Vodacom boosted by international growth

By Samuel Mungadze

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Vodacom (VOD), South Africa's largest mobile operator by subscriber numbers, on reported fast growth outside of its domestic market, offsetting stagnating growth at home in the June quarter.

J M Busha's Analyst Farai Mapfinya says Vodacom will need to grow its data revenue to offset losses of termination rates. Image: Google+

Data was Vodacom's fastest-growing market, especially outside of South Africa where this revenue stream jumped 51% icompared with the corresponding period last year. At home, its data revenue grew 18.4%.

Revenue growth of its flagship mobile money service, M-Pesa, remained strong, rising 33.9% from last year.

The enforced reduction of mobile termination rates (MTRs) by the Independent Communications Authority of South Africa (Icasa) saw Vodacom's South African mobile interconnect revenue fall 44% to R521m. But this was partly offset by its international mobile interconnect revenue increasing 26.6% to R381m.

The June quarter's total group revenue was R18.29bn, a 4.3% rise from last year.

The company's revenue from South Africa grew by only 1.7% to R14.79bn. Vodacom splits its revenue into "service" and "non-service", and its South African service revenue fell 2% to R11.44, which the network blamed on the new MTR regime.

Termination rate cuts shows Vodacom will lose income

Frost & Sullivan's Lakshmi Narayanan says the decline in termination rates means Vodacom must innovate and find new sources of revenue. Image: LinkedIn

Analysts on said the decline in revenue due to the termination rates was indicative that Vodacom stood to lose the most from the reduction in the rates, given its proportionally bigger share of the market.

JM Busha Asset Managers Head of Equities and Portfolio Manager Farai Mapfinya says: "Vodacom will also loseevenmore given the asymmetric nature of the new MTR regime. We think the effect on the top line could be as much as 12% a year of lost revenue over the next two years, and then (it will) stabilise once a new base has been set."

Another analyst, Lakshmi Narayanan, Programme Manager for ICT Business Unit at the Frost & Sullivan Africa, says the termination rate cuts have hit the big industry hard but could also work in their favour at a later stage.

"I think this situation should be used to innovate and focus on other services such as data," he said.

Date growth become critical

Mapfinya also says data is critical for Vodacom and will become a differentiating success factor between the network operators. "The surge in data growth over the past two years has been a saving grace for Vodacom in terms of revenue and profitability. Data is a distinct income stream from voice calls."

Mapfinya says that the growth in affordable smartphone devices and the model used in the app space of continual updates bode well for data. "There was a time when the company appeared to be without muh growth because of reliance on voice; however, data has changed that altogether."

Shameel Joosub is bemoaning the fact that termination rates have been cut as this will force Vodacom to find new sources of revenue. Image: Vodacom

Vodacom group Chief Executive Shameel Joosub lamented the effect of the termination rates on local operations. "In South Africa, we executed well operationally and grew our customer base, but revenue was impacted by the dramatic decrease in mobile termination rates," he says.

Though under pressure from the rates, mobile customer revenue increased 0.4% to R10bn driven by a 3% increase in prepaid customer revenue. Vodacom says the rise in prepaid revenue offset a 2% fall in post-paid (contract) revenue.

Mergence Asset Managers Analyst Peter Takaendesa says the effect of termination rate cuts will last longer as further cuts are coming next year and in 2016.

"We do not know by how much they will be reduced by as the regulator is still reviewing the matter but the direction is clearly still downwards."

Takaendesa says the secondary effect of termination rate cuts through increased retail price competition was unclear although recent pricing trends suggested further pressure on revenue.