Conference Call Transcript

16 May 2022

ANNUAL RESULTS FOR THE YEAR ENDED 31 MARCH 2022

Operator

Welcome to the Vodacom Group Ltd results conference call for the year ended 31 March 2022. 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 slide 39 of the annual results presentation and can be located on www.vodacom.com. Alternatively, if you would like a copy of the results announcement or presentation sent to you, please email the investor relations website at vodacomir@vodacom.co.za. Shameel, over to you.

Shameel Joosub

Thank you, Irene. 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. Our annual results round off a transformational year for Vodacom. We made significant strides in our progress towards becoming a pan-African technology company through two significant strategic acquisitions which we announced in November last year, the upcoming commercial launch in Ethiopia and the acceleration of our digital ecosystem with the launch of our super apps.

Collectively these milestones provide scope for Vodacom to accelerate growth and returns over the medium term. The first of our strategic acquisitions was the proposed 55% stake in Vodafone Egypt, one of Africa's premier telcos. The deal is subject to final regulatory approvals which we expect in the near term. The acquisition presents a unique opportunity to advance Vodacom Group's strategic connectivity and financial service ambitions. Vodafone Egypt is a clear market leader with an attractive asset portfolio of towers and spectrum and an exciting financial services outlook. The financial results this year were excellent with 17.3% growth in revenue, an equivalent of R31.2 billion, with EBITDA up 22.3%.

To further strengthen our pan-African footprint and in support of Safaricom's long-term growth outlook, we participated as a minority investor in a Safaricom-led consortium, obtaining a mobile telecom license in Ethiopia. We expect to launch commercial services in calendar year 2022. The combination of our existing footprint, Egypt and Ethiopia means that we will now address a population of more than half a billion people.

Connectivity is at the core of Vodacom, and we are the mobile network leader across our footprint. The recent acquisition of 110 MHz of high demand spectrum in South Africa provides us with critical certainty. Our R5.4 billion investment will support network performance and contribute to the long-term sustainability of Vodacom and the industry in our largest market.

In addition to mobile, we also plan to establish a meaningful play in fibre. To support this ambition, we announced the acquisition of a strategic stake in CIVH in South Africa, a leading fibre open access operator. We expect the deal will help narrow the digital divide in South Africa by spanning the reach of affordable high-speed connectivity. In addition to customers benefitting, this is a win for internet service providers who can access the more extensive open access infrastructure.

Our digital ecosystem is integral to our multi-product strategy called the system of advantage. This ecosystem is powered by big data with capabilities across financial and digital services through our IoT platforms. In financial services we have built a formidable business with customers reaching 61 million in the year.

Our scale in financial services is underpinned by Africa's fintech leader by transaction volumes, M-PESA, which has recently celebrated its 15th anniversary. M-PESA processed $324.6 billion of transaction value during the year, or 52 million transactions a day, a truly impressive number. In South Africa Airtime Advance and the insurance products which are supported by big data supported another strong year of double digit growth.

Building on our foundation as Africa's leading fintech operator, we launched our VodaPay and M-PESA super apps in the year. The super apps are critical to building out our two-sided ecosystem which brings together consumers and merchants. Additionally, the super app approach supports a major change in our partnership model as we expand from a few partners to thousands of service providers. Critically, the super app removes the barrier of physical limitations for consumers and merchants, which can extend well beyond geographical boundaries and our addressable market. Put simply, as transactions compound, we take our cut, a bit like an iOS or a Google Play Store.

Again, this year and in line with our purpose led model, we stepped up our efforts to support and uplift the communities across our markets. Together with Vodafone we committed to a significant investment in 4G population coverage as part of the ITU's Partner2Connect programme. In the KwaZulu Natal region of South Africa, which has recently been ravaged by both social unrest and devastating flooding, Vodacom accelerated efforts to assist communities impacted by the economic fallout.

In Mozambique we contributed to the Hope4Palma campaign by providing food, shelter and personal hygiene items which reached closed to 5,000 families displaced by the conflict in the Cabo Delgado province. In the DRC we provided free connectivity and launched a fund together with the Vodafone Foundation to support communities in the DRC devastated by the Goma volcanic eruption.

In keeping with our continued efforts to combat COVID-19, the Vodafone Foundation and Vodacom Foundation donated R87 million to purchase vaccines and support vaccine rollout to vulnerable people in hard to reach communities across our markets. This includes funding the delivery of cold chain units to the DRC, Mozambique, South Africa and Tanzania. We believe that vaccine support is key to accelerating a return to normality, restating economies and simulating employment across our markets.

In addition to our progress on purpose and strategy, I'm pleased to announce a strong set of results today. Some of the highlights include strong free cash flow generation of R15.7 billion with our final dividend up 4.9% to R4.30 per share. This brings the full year dividend to R8.50 per share, an attractive 6% yield. As we accelerate growth, we remain exceptionally focussed on our returns profile. Pleasingly, our return on capital employed increased by 1% to 23% in the year, underlying our strong execution. Actually, 1.4% to 23.4%.

