Conference Call Transcript

24 January 2019

TRADING UPDATE ANALYSTS

Operator

Good day ladies and gentlemen and welcome to the Vodacom Group Ltd trading update conference call for the three months ended 31 December 2018. Vodacom Group CEO, Shameel Joosub, will host the conference call. I will read the forward-looking disclaimer before handing over to Shameel.

This announcement which sets out the results for Vodacom Group Ltd for the three months ended 31 December 2018 contains forward looking statements. These statements have not been reviewed or reported on by the group's auditors with respect to the group's financial condition, results of operations and businesses and certain of the group's plans and objectives. In particular such forward-looking statements include statements relating to the group's future performance, future capital expenditures, acquisitions, divestitures, revenues, expenses, financial conditions, dividend policy and future prospects, business and management strategies relating to the expansion and growth of the group, the effects of regulation on the group's businesses by governments in the countries in which it operates, the group's expectations as to the launch and rollout dates of products, services or technologies, expectations regarding the operating environment and market conditions, growth in customers and usage and the rate of dividend growth by the group.

If you do not have a copy of the results announcement it is available on the investor relations website on www.vodacom.com. All participants are currently in listen-only mode and there will be an opportunity for you to ask questions later during the conference. If you should need assistance during the call please signal an operator by pressing star and then zero. Please also note that this call is being recorded. I would now like to hand the conference over to Shameel Joosub. Please go ahead, sir.

Shameel Joosub

Thanks Chris. Good afternoon everyone, and good morning to our US callers. I'm joined by Till Streichert, our CFO, and Sean Van Biljon, our Head of Investor Relations. Being quarterly results we will only focus on revenue and key performance indicators today. In line with listing requirements in Kenya Safaricom does not report on a quarterly basis, so we will therefore not be disclosing an update on their performance during this call. None of these numbers therefore have Safaricom included.

Before we look at the numbers let me give you some key take-outs from the last three months. Our international operation increased its contribution to Vodacom group service revenue to 27.5% and continues to show strong growth across the portfolio. M-PESA in the internationals and the financial services business in South Africa are both showing good growth and are becoming a more material part of our business. We have over 13 million customers using M-PESA outside of Safaricom and we transact over R45 billion just through our OpCos monthly across the platform. Together with M-PESA and Safaricom this makes us Africa's biggest mobile money platform. We continue to expand the ecosystem having recently added Mozambique's largest retail bank as an interoperability partner in the quarter, thereby extending our reach and giving customers more ways in which to transact.

In South Africa we launched our payment gateway with an initial focus on processing internal payments with the commercialisation thereof to take place in Q4. This makes us the only telco on the African continent to have its own payment gateway. This business as previously discussed continues to grow well and will generate over R1 million of profit this year. In South Africa we launched our music streaming service, Muze, adding to our own platform strategy where our video paid product already delivers video services. Muze is currently web-based with app services coming very soon. Our video play platform has over 700,000 active customers now. Service revenue growth in South Africa was impacted by our ongoing commitment to transform price and free data regards from our summer promotion in the context of a tough consumer environment. I will comment further on this when we unpack the South African performance.

From a group perspective we have seen growth of 7.1% to 79 million customers, and group data customers improved 6.4% to 39 million representing 50% of the base now using data services. Group revenue was up 2.4%. We spent R3.5 billion on expanding and improving all our networks. In South Africa we saw service revenue decline by 0.9%. As previously indicated Cell C starting migrating more traffic away from our network, while our recently signed agreement with Telkom has started moving traffic onto the Vodacom network. It will take a couple of months for the increased traffic from Telkom to start offsetting the reduced Cell C traffic, but we are expecting this to compensate fully for the loss of revenue over a few months. Adjusting for this transition as well as the impact of the decrease in mobile termination rates implemented from October service revenue growth would have been flat.

During the quarter we continued with our price transformation efforts. Some of these changes have been necessitated to remain competitive in certain price segments while others are to alleviate regulatory pressures. These changes have been implemented already over the past couple of quarters and include the following: the moving of customers to packages with larger data bundles. We repriced our larger data bundles for mobile broadband packages which will take some time to migrate customers to these new packages. We also introduced daily and weekly bundles at lower effective rates which have grown significantly in popularity.

