Conference Call Transcript

16 May 2016

ANNUAL RESULTS ANALYST PRESENTATION

Operator

Good day, ladies and gentlemen and welcome to the Vodacom Group Ltd annual results conference call for the year ended 31 March 2016. Vodacom Group CEO, Shameel Joosub, will be hosting the conference. All participants are currently in listen-only mode and there will be an opportunity for you to ask questions later during the conference. If you need assistance during the call please signal and operator by pressing star and then zero. Please note this call is being recorded. I will now read the forward-looking disclaimer before handing over to Mr Joosub.

This announcement which sets out the annual results for Vodacom Group Ltd for the year ended 31 March 2016 contains forward-looking statements which have not been reviewed or reported on by the group’s auditors with respect to the group’s financial position, results of operations and businesses and certain of the group’s plans and objectives.

In particular such forward-looking statements include statements relating to the group’s future performance, future capital expenditures, acquisitions, divestitures, expenses, revenues, financial positions, dividend policy and future prospects, business and management strategies relating to the expansion and growth of the group, the effects of regulation on the group’s businesses by governments in the countries in which it operates, the group’s expectations as to the launch and rollout dates of products, services and technologies, expectations regarding the operating environment and market conditions, growth in customers and usage and the rate of dividend growth by the group.

If you do not have a copy of the results announcement and presentation it is available on the investor relations website on www.vodacom.com. I would now like to turn the call over to Mr Joosub. Please go ahead, sir.

Shameel Joosub

Thank you. Good afternoon everyone and good morning to those joining us from the US. I’m joined by CFO, Till Streichert, and Sean van Biljon, our new Head of Investor Relations. Before we look at the numbers let me tell you what stands out for me in this set of results. This year we see our strategy delivering excellent results. Our two-year accelerated capex programme has delivered sold, strong data revenue growth. Our pricing transformation is bearing fruit. We are seeing good ARPU uplift from contracts and our customers are recognising the value from bundles with more than 1.1 billion bundles sold in the year, and also increasing our customer base by 6.4% in South Africa.

If we then look at our international operations they are also delivering superior growth when compared to a year ago. When we look at the results of our customer experience metrics we are seeing the widest differentiated gap to our closest competitor in South Africa ever and improvement across most of our operations, an endorsement by our customers that we are delivering on our promise.

From an overall results perspective I'm very happy with what we have achieved this year. Let's unpack it a bit. Before getting into the numbers there will be some instances where I talk about normalised growth. This is in reference to currency adjustments and excluding M&A, so on a like for like basis. During the year we also changed the accounting treatment related to recognition of handset financing. In the past this was recognised on a gross basis with corresponding cost in direct expenses. This has now changed to only reflect revenue relating to the finance income portion. Simply put, we are now netting off the revenue with the cost. There is therefore no profit impact from this change. I will be talking to the restated numbers during this call.

Looking at the actual numbers now group revenue was up 7.5% in this year and service revenue grew at 7.4%. Normalised growth was 6% and 5.8% respectively. The growth in revenue was mainly supported by strong growth in data revenue which was up 28.5% but also aided by a slow-down in voice revenue decline in the South African operation. Through the effective execution of our cost programmes both in South Africa and our international operations we have extended EBITDA margin for the group by 1.8% achieving a margin of 37.9% for the group.

This has also been the second year of our accelerated capex programme, spending R12.9 billion in capex this year alone. The main benefit of this is our growing coverage both in 3G and 4G to capitalise on sustained demand in data. Our cash conversion from operations has proven very successful with operating free cash flow up by 21.8% to R17.1 billion.

Moving to HEPS, which is up 2.7% to 883 cents per share. There are two once-offs which I would like to highlight which impact this number, a once-off charge of R127 million and re-measurement of our intergroup shareholder loan which was for the first time accounted for in the income statement as opposed to accounting for it in equity. The combination of these had a 19 cents per share impact on HEPS. Finally, the board has approved a dividend of 400 cents per share in line with our policy of paying out at least 90% of our headline earnings.