At group level some of the other highlights were as follows. We reported revenue of R102.7 billion, a strong result, up 5.8% on a normalised basis. Service revenue growth of 4.6% on a normalised basis was supported by a resilient performance in South Africa and growth of our new services such as IoT and financial services. We added 6 million customers and now serve a combined 130 million customers across the group including Safaricom.

Our financial services business continues to show how lots of small can equal big. M-PESA including Safaricom processes over 52 million transactions daily. Our South African business facilitates 5 million airtime advances per day. These transaction volumes speak to the scale of our business. Group operating profit was up 5.4% on a normalised basis, consistent with our medium-term target. This was particularly pleasing given the impact of mobile money levies in Tanzania, but more on this later.

Capital expenditure was up 10% as we accelerated spend to capture the buying power of a strong Rand and mitigate potential supply chain challenges to come. Despite the step up in investment, we grew free cash flow 4.6%, just ahead of net profit growth.

At a product level we reported strong growth in our new service categories, reflecting our multi-product strategy. These new services, which comprise fixed, IoT, digital and financial services, reached 18% of group service revenue. IoT revenue was up an impressive 32.1% supported by strong base growth. Our IoT customers reached 6.8 million, up 13.1%. IoT now generates R1.4 billion of revenue. Financial services was up 14.4% on a normalised basis. Adjusted for the mobile money levy impact in Tanzania, financial services was up 23.4%.

Shifting focus to South Africa, service revenue grew 3.8% to R58.5 billion and was supported by continued demand for connectivity, incremental wholesale revenue, and growth in our new services, an impressive result given the demanding comparative associated with lockdowns in the prior year. New services contributed 14.4% or 8.4 billion to South Africa's service revenue. IoT revenue delivered excellent growth of 29.4% while financial services revenue increased 12.4%.

Financial services performance was supported by Airtime Advance and our insurance products. We advanced R13 billion in airtime during the year amounting to 45.2% of total prepaid recharges. Our insurance revenue increased 13.1% with policies up 14.7% to 2.4 million as we continue to expand our portfolio of products.

Vodacom Business had another strong period with revenue growth up 11.6% supported by our innovative work from home solutions and sustained growth in fixed services. The contract segment performed well with revenues up 5.5% and we added over 270,000 customers. Our prepaid performance was broadly flat in the year after adjusting for the R142 million once-off in the prior year. This was a very pleasing result given the strong prior year comparison which was associated with stringent lockdowns. Higher customer engagement supported prepaid ARPU of R56 which is above the pre-COVID-19 levels of R54.

Data metrics remain strong. Data traffic was up 19.2% in the year, accelerating to 24.3% in Q4. We added 1.8 million data customers and increased the number of smart devices on our network by

13.1% to 26.2 million, while the average use per smartphone device increased 14% to 2.4 GB per customer.

EBITDA grew 3.3% and was impacted by R142 million loyalty provision release in the prior year and the phasing of costs versus the prior year. Also, we accelerated spend on technology opex to support improved network resilience, power challenges and higher rates of vandalism. Pleasingly, this intervention supported a market leading network NPS position by year end. Our R5.4 billion investment in spectrum is expected to further support network performance.

Our international operations reported service revenue of R22.2 billion, up 5.6% on a normalised basis. This performance was supported by a strong growth in data and M-PESA. Our customer base increased 4.9% to 41.7 million with net additions of 2 million customers, reflecting strong commercial traction across the portfolio. Growth would have been even stronger had it not been for the barring of customers in Tanzania to comply with biometric registration.

Data services remained a key driver of growth and our commitment to connect for a better future. We added 531,000 new customers to end the period at 21.2 million data customers, supporting normalised data revenue growth of 16.4%. again, these numbers were impacted by the biometric deletes in Tanzania.

M-PESA revenue on a normalised basis was up 15.5%, contributing 22.3% of international service revenue. The result was supported by excellent growth in the DRC, Mozambique and Lesotho as M-PESA Africa drives best practise and product development across the markets. The M-PESA lowlight in the year was the introduction of mobile money transaction levies in Tanzania from July 2021. The levies had a material negative impact on financial inclusion, and we continue to engage with the government on further reductions. The impact of the levies on our numbers was also material. Adjusting for this impact, normalised M-PESA revenue was actually up an impressive 29.5%. Operating profit was 13.5% on a reported basis supported by excellent cost containment.

Concluding my review with Safaricom, from a numbers perspective Safaricom contributed R3.1 billion to group operating profit, down 11.9%. The reported number was impacted by material foreign exchange headwinds in the year and Ethiopia start-up losses. On a normalised basis Safaricom's contribution to group operating profit was up 17.7%. This double digit growth profile is more reflective of Safaricom's underlying performance of the Kenyan operations in the year.

Notably, service revenue was up 12.3% supported by an excellent growth from M-PESA and fixed revenue.

M-PESA revenue was up 30% in the year underpinned by strong platform growth, product adoption and updated P2P pricing from 1st January 2021. The strong revenue recovery supported a 14.9% Kenyan EBITDA growth with margins expanding 0.7% to 51.7%. the reported EBITDA growth of 11.1% was impacted by start-up losses relating to Ethiopia.