As part of our summer campaign we also gave added data rewards for using data on a daily and weekly basis during this holiday period. However in the context of a supressed consumer spending environment we did not achieve the expected elasticity to offset both the promotional lower pricing and the price transformation initiatives. We are happy with the progress on the pricing transformation and will benefit in future as customers will grow into these larger bundle allocations which are at lower effective rates. We have also increased our competitiveness against the market and against all players.

The underlying data metrics remain strong with data traffic increasing 41.4% in the quarter. There are now 20.2 million smart devices on the network with usage per smart device at 1.1 GB, which is up 31.9%. We sold 209 million data bundles this quarter with an increase in the daily and weekly bundles sold. As mentioned we have launched Muze, our music platform. Video Play, our video on demand platform, continues to grow and now has over 700,000 active users paying for the services. This remains a key strategy to drive data usage. In the contract space we gained 86,000 customers with both enterprise and consumer segments delivering strong growth. Overall contract customers were up 5.7% from the prior year. Prepaid customers grew strongly driven by our bundle offers. We have taken actions to reduce the once-off use of SIM cards or the washing machine effect resulting in lower gross additions in the quarter.

Moving on to our operations outside of South Africa. I'm very pleased with the overall performance of our international operations. Improved trends in Tanzania with strong growth in the DRC and

Mozambique and continued growth in Lesotho contributed to these results. Service revenue increased 13.2% in our mobile network operations, in other words excluding Vodacom Business Africa the whole international portfolio grew in the mid-teens which is 15%. Data revenue increased 25.4%. We achieved this by focusing on segmented and bundle offerings. We added 557,000 customers in the quarter to reach 18.5 million data customers.

The M-PESA ecosystem continues to widen as we add more products and services in our markets. M-PESA customers increased by 20.6% to 13.4 million customers across our international markets. M-PESA revenue grew 30.3% representing 16.4% of service revenue. In November the 4G auction in Mozambique was completed whereby we were allocated with two blocks of 10 MHz spectrum at a cost of $33.3 million. We now have spectrum allocation and licenses in all our international operations, or at least 4G spectrum.

On the regulatory front in South Africa we are encouraged by the firm commitment by government and the regulator to stage a 4G auction which will give us access to the right spectrum to continue our efforts to reduce the cost of data and ensure efficiencies within the network. The internet and SMS ban in the DRC has now been lifted following the announcement of the results of the presidential elections. This ban was effective from the 30th December 2018. On 1st March we will be implementing the end user subscriber service charter regulation which regulates out of bundle usage as well as data rollover and transfer.

The implementation of these regulations is expected to have a drag on data revenue growth in the short term as we expect customer behaviour to adjust to this new way of consuming data. We are aiming to make this as least disruptive as possible through various initiatives. However, we expect to be negative before it gets positive again. The positive is that once and for all we will be taking care of the out of bundle issue and giving much more control to customers in terms of their spend. This concludes my comments. Till and I are now ready to take your questions.

Operator

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

Dalibor Vavrushka

Good afternoon. Thanks for taking the questions. My first question would be on the international operations. We noticed that in three of the four markets the growth dynamic in the service revenue was a little bit weaker in this quarter than previous. I'm just wondering if you can comment in local currency about what was happening there. The growth is still strong but the year on year difference I think is what caught our attention. My second question if I may is on spectrum. Obviously the government hasn't said anything recently about it. The election is approaching. Do you still expect that the spectrum is actually going to be allocated before the election given the fact that they need to make some announcement and perhaps some consultation process? And if I may, a very small one, whether you think you may have lost some market share because obviously in South Africa the data revenue growth was a bit weak. So I'm just wondering whether you think it's a market thing or whether this could have been market share as well. Thank you.

Till Streichert

Okay. Look, on the international side actually a pretty strong performance overall. If you look at it from a quarter on quarter comparison in terms of growth rate actually in DRC remember we had a stronger comparative for the second quarter, and that needs to be seen in context. Tanzania grew quite nicely and continued to grow at an accelerated rate in the third quarter, which we were happy with. Mozambique slightly softer, but in terms of overall growth rate pretty strong and basically reaching the 20% mark. So overall from an international portfolio point of view we're pretty happy with the performance that we are seeing there.

