

Conference call transcript

21 July 2011

TRADING STATEMENT FOR THE QUARTER ENDED 30 JUNE 2011

Operator

Good day and welcome to the Vodacom Group Ltd trading statement conference call for the quarter ended 30 June 2011. All participants are now in listen only mode and there will be an opportunity for you to ask questions at the end of the presentation. If you should need any assistance during the conference then please signal an operator by pressing star and then zero. Please also note that this conference is being recorded. I would now like to hand the conference over to Mr Uys. Please go ahead.

Pieter Uys

Let me start with Belinda doing the disclaimer for us.

Belinda Williams

Thanks, Pieter. I just want to highlight that our trading statement contains forward-looking statements with respect to the group's financial position and the results of our operations and other certain plans and objectives. In particular it could relate claims relating to our future performance, future capex, acquisitions, investments, expenses, financial position, dividend policy and future prospects, growth in customers and revenues, business and management strategies relating to the expansion and growth of the group, the effects of regulation on the business in the countries in which we operate, the group's expectations for the launch and rollout dates of new products, services and technologies, expectations regarding operating environment, market conditions, growth in customers and usage and the rate of dividend growth of our group. Just to highlight, if you don't have a copy of our trading statement it is available on our investor relations website on www.vodacom.com.

Pieter Uys

Thanks, Belinda. I am also joined by Rob Shuter, our CFO. Good afternoon and also good morning to those who are dialled in from the US. Welcome to our trading update for the quarter ended 30th June. Today we are providing you with an update on revenue performance and also the key customer indicators for the quarter.

To start off with I'd like to say upfront that this was a good quarter. We had the brand refresh and that was perceived very well by the market and underpinned the good performance from the group. However, not everything went our way. We unfortunately had some incidents in the network during the month of June. We have subsequently installed more transmission capacity into the network and also upgraded parts of the network equipment to avoid future disruptions.

If I look at the highlights for the quarter, firstly the service revenue growth was 7.5%. In constant currency the reported growth was 5.9%. We added 1.9 million customers during the quarter, and that's a 20.4% growth with the total customers in the group now sitting at

45.4 million. Data revenue growth, up 38% on last year. We added 780,000 data customers, totalling now 10.9 million. That is up 43.3% on last year.

If I move to South Africa we firstly look at the service revenue. That's up 5%. If I exclude the impact of mobile termination rate cuts the service revenue was up 7.4%. We had a 28% growth in equipment revenue which pushed the revenue growth to 7.7% on last year. A lot of this was driven by the investments that we made into customer acquisitions post the rebrand. Also as a result of this we have seen good growth. Gross connections in South Africa up 59%, sitting at 3.6 million for the quarter.

Churn also under control. Net additions in Q1 remained strong, more or less the same level as last quarter, at 1.2 million. So the overall customers in South Africa now are totalling 27.7 million. That is 20% up on last year. The outgoing traffic was up 37%. A lot of that is due to off peak promotional activity resulting in a reduction in the price per minute of 25%.

We saw the end of RICA. We registered almost 97% of the customer base. We deactivated 950,000 customers at the end of June and since then we've registered about 205,000 of them again and reactivated them. The SIMs that are lost we will keep on the base, and when those customers call we play them a message to go and register and we will apply the normal disconnection rules to those SIMs.

The demand for our data services in South Africa remains very strong. There is also a lot of fierce competition in the South African market. A lot of promotional tariffs from all the big players. But despite all that we have sustained our data growth. Data revenue is up in South Africa 35%. The active data customers are up 38%, now totalling 9.6 million.

Mobile internet bundle users are up 86%. We added 425,000 in the quarter. That's now sitting at 3 million. Our PC connectivity devices, we're restructuring that around a redefinition of active devices. So the net PC connectivity growth in the quarter is 43,000. We're now sitting at 1.1 million. Our active smartphones grew by 406,000 now totalling 3.7 million. It is interesting to note that before last year we had 26% of the smartphones using data bundles. Now we're sitting at 33% of the smartphones actively using data bundles. A good trend.

If I move on to the international part of the business, encouraging revenue trends in all the international operations. The service revenue was up 11%. If I look at it in constant currency it was up 23.7%. That was supported by a 10.8% growth in voice traffic. But also there was some data revenue growth. The prices remained relatively stable year on year in the international operations. Hopefully we have seen the end of the aggressive tariff wars. The prices were down only 2.3% year on year.

Customer growth was strong, now sitting at 17.7 million. We added 729,000 customers in the quarter. That was a growth of 21.5%. Data revenue in our largest market, Tanzania, was up 109%. That included good growth on MPESA. We added 342,000 active MPESA customers during the quarter. Active customers are now 1.6 million. So, good encouraging growth in the international operations.

If I then conclude and look back at the first quarter it was a great quarter for us. We definitely benefited from our brand refresh that we did on 1st April and what followed from there. I'm also very pleased with the continued performance of our data performance despite the intense competition, particularly in South Africa.

We are committed to improving our data network and voice network quality and also the services that we are offering to our customers. We expect the competition to continue on the data side but we also expect that there will be more voice competition if we look further into the year, and we are likely to see that the revenue growth will slow down from the current level to the low single-digit guidance that we gave earlier in the year.

But for now I will hand you back to the operator and then we will take questions.

Operator

Thank you very much, sir. Ladies and gentlemen, at this time if you would like to ask a question please press star and then one. If you then decide to withdraw your question you can press star and then two to remove yourself from the question queue. Our first question comes from Nik Kershaw of Deutsche Bank. Please go ahead.

