Conference Call Transcript

2 February 2024

Q3 RESULTS INVESTOR AND ANALYST CALL

Operator

Welcome to the Vodacom Group Limited trading update call for the three months ended 31 December 2023. Vodacom Group CEO, Shameel Joosub, will host the conference call. Before I hand the call over to Shameel, I would ask that you refer to and familiarise yourself with Vodacom's forward-looking disclaimer. This is set out on page 16 of the trading update and can be located on www.vodacom.com. Alternatively, if you would like a copy of the results announcement sent to you, please email the investor relations team at vodacomir@vodacom.co.za. Shameel, over to you, sir.

Shameel Joosub

Thank you, Denae. Good afternoon and good morning to those joining the call in the US. I'm joined by our Group CFO, Raisibe Morathi, as well as our Head of Investor Relations, JP Davids. Vodacom Group, including Safaricom, has now surpassed the 200 million customer mark, having reached 100 million customers in 2018. As a purpose-led company, connecting people is at the core of what we do, so it's a milestone we are particularly proud of, and we are now motivated to connect our next 100 million customers.

Shifting back to our third quarter trading update, we delivered another strong group performance with service revenue growth at the top end of our medium-term target range. The shape of the growth was a little different to the prior quarter, with international and Egypt accelerating, while South African growth was lower and impacted by a strong competitive period last year.

Our new services delivered excellent growth led by financial services. In the quarter, we processed almost $100 billion of transaction value, so annualising, an impressive $400 billion. The platform scale was supported by strong growth in financial customers, which exceeded 75 million in the quarter and the scaling of new products.

During the third quarter, we also celebrated a number of other milestones, including Vodacom Mozambique's 20-year anniversary, the trialling of 5G in the DRC, and the announcement of Project Kuiper, a strategic collaboration with Amazon's Low Earth Orbit Satellite Communication Initiative.

We also celebrated winning the top employer on the continent as Vodacom and number one in a number of our countries.

Having operated in Mozambique for two decades, the anniversary highlighted the contribution that Vodacom has made to digital and financial inclusion in the country and more broadly across our footprint. In Mozambique, we've invested R14 billion to reach our 12 million customers, 6 million financial service customers, and 5 million smartphone customers.

Project Kuiper is an initiative that is expected to help us connect our next 100 million customers. With our satellite partnerships, we will expand and enhance the reach of our connectivity services in Africa, and in particular, in areas that may otherwise be challenging and prohibitively expensive to serve via traditional towers, fibre, or microwave solutions.

Shortly after the quarter, Vodafone and Vodacom announced a long-term strategic partnership with Microsoft. Through the partnership, the companies will collaborate to transform our customer experiences using Microsoft's generative AI, hyperscale our IoT connectivity platform, develop new digital and financial services and accelerate our global cloud capabilities. There is also an exciting scale opportunity from hosting our financial services on Microsoft Azure. This will accelerate our speed to market with the launch of new cloud-native applications, provide tools to digitise SMEs, grow and develop the ecosystem, enable financial services as a payment option for Microsoft services, and provide a blueprint for other financial service offerings across the group.

In addition to these milestones, I am pleased to report strong revenue growth in the quarter. At a Group level, our highlights included revenue of R38.9 billion, up 26.8%, supported by the inclusion of Egypt. On a pro-forma basis, including Egypt in both years, revenue growth was up 9.6%. Group service revenue growth was up 29.7% or 8.8% on a pro forma basis, which is comparable with our medium-term targets. This was at the higher end of our mid- to high single-digit medium-term range. Our key growth drivers were data revenue and new services, including financial services.

At a product level, new services which comprise fixed, IoT, digital, and financial services reached 20.1% of group service revenue, moving close to our target of 25% to 30% in the medium term. Financial services delivered reported growth of 31% or 19.6% on a pro forma basis, including Egypt, as we continue to scale user adoption, new products and services. Alongside the super app rollout, our active merchant base continued to scale meaningfully in South Africa and across our international markets. Our merchant base, excluding Kenya, more than doubled to 350,000. This growth helps extend our addressable revenue pool beyond peer-to-peer payments and withdrawals into both online and offline commerce.

