Telkom plans to reduce cost base

By Thabiso Mochiko

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Telkom plans to reduce its cost base, which could affect jobs, in a bid to improve profitability, it said on Monday (19 November)

The company reported a 64.5% drop in basic earnings per share to for the six months to September to 30.2 cents. Group profit before tax declined 48.9% to R547m, largely dragged by the legal impact for the penalty imposed by the Competition Tribunal, higher employee expenses due to annual salary increases and lower fixed-line revenue.

Revenue declined by 1.5% to R16.1bn. Operating expenses increased 1.6 % to R15.6bn

Chief financial officer Jacques Schindehütte said Telkom was unlikely to continue operating under the current conditions and environment especially given that total expenses were almost the same as revenue. He said the costs base would have to be reduced and employee costs "will come into play".

"We are trying to reduce costs in property and anything related to procurement, labour costs and cost of providing services to rural areas will also receive attention," he said

But its decision on cost reduction will be determined by the government's strategy related to broadband roll-out in which Telkom is expected to play a key role given that it has the largest infrastructure compared to its competitors.

The government recently unveiled its proposed broadband roll-out plans, which are aimed at providing high speed internet services to every citizen by 2020.

Telkom chief executive Nombulelo Moholi is expecting a policy directive around broadband roll-out from the government by March next year.

But in the meantime the company will remain focused on its ongoing strategy to grow the business while it concentrates on, among other things, fixed-mobile convergence.

Telkom spent R2.1bn during the six months to September and it expects to spend another R6bn by the end of its financial year. It has R4.5bn cash and it is unlikely to tap into the debt market for the next 18 months.

Schindehütte said by then Telkom would have probably resolved it's conflict with the government over the company's role in the plans to roll-out broadband in under-served areas.

He expects the engagement between the board's new chairman Jabulane Mabuza and the government will focus strongly on trying to understand what the government "expects Telkom to spend on providing charitable or non-commercial services" and still operate in the listed environment.

"That conflict will have to be addressed otherwise the company will continue to report weaker results," he said.

The government has been severely criticised for its actions regarding the strategic direction of Telkom.

In June it blocked the proposed sale of a 20% stake in Telkom to South Korea's KT Corp and it also used its majority stake to vote four independent non-executive directors off the Telkom board.

Moholi still believes that Telkom needs a strategic equity partner to assist in turning the company's fortunes around.

But before it could pursue such a partnership, "we have to understand where the government is coming from" regarding its strategy around Telkom, Moholi added.