Additionally, Safaricom provided an update on our Ethiopian consortium noting an improved outlook on security and political situation in the country. Our consortium is proceeding with its plans for operational readiness and expects to launch commercial services during the calendar year. The launch will be associated with an investment year for Safaricom which is reflected in its guidance. Further, Safaricom guides that this investment will be supported by another strong year for its Kenyan operations. Raisibe and I are now ready to answer an questions that you may have.

Operator

Thank you. Ladies and gentlemen, if anyone would like to ask a question, you are welcome to press * then 1 on your touchtone phone or on the keypad on your screen. If you however wish to withdraw the question, you may press * and then 2 to remove yourself from the question queue. If anyone would like to ask a question, you are welcome to press * and then 1. Our first question is from Preshendran Odayar of Nedbank CIB. Please go ahead.

Preshendran Odayar

Thanks very much, and congratulations on the results. I've got two questions from my side. Firstly, on Tanzania, the impact on mobile money revenue seemed to have doubled from Q3 to Q4. Are you looking at any other ways to lessen the impact on transaction volumes, because it seems like that's what's being impacted by this levy? So maybe lowering your fees to limit the downside impact from this. The second question is given the newly acquired spectrum that you've got post the auction, what percentage of your traffic that you used to offload during peak periods to Rain is now being catered for on your own network, so basically no more roaming on Rain during your peak periods? And have you started receiving any leasing revenues from your Liquid agreement? Thanks.

JP Davids

Preshendran, maybe I can take the first one on Tanzania levies and then hand over to Shameel on spectrum. So, we disclose the revenue impact of R708 million for the Tanzanian levies. That is for three quarters, so the second quarter, the third quarter and the fourth quarter. The levies were implemented on 15th July 2021. The phasing across the quarters was reasonably similar and is around R225 million in this quarter and similar in the prior quarters. The impact hasn't really changed. And I guess it's fair to assume that that impact will remain with us in the quarter that we're going through now, and then clearly lapping this issue from the 15th July. Shameel, on to the spectrum question.

Shameel Joosub

I think on the spectrum part, remember there is no optimisation being done at the moment because we still don't have the spectrum. Remember the spectrum only becomes available 1st July post the temporary spectrum expiry. The license has been issued, so technically it is now our spectrum. In there as well is they have given us use of the 700 spectrum and the 800 spectrum, depending on which operator you are, but you've only paid for what is completely usable right now. Although we will probably be able to use it whilst there is interference, we won't get charged until they now official say to us its fully available and we can then charge you. So, we've only paid R3.2 billion of the R5.4 billion at this stage. That's the first part.

What we will then do is use that to optimise. the important thing – and I'm not sure most people get just how big our spectrum auction was for us – is getting 80 MHz of contiguous spectrum in 2.6 is huge. And the reason it's huge is because the radios now can have the ability to do both 4G and 5G. So, you can do both, and then you can basically have your 5G services running, but most of your resources are allocated to 4G as the traffic picks up in 5G you can cut across.

Now, before this when we rolled out the 4G network a couple of years ago, you had to roll out new radios for 4G. Then if the ecosystem of the devices wasn't there, it was to a large degree you were investing ahead of the curve and then waiting for the devices and everything to catch up. So, this is a lot more efficient. We will optimise our traffic to be on our own network first, and then of course use the agreements that we have. And on the Liquid side we haven't done too much. So no, there is no big fees coming through at this stage.

Preshendran Odayar

Thanks Shameel. Just going back to JP, another way to ask that question quite bluntly is obviously MTN Ghana has got a similar thing with e-levies there. To counter the drop in transaction volumes they have lowered the fees. My question is that R708 million for three quarters – I'm just playing devil's advocate – if you had to reduce fees by a certain percentage, would that lessen the impact on transaction volumes? Or have you done some sort of an exercise like that? I'm just curious on if that is at all possible there.

JP Davids

It's a very fair question. I guess we look at if there's any way we can help the consumer in Tanzania. The issue in Tanzania specifically is that your average cost per transaction went up 5x to 10x. There is only so much you can do on the operator's side. With that all said and done, Airtel for the first time disclosed the impact of Tanzanian levies in its results. And based on our market shares it's actually very similar to the number we are calling out on a quarterly basis. And they are at a deep discount, if not free in most cases on P2P. There is not a clear rule of thumb here to say cut your P2P pricing and that will save the day. In contrast, I think what saved the day here is ongoing engagement with the government with a view that lowering the levies after the 15th July 2022 will support better financial inclusion.

Shameel Joosub

I think also you've got to balance on where the fees are charged. It's not like they're going to go from charging fees to no fees. But I think where in the ecosystem you charge the fees is also important. And therefore, what you don't want to do is charge the fees on cash in and cash out. That's where the issue of this is, because then you start affecting the underlying service. Remember what actually happened is from quarter to quarter it is growing again. It's just that you've basically taken yourself two to three years back. That's what the impact of this was. So, we're back in 2019 and having to claw our way back to 2022 again. That was the real impact of the levies. Pre the levies Tanzania was sizing up to have a very good year.