Shifting focus to South Africa, to give a bit more colour on the numbers, service revenue grew 1.9% to R15.7 billion, supported by new services and mobile data. Mobile contract revenue was up 2.5% as we lapped a strong competitor in the consumer segment. In the third quarter of last year, South Africa faced heightened levels of load shedding. With load-shed hours falling 40% year-on-year, our data traffic growth rate in the quarter normalised to 31%, having been at a higher growth rate in recent quarters.

Our prepaid segment delivered a satisfactory result given the challenging macro backdrop and reduced load-shedding hours, growing 0.7%. Pleasingly, prepaid data growth grew 10.5%, supported by the success of our data-led propositions, focused on providing affordable offers to the most price-sensitive, lower-income customers. Vodacom Business, excluding wholesale revenue, was up 4.5%. The growth rate reflects that corporate customers were recalibrating spend as employees returned to their offices. We do expect a better performance for Vodacom Business in the fourth quarter, supporting the overall South African result.

New services were up 10% and contributed 16.3%, or R2.6 billion of South African service revenue. Financial services revenue increased 3.9%, underpinned by insurance growth of 8.9%. Our super app, VodaPay, reached 4.8 million registered users with our summer campaign driving strong user engagement.

Our international operations reported revenue growth of R7.7 billion, up 10.7%. Reported growth was supported by currency tailwinds, although not to the same extent as the first half. Normalised service revenue growth was 6.5% and improved from the second quarter growth of 3.1%. This underlying performance was supported by strong growth in data and M-PESA. Data revenue increased 27.4% on a normalised basis, supported by excellent data traffic growth of 49.5% and 13.4% smartphone user growth.

M-PESA revenue was up 18.3% to R2.1 billion, contributing 27% of international service revenue. M-PESA growth was supported by new products like M-Koba in Tanzania. This is a service that pools savings from community groups, similar to a stokvel in South Africa. In the quarter, the value of M-Koba transactions processed R1.5 billion, a really impressive number that has financial inclusion at its core.

From a market perspective, we delivered strong double-digit growth in Tanzania, while the DRC returned to double-digit growth in local currency. Local currency in the case of the DRC, of course, being Dollar-based. Mozambique performance was impacted by price transformation, tough macro backdrop and central bank delays of M-PESA product approvals. Our customer base increased 11.6% in our international segment to 53.7 million. In the quarter, net adds were impacted by subscriber clean-up in the DRC as we migrated to a new billing platform.

Moving on to Egypt, Egypt delivered another strong performance. Service revenue was R7.9 billion and contributed 25.5% of group service revenue in the quarter. In the prior period, Egypt was only consolidated for a few weeks in the quarter. In local currency, service revenue was up 29.1%, accelerating from the second quarter growth of 28.4%, despite a challenging macroeconomic backdrop. The result was supported by strong data growth, excellent value-cash traction, and ongoing fixed-line momentum.

Customers were another driver of growth, reaching 47.8 million, up 5.9%. Data metrics were strong in Egypt. Data traffic was up 40.7% and supported by double-digit growth in data customers. Vodafone cash revenue grew 97.2% to R547 million and increased its contribution to service revenue to 6.9% in Egypt. The growth of Vodafone cash was supported by a 55% increase in customers to 7.5 million and increased wallet limits.

Looking ahead for Egypt, we were pleased that in late December 2023 a mobile price up of around 15% was approved and implemented. In early January, we also increased residential fixed-line prices by 30%. We expect the combination of these price increases will build upon Egypt's leadership in brand, network, financial services, and cost execution, will support to growth and resilience of the asset through an evolving macroeconomic period.

Results for our associate, Safaricom, are disclosed on a biannual basis and therefore not included in the quarterly update. However, Safaricom did provide a short-term update on the progress of our Ethiopia rollout. At the end of the calendar year, we have commissioned 2,242 base stations covering 33 cities. This represents around a third of Ethiopia's 120 million population.

