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Vodacom takes R2bn hit on rate cut

Telecoms firm banks on Neotel deal to help it grow data services

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THE aftershocks of a forced cut in mobile termination rates on Vodacom's revenue were laid bare yesterday when it reported that it had taken a R2bn hit.

The telecoms company, SA's largest by subscriber numbers, is now seeking aggressive international growth in "areas were there is clear advantage".

It reported a 6% drop in full-year earnings in a tough year, though that was expected.

Analysts had warned that Vodacom stood to lose the most from the reduction in termination rates, given its proportionally bigger share of the market.

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Yesterday Vodacom CEO Shameel Joosub blamed the R2bn loss, which represented 2.7% of the firm's revenue, on the 50% cut in rates, which came into effect in April last year.

Mobile termination rates are what operators charge to carry each other's calls.

Mr Joosub also lamented the slow pace at which spectrum became available in SA.

"Honestly, we want to invest in SA but the authorities have to give us the capability to move ahead faster."

Vodacom's proposed R7bn takeover of Neotel was a way of enabling "the business to grow". But it still needs approval by competition authorities.

"Spectrum in Neotel will give us breathing space," he said. "We need the opportunity to grow data but we need to put up the requisite tools first and government has to give us the tools, spectrum," said Mr Joosub.

He was referring to a delay in allocation of spectrum to telecoms operators.

Data is a key revenue stream for Vodacom and it grew this by 23.4% to R13.538bn. Data now makes up 28.8% of Vodacom SA's revenue, compared with 22.7% last year.

Mr Joosub said Vodacom would focus on aggressive external growth but that was not an indication that it wanted to "disinvest" from SA. It plans to grow contribution by non-South African entities to 30% of revenue in the next three years. This means expansion into African countries with low mobile coverage and with the potential for growth in data services.

Peter Takaendesa, of Mergence Investment Managers, said the mobile termination rate cut would continue to affect Vodacom until 2017 as there were still two more scheduled cuts, though they would not be as steep as last year's.

He said the Independent Communications Authority of SA (Icasa) needed to allocate underused spectrum or allow spectrum-hungry operators access through partnerships such as the Vodacom takeover of Neotel and the proposed MTN and Telkom mobile tie-up.

Farai Mapfinya, head of equities and portfolio manager at JM Busha Asset Managers, said that although the mobile termination rate reduction had had a material effect on Vodacom's performance, he viewed it as short term. He said poor economic conditions and the competitive environment had had a huge effect and "the decline in voice usage continues unabated".

Lehlohonolo Mokenela of Frost & Sullivan said: "The takeover of Neotel cannot come soon enough, with the acquisition expected to be key in Vodacom's revenue growth. Access to Neotel's fibre network and spectrum would go a long way to expanding its capacity."

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