Preshendran Odayar

Got you. Thanks very much, Shameel. And thanks, JP, as well.

Operator

Our next question is from Myuran Rajaratnam of MIBFA. Please go ahead.

Shameel Joosub

Before we go to Myuran, just one thing. Also, just remember in the Tanzanian context what they have given us is a price floor on data, which I think is hugely beneficial going forward. Like what we're seeing in Egypt with the price floor, when you've got usage growth, usage growth converts into ARPU growth, whereas in the rest of telcos around the world you have the usage going up and invariably you have it being offset with price decreases or price erosion or changes in the effective rate. So here you will start to see more of that coming through. So, I think what that does – and a lot of the price floor will be implemented in the coming months, so that will help to make sure that we have a healthier business going forward. Go ahead, Myuran.

Myuran Rajaratnam
Good afternoon. Can you hear me?

Shameel Joosub
Yes.

Myuran Rajaratnam
Okay, perfect. I have two questions if I can, Shameel. The first one is Madi brought up a good point that Telkom has two roaming partners. And then you pointed out that 80% of the traffic is contracted with Vodacom. If memory serves, roaming started in November 2018, if I remember correctly, with you. So how long has it got left on that contract with you between Telkom and Vodacom? That's my first question.

Shameel Joosub
So, the current agreement goes till 2024, and of course we're in talks to renew and extend.

Myuran Rajaratnam
Great. The second question, you said in the results presentation earlier that you only buy good assets. But that's only part of the requirement, right. It's also important to buy them at decent prices. And perhaps my American friends on this call will understand it. I would like to challenge you a little bit on that. It seems like you've overpaid for both CIVH and Egypt. The analysts point out Vodacom's got a good track record. Look at Safaricom. But even that, Shameel, you bought that five years ago. It was at KSh 20. Today it's at KSh 30. That's a five year CAGR of about 8.5% annually. You add a dividend to that, that's 12.5%. That's clearly an appropriate return for a frontier market like Kenya given the cost of capital in Kenya.

And the Egypt acquisition – and I've said this before – is quite expensive. You yourself say it's 6.5x EV EBITDA. But the currency depreciating 18% against the US Dollar and the price you're paying is $16, and there is potential for further depreciation, it looks like it's more expensive than Safaricom trading at 9x EV EBITDA today. I'd just like to hear your comments about why you think this is a great deal. I can see it's a great deal for Nick Read sitting in Paddington because it gives him an exit strategy, but I can't see why it's a great deal for the rest of us. Maybe you can explain it to me.

Shameel Joosub

Okay, first I think your comparison with Safaricom is a bit disingenuous, right. Were you going to give us an accolade when the share price was sitting at 42 a few weeks ago? I think it's a little bit unfair you're taking it at the trough of the share price. Look, on Safaricom, on a serious note, I think we've done really well if you look at the average share price over the last year. You're looking at over 17% return. I think we're quite comfortable that the Safaricom asset has been hugely transformational, not to speak about what it's done in terms of financial services and what we've managed to build together and a track record there, and what's to come. I think on Safaricom I think we've done really well.

Coming to the other two, on Egypt, remember basically you need to look at the PEs. When the deal was done, we were trading at a PE of 13.5% and Egypt was at a PE of 12%. So, you can see it is accretive for us in terms of the acquisition. I think what you can see as well from the business plan is that they're outperforming the business plan with a 17.3% service revenue growth and a 22% EBITDA growth. So, I think the only negative I would say is the exchange rate. I think you've got to look at these assets with a bit of a longer viewpoint than just looking at it today. I think given the growth and the opportunities around financial services, enterprise and so on, I think there's a huge opportunity still for growth in Egypt.

Then coming back to the CIVH asset, if you look at the multiples that these assets are trading at globally and you look at what we're paying, then you can see the difference in price. I can guarantee you, having seen this movie before even with CIVH or with Vumatel, every couple of years the multiples on these assets are going up further and further. It's a very strong asset. It's got a very strong market share. It's got over 40% market share. It's got a very lucrative operating model. And there is still a huge opportunity in South Africa with only 2.2 million homes passed and there are 17 million homes to cover. And of course, with the 5G rollout that needs to happen you need fibre to the base station, fibre to the corporate.

So, I think yes, Myuran, it would have been better if we had made the investment four years' ago. But I promise you if you look at it four years' later you will be having the same conversation. I think we're buying in at the right time. Also, four years ago the business model wasn't completely proven. So, you are buying a better asset, better proven now, with the opportunity to grow. Your margins are 65% to 75%. So, I think a very strong growth profile going forward.

Myuran Rajaratnam
Are you able to repatriate dividends out of Egypt at the moment, or is it a bit like Nigeria where money is a bit stuck?

Raisibe Morathi
You can repatriate dividends. Vodafone Plc has been able to get dividends out of the business recently. There's no issue there. There are liquidity challenges, but it is no different from many other frontier markets where you have to go through the process of gathering the money, work with the bank that you contract to locally, and then they will eventually pay out the dividend. So, the process that Vodafone has followed in Egypt is no different from what we do in Kenya. Once the dividend is declared, you have to go through the market process and gather the Dollars. But they do get repatriated.