Mobile data is a key proposition in Ethiopia. Usage per mobile data customer reached 4.8 GB per customer at the end of the third quarter. We are encouraged by this momentum in usage levels which have now surpassed Kenya. We will unpack these commercial trends, our strategy and the macroeconomic in detail in Safaricom's in-country investor day in Addis later in February. Please reach out to investor relations teams if you need more details on this event. That concludes my review. Raisibe and I are now ready to answer any questions you may have.

Operator

Thank you, sir. If you would like to ask a question, please press * and then 1 on your touchtone phone. If you decide to withdraw the question, please press * and then 2. Again, if you would like to ask a question, say, please press * and then 1 now. The first question that we have comes from Preshendran Odayar from Nedbank CIB. Please go ahead, sir.

Preshendran Odayar

Hi. Good afternoon, everyone, and congratulations on the results. I've got three questions to start off if I can, and then I'll get back in the queue. Firstly, the South African service revenue growth slowed down. I just want to know which line did that actually come from? Because it looks like your data usage and subscribers went up. Your prepaid data revenue was pretty decent in terms of growth. Was it your voice that had a greater decline in this quarter beyond the high single digit decline that we normally expect? And if possible, can you share what that percentage decline is for South Africa?

And secondly, on the strong growth in equipment revenue that you had in the quarter, is there a split that you can tell us what is contract sales? And is it still the 80% 36-month contract versus 24-month contract? And I mean, are there any sales that you do like prepaid handset sales where it's a once-off sale and not a contract call-back period with it?

And then the last one is on Egypt. I think more for Raisibe. I assume that you're using the official exchange rate to translate your Egyptian numbers into Group numbers, which is around just under 31 to the Dollar. But what is the rate that expenses are being paid for in Egypt if it's hard currency related, and what percentage of those expenses are linked to hard currency in Egypt? Thanks.

Shameel Joosub

Thanks. I'll start on the first two and then proceed with the last one. Okay, so let me start on the easy one. Equipment revenue basically comes from contract and prepaid. Remember, the 24-month or 36-month contract affects the quality of the base. So, about over 50% of what we sell now is 36-month contracts in the inflow and in upgrades. That is the one side.

It is the phone price that is what you sell to the distribution that reflects in the sale of the device. That is the one part. And then, of course, you'd have the acquisition retention costs further down in the income statement, which will then affect whatever subsidy you're putting in.

The increase in handset sales obviously picked up. So, you've got your summer period, and so you do have ranging through the year, making sure we've got the right devices and so on. So, we continue to accelerate our sourcing special deals on devices and so on. So, that that's always been a strategic advantage compared with our competition, and we continue to maintain that.

In terms of the service revenue growth in South Africa, I think what you saw was a slowdown in contract from the last quarter, and that mainly came from consumer contract. Enterprise is more or less the same, if you're looking at the year-on-year competitive, because every December you do see enterprise slow down as people go on holiday and so on. Last year, we had a standout performance in consumer contract during load shedding, so we saw a bigger than normal increase. We were batting against a stronger period last year in terms of consumer contract.

Load shedding did play a role across the board because people were using more services last year. And that was because of we had more availability than the competition. So, we did pick up more active days than everybody else both on prepaid and post-paid, but also your contract customers were utilizing more. So that's the one side.

On the prepaid revenue growth, it has come down. So effectively, you did have a softer quarter compared to the last quarter. But that is purely because last year we had a stand-out quarter again in prepaid or prepaid growth. So, you will see the voice trend has gotten a bit better in terms of voice declines, and the data traffic came down slightly in the quarter because there were less load shedding hours than there were in the previous quarter.

Raisibe Morathi

Then on Egypt, the exchange rate is indeed 30.9 to the Dollar, and in the translation for accounting purposes, the accounting board did prescribe that you should use the official rate. Your next question was, what is the rate that is used in opex in terms of local spend? Fortunately, our opex is largely in local currency. Through this period of currency volatilities, we have gone even further, negotiating with the suppliers that where there is a service, as an example, being provided locally that we pay in local currency. And anything that you do in the formal market, you will have to use the official rate in any case. But our opex that is in foreign currency is less than 10%. So, you will see that overall, as you've just seen in half year, overall, the cost growth in Egypt is well below inflation. And that is because we are able to de-risk the environment given the currency volatility. So, for that reason, it is really immaterial.