Moving on to the segment and starting with South Africa we are very pleased to see a return to growth in service revenue following MTR reductions in the prior year. Our strong growth came as a result of strong data growth, and more encouragingly voice revenue is starting to show a decline in the negative trend that we've seen over the past couple of quarters. This resulted in solid growth in service revenue of 4.9% for the year, up 5.6% if you exclude impact of the voucher release of R335 million from last year.

Data remains strong which has resulted in healthy growth of 27.7% for the year. 18.7 million Customers are now using data, up 12.7% from last year. I will unpack the data success a bit more later. Our price transformation is also delivering positive results. 85% of our customer base is now on integrated packages and we are starting to see an improvement in ARPU which was up 4.5% for the year. Even more encouraging is the lower level of churn of 8.5% in the contract segment. The quarter ended at a very low 6.9%. In prepaid our bundle strategy is continuing to deliver on its earlier success with Just4You personalised pricing now accelerating adoption and improving pricing perception. We sold over 1.1 billion bundles this year alone. This success has resulted in prepaid customer growth of 7.6% and is also driving the improvement in voice revenue decline.

The company's focus on tight cost control has also delivered well. EBITDA margin in South Africa expanded by 1.6% to 40.2% while EBITDA in South Africa grew at 9.5%. Savings were mainly realised in our direct expenses where we see the benefit of the Nashua repurchase while on other expenses we continue to offset rising inflation, energy costs and site growth with our focussed fit for growth programme where we continue to implement new and innovative ways to reduce costs. We just acquired the Autopage base which was integrated in March. We should see the benefits of that coming through in the new financial year in a very similar fashion to what we saw on Nashua.

Let's look at our strong data growth to give you some more context. We have made excellent progress on all four pillars of our data strategy. Our strategy of accelerating our investment in our network has been a true success story of effective capital investment to ensure growth. Our 3G network has now reached 99% of the population and we have doubled our LTE sites, now reaching 58% of the population. We have the widest and fastest network in South Africa, increasing our addressable market. Making data devices affordable to more customers has also gained great traction and a quarter of our device sales are now Vodacom branded devices such as the Kicka and Smart Tab 3G. We have sold almost 2.5 million of these devices this year.

These factors have allowed us to increase active data customers on the network by 12.7% to 18.7 million customers. And active smart devices in this period have increased 22.8% to 14.2 million. From a usage perspective we continue to drive pricing affordability through our bundle offers enhanced by Just4You. Bundles to suit all customers are now available from bite-sized to mega-sized, from hourly validity to weekly to monthly. We have sold more than 340 million data bundles this year. And more encouragingly customers using these bundles have increased by 28.3%. The amount of MB used by smart devices continues to grow strongly, up 22.8% in the year to 572 MB per device. From a monetisation perspective we are seeing strong ARPU uplift when customers upgrade from 2G to 3G and 3G to 4G, in both cases around 20%.

So that's the South African highlights. Let's move to international. Our international operations have also delivered strong growth in the year. Service revenue grew 16.2% in the year and is now contributing 26.6% of group service revenue. EBITDA also grew strongly at 31.2% with margins expanding 3.2% to 29.3%. International operations now accounts for 17.7% of group EBITDA. Customer growth in these markets has come under pressure from revised customer registration regulations in most of our markets with the biggest impact in DRC and Mozambique where we suspended unregistered customers during Q3 and Q4 as per regulatory requirements. As a result active customers in the international segment decreased by 8.1%. At a group level it was down 0.6% or more or less flat, offset by the growth in South Africa.

M-Pesa revenue in these operations grew strongly at 19.3% adding 1.2 million customers in the year to now reach 9.2 million active M-Pesa customers. M-Powa, our savings and loan product, continues to grow strongly in Tanzania with 1.6 million customers now using the service. We have also expanded our services to provide international money transfer in East Africa.

