Conference Call Transcript

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ANNUAL RESULTS ANALYST & INVESTOR CALL

Operator

Welcome to the Vodacom Group Limited results conference call for the year ended 31 March 2024. 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 40 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 investor relations website, vodacomir@vodacom.co.za. Shameel, over to you, sir.

Shameel Joosub

Thank you. Good afternoon, everyone, and good morning to those joining the call from the U.S. I'm joined by Group CFO, Raisibe Morathi, as well as our Head of Investment Relations, JP Davids. Vodacom is celebrating our 30th anniversary, and as I reflect on our journey over the years, I'm filled with a profound sense of gratitude to have been part of the Vodacom growth journey. We now reach more than 200 million customers across eight countries through innovative digital and financial services with the power to change lives.

While I reflect proudly on our milestones over the past three decades, it is our ongoing purpose to connect for a better future and drive inclusion that fuels my passion to lead this company. This year we simplified and evolved our purpose to focus on 'Empowering People' and 'Protecting the Planet'. This is underpinned by our commitment to act with integrity in everything that we do.

Under each of these pillars, we have clear actions. For example, we focus on people through closing the digital divide, which means access to smart devices, our education platforms, smartphone penetration, rural coverage, our Code Like a Girl programme, empowering our customers, and supporting communities. We protect the planet through our net zero ambitions and driving circularity and biodiversity. We will provide details of each of these initiatives in our ESG report, which we publish in June.

Ahead of that, I wanted to mention our initiatives that made a difference in financial year 2024. With connectivity at our core and supported by innovative new rural funding partnerships, we are closing the digital divide. This year, we rolled out an additional 2,300 4G base stations across our markets. Our smartphone strategy has several elements to drive inclusion. It combines local assembly with ground-breaking new prepaid handset financing model that we have piloted across several markets in the year in which we intend to scale in FY25.

Our impact on financial inclusion is evidenced by the 11.8% increase in financial service customers to 78,9 million customers, as we now process more than $1.1 billion of transaction value every day. Once financially included, we provide customers with an ecosystem that deepens their access to financial services, with products like international remittances, global payments, bill payments, savings, lending, and insurance.

Beyond our effort to drive digital and financial inclusion, we leverage our Tech for Good platforms to develop solutions across critical verticals, including education, healthcare, and agriculture. In education, our digital solutions facilitate access to quality educational resources for more than 4 million learners in our markets. In Egypt, our partnership with government to digitise the country's healthcare system reaches more than 300 hospitals and serves more than 6 million people across Egypt.

Given the importance of agriculture in Africa, our businesses, Mezzanine M-PESA, and IoT.next enhance productivity through the efficient distribution of inputs, access to insurance and funding, connecting farmers with buyers and facilitating payments and subsidies. Mezzanine's eVuna, MyFarmWeb and e-vouching solutions now reaches over 6 million beneficiaries. We also continue to partner with governments to support the technology-based affordable emergency transport system, known as M-Mama, in partnership with the Vodafone Foundation, which is expanding beyond Tanzania.

To further empower people, we aim to positively impact communities where we operate. Our Code Like a Girl program promotes women empowerment for technological inclusion and reaches almost 16,000 young women. In the DRC, our 'I Am Capable' programme helped 1,450 women living with a disability to become our M-PESA agents.

For the planet, we have committed to net zero for Scope 1 and Scope 2 by 2035 and submitted our ambition for verification in terms of the science-based targets initiative. We will fulfil this commitment by reimagining problems to create inclusive opportunities. Our virtual wheeling deal is a prime example of this mindset and a blueprint for other South African corporates to accelerate the country's energy transition. Pleasingly, our progress on ESG was again recognised by leading rating agencies in this financial year. We retained our ESG leader, AAA rating from MSCI. We're also proud that Vodacom was recognised for leadership in addressing climate change and was awarded an A- rating in the latest CDP climate change assessment.

In my presentation this morning, I also provided a look back from where we've come from, and I look forward to where we are going. Our vision 2025, powered by our strategy, the System of Advantage, has evolved from the acquisition of Egypt and Ethiopia to creating healthy markets. We have diversified and scaled new services, especially financial services, while also investing significantly in world-class big data technology to enable a deeper understanding for our customers.

With a year left in the current strategic cycle, our group's revenue has surpassed R150 billion. Our customer base is evenly split across our geographical segments, and we now manage the business in four segments, namely South Africa, Egypt, our international portfolio, and Safaricom, each comprising around 50 million customers. This showcases the breadth of our footprint, which covers more than half a billion people across the continent.

