

Market expecting Telkom turnaround

By [Thabiso Mochiko](#)

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Telkom kicked off 2014 on a positive note, at least on the share price side. The stock has kept the momentum it had last year, when the price moved from R15 in April to end the year at R28. From the time that trading began this year the price had risen by almost 18%.



Telkom's Siphosiso Maseko and his management team seem to have restored some faith in Telkom as investors push up the share price. Image: Telkom

In the past the share perennially under-performed and the company disappointed market analysts across all measures: operationally, in management and, consequently, also in price. But since the appointment of Siphosiso Maseko as chief executive in April last year and the forming of the new board, led by Jabu Mabuza, the price has gone past the R30 levels that were last seen in 2011.

Telkom has battled against competition from mobile telephone operators as more consumers have been substituting landlines with mobile phones.

While the spike in the share price indicates that the market is buying the shares on sentiment and the expectation of corporate action, it could in turn be putting pressure on management to execute the turnaround plans the market seems to have bought into.

In December Maseko and some managers, including head of investor relations Nwabisa Piki, went on a road show in the UK and the US to garner interest from foreign investors. As a result, most of this month's trading is believed to be from overseas. Telkom's foreign shareholding from the US, the UK, the rest of Europe and others makes up around 32% of the free float.

Shares being bought

Piki says indications are that investors who missed out on last year's upswing are now buying shares on the promise of cost-cutting plans by management. "However," she says, "investors want to see such savings translated into the bottom line. The share price rise puts pressure on Telkom to execute," she says.

Ernest Kaplan, managing director of Kaplan Equity Analysts, says the recent price hike in a short space of time is not a "normal move". He says that investors would not have been spending money on shares if they were not confident that something positive would happen.

Mmunonala Asset Managers research analyst and portfolio manager Farai Mapfinya says a lot will depend on how sustained the company's execution of its strategy can be.



Nwabisa Piki says savings must be translated into bottom-line profits. Image: Twitter

Telkom has cleaned up its balance sheet, among other things by impairing its assets, and has settled the legacy issues around competition. In December it sold its loss-making Internet service providers, iWayAfrica and Africa Online Mauritius. It is evaluating options for its other assets, such as Trudon and Swiftnet.

High cost base

But Telkom has a long way to go yet. It still has to lower its high cost base, and Maseko has hinted at the possible reduction of the head count as well as other cuts. Telkom is in discussions to either merge its loss-making Telkom Mobile unit with another company or enter into an infrastructure-sharing agreement.

Kaplan says Telkom cannot afford to fail. "The country does need a strong Telkom. This is an important company; though most people use mobile, a lot of communication is still happening around Telkom's infrastructure," he said.

As part of the strategy, Maseko says that this year Telkom will, among other things, fast track the accounting separation of its retail and wholesale businesses, as agreed with the competition commission when the parties settled the long-standing competition case.

Separating the businesses will enable management to be transparent about its pricing to its clients, especially Internet service providers. As part of its revenue-generating plans, Telkom will this year pilot the provision of video content. The company is in talks with local and international content providers including Netflix and Naspers

Maseko says the group has begun a multi-year efficiency programme. "We are looking at efficiency in every pocket of the organisation," he says.

Source: Financial Mail via I-Net Bridge

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