Our capex investment in these markets was 22.3% of revenue. We continue to invest significantly in all our markets to strengthen network and service differentiation. To support the significant data growth and wider voice coverage we added 869 3G, 37 4G sites and 930 2G sites during the year. That concludes our highlights on the two segments.

Let me just give you an update on our medium-term targets and our priorities. I started off by saying that our strategies are delivering excellent growth. We are confident that our investment to differentiate the network experience, proactive price transformation and improving our service to customers will continue to sustain revenue growth. Data will continue to grow and we are well positioned to capitalize on this growth. There are some regulatory and competitive challenges which persist, which we won't be immune to, but these strategies will make us more resilient in all our operations. It is with this in mind that we are upgrading our targets looking ahead over the next three years. We are targeting average service revenue growth of low to mid-single digits. We are upgrading our average EBITDA growth to mid- to high-single digits. And our capital investment should come down from current levels to 12% to 14% of group revenue.

With regards to our focus areas for the next year, spectrum security remains key for us in terms of network investment and investment planning. It is also imperative to procure spectrum in all our markets and particularly in South Africa where data demand continues to grow rapidly. Fibre is still important to our future. Now that Neotel is no longer proceeding we are accelerating our organic rollout, but we will continue to look for viable partnership solutions where possible to help us accelerate even further. We will focus on execution of our key growth areas, enhancing our content offering through the execution of video [?], growing our enterprise space and product offers, and expansion of new revenue streams such as financial services and the international [unclear].

Commercially we will see a much more segmented approach to customer propositions, brand and product offerings to meet all customer demands and needs. We also have some exciting customer service propositions that will not only improve our customer service offering but also the way in which we engage with customers, most importantly addressing their main concerns and pain points. So we will continue to focus on delivering on our cost programme and optimise the return on the investments we have made over the past two years.

On the Makate matter that has had some attention in the press lately naturally we respect the constitutional court ruling and we will start discussions with Mr Makate to agree a reasonable compensation. From our part we are committed to a swift resolution in line with the ruling of the constitutional court. In this regard I can tell you that my meet has already initiated a process for negotiating a reasonable compensation for Mr Makate and the matter is being dealt with as a priority. I should point out that the constitutional court order states that in the event of the parties failing to agree on a reasonable compensation the matter must be submitted to them for determination of the amount within a reasonable time. Therefore in the interests of following the due process as requested by the court I'm not in a position to comment publicly on further details on the matter at this stage. As a final point on this I think it is important that I reiterate that resolving this matter will be guided by encouraging innovation and dynamism among all our employees. There are many ideas that have contributed to our success and shaped the evolution of the industry as a whole. That concludes my comments. Till and I are ready to take your questions.

Operator
Thank you very much, sir. Ladies and gentlemen, at this time if you do wish to ask a question please press star and then one on your touchtone phone. If you decide to withdraw your question please press star and then two to remove yourself from the queue. Again if you wish to ask a question please press star and then one now. Our first question is from Cesar Tiron of Merrill Lynch. Please go ahead.

Cesar Tiron
Hi everyone. I have two questions please. The first question is on your guidance. Can you please say if the EBITDA guidance of mid- to single-digit growth can happen as soon as 2017 and also if you remove the exceptional items from the 2016 EBITDA to calculate the growth for the guidance. And the second question that I have is on the capex guidance which is somewhat below what I expected. Is it really a reflection of your network competitive advantage which you were referring to in your negotiation, or it is also prudent ahead of coming spectrum auctions which can be quite pricey? And to follow up on this, could you please update us on the process for the spectrum auction, explaining when you expect any auction to happen, why they haven't happened yet, and what you think it is going to be, high or low band? Thank you so much.