Shameel Joosub

Sorry, Preshendran, just to add before you go. The 36 months doesn't influence the number of handsets, but it does influence the quality of the device. So, you do have a better quality of device that gets sold on 36 months. And to be clear, that is now around 60% of new sales, new contract sales on 36 month contract. And it is on the upgrades.

Preshendran Odayar

Perfect. Thanks, Shameel, and thanks, Raisibe, as well. I appreciate it.

Operator

Thank you, sir. The next question we have comes from Maddy Singh of HSBC. Please go ahead.

Madhvendra Singh

Yes, hi. Thanks a lot for taking my questions. I have one follow-up from the previous question. In terms of the performance in the first quarter within South Africa, do you think you had some market share loss as well? Because you did mention that last year you had better network availability compared to your competition. So, could that be also a bit of explanation why revenues did slow during this period?

And then a very quick question on Egypt. Have you been able to upstream any cash from Egypt during this financial year, if you could comment on that? And then the third question is also a clarification actually on South Africa. You did have very strong subscriber growth there, especially in prepaid. But at the same time, minutes of use have fallen year on year in low double-digit levels. So, I'm wondering what was the reason behind this drop in users. Is it just a technical issue that you did add a lot of subscribers during the period, so it's just depressing the reported MOU? And is there any real change in the usage level as well on individual customer basis? Thank you.

Shameel Joosub

Okay, so let me start with the market share. So, we don't see any market share loss. We think we continue to hold market share. In fact, over the 12 month period we've gained market share. So, we didn't see any movement in market share losses or in the retail market. Of course, in the wholesale market, when some of the Telkom traffic was still moving across, so you still have that percentage that went to Telkom, and of course, Cell C moving completely off its network. So, there you would see a bit of change on the wholesale side. But in terms of the retail market, we continue to hold and gain share. So, there's no issues there.

In terms of subscriber growth, what we did was, in particular in some regions, based on competitive operator activity, we opened the taps a bit more in terms of allowing more growth, allowing some of the wholesalers and retailers to sell more. The new customers bring lower ARPU. It was a deliberate move, but they come in at lower ARPU. That's why we thought it's important to stress that the ARPU on the stable base, was effectively stable. But the new customers, given the big jump, have decreased the ARPU, but the normal base remains stable.

JP Davids

And the MOUs with the same equation would hold true there. There was that second question, Raisibe, on the cash from Egypt. Do we think we can get the cash out before the end of the financial year? I hope I caught that correctly, Maddy.

Madhvendra Singh

So, I mean, have you got anything out so far?

Raisibe Morathi

No, we haven't repatriated money. We indicated that we're looking at options for investing the cash. And obviously, you know, the liquidity situation did get a little bit worse with the Gaza war. So, at this point in time, we haven't received anything out of Egypt. Would we receive money by the end of the financial year, i.e., 31st of March? No. It's unlikely that we will receive the money at that point in time.

But as you indicated, some of our investment options include where we have operations that we get from our shared services in the Vodafone Group. So, Vodafone's company called Vois, V-O-I-S, which is providing software development, finops type activities, etc. Some of those services are provided in Egypt, so we are able to service or pay for our obligations using the EGP that is in Egypt.

So, in addition to that, we will continue to look at other options, including other investment opportunities, in the period that the repatriation is challenging. Of course, the forex environment is not a short-term thing, but as you indicated, the amount of money that is in Egypt is not a material amount in the context of us being able to do what we require in, say in terms of capex, dividends and other things. So, for that reason, it is a risk that we continue to monitor very closely and also proactively looking for those investment opportunities.

Madhvendra Singh

Very clear. Thank you very much.

Operator

Thank you, sir. The next question we have comes from Rohit Modi from Citi. Please go ahead.

Rohit Modi

Thank you for the opportunity. A couple from my side. Firstly, on the load shedding, given this is a quarter where you have seen a significant impact of load shedding on service revenue, can you confirm that this translates into a better margin that you have seen in the quarter? And the overall math around this load shedding, improving load shedding getting lower over the quarters. Will it mean there's no change on EBITDA or do you think the impact on EBITDA will remain? So, when load shedding goes down, you will have a negative impact on the overall EBITDA.