Shameel Joosub
Okay. On the spectrum issue I think obviously the policy directive came out or the draft policy directives came out end of November. But the change in Minister hasn't helped, so things have been delayed because of that as she gets used to the complexity of the combined departments and so on. So there have been some delays. I do think that it will still happen and there could be a few delays. We are hopeful it will happen before elections, but if not it will be shortly after. So I would say we're saying within the first six months of this calendar year it should happen.

In terms of market share, no, we don't think we've lost market share. There will be some adjustment obviously in revenue market share. Customer market share no. revenue market share I think there might be some adjustments if you look at the quarter in isolation, because obviously some of the traffic has moved across to MTN and we haven't had the requisite filling yet from Telkom. But that will balance out once the traffic has moved across. There will be an adjustment in market shares though I would say post the issue of the out of bundle rate issue, because simply put all the operators are exposed, except Telkom I would say is less exposed. So there will be some structural part that will benefit them a little bit in that respect.

Dalibor Vavrushka
Thank you so much for the answers.

Operator
Thank you very much. Our next question is from Slava Degtyarev of Goldman Sachs. Please go ahead.

Slava Degtyarev
Hi. Yes, thanks for the call. So my question is what would be your best guess on the timing of the revenue growth restoration to mid-single digit levels? So how long may such a transition last in your view? And also just broadly with regards to your medium-term guidance would such a performance in South Africa impact your revenue growth guidance for the medium term? Thank you.

Shameel Joosub
So in terms of the transformation part, just to explain, we've had this quarter. The fourth quarter is going to be weaker. It will be better than the third quarter but it will be depressed from the perspective that the out of bundle issue is going to hit you 1st March. And the customers will have to adjust their behaviours accordingly. We are trying to offset the impacts and we have a number of plans to try and offset that, but there will be an impact. So that will create softness in this coming quarter. Some of that pain will live with you into next year because obviously the out of bundle rate issue will still be with you. We also plan to reprice what we call the monthly data bundles.

And just to explain, we've done a massive repricing through the year in a number of respects. Some also started before the year. And we try always to try and manage it even in good times. So we have repriced the MBBs. We have repriced daily, weekly and so on. So the ones that are left are really the monthly ones. And it is really to reduce the gap to the market. We're not losing customers, to be clear. But we want to make sure that there isn't any dual SIMming and that we've basically made sure that we're less vulnerable to competition. But obviously the big milestone is the out of bundle, and for the elasticity to full be there it will take a good couple of months.

Till Streichert
Let me close off then on your question on the three year rolling target. And thanks for the question. Our targets are based on a three year rolling basis going forward. So you should not look at it in one quarter in isolation. However, that being said let's just put context around this year's results and the third quarter results. In the first half of the year we achieved 5.8% service revenue growth on group level with strong contribution from our international operations. This quarter we've delivered 1.4% growth. So we remain confident of our outlook for the medium term – so that's over the three year period – supported by strong performance in our international operations and a requisite recovery in the South African economy.

However, I would just like to highlight as well that differently to the past there are some new variables that we need to see playing out. And these of course include the economic backdrop, which in essence means a quick recovery of the South African economy. And that ties into what Shameel has explained. That is about the implementation of the end user subscriber charter and how fast customers adjust to this new out of bundle regime. And looking now where we are with three quarters in the bag, given the tougher economic climate that we've seen in South Africa over the past quarters, which has exacerbated our pricing transformation efforts, that will make this year somewhat more challenging in terms of guidance or in terms of targets.

Slava Degtyarev
Okay. Thank you very much.

Operator
Thank you. The next question is from Jaynesh Bhana of Stanlib. Please go ahead.

Jaynesh Bhana
Hi guys. Thanks for taking the call. Just in terms of out of bundle data pricing what percentage of either revenue or data revenue or even data volumes is currently at risk of this new regulation?

Shameel Joosub
So it's 12% of data revenues. Just to be clear, what's going to happen effectively is the customers will be… You will have to ask the customer's express permission to be able to continue with out of bundle. What we will try and do is if the customer was spending R10 out of bundle we will try and match it with an offer of R10 of in-bundle. So a couple of activities. Proactively trying to get people into bigger bundles. Trying to minimize the impact. Trying to sell them an equivalent spend to try and keep the money the same. That type of thing. But also offering what we call safety bundles to customers. So instead of having an out of bundle rate what you will have is a fee where you pay R3 for 10 MB, 30 cents a MB type of thing. So there are those types of initiatives that we are bringing in to try and minimize the impact.