Our beyond mobile or new services, which includes digital financial services, fixed and IoT, contributes 20% of group service revenue as we also advanced our product diversification. As Africa's leading FinTech operator, we process more than $100 billion in the quarter. So, annualising at a rate of $400 billion. Our transaction volume of 33.7 billion means that we do almost 100 million transactions a day.

These outcomes were delivered through a period characterised by economic volatility. This year, we faced heightened geopolitical tensions, supply chain disruptions, high inflation and interest rates, energy uncertainty, and foreign exchange rate pressures, including a 40% devaluation in the Egyptian Pound in March. These factors have taken a toll on our bottom line in the current year, but not on our strategic ambitions.

As we look past 2025 into the next phase of our strategy, we will focus on sustained growth by amplifying our commitment to purpose and customers, strengthening the fundamentals, innovating for growth as we continue to scale our new services beyond mobile and embracing digital transformation. Core to this outlook will be accelerating mobile and fixed connectivity, scaling handset financing and deepening digital and financial inclusion in all our markets. We also intend to expand our partnerships to power our growth, increase rural and fibre connectivity and expand the reach of our tech for good platforms.

As we execute in the next phase of our strategy, we see continued growth of our connectivity and financial service customers. We expect to exceed 230 million customers and 100 million financial service customers by FY2027. This customer growth provides the foundation for our upgraded high single digit service revenue growth target.

In addition to our progress on purpose and strategy, I'm also pleased to provide an update on our financial results. This was a year characterised by strong commercial momentum, despite facing several precarious economic headwinds, including a 20% higher effective interest rate and foreign exchange rate pressures. At a group level, our financial highlights included revenue of R151 billion, up 26.4%. On a pro forma basis, including Egypt in both years, revenue growth was up 10.1%. This is the highest rate of constant currency growth for the group in many years.

Group service revenue growth was up 29.1% or 9.2% on a pro forma and target comparable basis. This was at the higher end of our medium-term target range. Our key growth drivers were data revenue and new services, including financial services. Data customers, including Safaricom, reached 106.4 million, while data traffic growth accelerated to 38.5%. Group EBITDA increased 24.3% to R56.1 billion, impacted by a material foreign exchange trading loss of R1.6 billion.

On a group performer basis EBITDA growth was 7.8%, in line with our medium-term expectations. Our headline earnings per share decreased 10.8% to 846 cents per share. Disappointingly, this result did not reflect our strong commercial momentum. Headline earnings was impacted by foreign exchange rate losses. To put into perspective, we had a R1.6 billion loss in Egypt and R400 million on the repatriation of dividends, so R2 billion impact hitting headline earnings per share, start-up losses in Ethiopia, higher interest rates, and a prior year deferred tax asset recognised in Tanzania. Together, higher interest rates and foreign exchange losses resulted in a headwind of almost 150 cents per share. The board declared a total dividend of 590 cents per share consistent with our pay-out ratio approach and reflective of the pressure on headline earnings.

At a product level, new services contributed 20% of group service revenue, moving closer to our target of 25% to 30% in the medium term. Financial services delivered growth of 32.2% or 19.9% on a pro forma basis, including Egypt, as we continue to scale user adoption, new products and services. Our super access scaling nicely across the group with almost 5 million M-PESA users adopting this channel. In South Africa, our super VodaPay reached over 10 million downloads. During the year, we merged our telecom app, My Vodacom, into VodaPay. This is supporting good growth in transacting users in VodaPay. In Egypt, VodaCash is integrated into our Ana Vodafone app and the go-to mobile wallet in the country, with customers up an impressive 52% to 8.2 million.

Shifting focus to South Africa, service revenue grew 2.6% to R61.6 billion, supported by consumer contract, prepaid data and new services. Mobile contract was up 3.9%, supported by a more for more pricing increase in 125,000 new customers. Vodacom Business excluding wholesale revenue was up 3.4%. The modest growth reflects that corporate customers were recalibrating spend as employees returned to their offices.

Our prepaid segment grew 1.7%, subdued by the challenging macro backdrop. Pleasingly, prepaid data grew by 11.6% supported by our network investment. Data metrics remains strong with data traffic up 36.2%. New services were up 11.2% and contributed 16.6% or R10.2 billion of South Africa's service revenue. Financial services revenue increased 7.9% underpinned by insurance revenue growth of 13.8%. Managed alongside financial services, our digital service portfolio, had a strong year, up 13.6% to R1.6 billion. EBITDA grew by 0.7%, impacted by pressure on the wholesale revenue and higher network operating costs associated with increased electricity prices, grid availability challenges, and security costs.