Secondly, one of your peers already announced a price increase on the post-paid lines. Do you also plan or have any plan to follow suit, or you will try to grab the market share with the same pricing? Thirdly, around the Egypt situation, given all the discussions going on around the FX rate, how do you see it as an investment given there has been a significant decline in the value of this asset since you have bought in. Does the FX also change your investment plan in Egypt going forward? Could you shed some light on that? Thank you.

Raisibe Morathi

So, on the first question about the cost of load shedding, so we are not seeing any incremental cost from the cost that we picked up when load shedding was obviously in its level six and all of those high levels. So, the cost is in the base. And what is keeping the cost around those levels is because we increased the number of sites that have load shedding support. But we continue to be very efficient in terms of efficient ways of being able to manage diesel, seeking discounts, and also, so that we don't have a diesel sitting and waiting. So, our costs are not increasing, but that base has not eroded.

Where we have rental commitments etc., so we need to keep those commitments going because load-shedding is also quite volatile. We do not know a month before. You know a day before that there are outages. For that reason, we are continuing to manage the situation under those circumstances.

Shameel Joosub

I think on the load shedding, once it gets more stable, then we'll be able to have a reduction because then we can cancel some of the mobile generators and so on. Where you do see a benefit, of course, is if there's no load shedding, you don't use the fuel. You use it when there is load shedding. So, that's the one.

I think on price increases, we will implement another price up. The way we do our price ups is we do a price up and we increase some of the value that's given. So, we will implement another price up in April, which is when the annualised increases come into play. So, that will happen. And that of course that will be mobile and fixed, and then enterprise. And then basically on prepaid we're looking to optimise prices as well to support a stronger service revenue growth.

Raisibe Morathi

And then the last question on the value of investment in Egypt, the very first depreciation of the EGP was obviously quite a big cut from the exchange rate that was in place at the time of concluding the transaction. But at the same time, the EGP depreciated by roughly 100%, but by about 70% to the Rand, because the Rand also depreciated. So, from that perspective, whilst it would have an impact on the value, but somewhat contained by the direction of travel for the Rand. So, at this level, we continue to do our DCF valuations in terms of assessing the DCF value vis-à-vis the investment costs.

The good thing is that the business has continued to perform very well, outperforming our expectations at the time. And we anticipate that the growth of the business will continue to be supported by the momentum that we see in things such as financial services. Data usage also continues to be very strong. And obviously, the pricing floor is also helpful to support investment. And we have seen a price increase coming through now implemented with effect from the beginning of January 2024. So, we continue to monitor for all of those. Obviously they will defend against some of these currency challenges. So, when we get to year end, we'll do another DCF valuation and then we'll obviously be able to pronounce what it means from an investment value perspective.

Rohit Modi

Thank you so much.

Operator

Thank you, sir. The next question we have comes from Jonathan Kennedy-Good of Prescient. Please go ahead.

Jonathan Kennedy-Good

Good afternoon. Thanks for the opportunity to ask questions. Just a couple from me on Egypt and the price increases. Have your competitors followed with similar price increases? And as you've implemented those price increases, have you seen any change in elasticity, i.e., declining usage. So, I'm just trying to figure out whether we should expect a step change in line with the 15% price increase or whether it's more likely to be 7%, 8%, let's say, if there's not enough demand at those prices. So, that's question one. Then on dividends for the Group, can you pay the full dividend from the South African cash flows, or do you need cash from international, Kenya and Egypt? Just an understanding of how we place there. Thank you.

Shameel Joosub

Okay, so on the price increases, just to explain the price increase. So, remember, there's price floors in Egypt. So, when the price is changed, it's changed across the board for everybody. So, that's why you can put the price up if you want. There's no restrictions. But then you're doing it in isolation of the price floor, and that creates a competitive disadvantage. So, when the price goes up in Egypt, it affects everybody equally.