Shameel Joosub
Vodafone has never had a situation where there is cash stuck there.

Myuran Rajaratnam
Okay. Thanks so much, Raisibe and Shameel. Very kind.

Operator
Our next question is from Maurice Patrick of Barclays. Please go ahead.

Maurice Patrick
Hi guys. Thanks for taking the question. If I could push you, Shameel, a bit on the mobile money trends. You mentioned competition. If I look at, for example, Orange Money, they saw a 25% reduction in their mobile money revenues which they attributed mainly to Wave specifically where they had to react to pricing changes in the marketplace. I was on a Safaricom conference call last week. They give a pretty good message about building a moat around that business in the face of potential new entrants. I'm curious about your high level thoughts in terms of the defensiveness of that business and across your businesses how you can and will defend your mobile money revenues, as you presumably will be seeing new entrants come in aggressively. Thank you.

Shameel Joosub
Now you can see the logic on why we've created M-PESA Africa. If you sit back and you don't evolve your products and your solutions, competition will come and challenge your positioning in the market. I think we have very strong positions in M-PESA, but it's important that we continue to evolve the services and implement a number of different services beyond just person to person

payments. And I think we've successfully managed to do that across all the markets. Of course, we've got a full road map that we're rolling out. We're busy improving the platform. The partnership with Alipay is also extremely important in that context. For example, we will launch the Alipay platform in Egypt as well.

So, I think you have to keep evolving your offerings to your customer and you've got to build what I call a ring around the customer. And also taking M-PESA into this new form where basically we have the mini apps and we're taking it into the e-commerce world also helps us to modernise the platform and the services and solutions around it. Taking it into savings, investments, bringing insurance in, deeper financial value-added services. So, you're doing more with the customer and so on. It might sound a little bit arrogant, but I think what we've managed to do with our financial services plays in the market compared to the other players, we've done really well in deepening the solutions and the offerings around mobile money. And I think some of the other operators have not done so well, and therefore have become under more attack.

JP Davids
Just a tiny bolt on from my side. Not dismissing Wave as a potential competitor in the future there, they have been very successful by being aggressive on fees, particularly the cash out element. I guess fee pressure is not something unique across our markets where we operate. Particularly in Kenya, particularly in Tanzania we've got intense competition on fees with most competitors often zero rating their fees to win market share. I guess a price only based proposition is not going to be a new threat. But that's not to dismiss the impact of Wave. I think Shameel's broader point is just around the ecosystem approach. That is the key way of keeping competition at bay.

Maurice Patrick
Great. As a completely unrelated question if I may, Shameel, whilst I have you, on Saturday Etisalat announced they have just bought a 10% stake in Vodafone. I wonder if you have any thoughts on that at all.

Shameel Joosub
Look, I think it's more for tomorrow's call with Vodafone for you to ask that question. But I think Etisalat has come out saying they like the strategy, they like the plan, they're support of management. They don't want a board seat. So, I think what we will do is look at how we can have stronger partnerships and look for synergies with Etisalat going forward.

Maurice Patrick

Are they in Egypt?

Shameel Joosub
They are. Look, they're a minority investor, so it doesn't really affect in Egypt in any respect. I think at this stage basically the explanation is that it's a 9.8% shareholder in Vodafone who then has a stake in Vodacom who then has a stake in Vodafone Egypt. So, it's quite far removed.

Maurice Patrick
Thank you for the insight, Shameel, as always.

Operator
Our next question is from Adrian Cloete of PSG Wealth. Please go ahead.

Adrian Cloete
Hi. Thank you for the opportunity to speak to you. I've just got a question on the IMF support for Egypt because obviously Egypt is an oil importer. With the Russia Ukraine war that has obviously affected them. What impact does this have on the Egypt economy and Egypt consumer? Obviously, we've seen the impact on the currency. If you could maybe give some colour here. Thank you very much.

Raisibe Morathi
Well, the Egyptian economy was hit by the Ukraine Russia war, and as a result there was a need for their government to approach the IMF, the gulfstates, for additional support to get the economy going. And that somewhat helped to stabilise the environment, although the depreciation in the currency did happen and triggered by the increase of 1% in interest rates. Of course, that is part of the correction for the currency to basically be allowed to free float.

So, in a way we see the impact of the Ukraine and Russia war being slightly elevated in that market compared to the other markets where we operate. But the impact on the business is an issue of telecommunications being a bit of a defensive play. And also, it is a relatively resilient business. They are used to operating in a high risk environment. So, the business performance was 17%, albeit part of that is prior to the Ukraine thing happening. But we still see that business sufficiently successful even with the current circumstances.