Till Streichert
Shameel, shall I take the first part of the question? Okay, good. With regards to EBITDA and the guidance let me just clarity a few things. We have revised the guidance upwards as you rightly point out in terms of EBITDA. The way to look at it is an average over the next three years. That is really

what we are saying here in terms of upgrading our guidance on EBITDA. Whether we are going to achieve that in year one, we have come from a 12% EBITDA growth in this fiscal year which is quite strong. But again our guidance is based upon a three-year range and that is what we are looking at.

Shameel Joosub
Just to be clear, we wouldn't have put guidance out if we didn't think it was possible. Okay, on the capex part, the investment in capex, remember we had an accelerated level of capex over the last two years when we took capex to 15% to 17% of revenue. We have now stepped capex down from this current year to within the 12% to 14% that is required. And essentially I think the way we look at it is we're not cutting back for a spectrum auction as such. The reason we are cutting back is we're returning it to what we would call normal levels. That said the normal levels we are returning to are higher than the previous investment levels that we invested prior to our accelerated capital programme. On the spectrum auction essentially there is no clear timeline if and when this will happen. The regulator has come out with a clear view of what they think, but I think there is still some debate going on in government in terms of how, when and the shape of how spectrum should be allocated. So that's one practical issue. The other issue is that only the 2.6 spectrum is really available for allocation today and can be made available with immediate effect. The 700 and 800 is still subject to digital migration. It has started but it is going very slowly. So I think it will take at least two years with a lot of focus from government to get the digital migration completed within the next two years. There is no release from the 700 and 800. You can obviously have an auction before that, but the spectrum in my view will only be available probably in two years' time.

Cesar Tiron
And even without additional spectrum and with data traffic growing at 50% or 60% per year you basically can continue to lead in terms of network quality without having to increase your capex from this12% to 14%?

Shameel Joosub
Remember what has happened is we've put a big investment already into the network, so your entire network has been swapped in South Africa to single radio access network. Remember to upgrade to 4G is not expensive. The big cost is in fibre high-speed transmission. We have also been investing heavily in that over the last couple of years. So 86% of your sites are already on high-speed transmission or fibre. As your data growth continues to increase the incremental cost of data actually goes down because of the investment already been made.

Cesar Tiron
Thank you very much.

Shameel Joosub
A lot of the spend you are doing today is more capacity and so on to be able to cope with the traffic.

Cesar Tiron
Thank you.

Operator
Thank you very much. Our next question is from Jonathan Kennedy-Good of SBG Securities. Please go ahead.

Jonathan Kennedy-Good
Good afternoon. Just two questions from me on the cost side. The Autopage transaction, I was wondering if you could give us a savings target that will be achieved in absolute Rand terms that will

be achieved as a result of the acquisition. Also you mentioned cost initiatives of R700 million in the international business, and I just wondered what context should we place that in. Has it been achieved? Is it to be achieved? And where are we in that process and exactly what kind of cost initiatives are those, because it is rather large in the context of those set of businesses.

Till Streichert
Okay. On the Autopage acquisition we haven't got the savings there save for the ongoing commission. You can probably look at it as around about R20 million per month or so. That is probably the figure of ongoing commission savings that we will generate through that. We acquired Autopage 12th March and nothing was in last year's figure, in the year's figures that we reported on. It will be going forward. That's on your first question. On the second question cost savings in the international are cost-saving initiatives that we have put against inflationary growth, the growth in our sites. We have added also in the international markets a lot of base stations to support growth in voice and data. So the context of the R700 million is basically against inflation and against the initial growth that we've got through growing our network. Really in terms of initiatives that we've been driving quite similar to South Africa, starting off with network efficiencies in terms of energy, in terms of maintenance cost. We worked a lot on that. But equally on the direct cost side in terms of channels. We looked at that and tried to push forward an efficiency agenda.

Jonathan Kennedy-Good
Thank you. May I ask one more question on M&A activity and what you've seen happen in Africa given the economic downturn? Are the prices of assets coming down or do you think that there could be some consolidation in certain markets? And if so, has the soft agreement with Vodafone on the split of Africa between yourselves and them changed at all?