Jaynesh Bhana
Sure. And then I guess one follow-up just on your data revenue growth in the last quarter. Your usage was up 40% but your revenue was pretty much flat. Is that a function of promotions or a function of this move to out of bundle pricing?

Shameel Joosub
It was a combination of all three things. It's a combination of price transformation, it's a combination of the summer campaign and trying to manage the out of bundle issue proactively. So it's a combo of all three that has come in. Just to give you a proof point, an example would be we already early on in the year dropped the prices of the MMB bundles by as much as 40%. We did see a 40% elasticity. But that category was flat. So it started off slightly negative in the first quarter, went to flat

in the second quarter and grew slightly in the third quarter. But when you take a category like that of a million high-spending users it drags your numbers down. but you have now put yourself in a healthier position and you are seeing your adds in that space growing each month as you gain relevance in that space. So these are the type of changes we've had to make.

Jaynesh Bhana
Sure. Thanks.

Operator
Thank you very much. The next question is from Antoine Agenbach of Arysteq Asset Management. Please go ahead.

Andrew Jansen
Good afternoon guys. It's actually Andrew Jansen of Arysteq Asset Management. Thanks for taking my call. My question relates to the interconnect charges and data charges. If you compare the South African prices to what we are paying in the region, for instance in Namibia on a pay as you go for a week you get a data plus free minutes and SMS and so on for the equivalent of R35. And in South Africa we pay roughly R160 per GB for Vodacom. So my question is somewhere in the future the regulator is going to look at this and say data charges and the interconnect charges in SA are too high. My question is how do you guys foresee this playing out? The communications regulatory authority came out and gave a timeframe and said by X date the charges must be below 30 cents a minute for interconnect, and there were also a specific regulations put out. So the question is really what is the risk that the communications regulator in SA will at some point in time come out and squeeze you on the interconnect and also data charges?

Shameel Joosub
Okay. So firstly let me start off on the interconnect issue. I would say is an issue that's gone. We have taken the impact in the last couple of years. Yes, we've had a drop now again but it's obviously not as material as it was a few years ago. Now, just to put into perspective, the new rate that has been implemented is 0.08 Dollar cents. So we are actually now below the world average on MTR. So we have no risk I would say on the MTR space and we have a glide path that is being implemented as well. If anything I think it's too low now. So that issue by and large is resolved.

On the issue of data pricing that is playing out in our numbers. So we have repriced. For instance when you say a GB of data, a GB of data today, which GB of data are you talking about? Are you talking about R149 for a month with an extra GB at night, or are you talking about the fact that we charge R12 for the hour for a GB, R19 for the day, R79 for a week? So you can see there are various different prices for a GB of data. So I would say the daily, weekly and hourly bundles, let's call it the smaller bundle sizes less than the monthly one, we feel that we're comparative. We're not the cheapest but we're comparative against the market. So we are quite happy there. The monthly pricing we are creating a price transformation for that because that's the outstanding leg of the ones that we've not done yet. But you can't do everything at once.

So basically that data bundle issue is what we will address in the next couple of months. I think we've come up with a smart way in which to do it. And essentially the strategy is you give people more data and hold on to the price. So we call it more for more – or get a little bit more ARPU and give people more data. That does have an impact in terms of you will be giving people more data and they will have to grow into that bigger bundle and so on. But I say we're on a good trajectory. So a number of transformations have been done this year already and increased our competitiveness. And I would say a little bit more to go, specifically the out of bundle rate and the monthly bundle issue, and still some overhang from the ones where you have a two year contract and so on. That will also happen during the year. That will impact your data revenue especially in the first half of the year.

Andrew Jansen
Okay. Thank you.

Operator
Thank you very much. The next question is from Alistair Jones of Newstreet Research. Please go ahead.