So yes, the depreciation of the currency at 20% does mean that their earnings that we consolidate will be slightly less than what we originally expected but operating in the developing economies the currency risk is one of the things that we know is inevitable. But we don't think that this is likely to affect the investment case in a material way. We will still have this business coming through, growing stronger than South Africa, which is obviously a more mature market, augmented by the strong economics of the pricing floors and the additional businesses that we expect to implement in that environment, i.e., financial services, IoT and so on. For that reason, we still see it as a good contributor in our mix of business and binging some diversification.

Adrian Cloete
Thank you. That's very helpful.

Operator
Our next question is from Nadim Mohamed of SBG Securities. Please go ahead.

Nadim Mohamed
Good afternoon. Thanks for the opportunity to ask questions. I've just got three fairly short questions, and all of them relate to South Africa. The first one is just about prepaid data traffic. We saw data traffic go up by 19% year on year, but prepaid revenue was up only 3.1%. I know that was largely because of price reductions and pricing transformation. I'm just curious as to whether we're getting closer to a point where your prepaid data revenue aligns closer to your data traffic growth, seeing that prices have come down quite substantially over the last few years.

The second question is just on capex. Capex in South Africa was R11.1 billion, which is quite substantial. Now that you have this war chest of spectrum, which I assume would mean more headroom in the network, can we assume that your capital intensity in South Africa will start going down from here onwards? Lastly, if I look at peers such as MTN who reported for the Q4 FY22, the same period as Vodacom's Q4, a 7% prepaid subscriber growth, yet all that hasn't translated into revenue growth. I'm just curious because conditions look a bit tough on the ground. Are you seeing more promotional activity, more of the washing effect in market? Just give us a sense of what you're seeing on the ground. Thank you.

Shameel Joosub
Okay. I think firstly just a comparison back to last year. Remember last year you had a very strong comp and you had lockdowns and these types of things and alcohol bans and so on. I think when you're looking at the South African results and in terms of group results, also look at it with that lens. Frankly speaking, we were opportunistic and took advantage of making sure we had the right products and services to capture that growth. But as people returned to work and the economy

starts to normalise, some of those benefits that you would have got from lockdowns, from additional social grants, from alcohol bans and so on will of course normalise as well.

I think the encouraging part is that if you look at prepaid ARPU pre-COVID it was about R54. At the height of COVID it went up to about R64. And now it has come down, but it is down to about R56. So, it is still higher than the pre-COVID level, so it has improved in that respect. So, when you look at it in that context, you're always going to have the negative growth coming through because you had this boost for just over a year where you could take advantage of this technical opportunity that presented itself during lockdown.

But people will go back to normal. However, they will continue to spend more and utilise more data as well. That's the one element. So, when you look at it, look at it from the perspective that customers are still continuing to grow and utilise more data with the average customer now spending on a smart device up to 2.4 GB per customer. That's the context firstly of understanding the numbers.

Will prepaid revenue ever match the data revenue? No, it won't. And the reason it won't is because within that you will always have traffic increases and you will always have new products, new services, new offerings that essentially will either for comparative reasons or to try and get more spend out of the customer have an effect on the effective pricing. So not all the revenue growth will ever convert into traffic growth.

That said, what you do have is a situation where you've changed the landscape of pricing in South Africa. If you go back three years or four years ago, the reality is in some cases competition was as much as 50% to 60% cheaper than us. Today that gap is very small. You're looking 5% to 10% gaps. In some cases, we would be more competitive, and so on. That's why I think you're seeing Telkom not generating the results it was in years gone by, because it doesn't have the structural pricing advantage anymore.

And to some degree the Competition Commission part and the price declines that we built in have played a role in that. Also remember in last year's performance is also a big price reduction built into it. You had strong comps, you had the price reductions, and so on. So, you landed up in a better situation. Now, traffic will continue to grow. Customers will continue to use more data as data becomes a more integral part of our lives. You're seeing countries where customers are spending as much as 20 GB to 30 GB on data per month. We are at 2.4 GB. So, there is still a long way to go in terms of data traffic growth.

I think the challenge you captured correctly is the traffic growth versus making sure that the pricing transformation is more measured going forward with a bigger proportion of that traffic converting into revenue. I think that's the challenge going forward and that's the opportunity going forward. So, I think one has got to put context in that.

I also note there are some questions about effectively will a consumer be under more pressure on prepaid and so on. I think what the telco sector has shown over the years – you will know having joined these calls multiple times – there are always pressures that come to bear. There are always inflationary pressures. Maybe not the size of Ukraine Russia at this point in time, but telcos do tend to be a lot more resilient in that respect. It is also more important when these kinds of high inflationary pressures come that your pricing is more on the button so to speak. I think that's what we've managed to achieve over the last few years to put us in a much better position. And that will hold us in good stead through this crisis.

Nadim Mohamed
And I think if I can just follow up on the capex question, would we expect given that you have so much more spectrum available a reduction in capex intensity for South Africa going forward?

Shameel Joosub
Yeah, look, normally we spend 12.7% to 13% capex intensity. It's around 13% I would say. This year we did put slightly more in, still staying within the guidance. The reason we did it was a couple of fold. One is equipment shortages, these types of things. We had to take advantage of certain equipment being available and capturing the opportunity around that. Secondly, we also needed to close the gap or the perceived gap with MTN. And I'm proud to say that we have regained market leadership in the network.