So, what happens is the price increase was implemented in late December it's a 15% increase, but essentially, in some cases, a reduction of resources within the bundle. So, it affects 60% of the service revenue base, and we estimating elasticity of 50% at this stage. So, it will give you circa a mid-single-digit uplift in terms of growth rates.

Then, of course, over time, that could improve, because you do see that the elasticity does recover over time.

Raisibe Morathi

In terms of the dividend, the dividend that we pay is not dependent on the money that is sitting in Egypt. As we indicated, there is roughly about R1.4 billion in Egypt. And South Africa, as an example, pays dividends at around 90% to 95%. Obviously, it's a 100% subsidiary. And then we also have dividends received from Safaricom paid at 80%. Our other subsidiaries, Mozambique, Tanzania also pay dividends. DRC has a loan that it is servicing. So, there is no shortage of capacity to be able to service a dividend. So, as I indicated, the amount that is in Egypt is not material to affect the payment of dividend.

Jonathan Kennedy-Good

Great, thank you. That's very helpful. Thank you.

Operator

Thank you. Ladies and gentlemen, just a reminder, if you would like to ask a question, please press * and then 1 now. The next question we have comes from Nadim Mohamed from SBG Securities. Please go ahead.

Nadim Mohamed

Good afternoon. Thanks for the opportunity to ask questions. Just two for me. If I look at fixed service revenue, it looks like Q1 and Q2 were standout quarters in terms of upper double digit growth. But Q3, there was a step down to 8.5% growth year on year. I just want to understand, is this general lumpiness or is there any specific driver of that, if you can please add any colour there? And then secondly just on VodaPay, I just want to get a sense of how the platform has been developing especially since the ability to deposit physical cash into the wallet has been introduced. Are you seeing more active and transacting users, and especially are you seeing more recharges through the platform?

JP Davids

Okay, Nadim. Hi. I'll take the first one on fixed and then Shameel can take the next one on VodaPay. Just on fixed, as you call out, there's a little bit of a sequential slowdown in fixed, and there's a couple of reasons for that. The first reason is that in the second quarter, we had some project-based revenues, which we did call out in the first half release, which supported that growth.

The other element is what we call our wholesale transit business. That business declined in the third quarter, but quite honestly, it's a very low margin business. It's razor-thin margins, so we're not too worried about that. If you step back and look at it is fibre growing? Yes, it's still growing at a very healthy rate, comfortably double digits. And that trend is very similar to the prior quarter. So, no step change in the underlying fibre trends of the business. Shameel, do you want to move on to VodaPay?

Shameel Joosub

Yeah, sure. I think we've seen very good traction on VodaPay. One of the big strategies that we've pushed, of course, is eating our own lunch, so to speak, and that's moving towards one app for Vodacom, which will become VodaPay. And so, Vodacom will become the anchor tenant of VodaPay. That started off with summer being anchored on VodaPay, and we saw more than a 50% increase in daily usage based on the uptake, but also a massive increase in the non-telco transactions that have also increased more than 89% in terms of people buying more than airtime. So that's been very good.

And so, what was happening is we picked up a lot on summer, we picked up a lot on the new use cases and so on. The cash in cash out is there, but we haven't yet started to scale it. So, we haven't gone above the line yet on cash in cash out. We've been focusing on what was front and centre this last period, summer, and that has given us great traction on the app. The next phase now will be to move towards complete one app in the next few months.

Nadim Mohamed

Thank you so much. Thanks for the update. I appreciate it.

Operator

Thank you. The next question we have comes from Myuran Rajaratnam from MIBFA. Please go ahead.

Myuran Rajaratnam

Good afternoon, guys, and thank you for the opportunity. The first question is you mentioned active days, Shameel. I'm talking specifically about prepaid and the impact of load shedding. I mean, can you give us some colour as to when load shedding was hectic a year or so ago, how much the active days went up. And then now when load shedding has sort of subsided a little bit, is active days still holding at this sort of level now because you had a better network in the old days, when load shedding was quite high? Or is it coming down a little bit because the other operators are having a more available network as well? So, that's the first question.