Nik Kershaw

Hi, good afternoon everyone. Well done on a good set of numbers. Just a few questions from my side. Firstly just the restatement of your rules around PC connectivity devices. Can you maybe just give us an indication of what the growth would have been? You said it was 43,000. What would it have been if you hadn't restated the numbers? How were they tracking? And then just if you look at your equipment sales they were very strong in the quarter. Have you seen any change in subscriber acquisition costs? How much money is going into that and marketing?

Pieter Uys

On the PC connectivity, really what we said was as subscribers come on to the network with their SIM cards and they use multiple devices we only count the active devices and not all of the devices on the network. So in the quarter the net 43,000 we know what the actual corrections were. The previous quarter, 70,000. The next question was the equipment sales. Firstly a lot of the connections are happening at the bottom end of the market, so there is a lot of competition at that level in the market both in the prepaid segment and the top-ups. We have definitely invested more in that part of the base post the rebrand. For now going forward post rebrand things should normalise again.

Nik Kershaw

Great. Thanks very much.

Operator

Our next question comes from Jonathan Kennedy-Good of SBG Securities. Please go ahead.

Jonathan Kennedy-Good

Good afternoon. Just a question on your voice revenue, mainly centred around the prepaid segment of the market. There seems to be a huge amount of off-peak promotional activity

occurring. Have you recently tested the water around on-peak promotions and whether there is significant elasticity in that segment of prepaid revenues, or not yet? Have you not got to that just yet?

Pieter Uys

We had promotional activity in the first quarter where we gave an hour free calls if you recharge in the day. On that day we gave an hour free calls on that day. Then during the rebrand period as you recharge we gave you a random discount and we SMS'd that to a customer. But we have not measured the direct elasticity from this. Our previous indications were that you would probably get around 60% elasticity in the prepaid segment.

Jonathan Kennedy-Good

In other words you say 60% elasticity prepaid peak if you shifted those minutes from off-peak onto peak? Am I correct in my understanding?

Pieter Uys

Ja. We have not done the two separately. All the stuff that we've done is peak and off-peak. The total of that we have just assumed a 60% elasticity. We can't split the two into peak and off-peak.

Operator

Ladies and gentlemen, a reminder that if you would like to ask a question please press star and then one now. Our next question comes from Peter Takaendesa. Please go ahead.

Peter Takaendesa

This is Peter Takaendesa of RMB Morgan Stanley here. Firstly, you veer away slightly from these numbers. Do you see pressure on the capex guidance that you have given us, outside pressure to that? And in addition to that are you seeing any meaningful acquisition opportunities in Africa? What I'm trying to get to here, is there anything that could negatively affect the dividend policy that you have indicated so far?

Pieter Uys

I will pass the capex question to Rob. If you look at the international space as we said before we are looking at possibilities. There is nothing big on the horizon. There are small opportunities that we are looking at.

Rob Shuter

And I think we gave our capex guidance when we announced last year's final results and there is no change to that guidance at this stage.

Peter Takaendesa

I'm not sure if you could just touch a bit on the other ongoing cost reduction programmes that we have been talking about for the past year. Anything you can share with us in that regard?

Rob Shuter

Obviously what we do in the quarter is we talk revenue and subscribers and we try and really confine the rest of the debate to the interims and the final. But I think what we can say

is that we do have in our medium-term guidance a strategy to effect modest improvements to the EBITDA margin over time. That is going to require a lot of work on the cost line, and we continue to implement various initiatives across the group.

Peter Takaendesa

Thank you. That's all from me, thank you.

Operator

Ladies and gentlemen, a final reminder that if you'd like to ask a question please press star and then one now. We will just pause to see if there are any further questions. We have a follow-up question from Nik Kershaw of Deutsche Bank. Please go ahead.

Nik Kershaw

Just a quick question on Blackberry numbers. We've seen a lot of promotions around Blackberry and a lot of movement in the new segments around using Blackberry IM services and things like that. Can you give us an indication of how big your Blackberry base is? Has the growth there increased a lot from what it was last year?

Pieter Uys

You're right; we have very good growth in the Blackberry. Rob, do you have a number?

Rob Shuter

What we can say, Nik, of our smartphone sales in the quarter it is not far off 70% for Blackberry. So they are a big factor in our lives. And of the top ten smartphones on the network the Blackberry 8520 is now the number one smartphone on the network. So they really are selling very well for us.

Pieter Uys

If you look at it a year ago we had a 200% improvement on last year's sales and also revenue from that sector.

Nik Kershaw

Okay, great. Thank you very much.

Operator

Gentlemen, we have no further questions. Would you like to make any closing comments?

Pieter Uys

Thank you. If we look back at the quarter it was a good quarter. If we look going into the rest of the year we're cautiously optimistic. We are up against a very competitive environment especially in South Africa at the moment around data. We also announced the data tariff reductions for our contract subscribers this morning. And at the end of the month we are also stopping our data promotion that we had for the last three months. We're also expecting that there will be more voice competition as we go deeper into the year, so we are expecting to have the revenue growth around the low single digits as we guided earlier in the year. Data we will continue to push by investing in the network. A large part of the capex that Rob referred to will go into improving our data network and our transmission



network, and we will continue to make sure that we have a quality service. Thank you for joining us this afternoon and morning on this quarterly update. Till next time.

Operator

Thank you very much. On behalf of the Vodacom Group Ltd that concludes this conference. Thank you for joining us. You may now disconnect your lines.