Nadim Mohamed
Thanks for that. Just on the last question, are you seeing a bit of a washing machine effect with a lot of promotional activity for SIMs that may not be profitable? We see very high growth rates in prepaid subs with the likes of MTN. I'm just curious whether you're seeing that on the ground at the moment.

Shameel Joosub

Look, to be honest with you, it's a feature of the South African market that there is a little bit of a washing machine effect. You will remember me always saying to you, look at the active one month customer growth. That's what we tend to focus on, and that's growing quite nicely. I think we look at the data customer growth and so on. I think that's where you're going to get more real customers from. Therefore, I wouldn't put a huge emphasis on quarterly prepaid numbers specifically. I would rather look at the active base, because there is a little bit of a washing machine effect. And as some operators are nearing year end you do find some who step up their numbers towards year end. You can do your own calculations who that is. It has been traditionally there for years.

Nadim Mohamed
Excellent. Thank you so much, Shameel.

Shameel Joosub
They have a very big quarter in the quarter that counts towards bonuses.

Nadim Mohamed
Excellent. Thank you so much, Shameel. I really appreciate that colour.

Operator
Our next question is from Jonathan Kennedy-Good of JP Morgan. Please go ahead.

Jonathan Kennedy-Good
Good afternoon. I just have a few questions on the guidance. I obviously noted you are moving to EBITDA instead of EBIT, and I was just wondering. I think previously you included the proportionate share from Safaricom in that EBIT guidance. Is that included in this EBITDA guidance going forward? And also, I just wanted to try and understand whether the guidance may be back end loaded, just given the margin pressures we're seeing in South Africa with some of the costs coming through on security, energy, potentially going forward employee costs. I would like to get your sense of whether we should expect South Africa to remain below 40% in the short run.

Raisibe Morathi
So, in terms of the new revised guidance of EBITDA, it does not include Safaricom. Safaricom will still be accounted for as an associate. However, the read of its contribution will come from its guidance. Safaricom always issues a guidance on EBIT, so the idea is to take us there. It is helpful to give a context of the change in the guidance to go back to what we were before we acquired Safaricom. When we acquired Safaricom, we moved from EBITDA as guidance to operating profit

because of the weight of Safaricom in our [unclear]. And now with Egypt coming in, Safaricom's contribution is less weighty. It will be a single digit.

So, in terms of the South African margin at 40%, this is expected to be maintained at similar levels, noting that in the 38% that we have pointed out there was a pick-up in publicity costs and technology costs. And we expect those to run rate at a normalised level. Part of that increase was as a result of the base being lower because during COVID the publicity was a little bit light. But in terms of the technology, it was just giving a bit more support to maintain our network, so we expect that normalisation to then allow us to start seeing the margin going back to levels of closer to 40%. So, it is maintainable at 40%, all supported by the mix of the newer businesses at a higher margin than the GSM business.

Shameel Joosub
Just on the SA outlook, the SA part is growing off a very big base. And essentially to grow at 5% per year on both the revenue and EBITDA is tough. But I think what we've traditionally looked at is around about a mid-single-digit growth in EBITDA in the South African operations. I think don't put too much emphasis on the margin itself, because the businesses as we grow new businesses will have different margin profiles. So, if you grow financial services, it's going to be accretive to margin, but when you grow things like IoT, as an example, it will generate good EBITDA, but it will be at a lower margin. The same with cloud services and so on. I think one has to balance against that and rather look at the absolute EBITDA growth.

Jonathan Kennedy-Good
Great. Thanks for the clarification. Thank you.

Shameel Joosub
The other big thing just to always remember when you're looking at the South African numbers is you must always take into account the devices. When you compare it to margins across the world, you must remove the devices and rather calculate the EBITDA off the service revenues. Most countries don't have the quantum of device sales that South Africa does, including MTN. [Break in audio].

Operator
Ladies and gentlemen, we have been re-joined by the Vodacom team. Sir, please go ahead.

JP Davids

We were just through Jonathan's question, most of it. I think worth recapping the point on EBITDA growth. I think you were making the point on the service revenue margins. We will just round off on that.

Shameel Joosub

I was just saying always a good health check to do is remember South Africa locally and globally has a disproportionate amount of handset sales, which is also part of its strategic advantage. So effectively when you look at it, you must always look at the margin including handsets and excluding handsets. The margin would have come down this year because remember last year's handset sales were depressed because of COVID. So, you've had a recovery of that, so that would have put pressure on the margin as well. So always important to look at the margin with and without device sales, especially when you're doing local or global comparisons. Then you will see the margin is actually quite healthy.

Operator

Our next question is from Rohit Modi of Citi. Please go ahead.

Rohit Modi

Thank you for taking my questions. Most of them have been answered. Just two questions, mainly follow-ups. Firstly, on the pricing environment in South Africa if you can give more colour how is the pricing environment post COVID and post spectrum auction. Do you still see pressure to reduce data prices? And what level of data prices do you think you can see a saturation in terms of elasticity where you don't see data revenue growing in line with the price levels reducing? Secondly, on the cost side in South Africa again. I think one of your peers have already highlighted load shedding being one of the key concerns in the near future. Do you expect any margin pressure from that side in SA in the near term?