Alistair Jones
Yeah, hi. Thanks for the call. Sorry to drill down into the data revenue story I guess, but you obviously had flat revenues in data this quarter. As we look forward maybe in Q4 it's going to be slightly offset by maybe some improvement on the promotional side of things which obviously hurt in Q3. But just looking forward into the June quarter and then maybe into the September quarter, so the first half of the following year, is there an expectation that you would lose 12% of your revenues? Let's say you make 50% of it back. There is a possibility that you could see mid-single digit declines in data revenues. Is that your expectation, potentially a worst case scenario? Or do you think you can limit the impact and maybe have flat data revenues in the next couple of quarters? I know there are a lot of moving parts in that, but I'm just trying to understand whether you're thinking that you will have a pretty significant negative impact in the first half of the year.

Secondly just on the margin, I know you don't disclose anything on margins and costs, but just one thing that stuck out was the 41% growth in data traffic. Obviously your agreement with Rain and the costs associated with that, given this spike in traffic that you've had driven by the lower pricing is there a sense that your cost base would obviously increase because of the Rain agreement? How quick or how flexible are you to reduce costs to limit the impact that the top line is having on the bottom line?

Till Streichert
Okay, let me make a start. Thanks for the question. Just a bit of context in terms of the fourth quarter perhaps first, and then we will comment on how we see the next six, nine, 12 months or so. First understand what the system is in a way. We have covered the elements already. MTR is there. It isn't big, but in essence it has been about 20 basis points following the MTR reduction in October. It has been in third quarter. It will be there as well going forward until we reach a lapping. So that's the first item. The second item where we are still going to see a little bit of drag is basically the phasing in and phasing out on the national roaming. As Shameel has highlighted obviously Cell C has been moving traffic away from us and we obviously got the Telkom traffic from 1st December. But between the phasing in and phasing out there is a little bit of a drag of around about 60 or 70 basis points which both together adding back against the -0.9% would have made us flat underlying.

In the third quarter we obviously had our promotional activities around the festive season. That has stopped, which is in essence a bit of a positive underpin for the fourth quarter. But we will have towards the end of the fourth quarter of course the implementation of the end user subscriber charter which the immediate effect will be naturally a drag on service revenue growth as customers get used to these regulations. While we are making it as least disruptive as possible in the way we implement it I think it is fair to say that we expect it to be negative first before it gets positive again. Now, the good thing is once it is done then once and for all we will be taking care of the out of bundle issue and giving customers a lot more control over their spend, which is good.

So moving now into the next fiscal year I think it is fair to say that we will still be seeing the pressure point of adjusting for the ICASA for the out of bundle regulation, and then basically seeing how customers' behaviour is playing out. And everything will be around the elasticity and how traffic is going to grow and support slight elasticity recovery.

Shameel Joosub
So it will give rise to a little bit of subdued data growth I would say, but not negative. It will cut your data growth rate in at least the first quarter into the second quarter of next year as we get that elasticity back from both the monthly adjustments as well as this. I think the important thing to note is, as Till says, once this is completed the regulatory pressures will be very much reduced as well.

Alistair Jones
Great. Just to follow up on that, you said it won't be negative. So this is essentially… I think data was pretty much flat. So this is probably the worst quarter. You don't expect data revenues to decline after the March introduction?

Till Streichert
That's correct. And just adding to your question in terms of margin management and cost, naturally there is some pressure with now the third quarter results on the South African side. We obviously are very focussed on cost management. We have always done that, but now obviously we are particularly focussed on certain items in order to protect margin as much as possible. With your question to Rain, it is actually not an issue on the Rain side. As we have explained, the deal is in essence scalable for us. And from a traffic management point of view we are well within the range of the capacity that we can manage without incurring any additional cost. So there is no pressure arising from the user growth. And I guess your question are we offloading due to that more to Rain and would be incurring more cost, that is not the case. I'm not concerned with that.

Alistair Jones
Great. Thanks very helpful. Thanks, Till. Thanks, Shameel.

Operator
Thank you very much. Ladies and gentlemen, again if you wish to ask a question please press star and then one. The next question is from Myuran Rajaratnam of MIBFA. Please go ahead.