Egypt had an excellent year. Service revenue was up 31.6% in local currency and accelerated to 40.5% in the fourth quarter. Growth was supported by strong customer engagement in connectivity, mobile and fixed price adjustments, and stellar growth in Vodafone Cash. Customers reached 48.3m, up 6.2%, and was another driver of growth.

Data metrics were strong in Egypt. Data traffic was up 41.8%. It's supported by a 10.9% increase in customers to 29.1 million customers. Vodafone Cash revenue more than doubled and increased its contribution to service revenue to 6.5%. Egypt contributed R13.1 billion to Group EBITDA, or 23,3%. The reported result was impacted by a 40% currency devaluation in March. Excluding this impact, EBITDA would have been R14.5 billion and up almost 40% in local currency.

This trend reflects excellent cost growth in a high inflation environment and growth in Vodafone Cash, including fee income on deposits. Net income growth in local currency was excellent at 53.7% with the foreign exchange rate impact offset by lower growth and depreciation and higher net income. This level of net income growth meant that even in hard currency, the business grew in FY24 despite the devaluation in March. In Euros, Vodacom Egypt net income was 6% higher than the full year FY23, and in Rands it was 22% higher.

Our international operations reported service revenue growth of R29.9 billion, up 13.1%. The reported growth was supported by currency tailwinds, while normalised service revenue growth was 5%. The underlying performance was supported by strong growth in data and M-PESA.

From a market perspective, we delivered strong double-digit growth in Tanzania and the DRC. Mozambique's performance was impacted by price transformation. However, recent regulatory reforms and price floors that went live in early May should meaningfully improve the market's prospects. Our customer base increased 7.7% to 54.1 million, with net additions of 3.9 million customers reflecting strong commercial traction across the portfolio.

Data revenue increased 30.5% supported by data traffic growth of 44% and 14.4% smartphone user growth. M-PESA revenue was up 21.4% to R7.9 billion, contributing 26.5% of international service revenue growth. M-PESA growth was supported by strong performance in the DRC, Lesotho, and Tanzania. International EBITDA grew 8.2% to R11 billion, and on a normalised basis, was up 1.4%. Tanzania EBITDA growth outpaced the other markets with growth of 19.7% in local currency. DRC delivered good U.S. Dollar growth of 6.9%, while Mozambique weighed on the segment's performance with EBITDA down 22% in local currency.

Shifting then to Safaricom from a numbers perspective, Safaricom delivered an excellent performance in Kenya and reported that Ethiopia delivered on important milestones in its first full year since launch. Service revenue increased 13.4% with Kenya delivering growth of 11.7%, above its multi-year trend. EBITDA was up 16.8% supported by Kenya, which reported stellar growth of 16.6%. Kenyan EBITDA margins improved 2.8 percentage points to a best-in-class 54.7%.

Supported by strong EBITDA result, Safaricom delivered ahead of its EBIT guidance for both Group and Kenya. Kenyan EBIT was up 20.4%. Safaricom's net profit attributable to equity shareholders was up 1.2% in the year. This is a noteworthy result given that Ethiopia's EBITDA losses were guided to have peaked in the year. For the Kenyan business, the key driver of the result was M-PESA, but the revenue growth was an impressive 19.4% off a very large base.

I'm particularly excited about the launch of Mali during the year, our first wealth product. Creating a savings culture through simple and rewarding wealth products will be a key enabler of growth for the continent. Kenyan mobile data revenue grew 18%, also accelerating from the prior year. Separately in Ethiopia, we reached 4.4 million customers with 2,800 sites built. Safaricom Ethiopia also launched M-PESA in August 2023. We see M-PESA accelerating our ambition to transform lives in the country, supported by the group's proven track record in financial services in Africa.

Concluding my review with some comments on our targets, the execution of our strategy and strong commercial momentum in FY24 supported an upgrade to our medium-term service revenue outlook. We now target growth of high single digit from mid to high single digit previously. Our group EBITDA growth and capital intensity prospects in the medium term remain unchanged. Safaricom's EBIT guidance for FY25 suggests another strong year for Kenya, while Ethiopia continues to scale up its operations. That concludes my review. Raisibe and I are now ready to answer any questions that you may have.

Operator

Thank you, sir. Ladies and gentlemen, we will now begin the question and answer session. If you would like to ask a question today, please press * and then 1 one on your touchtone phone. If you decide to withdraw the question, please press * and then 2 to remove yourself from the list. Again, if you would like to ask a question, please press * and then 1 now. The first question we have comes from Madi Singh of HSBC. Please go ahead.