Shameel Joosub
I think firstly yes, you are seeing prices come down. I think the prices on assets today are a lot more reasonable. I think where we are is if opportunities present themselves we will consider them. As I've said before we are not in the business of planting flags. The assets that we acquire must be cash-generative. I think that's the one part. I think the stance from us has been more let's look at our existing markets as well and capitalise those properly. We have put a lot of money into our existing operations, and I think the results show the benefit of that coming through. In terms of Vodacom and Vodafone changing any of its parts, no, I think Vodafone has three assets in Africa which is Egypt, Ghana and Safaricom. And we have five [unclear] assets.

Jonathan Kennedy-Good
Thank you.

Shameel Joosub
If we are looking at acquisitions it is acquisitions that are accretive for the group as a whole.

Jonathan Kennedy-Good
Great. Thank you.

Operator
Thank you. Ladies and gentlemen, a reminder if you wish to ask a question please press star and then one. Our next question is from David Lerche from Avior. Please go ahead.

David Lerche
Good day everyone. Two questions if I may please. Firstly, Shameel, you've spoken a little bit about the segmentation. Could you give us a little bit more colour on what exactly you're going to do there

and whether this is a change in your thought process from the much more for more thought process? And secondly, could you possibly give a little bit of guidance on South African voice revenue? Obviously the trend is looking very good, down only 0.5% in the fourth quarter. But it doesn't look like we're getting a price increase this time around. So if you could give us a little bit of guidance on how to think about voice please.

Shameel Joosub

Okay. I think firstly on segmentation, what are we doing? What we're doing is we're moving more towards a targeted approach from a mass market approach. Essentially what we have done is broken the customer base down into a per segment basis and then looked at depending on the different segments the profile of those customers, what the opportunities are and so on. By having more targeted programmes we are more able to address that market segment better. A good example is youth where we've been targeting youth very differently. So you would have different products and services that appeal more to the youth than to other segments. Another example would be enterprise. We are looking at the [unclear] segment. And the products that you would design for those segments are more relevant to that segment than the generic products you created in the past. As someone put it, we are moving from having a machine gun approach to being more of a sniper.

So basically I think what you will find is also on the personalisation of offers it helps us with the segmented model to basically have more relevant offers specifically for those segments and sub segments as well. An example would be in the lower income grouping segment you are finding that the consumers are a bit more under pressure. The amount of hand to mouth products that you create has to be more relevant to that. Another example would be you then start to look at your overdraft facilities that you're providing and you communicate that more effectively to those segments to bring them a little bit of relief in those tough times. But your hand to mouth is your micro bundles, where you are buying R2 for ten minutes and so on. In terms of SA voice revenue…

Till Streichert

Voice revenue in South Africa we were actually quite happy with the quarterly evolution – I think that is what you were referring to – from -10.6% to -0.5% in Q4. We are very happy with that. The big driver of that was basically our Just4You campaign and our significant uptake on voice bundles that we have sold, plus good prepaid customer base growth which has supported that. Now, unfortunately we have got a lagging effect of the price increase in Q1 which basically has got an element also flowing into voice. I think the way to look at it is probably you can expect a little bit of decline on the voice side going forward, but again a lot is going to depend on the progression of our Just4You voice bundle uptake and what is happening on the prepaid customer base.

Shameel Joosub

I think just to close the loop there, I think what we're finding with Just4You is that we've managed to match the customer needs and the customer wants better with the offering. So the offerings are more relevant which means it is leading to better uptake. That is also where the segmented approach comes in because the segments help to determine what would resonate better with those particular customers. And remember the data analytics that we're running on the customer base and then targeting that to each individual is proving to be very successful. We know as an example if you're only using 1 GB we make it very attractive for you to take 2 GB that month. And we are also in the process changing behaviour. If we can keep voice revenue decline at below 5% then effectively you will see more and more of the data growth coming through which we saw in the last quarter in terms of revenue growth. Data is becoming a bigger and bigger portion of service revenue. It is not inconceivable that within the next two to three years data is about 50% of your revenue.