Myuran Rajaratnam
Hi guys. Thanks for taking the call. I want to talk specifically about SIM only deals and data pricing. The great advantage of both kinds of things is you can see pricing very transparently. I've been watching Telkom, MTN and Cell C. And like you mentioned there is definitely a gap between you and them. And even with the latest promotion there still appears to be a gap. So it sounds like you are responding to competition by cutting data pricing. Is it sufficient? And the second question is it sounds like it is becoming a bit of a price war going on at the moment, at least this end of the market – the heavy data users – and you mentioned people are dual SIMming and you want to avoid people doing that and losing that revenue stream as well. Maybe a couple of comments about the competitive environment in that particular space.

Shameel Joosub
I think on the networks being spectrum constrained over the last couple of years essentially what happened in the big data space is that Telkom did have a lead in that space. But also Telkom was substituting fixed. So as the copper was getting stolen they were replacing it with a fixed wireless access offering or what they call and LTE Advanced offering. So they had the decline in fixed and then the increase in the mobile side of their business. Now, to be frank as an industry we probably allowed them to gain a little too much momentum in that space. So we reacted. If you look at our SIM only prices in the big data part you will see by and large we are very competitive in terms of it.

We still believe we can charge a bit of a premium for the better network. So we are not always the cheapest, but we are definitely in the ballpark.

And like I said there was a 40% price decrease and it was offset by a 40% elasticity. So that has worked. And therefore we have repriced a number of categories, and we do it every year. So we never basically do it once. We always look at where we are competitive, where we aren't competitive. We run a pricing table. And if we think that we're going over what we consider to be a fair differential between us and competition we then make certain adjustments, especially if we see a slowdown in gross adds, retentions, churn. So we look at all of the high level factors price plan by price plan and then make some proactive adjustments all the time. So that's part of business as usual. And that's why you always have a bigger traffic growth and a requisite decline in pricing, because we do our own transformation. We also push people to bigger bundles and so on so that we can get more of that revenue from them. So this is something that we continuously do.

I think where we want to focus on now is the outstanding area as I said. The one we have to do is the out of bundle issue. I would say the three operators are impacted. I think we have managed the out of bundle issue better than others, but there is a big exposure in fairness still even though we've decreased it quite a bit, something like 45% in the last three years. So we've done a lot of work in that respect. But there are still exposures. So that I would say is probably the area with the biggest focus and where we're spending a lot of our time at the moment because the implementation is 1st March. And then basically on the ad hoc monthly bundles we are making some adjustments there through our personalised engine, white lists and so on. So we think we have come up with a good way to manage the impact.

Myuran Rajaratnam

Great. A follow-up question if I may. You have loosely speaking about 40% of the subscriber base but 20% of the spectrum. And obviously you are keen to provide a good service which means you need to have headroom from an engineering perspective on data and voice so that there are not call drops. The second point on that is that owned network economics is much better than roaming economics. So the question I have is how much of a hurdle is this spectrum constraint for you right now? You can't really match everybody else who are spectrum endowed in terms of pricing. But they are also running away from you. I'm just trying to get a sense in my head how this dynamic is going to play out and how you're going to deal with it.

Shameel Joosub

I think a few things come into play. Firstly remember we've been investing quite heavily over the last couple of years in 4G coverage. Now, part of that is the 4G network is now sitting at close to 90% 4G coverage and so on. Now, the problem with that is that the number of 4G devices on the network is essentially sitting at just over 10 million. So effectively what we need to do is to grow the number of 4G devices. Now, what has happened is that two things have happened in the telco environment of late. One is the introduction of what is called a 4G feature phone which comes in significantly lower, around the $23 or $25 mark. So those phones are coming out soon. And then secondly the Android Go 4G devices. So what we will be doing is deliberately pushing customers towards the 4G network to try and upscale the amount of customers taking up 4G phones. And that will give rise to a bigger data usage.

But more importantly from a network perspective the more customers we can get onto the 4G network it takes pressure off the 3G network because 4G is much more optimal in terms of utilisation or rather cost to carry. So what we're going to try and do is move more customers into 4G and push that angle a lot more. So we have capacity, is the point I'm trying to make, on our network. And therefore this transformation does speak to the investments that have already been made over the last couple of years. So it doesn't require a new step-up in investment because the investments have already been made. We now need to fill the network.