Madhvendra Singh

Yes, hi. Thanks a lot for taking my questions. Just two questions, Shameel, from my side. Firstly, on your HEPS performance for the year, but also looking forward, I was just wondering, would you say that HEPS basically has bottomed out and now going forward we should start seeing positive momentum on that? Because I understand dividends are dependent on HEPs. So, I'm just trying to understand what's your thoughts on the momentum on that going forward.

And then second question is, in the morning presentation, I saw you mentioning price hikes quite a few times actually. So, not only for South Africa, but also Egypt, also Mozambique. So, I'm just trying to understand your general views about the pricing environment in your markets. Are you feeling more confident about the pricing power for telcos in general? And how do you see this evolving further over the next two, three years? Is that something which makes you more positive about this going forward? Thank you.

Shameel Joosub

Yes, I think maybe starting with the first one on HEPS. So, yes, we're more confident about HEPS going forward. Remember this year, we took a number of once-off knocks, right. So, effectively a R2 billion knock that's just come from basically Egypt and the devaluation. That won't repeat going forward. We've also had a 20% increase in the effective rate of our interest rates in this last period as well. And of course, with interest rates expected to peak with some recovery. So, I think from what's within our control, we can definitely say that in looking at the four segments, one feels a lot more confident.

Egypt exited at 40% with a stable currency in terms of growth in the last quarter. So, I think it's looking a lot more positive in that respect. I think Safaricom has had a standout year, and from the guidance you can see we're planning another fantastic year. So, I think that bodes well. Then on IB, DRC's grown well. Tanzania continues to shoot the lights out because also there the price floor is a dynamic. And wherever we've got price floors, I think you can be rest assured that the results do come.

And the next one, of course, is to plan for is Mozambique. But I think what's very encouraging is the price floors that went in in Mozambique a week ago. The trends are trending quite nicely. And if we can get that asset back into double-digit growth, then that bodies well for the international portfolio. And then, of course, within there, the FinTech part, all of that is growing quite nicely and it is accelerating quite well, both in Egypt and in all the markets.

And then finally, on South Africa, I think the price has become very critical. Let me capture it this way for you and answer point two at the same time. So, I think what we've done historically is essentially try to bridge inflation through growth. So, trying to grow voice and data predominantly to try and offset any inflationary pressures. I think what we're seeing in mature markets now, like in Europe and the U.S and so on and so on, is that inflationary prices are becoming more prevalent.

What we're doing is we're doing it slightly differently, which is essentially what we call a more for more strategy. So, what we're doing is putting the price up, but also giving the customer more value. So, the effective rate is actually reducing to the customer. So, the customer is getting better value. So, it's a price transformation while getting… I put it as a price up to price down. So, effectively what we're doing is gaining the price up from the customer, but the value, the effective price to the customer becomes less. For example, if we took 1 GB, we are now giving the customer 1.2 GB for a 5% or 6% increase in terms of price ups.

We have now, for the first time, decided that we are doing it in prepaid as well. This year we're implementing it during April and May, price-ups in prepaid. And I think you're starting to see the market doing similar kind of things. The post-paid ones, all the markets has done the same. In prepaid, you're also starting to see, I think Telkom did one late last year, and I think the others are following similar kind of suits. But regardless of whether they do or don't, because we're giving more value, I think, you know, it stands us in good stead.

So, the way we see it is price ups or price floors to be able to sustain. And that's when we get to a situation where effectively you can't get to that growth on your standalone basis, then you have to have these mechanisms in place. And so, I think it's a very important dynamic. Of course, in Egypt, we are still pushing for more price ups after embedding the one that we did in January, but that one will carry through for the full year. And we try to link it more to inflation going forward. But of course, it's a bigger conversation with government in that respect.

But the price floors make sure that the revenue or the traffic growth converts fully into revenue. Ideally, you want price floors more than you want price ups, but of course in some cases you need both, like in Egypt, because of the devaluation. But price floors do give you the growth that you're looking for.

Madhvendra Singh

Would you ever expect a price floor or similar concept being introduced in South Africa?

Shameel Joosub

Honestly, I think we should try. I think it will be more difficult in South Africa, but I think we should try. Because then you're bringing the pricing down for your monthly payers and so on, but you could land up R40 or R50 a GB, but essentially getting a much higher yield for customers. What we've done in Mozambique is an example. We've agreed with government to put the prices up by more than 50%, but we've also taken the out-of-bundle rates and brought them down. So, we've fixed part of the problem, but also created a proper solution of revenue flow.