The second question is the Telkom roaming wholesale traffic. You pointed it out in this quarter. Is that a trend, or is that the end of it? I mean, are we're going to see more shifting of the traffic from Vodacom to a peer, or is that the most they can move? And maybe the last question is on Egypt capex. And if you can just remind me, Raisibe. You make cash flows in Egypt, and then when you purchase capex, RAN or core network equipment, you have to pay for that in hard currency I presume? What currency rate do you use for that? I think you guys mentioned this before, I just don't remember. So, just a question on Egypt capex and what's the rate that you have to pay there? Thank you.

Shameel Joosub

Okay, so on the prepaid active day part, I think it was more a question of whether we saw a slight change in pre-paid active days. Of course, we did benefit more during the load shedding periods last year because we had a lot more availability. Competitors have improved their availability. It’s still not quite at the level of where we are, but there's definitely been improvement. But I think the bigger part, more than anything, has come from the traffic not being as high. So, you had 31% higher traffic growth this quarter, year over year, than what you had last year, when you were well into the 40s.

And that was boosted by load shedding, because essentially what happens when people have nothing to do, they go to their phones. And of course, then you had more availability as well. So, you picked up a little bit of those active hours or active days from the competitor. But did it mean a big step change in active days? No. It's probably one day this way, one day that way. So, nothing major in that respect.

In terms of Telkom roaming, so this is the end of where you had the shift part that started last year. Of course, there will always be peaks and it depends on Telkom in terms of how much traffic they're giving us, how much of their own network they're utilising and so on. So, there is always some volatility. You have floors that you agree, but you can trade up and down within those floors. The amount of traffic that they've been giving us I think will continue, but of course, we also negotiate with them all the time, negotiate extensions and rates and all of these types of things. So, there is some volatility in the roaming revenues.

Raisibe Morathi

So, in terms of capex, so roughly about 60% of capex is in hard currency. And we pay in official rate because you go to banks to get currency and then you get it at official rate. So, the infrastructure related and obviously telecommunications equipment is in a higher category in terms of allocation, so we are still able to get access to currency. For that reason, capex has continued as per usual. Obviously, the allocation of capital in the business is based on EGP. If the currency depreciates, you just buy less. But the good thing is that for the close to a year since March, the currency has just held steady at around EGP30. So, from that perspective, spending in terms of capex has continued just as normal.

Myuran Rajaratnam

And just on that, if I may have a follow-up, is the liquidity available such that you actually get the hard currency and you hand it over to, say, like an Ericsson or a Nokia? Or is it just an IOU, which then gives you a derivative exposure? Because some of your peers in Africa, not MTN, but somebody else, they actually do it that way, where there's an IOU and the currency depreciates, and then the derivative takes over, and then there's a loss. So, is yours a pure clean transaction? You get the actual currency and then you hand it over to the Ericssons?

Raisibe Morathi

That's correct. You go to the bank and obviously the bank will allocate the flows that they generate from different sources and then they're able to settle their suppliers.

JP Davids

And just one follow-up there is, with that said, there will always be payment terms to vendors, and that's the same across every business we have. So, there will always be a scenario where you've got 90 days to pay someone. And if a currency devaluation happens on day 89 of that payment plan, then you would have to revalue that working capital balance. So, when the currency last devalued in Egypt, there was a working capital impact because of those outstanding balances. But those are normal vendor terms. They're not unusual. 90-day type vendor terms. So, that is the one thing that we just add to that.

Raisibe Morathi

Yeah. And I mean just to add that, having the Vodafone shared service in Egypt is also helpful from that perspective because that is a business that is also able to generate hard currency. So, in the Vodafone family perspective, there is a little bit of that mitigation in terms of access to hard currency.

Myuran Rajaratnam

Great. That's very helpful, guys. Thank you so much.

Operator

Thank you, sir. Ladies and gentlemen, just a final reminder, if you would like to ask a question, please press * and then 1 now. We have a follow-up question from Preshendran Odayar. Please go ahead, sir.

Preshendran Odayar

Hi. Thanks again. Just three quick ones from me and I'll keep quiet. Firstly, on South Africa, what is driving your expectations of a stronger fourth quarter? Is it just that the base last year was a lot weaker, and that's where you're going to see the acceleration? Or are there any other structural changes that you plan to implement in the fourth quarter that will drive that uptick in service revenue growth. And will get you back to your mid-single digit guidance for the full year?

