EBITDA will be maintained below 1.0x. The board remains committed to the value unlock strategy. Unlocking value from our portfolio of businesses is a key component of our capital allocation framework.

* Excludes the impact of VSP, VERP and S189 costs of R270 million and the related tax impact of R76 million in FY2021, and VSP and VERP costs of R1 186 million and the related tax impact of R332 million in FY2020.

Medium term guidance

	FY2022 - FY2024 guidance**
Revenue (CAGR)	Mid to high single digit
EBITDA (CAGR)	Mid to high single digit
Capex per annum	R8.0 billion to R8.5 billion
Net debt to EBITDA	Less or equal to 1.0x

** Excludes corporate actions and spectrum

The guidance provided has not been reviewed or reported on by our external joint auditors.

Dividend policy

Following the suspension of the dividend policy for three years from FY2021, management has reviewed its capital allocation framework which seeks to maximise returns on capital investments, maintain a healthy balance sheet and generate strong free cash flow thus growing shareholder value over the long term.

After two years of strong free cash flow generation, management believes that Telkom is generating sustainable free cash flow and has sufficiently de-risked the balance sheet with adequate capacity to fund its strategic capital investment programme.

Notwithstanding the uncertainty regarding spectrum auction, management believes that Telkom is in a position to reconsider the suspension of the dividend policy. Therefore, the dividend policy will be reviewed, and a new dividend policy will be communicated on release of the FY2022 interim results in November 2021.

Financial information summary

	Reported March 2021 Rm	Restated March 2020 Rm	Variance %
Revenue	43 222	43 043	0.4
EBITDA	11 703	9 534	22.8
EBITDA margin (%)	27.1%	22.1%	5.0

Capex	8 448	7 755	8.9
FCF	2 063	1 782	15.8
BEPS (cps)	489.9	107.5	355.7
HEPS (cps)	522.2	194.4	168.6
Net debt to EBITDA (times)	0.9	1.3	0.4
Annual dividend	-	121.1	-

	Pro forma* March 2021 Rm	Pro forma* March 2020 Rm	Variance %
Revenue	43 222	43 043	0.4
EBITDA	11 973	10 720	11.7
EBITDA margin (%)	27.7%	24.9%	2.8
BEPS (cps)	529.1	279.0	89.6
HEPS (cps)	561.5	366.0	53.4

Sello Moloko
Chairman

Sipho Maseko
Group Chief Executive Officer

Dirk Reyneke
Group Chief Financial Officer

24 May 2021

Sponsor
Nedbank Corporate and Investment Banking, a division of Nedbank Limited

Pro forma financial information: Certain information presented in this results announcement was prepared excluding the impact of the voluntary severance package (VSP), voluntary early retirement package (VERP) and section 189 costs in the current period, and VSP and VERP costs in the comparative period and the related tax impact on results (the "pro forma adjustments"). This constitutes pro forma financial information to the extent that it is not extracted from the segment disclosure included in the Telkom audited consolidated abridged financial statements for the year ended 31 March 2021. This pro forma financial information has been presented to eliminate the impact of the pro forma adjustments from the consolidated financial results for the year ended 31 March 2020 and 2021 to achieve a comparable period-on-period analysis and show the underlying performance of the business. The pro forma adjustments were determined in terms of the group accounting policies disclosed in the audited consolidated abridged financial statements for the year ended 31 March 2021. Due to its nature, the pro forma financial information is for illustrative purposes only and may not fairly present Telkom's results of operations. The pro forma financial information for the year ended 31 March 2020 has been restated and presented on a consistent basis with the pro forma financial information for the year ended 31 March 2021. The pro forma financial information is the responsibility of the directors.

Further information: The Telkom audited consolidated abridged financial statements for the year ended 31 March 2021 contained in the Telkom SA SOC Limited Group Abridged Annual Results for the year ended 31 March 2021 are prepared in accordance with the requirements of the JSE Limited Listings Requirements for abridged reports, and the requirements of the Companies Act applicable to summary financial statements. The Listings Requirements require abridged reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS) and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and to also, as a minimum, contain the information required by IAS 34 Interim Financial Reporting. The accounting policies applied in the preparation of the Telkom annual financial statements for the year ended 31 March 2021 from which the Telkom audited consolidated abridged financial statements for the year ended 31 March 2021 were derived are in terms of IFRS and are consistent with those accounting policies applied in the preparation of the previous consolidated annual financial statements. The short-form announcement is only a summary of the information in the Telkom annual financial statements for the year ended 31 March 2021 and does not contain full or complete details.

This announcement does not include the information required pursuant to paragraph 16A(j) of IAS 34. Telkom SA SOC Ltd Group Abridged Annual Results for the year ended 31 March 2021 is available on the issuer's website, at the issuer's offices and upon request. The directors take full responsibility and confirm that this information has been correctly extracted from the underlying report. This announcement is itself not audited but is extracted from the underlying audited information.

The Telkom audited consolidated abridged financial statements for the year ended 31 March 2021 contained in the Telkom SA SOC Ltd Group Abridged Annual Results for the year ended 31 March 2021 have been audited by PricewaterhouseCoopers Inc. and SizweNtsalubaGobodo Grant Thornton Inc., who expressed an unqualified opinion thereon. The auditor also expressed an unqualified opinion on the annual financial statements from which the Telkom audited consolidated abridged financial statements for the year ended 31 March 2021 were derived.

A copy of the auditor's report on the Telkom audited consolidated abridged financial statements for the year ended 31 March 2021 and of the auditor's report on the Telkom annual financial statements for the year ended 31 March 2021 are available for inspection at the company's registered office, together with the financial statements identified in the respective auditor's reports, which sets out key audit matters and the basis for its unqualified opinion is available at: www.telkom.co.za/ir/financial/financial-results-2021.shtml.

The pro forma financial information in the Group Abridged Annual Results for the year ended 31 March 2021 has been reviewed by the group's joint independent external auditors and should be read in conjunction with that document.

This short-form announcement is the responsibility of the directors and any investment decisions should be based on the Telkom annual financial statements for the year ended 31 March 2021 published on the JSE's website on Monday, 24 May 2021 and also available on Telkom's website at: www.telkom.co.za/ir.

The Telkom annual financial statements for the year ended 31 March 2021 are available on the company's website at: https://www.telkom.co.za/ir/financial/financial-results-2021.shtml and on the JSE's website at: https://senspdf.jse.co.za/documents/2021/jse/isse/TKG/ye2021.pdf

The Telkom annual financial statements for the year ended 31 March 2021 are furthermore available for inspection at the company's registered address and the offices of the JSE sponsor (Nedbank Corporate and Investment Banking, a division of Nedbank Limited) during office hours at no charge to shareholders. Copies of the Telkom annual financial statements for the year ended 31 March 2021 may be requested including full details on how such request can be made. The distribution of the Telkom annual financial statements for the year ended 31 March 2021 as well as the notice of AGM will follow and will be announced on SENS.

Transfer secretaries are Computershare and they are contactable on +27 11 370 5000.

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