David Lerche
Indeed. Thank you very much gentlemen.

Operator
Thank you. Our next question is from Craig Hackney of NOAH Capital Markets. Please go ahead.

Craig Hackney
Thank you. Three questions please. Firstly just looking at your fibre to the home or fibre to the premises strategy in South Africa, given the number of competing companies that are rolling out at the moment what is your current experience with regards to pricing that you can command there? Are you still confident that you're going to be able to get an adequate return on that investment in the short term? That's the first question. And then secondly is it possible to give any capex guidance split between South Africa and the international? And then lastly just looking at the DRC with Orange having bought the Millicom business there, are you seeing any significant changes with the competitive dynamics in the DRC? Thanks.

Shameel Joosub
Let me start off. Till will do the capex guidance. I will talk to FTTH and the Orange part. I think where we are with FTTH and FTTB is effectively we have rolled out 25,000 [unclear]. Obviously that is accelerating. What we have done as well is entered into agreements with most of the providers that are out there specifically so that we can increase the amount of offerings that we could make to our customer base. That's the one side, more of a wholesale arrangement if you like. Secondly the big thing that we would like to focus on is because the payback periods on FTTH are so long you're looking at five to six years whereas mobile you are monetising within nine months. Your mobile is monetising a lot faster than fixed does. To get that right what we are looking at is co-build and joint-build with some of our competitors. I did something similar when I was in Spain and we went for 2.5 million households and we bolted together with Orange. We are looking at similar models. We have designed a model and we will be inviting other networks to partner with us in this co-build joint-build because of the level of capital investment. The returns on investment are longer. The margins are better. The margins are very good once you put it down. But your payback periods are longer. So it has its own investment profile which one needs to carefully consider. That's why I think co-build and joint-build are the way to go. And obviously if there are opportunities for acquisitions there we will look at that as well.

In terms of Orange we are not seeing much traction yet. Obviously it is still early days; the company still needs to be integrated and so on. I think it does assist in that you will have a little more rationality in the market in one respect. I think that's important to note. However one of the things we have to look at is the spectrum that they have versus the spectrum that other players will have. But we have managed to procure more spectrum in December where we have acquired more spectrum and we have 1900 spectrum which we can't use at this stage because we don't have a 4G license, but we have it in abeyance until the 4G licenses in the market have been allocated. But we also acquired more 1800 spectrum as part of the process of renewing our license which we did in about December.

Till Streichert
So in terms of your capex question we are not splitting our guidance between the international markets and South Africa, but perhaps a good way to look at it if you look at our actuals South Africa was about 14% for the fiscal year that we are talking about and international was 22% or 23% if I remember correctly. So you are seeing the levels in the international market is basically much higher. As it tapers off on group level to 12% to 14% you would see that proportionately flowing through the international market and South Africa.

Craig Hackney
Okay. All right. Thanks very much.

Operator
Thank you. Ladies and gentlemen, a reminder if you wish to ask a question please press star and then one. Our next question is from Madhvendra Singh of Morgan Stanley. Please go ahead.

Madhvendra Singh
Hi. Thank you for the call. Just one question. Is it possible to give net interconnect EBITDA for FY16 and also if you could give us for the first half of FY16. Thank you.

Till Streichert
Can you say it again? The net…?

Madhvendra Singh
The interconnect EBITDA.

Till Streichert
The net interconnect EBITDA, so the net interconnect margin in essence. Just give us a moment. Do you have another question that we can deal with in the mean time?

Madhvendra Singh
You could talk about in terms of smartphone penetration. You talked about the number of 4G devices are still quite low. How fast do you see this 4G device penetration growing and has that been factored into your guidance for revenue acceleration?