Shameel Joosub

Let me start with the second one on load shedding. I think it's deeply frustrating to be honest with you because we're having to spend capex on things that we wouldn't have had to spend capex on before. So, ploughing money into batteries, as an example, is a big issue for us. I think over the last two years we've spent R1.7 billion on batteries. It is a big issue for us in terms of ploughing money into batteries. Now, the positive about it is when the power goes off, people need data. So, then they basically go to their phones, so you do see an uplift in data utilisation during these times.

That said, you land up with situations where you're now having to deploy a lot of batteries. Batteries are getting stolen. Now what we have to do is go to armed response in terms of all the sites. And we've now made the call to do it because we've seen very positive impacts and a business case where it is positive in terms of paying for security versus theft. So, these are the types of things, besides the disruption that gets cased. It's deeply frustrating.

The bigger issue is that it's holding South African back in terms of having power resilience and so on. It's going to be one of the features of the TowerCo as well, how we can create better power resiliency going forward and looking at shared power solutions that we can provide for our own sites. That's where we're considering.

In terms of pricing, the pricing in South Africa is nothing overly aggressive. There is the normal jockeying for position that's always been there. I think the difference now is that we're more in the hunt. The two big players compared to the smaller players, that price gap that existed is gone. So, I think that does bode well for the future because your gaps are not as big. That said, you will still have customers optimising within your products and moving from monthly products to weekly products, those types of things.

What we're trying to dos is we're putting a big focus on what we call active day management to try and make sure that we can get the customer to use us for more. If a customer is using us for 20 days a month, they are using somebody else for ten days. How do we get them to do it? That's where we're dialling up the CVM tools to be able to be able to do it. That's where the super app and these things come into play as well. It's not just for basically being able to do financial services and e-com. It's about building a relationship with the customer so that the customer comes to you every day of the week so to speak. And that's where the behavioural loyalty comes in. That's where the use of CVM and big data also plays a big part.

Operator
Our next question is from Madhvendra Singh of HSBC. Please go ahead.

Madhvendra Singh
Hi. Thanks for taking my question. Just a couple of short ones. Following up on the competitive behaviour in South Africa, I'm just wondering across the portfolio if there are any markets where you are seeing higher competition or competitive intensity getting worse. And secondly, in terms of your ability to price in most markets, I'm just wondering whether you have seen any changes there. Have

you improved your ability to price if needed to do so, especially in markets where significant FX pressure can be seen such as Egypt where we recently saw depreciation? Do you have ability to increase prices in these markets? Thank you.

Shameel Joosub

Look, we always have competition in markets where you have to keep monitoring your prices. A few months ago, I personally did a country by country review of all the pricing and our competitiveness and what our pricing methodology is and so on. And we made certain changes. To give an example, we've changed prices in Mozambique, where although we were growing strongly, we felt that the gap between us and competition was widening in terms of some of the moves that they made, and therefore we decided to drop prices.

Now, when we do that, you have to wait for the elasticity to come. You would see in the fourth quarter that would have impacted some of the international markets' performance because we decided to do it. And through the year we've done quite a few. We fixed the pricing in Lesotho. We fixed from per minute to per second, so all of these types of things. So, you do it in the normal course of business. Sometimes it does create pressure points during that time whilst you are waiting for the elasticity. But for us that's what we call business as usual.

I think the one that we were worried about, in Tanzania the data prices were going too low. And I think the implementation of the pricing floor is hugely beneficial from the perspective that it will help the market to have a healthier outlook, and also be able to recover on pricing, because when there are pricing floors, the traffic versus the rate decline is more in tune. So, you can then see more of that coming through directly into revenue. So, ideally you want pricing floors everywhere if you can get it.

Raisibe Morathi

Then in terms of the FX pressures, we are operating in emerging markets. There are FX issues across every market in one way or another. You would see the swing in the first half versus the second half. Whilst many of these currencies are somewhat constrained by the fact that the liquidity is limited, they are high import economies, sometimes the movements are also because the Rand can also be quite volatile.

But what we are seeing here is you can't always make up for that with the pricing because obviously the currencies can change fairly rapidly. And the two are driven by completely different factors. The growth in these markets is generally higher than in South Africa, and for that reason we think that even with the currency issues that we have to deal with, there is still a good growth that supports the overall group. And for that reason, I think it is still a good diversification of our revenue in terms of the different markets.

JP Davids

And I think with that, unless Madi had a follow-up, we will wrap up the call there. Madi, any quick follow-up from your side? Good. Okay, in that case we will leave it there. Thank you very much for your questions today. If you do have follow-ups, please reach out to myself and investor relations, and we will help as quickly as we can. I hope you have a good week further. Cheers.

Operator

Ladies and gentlemen, that concludes this conference. Thank you for joining us. You may now disconnect your lines.

END OF TRANSCRIPT