Madhvendra Singh

Okay, great. Thank you.

Operator

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

Rohit Modi

Hi, thank you for the opportunity and congratulations on the 30th anniversary. Three from my side. Firstly, on the South Africa prepaid market, you mentioned that you haven't lost any market share. I can confirm, are you seeing more competition in the market given the muted performance this quarter, like it was flat? Is that the market, which is being flat, or with more competition in the market?

Secondly on the wholesale revenue decline, can you guide us how should we look at wholesale revenue in FY25? Is that the base now, that kind of decline that we could see in 2025 as well? Thirdly on in Egypt, the interest impact you had, like a benefit you had on EBITDA. Is this something that you'll see in FY25 as well, or is this the one-off that you won't be seeing next year? Thank you.

Shameel Joosub

Okay, Raisibe will take the reclassification part. On the SA market share, I think we don't have the latest results out for this quarter, but what we've seen up to December, of course, is that effectively, we're holding or gaining share, and that the net losers have actually been more Cell C actually during this period and MTN somewhat. I would say the way we capture it, I think from a trading perspective, I think we've done well, both in prepaid and post-paid and so on, against competition. I think where MTN has a slight advantage on wholesale is because they've got the prepaid Cell C revenue. And with Cell C moving to an MVNO, they basically have that revenue coming in. On the positive side, of course, is that Cell C is not a network operator anymore, it's a big MVNO.

So, that's the one part. But I think where we have a strategic advantage is our beyond mobile services, IoT, financial services, digital services. So, I think we're outpacing them there by a long shot. So, I think that generally is proving, and then pre-paid, post-paid, I think we're doing better. So, that's the way I would capture it in terms of that. In terms of wholesale revenue decline, it's not all yet in the base. So, I think it will probably be in the base in the first quarter. Correct?

JP Davids

I think the 4Q trend is there or thereabouts. But we will certainly have pressure in the first half of the year.

Raisibe Morathi

And then in terms of the reclassification, this is not a once-off. So, this is relating to the share of the interest on the e-wallet funds that are in VodaCash. And we expect this to obviously continue going forward. So, now that it's in the base, expect that to still come through. So yeah, that will continue into the future.

Madhvendra Singh

Thank you so much.

Operator

Thank you. Ladies and gentlemen, just a reminder, if you would like to ask a question today, please press * and then 1 now. The next question we have comes from Jonathan Kennedy-Good of Prescient Securities. Please go ahead.

Jonathan Kennedy-Good

Good afternoon. Just a couple for me on South Africa. I know you've spoken about the price increases on post-paid and prepaid. Could you give us a sense of where the blended price increases are likely to land in SA? And then secondly, obviously there's been quite a bit of cost inflation around network resilience and staff costs. Can you give us a sense of how those are progressing and whether we're likely to see slowing in those cost lines? And then finally, Egypt and local currency, ex the FX movement, I think EBITDA margins were quite a bit higher than guided at about 45%, I think. Will that be sustainable, or do you think that we're still going to see inflation accelerate in that market post the currency devaluation? Just some sense on EBITDA margins there? Thank you.

Shameel Joosub

Yeah, so let me start with the price ups. So effectively, the price up from 1st of April is in on contract. It's circa 7% price up on contract with a requisite 14% or 15% increase in terms of value that's been given to the customer. So, that's already gone in from 1st of April. And then on prepaid, it’s still early days to be honest. But the idea is to carve out a better performance in terms of prepaid. So, I would say probably circa 3% to 4% growth to ensure that we get the result. We'll have to see how it is, but essentially putting up the prices by 4% or 5% and giving 8% to 10% more value.

In terms of Egypt, I think the business has shown that it's got a resiliency. I mean, it's been achieving margins in the 40s for a while now. And so, the resiliency is there. It's just been impacted by the devaluation. I think also just remember that in Egypt you've got the price floor. You've got the FinTech piece which is growing. And of course, now moving the interest up to the top will also positively impact EBITDA margins going forward. So, that grows the interest revenue on VodaCash. And then, of course, you've got the volume growth and so on, and well-managed costs. So, this business will continue to be a 44% or 45% business going forward.

Raisibe Morathi

In terms of the staff costs and the network resilience, staff cost had slightly elevated growth this time around, and that is in part as we reclassified some of the capitalised costs to opex. So, this is where, obviously, we wanted to reduce the rate at which we capitalised, so that increased the opex. The benefit from a capex perspective was from a cash flow sense, there was no change. So, that is also in the base and going forward that should normalise back to staff costs growing at more or less inflation levels.