Shameel Joosub
I think maybe while the guys are getting the answer basically where we are today and the way to think about data in South Africa specifically is you have 34.2 million customers on the network. 18.7 million are using data, so only 55% of the base is using data today. So there is an opportunity to grow it. I think that number grew by 13% last year. We think it can grow at a similar level this year. There is an opportunity to grow the number of users. That's the first part. The second part is if you look at your number of smartphones you've got 14.3 million active smartphones. You've got 18.7 million people using data. Only 14.3 million have an active smart device. That is 4.4 million customers which you have an immediately opportunity to upgrade to the right device. They are using data today, just on the wrong device. Why is that important? When we migrate them we are seeing a 20% total ARPU uplift when we migrate them from 2G to 3G. I think the next opportunity is of the 14.3 million people that are using a smartphone only 2.8 million have a 4G device. That has grown quite strongly from last year, but I think the big opportunity is basically to convert more of those customers onto 4G devices. Why we think it's possible is because firstly the network obviously exists. Secondly we keep bringing the prices of 4G devices down, and as we bring the prices of 4G devices down it is accelerating. Yes, it has been built in to the guidance numbers.

Till Streichert
On the net interconnect we are going to provide you with those numbers after the call.

Madhvendra Singh
All right. Fine. Thank you.

Operator
Thank you. Our next question is from Chris Grundberg of UBS. Please go ahead.

Chris Grundberg
Hi guys. Just a couple of quick ones actually. Just on the FTTH and FTTB progress I just wondered if you have any targets you wanted to share in terms of how many homes or businesses you are aiming to pass by year end, or over a two-year period or anything along those lines. Or even just how many of your existing premises passed you're hoping to convert by the end of this year. And then just a further one on the SA landscape, I just wondered if you could give an update on the competitive landscape at the moment and what you are seeing in terms of competitive intensity, voice declines etc. That would be helpful. Thanks.

Shameel Joosub
Okay. On FTTH and FTTB we don't necessarily want to give out numbers. We have allocated more than R500 million this year towards FTTH and FTTB. But essentially what we want to do is see how we can make the money go further through co-build and joint-build. So we will come out in the coming weeks or months with an offer to other parties to join us in the co-build. And from there we will then communicate numbers. Also it is difficult because we have 25,000 live at the moment but we also have wholesale arrangements where we can basically access another 75,000 to 100,000 households through wholesale arrangements and so on. So all of those things are in place and we are starting to monetise it. We are basically focussing on the conversion rate as well. Our intention is to try and get to about 40% conversion rate within the next year. So that would be our clear intent for this coming year. So that's the one side.

In terms of competition I think basically what is happening… I would say the competition is measured. What does that exactly mean? We have our day to day fights. This one is R20 cheaper. This one is R30 less. The normal fighting in the trenches as I like to call it. That is happening. But by and large there is no real big aggression as such. You have some promotions that double your data and those types of things. And then we have our responses of how we deal with it by coming up with Just4You offers and that type of thing. There is a little bit of that. Those promos come and go. It is to try and give themselves a little bit more of an edge if you like, but nothing untoward as such. I think everyone has their own… My personal view, Chris, is that the bigger opportunity today for every operator is to monetise the data opportunity within their own base. That doesn't mean we don't fight in the trenches and still try to get customers in and so on, but revenues of new customers coming in are not that compelling compared to the revenues you can make from your existing customer base, or not as compelling.

Chris Grundberg
Do you think that is changing the general operator perceptions of the channel? Do you think that is something you are seeing across the market? New customer acquisition is low priority for everyone?