The Rain deal is a very good deal because as we are expanding the sites there is a minimum quantity of data that we get anyway. So we try and stay within the threshold as part of the deal and we keep the rest of the traffic on our own network. But even if it increased the deal is done in such a way that it doesn't have a negative impact on our margin. So we carefully thought it through in terms of how we did that. So I'm not concerned from an increased capex spend perspective. I think we have the capacity to manage that. I think what you will see from us is a more deliberate 4G push in light of the fact that the prices have come down as well.

Myuran Rajaratnam
Great. Thank you so much.

Operator
Thank you. Our next question is from Mike Gresty of Anchor Capital. Please go ahead.

Mike Gresty
Good afternoon guys. Thank you very much for the opportunity to ask a couple of questions. Shameel, just looking back through my notes from previous discussions the price transformation in your contract business as I understood it by this quarter was actually going to be starting to work positively through your numbers. Just looking back at this time last year you made the comment that around 36% of your contract customer base had moved onto these larger bundles already. And certainly that was an area of negative surprise for me, seeing that that really hasn't started to come through in terms of that reacceleration of revenue momentum.

So I was just wondering what you are seeing differently in terms of behaviour from your customers on that side. I just wanted to clarify, the point you made earlier suggested potentially we could see… I think you made the remark drag on revenue was more negative before you see it coming through. The impact of this new subscriber charter would be negative. I just wanted to clarify. Do you think you could still maintain data revenue growth? You made a suggestion that you could. I just want to make 100% sure that that's your anticipation with your repricing of your monthly bundles and this charter coming into effect. Can you still grow data revenue in context of that?

Shameel Joosub
Maybe a couple of thoughts. Firstly on the contract part you're right. The contract base continues to transform, and yes, we are seeing some of the data contracts that we did the transformation on two years ago coming out and you're seeing the growth coming through again. Till and I were just looking at it earlier today. There is 1.5 million customers where we are seeing strong revenue growth. There is another set of customers where we're seeing strong revenue growing coming through as well that is more than double digit as an example. So there is a lot of that happening.

There is another category of customers which also form part of the contract customer base which is this MBB category where we've just started the transformation. So there are some positives where the transformation has already happened. There is some stuff that we're in the middle of. Like the dailies, hourlies and weeklies we've already taken the impact. So these types of things are happening and you're starting to find they are all playing into the price transformation as well. This year especially the second half has got a lot of price transformation issues in. That said, the summer promo also had a negative effect and then dragged down some of the growth numbers on all segments including contract. So it did have an impact there as well.

In terms of overall data growth what's encouraging is that the customer utilisation is still very strong. So your customer growth in terms of actual usage per device is very good. Your usage per smart phone is up 32%. So customers have not stopped spending data. It's the price transformational issues that have decreased that portion. So essentially the usage will continue to grow. And if you priced properly, and you can do less promos, secondly, you can make sure that you will get that utilisation coming through from the increased usage from the customers.

So there is going to be a positive category, but there is a big chunk sitting in the 12% as we said that is in this repricing part. We don't have a choice. We have to deal with it. So that is going to happen and we need to manage through that. And there is an impact on the monthly ones which we also manage through. But on the monthly ones the issue is not going to come so much from a decrease because it's a more for more strategy. But it will come through from the perspective that the monetisation of the future growth will happen, but people have to grow into that bundle.

Till Streichert

We have obviously done pricing transformation on a number of items over the past couple of years. I think the point to highlight this time around is that basically the pricing transformation or the success of the pricing transformation efforts has been undermined by the macroeconomic backdrop where we haven't seen the requisite elasticity coming through quick enough. I think that's point one. Point two, as Shameel has highlighted, with the implemented of the end user subscriber charter there is a negative effect from it. Again the magnitude is depending as well on customer behaviour. And this is why we are saying there is a scenario where it might be negative first before it gets positive again, depending upon elasticity.

And the last point is – and I won't be very specific. You will appreciate that – if I look at the first half of the next fiscal year we do look at positive data growth, but low positive data growth, again in the context of dealing with the end user subscriber charter and consumers moving into the bigger price plans. So a bit of a modest growth before we would then expect it as we progress through the quarters to strengthen again.

Mike Gresty

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

Shameel Joosub

Okay. Thank you everyone. Thank you for joining us.

END OF TRANSCRIPT