And with still a number of initiatives to optimise in headcount, we're not increasing headcount, with the mature businesses staying stable and also just making sure that the growth is restricted to newer businesses that you need to support. But overall, we expect that the growth will be normalised at 5% to 6% kind of inflation levels. And noting, obviously, the inflation levels are different for different countries, but they're more blended in that kind of direction.

Network resilience, we do note the tech opex is growing higher than the rate of growth in the other costs, and that is as a result of energy costs that have shown a big increase across all the different markets, and energy here in the basket of electricity as well as diesel. We are looking to offset some of these costs with improved efficiencies in terms of how we manage our network and as well as cost savings programmes that are continuing across the different areas of business.

We delivered on the cost efficiency programme that we had identified for 2024 under fit for growth, and we'll continue with that. So, being it discussing some of the contracts with the suppliers, lots of RFPs, the commission structures, digitalisation of different business processes and increased sharing. So, that's how we are looking at still supporting a growth that will give us a positive jaws, i.e., when you compare with the revenue growth.

Operator

Thank you, ma'am. Ladies and gentlemen, again, if you would like to ask a question, please press * and then 1 now. The next question we have comes from Myuran Rajaratnam of MIBFA. Please go ahead.

Myuran Rajaratnam

Good afternoon and thanks for the opportunity. I can just reiterate firstly a comment by Maddy that as shareholders, what we want to see is big dividends and dividends growing in leaps and bounds, right? The fact that you link it to your HEPs means you want the HEPs to be growing in leaps and bounds. So, I have a question on South Africa related to how fast you can grow, how well you can grow. If you look at slide 11, you've provided a group EBIT breakdown, an operating profit breakdown. But that's not completely represented because that's at the consolidated level.

Actually, if you look at the proportionate level, you only own less than 35% of Safaricom, 55% of Egypt, and blended base, give or take, 70% of international. And then if you devalue the Egyptian Pound to what it is now, and look at what your proportional EBIT looks like, 70% still comes from South Africa, right? And so, South Africa is such a big part of your life. And I'd like you to understand why it's struggling to grow. I mean your EBIT went down 4%. Operating profit was down 4%. Now, 70% times 4 is already a negative 2.8% before you say hello to all your wonderfully growing businesses in Egypt and so on. So, on a proportionate basis it's quite difficult if you don't grow South Africa.

In South Africa you guys don't have any M-PESA and your prepaid revenue is growing at 6% in the last quarter. And these are the growth drivers, M-PESA and prepaid data. Prepaid data is growing at 6% in the last quarter. So, those are the growth drivers elsewhere, but it's not growing in South Africa because you don't have M-PESA and data is not growing at the moment, it looks like. And it looks like in the coming year, there's more headwinds in wholesale. From what I'm hearing, the Telkom contract is being renewed and so on. So, strategically, how do we actually fix this so that South Africa, which is 70% of my loose proportionate currency devalued EBIT, and then that will allow your HEPs to grow and therefore dividends to grow? That's my first question. I have a follow-up if I can. Thanks.

Shameel Joosub

Yeah, so the way I think we need to think about it is this, right. I think you're right in saying that previously we tried to grow South Africa by just volume growth and so on. And I think what we're having to do now is to make sure that we're enforcing it through price ups so that we can ensure the revenue growth. So, that's the first part. So, I think that's a change from where we were previously. So, that's in the contract side, but also on prepaid going forward. So, it's crafting out the prepaid growth that we're talking about.

I think where the pressure has come is the data traffic generally. And don't get caught up about the trend in the last quarter, because there was a strong comparative in the previous quarter. Rather than look at prepaid data revenue growth over the year. And I think there's a prepaid data growth and the mechanisms around that I think are still strong. So, 11% growth in terms of prepaid data revenue growth.

The issue is voice. And I think there we're starting the voice declines coming down and the trend starting to improve on voice declines. And that's because of moves to OTT, all of those type of things. So, we have to grow prepaid data revenue even stronger to offset that. So, I think that's the first part. And I think through the price ups in prepaid, you're almost crafting out that result, which we didn't do last year, to be honest. We did it on contract, but we didn't do it on prepaid.