Shameel Joosub
I don't think it becomes a lower priority. I would say you keep the… You can't let up. You've got to keep the foot on the pedal. You keep going at it, but I would say the big advantage just to give an example is if you look at the amount of growth from prepaid every year. The market does more than 50 million gross prepaid adds per year. If 10% of that is real it's a lot, if you see what I mean. So basically it is a washing machine effect. I think from a cost savings perspective there probably wasn't growth because of the SIM cards etc. You need stronger rules in terms of trying to bring those gross adds down because a lot of it is actually being created in wastage. As you know we tried to change the market a couple of years ago and we saw the negative effect of that coming through. It has got to be measured in terms of how you approach it. And it is important that the industry moves in a similar fashion on some of these efficiency measures if you like. But I think the big opportunity is actually how you grow the revenue within your base. So we focus on both. And we

have different teams focussing on it. We have given a lot more importance over the last couple of years to what happens in the base without obviously letting up anything on the inflow.

Chris Grundberg
That's very helpful. Thanks.

Operator
Thank you. Ladies and gentlemen, again a reminder if you wish to ask a question please press star and then one. Our next question is from Guy Peddy from Macquarie. Please go ahead.

Guy Peddy
Good afternoon all. Just if you can quickly help us out on how we should think about capex. I know you've got your guidance range etc. In the year you've just ended you spent 16% of revenues on capex, and now you're guiding to a lower number of that. But within that of course your FTTH plan is getting more advances. Can you talk about the moving parts as to why capex will be coming down? What is not being done next year that was done this year, and what is going to be incrementally spent on that wasn't spent on last year, for example? Thank you.

Shameel Joosub
I think it is really just a factor of where your networks are. Firstly remember when you're looking at the 12% to 14% always remember you are doing it on a higher revenue number. That in itself wipes off some of the difference in absolute money from last year to this year. I think that's an important point to make. Secondly I think where you are is that your network transformation in terms of moving to what we call a single radio access network has been complete. And that is complete across our entire footprint across all our countries. So that is done. The second ting is your big cost comes from high-speed transmission and fibre for data. Remember once you put down fibre you've got infinite capacity. Microwave you've got free capacity, not infinite but obviously big capacity. Essentially what you are doing is your incremental cost of data goes down. 86% of our sites already have high-speed transmission of fibre.

When you look at the capex going forward we are still prioritising obviously… the first priority for us is capacity in transmission, capacity in network and so on. Secondly it is 4G rollout. Firstly the existing customers must have a great experience. Secondly it is about additional 4G rollout. Now, once you have reached single radio access and you have done the transformation the cost of putting up a 4G site where you have already laid down the transmission is actually much cheaper. So your capex priorities there have changed. The third thing is that a big cost has gone into customer 3D which is your IT transformation programme. A big portion of that gets delivered this year. So there is a smaller project for enterprise and prepaid and so on, but the big work and the big cost has been taken in the past financial year if you like. Those are just some of the moving parts in terms of where we are putting the capital investment.

Guy Peddy
Thank you.

Operator
Thank you very much. We do have one more question from Matthew Reed of Ovum. Please go ahead.

Matthew Reed
Thanks for taking the call, taking my question. [Inaudible segment] I noticed the future for South Africa the growth was 28%. Can you give some indication of what your other [inaudible segment]?

Shameel Joosub
It is still very small in the other OpCo's, about 200,000 or so. So still very small in terms of growth. I think one of the big things that we're doing and one of the big opportunities is we put a lot more focus on enterprise in all our international markets so that we can capture opportunities like Cloud, hosting, IoT and so on. So it is one of the growth areas which we are definitely focussing on going forward.

Matthew Reed
That's great thanks. [Inaudible segment] across all the other international operations. Is that correct?

Shameel Joosub
That is correct.

Matthew Reed
Okay. Great. Thank you.

Operator
Thank you. Sir, we have no further questions in the queue at the moment. Do you have any closing comments?

Shameel Joosub
No. Thank you for joining us.

Operator
Thank you very much, sir. Ladies and gentlemen, on behalf of the Vodacom group that concludes this conference. Thank you for joining us and you may now disconnect your lines.

END OF TRANSCRIPT