Secondly, on your dividend pay-out, I just wanted to clarify. I know you mentioned that you're not relying on anything from Egypt and you mentioned that you do get cash from other OpCos. But if I can ask the question differently, would you be able to pay your dividend at entirely your South African free cash flows, or is there a percentage element that actually you need from the other OpCos upstreaming cash?

And then the last quick one is I just wanted to clarify on your airtime advance product. Is that revenue classified as VodaPay revenue or prepaid revenue? And the only reason I ask is I noticed Airtel actually classifies that airtime advance revenue as GSM prepaid revenue. And I always thought it was a financial services revenue product. So, I just wanted to check where you classify that as yours. I think it's in VodaPay, but I just wanted to clarify. Thanks.

Shameel Joosub

Okay, so maybe just to start off with the reason we think the fourth quarter will be better is a weaker comparative period last year, so the fourth quarter will step up in that regard, just based on the current run rates, mainly coming from the enterprise part. We will see that step up. I think you will see, of course, the recovery in the other lines, especially post-paid and slightly better on prepaid. But it's not going to get you to much single digit. I think in the past two quarters, if you look at Q1, it was 3.9%. Q2 was 4%. So, you had an H1 of about 4%-ish, and then, of course, 1.9%. So, at best it's 3% to 4%.

Raisibe Morathi

Okay, on dividend, South Africa has capacity to pay the full Group dividend. But at this stage it's around 80% because we always have a dividend coming from the other operations.

JP Davids

So, I'll take the last question just on that 75%. Just to add, I guess one of the ideas behind setting it at 75% was in a scenario where South Africa could largely fund the dividend. So, it was the principal payer of the dividends. But as Raisibe has already said, we are getting money out of the other OpCos, with the exception of Egypt.

Then just on your question of classification, so in terms of our P&L, as we set it out, the airtime advance will go into the line called mobile prepaid revenue. That line itself isn't characterised, it doesn't say GSM or financial services, so there's actually both in there. But in terms of our financial services disclosure, airtime advance is included in that. So, AA or airtime advance is included in financial services, which rolls up into that mobile prepaid revenue line in our P&L split.

Preshendran Odayar

Got you. Thanks very much.

Operator

Thank you, sir. The final question we have is a follow-up from Maddy Singh. Please go ahead, sir.

Madhvendra Singh

Thank you for taking my final question. A very quick one. In Egypt, it is great news to get some price floor increase. I'm wondering whether this should be seen as a one-off event or would you expect a regular revision of this price floor going forward, given the high inflation as well as currency situation? Thank you.

Shameel Joosub

So, what we're doing is essentially having two discussions. One, of course, we bank this one, then we start the next conversation about the next price up. And so that's the one part. And then we're also having a follow-on conversation which is trying to see how can we get a percentage of inflation or inflation based. To be honest, I think that's going to be a more difficult conversation or a longer conversation. But I think we now start pushing for the next price up as an industry.

Madhvendra Singh

Sorry, I missed the exact percentage increase you got on the price floor. If you could share that again, sorry about that.

Shameel Joosub

15%.

JP Davids

Yeah, so it's 15% on mobile. And then on residential fibre, it's 30%.

Madhvendra Singh

Amazing. Thank you very much.

Shameel Joosub

So, you'll be growing into the 30s with the increase. And then, of course, that helps to offset a lot of the inflationary pressures and so on. And just to be clear, your costs, your company inflation is running well below inflation. More than 10 points below.

Madhvendra Singh

Sounds good. Thank you.

Operator

Thank you, sir. Shameel, at this stage, there are no further questions.

Shameel Joosub

Thank you and thank you for joining us on the call. And if you have any other questions, please feel free to reach out to our Vodacom investor relations team. Thank you and enjoy the rest of your day.

Operator

Thank you, sir. Ladies and gentlemen, that now concludes the analyst portion of today's call. You may now disconnect your lines.

END OF TRANSCRIPT