The price ups have also been done at such a level to try and offset some of the pressures in wholesale. So, we've gone for a higher increase of 7% to try and offset that. So that's the kind of thinking there on it to take away some of the wholesale pressures and to craft out the result. The second part, I think, is the new services are growing and you'll see the new services grew 13%. I don't agree with you in terms of new services growth I agree with you that it's not M-PESA or not as big as M-PESA. But I think 11.2% growth and R10.2 billion on new services, which is fibre, financial services, IoT and digital has been quite good.

Where we are seeing growth is the financial digital service category. That business is R4.8 billion from nothing a couple of years ago and with a margin of 45%. So, that's been really good for us. And so, I think we've got a couple of pokers in the fire. The fibre side is growing quite nicely as well. We saw strong growth. IoT was impacted, which would have grown faster, but was impacted by this RT-15 delays and so on and so on, which generally we never had before. So, that impacted the IoT growth. So, we had lower growth in IoT than what we would normally have.

So, I think the new growth part is there. It's now 16% of service revenue in South Africa. It's not the 46% in Kenya. It's not the 30% in IB, but it's definitely growing. And remember, it's off a much larger base. And then I think the cost focus in South Africa, we have to change some of the models which we're now doing. So, we've basically reduced margins in the distribution channel as the contracts have come up. We're doing the procurement and aggressive approach on that, but we also have targeted certain vendors to bring their costs down and executing on that.

So, we're putting it into one bucket. One is a forced decline in terms of, look, this is it. This is the rate we need if you're in contract. The second market is re-looking at all the costs of the entire value chain and then reducing that, including people, including everything. So, we are also driving that. And I mean, ideally, we want South Africa to grow 4% to 5% a year. So that's the intention there, trying to keep pace with inflation on the bottom line.

Of course, remember on EBIT and all of that, one of the things that have been affecting us is this load shedding. So, you had increased depreciation because of that. You've also got the spectrum, which on the one side solves your problem, on the other side, you've got the amortisation on the spectrum that's come through. And then of course, remember all the interest costs are sitting in South Africa because all our debt is sitting in South Africa. That's split between Group and SA, but a lot of our debt is actually sitting in SA. So, you need to also see it as the hub where everything goes through.

But I think in the end, it's about delivering earnings growth and I think the mix of the countries plus the different parts, I think really puts us into a context of where we will get there. And remember, just to be clear, Safaricom is not consolidated, so it's not in the numbers. The money and the revenues and all of that is excluded. Safaricom just comes through in the associated line. Egypt is consolidated.

Myuran Rajaratnam

Sure, sure. Yeah, it comes at the EBIT line. So, it's there. That's why I was talking about EBIT on slide 11. The second follow-up I suppose is actually, if shareholders all we can eat is dividends and growing dividends which is linked to growing HEPs, is there not an argument that we must move away from your consolidated revenue and EBITDA guidance – so, it's a question of your guidance – to actually a proportionate EBITDA guidance?

If you think about it, because you own less of Egypt and less of international, your proportionate EBITDA guidance might be high single digits on a consolidated level, but actually on a proportionate level, it might be mid-single digits, right? But that's what shareholders can eat really. And so, if the focus is to look after shareholders, shouldn't the guidance be more on proportionate basis?

Shameel Joosub

Yeah, look, just to put it in perspective, we own 55% of Egypt. We own 85% of Mozambique. We own 75% of Tanzania. We own 51% of the DRC. And we own 80% of Lesotho, yeah? And then, of course, from a Safaricom perspective, there's a 35%. I mean, from a transparent view, we're happy to always give colour around this. So, if that's what will be helpful, of course, we'll not change guidance, but we're always happy to provide additional colour.

JP Davids

Yeah, and then one small build from my side is Safaricom does provide its own guidance. So, you have our consolidated businesses, which we provide, and then them, as a separately listed company, provide guidance, which obviously would translate ultimately into our associate line. So, you should have all the pieces to the puzzle. But that's not to take away from your overall point, which is you want to eat dividends.

Myuran Rajaratnam

Sure, and as shareholders, we can only eat the proportionate growth, I suppose. Proportionate EBITDA.

Operator

Thank you, sir. The next question we have comes from Preshendran Odayar from Nedbank CIB. Please go ahead.

Preshendran Odayar

Thanks, and congratulations on the results. Just three quick ones from me. I just want to note that I was looking at the cash flow statement. I noticed that you repaid some debt of around R10 billion more than last year. I don't really see that in the balance sheet in terms of any reduction in any material liability balances. I just wanted to get some colour on what was that for.

And then, back onto your voice question. I know a lot of people have been asking about this on SA. I remember earlier in the call you said that your prepaid voice decline was 6% in the last quarter. Are you able to share what your total was? Is post-paid also declining at a similar level? If so, then your voice is actually not doing too bad, to be honest. It's kind of like bottoming out in terms of the decline.

And then linked to that, can you tell us what percentage of Egypt's service revenue is from voice? I remember a while ago you told us it was mid-teens. I think that was at interim. Is that growing in line with the price ups or is it declining in favour of a move to data voice options? I can't remember if you're allowed to make WhatsApp calls in Egypt or not, but you guys can clarify that for me. And then if you can tell us also if possible a rough percentage of how much of your revenue in Egypt comes from data. Thanks.

Raisibe Morathi

Yeah. So, with the debt that you're referring to, to pay for the transaction in Egypt, you need to take into account that plus the cash that would also come with the business that you're acquiring. So, hence, maybe not seeing the net increase of R10 billion, but also noting that as our different debt packages mature, we have done a number of refinances. But that R10 billion, actually R11 billion is pretty much in the base.

JP Davids

Okay, then just moving on to the voice discussion and then some of the other metrics across the group in terms of voice. So, in South Africa, you're correct, we called that down 6% in the quarter for prepaid in South Africa. And that was a better quarter than we've had through the course of the year. To Shameel's point he made earlier, we obviously put through a few initiatives there to try to add a bit more value and try to address the rate of that decline.

At an overall Group level, we disclosed in today's presentation that we have just a little bit less than 20% of the Group from prepaid voice. In terms of South Africa contract voice, we actually don't know that number. It would require breaking up the ARPU of our contract customers on quite an arbitrary basis. So, we don't track that. We do track obviously the overall ARPU spend in our contract segment, but not the voice data split.

And then when it comes to Egypt, yes, you're 100% right. The Egyptian business has a slightly different voice dynamic to the rest of the group in that you can't do WhatsApp calling. And your yardstick of teens type of contribution is again there or thereabouts when it comes to the share of voice in Egypt. It is one of the only markets we have, or the few markets we have that is actually growing its voice revenues at the moment. And that was supported by the price-ups in that market in December. So, hopefully we've covered all the bases there.

Preshendran Odayar

That was good. Thanks, JP. And thanks, Raisibe, as well.

Operator

Thank you. The next question we have comes from Nadim Mohamed of SBG Securities. Please go ahead.

Nadim Mohamed

Good afternoon. Just a quick one from me on your merchant strategy and M-PESA in international. I see you've doubled your number of merchants. Just like to get a sense of the opportunity you're seeing there. And then secondly, I see that M-PESA about 26% or 27% of service revenue in the international. Are you seeing the margin come through at the net profit line as well? Is it a much bigger contribution at the net profit line than the other services? Thank you.

Shameel Joosub

I think on the merchant side, I mean, there's a couple of opportunities. The first one, of course, is payments. So, it's just like we would do point of sale payments. What we do there is what we call M-PESA till. So, you effectively put in a merchant number and pay. So, one, you can scan a QR code. Two is you basically, you can tap to pay. The third part of the revenue stream then comes in, in terms of merchant lending. So, one is processing of payments. And so, we make fees on that.

The second one is essentially then opening up the ecosystem of services to the merchant. And that would start with merchant lending. But then also, you can then expand that into merchant ordering like we do in South Africa and so on. And then in South Africa we also do invoice financing. So, there's a whole ecosystem of services that you want to build out into the merchants and be able to provide those services to them.

JP Davids

And then just the bottom line impact, I guess, of the financials.

Raisibe Morathi

So, the M-PESA model is based on a number of intermediaries and obviously there's a commission structure. So, whilst it is a strong contributor in terms of growth, we don't expect the margin expansion to be that huge. But it does nevertheless continue to contribute. The magic is really as we continue to evolve the M-PESA model and changing the type of products, whereas the base product is a P2P and then cash in and cash out, now we are seeing additional products that come in. And obviously that will help to continue to sustain and improve the margin going forward.

JP Davids

And the number we disclosed is that financial services now makes up 20% of our PBT. So, it's become a very meaningful number to the bottom line.

Nadim Mohamed

Wonderful. Thank you so much.

Operator

Thank you, sir. Ladies and gentlemen, at this stage we have reached the end of our question and answer session. I will now hand back over to Shameel for closing remarks. Please go ahead, sir.

Shameel Joosub

Thank you. And thank you for joining us on today’s call. If there's any questions that you may have, please reach out to our investor relations team. Thank you and enjoy the rest of your day.

END OF TRANSCRIPT