Will Telkom's turnaround work?

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It seems Telkom's Chief Executive Sipho Maseko has let slip its turnaround strategy but the big question is whether it can work.

Telkom's Sipho Maseko is confident that management can take the company back into profitability within five years. Image: Telkom

Last week, Business Day quoted Maseko as saying it was seeking ways to cut fat in the business, a necessary step as this bulge has drained its profitability for years and led to a number of executives being axed when they couldn't rescue the business.

Since he was appointed a year ago, Maseko and his executives in Pretoria have been quietly plotting ways to cut Telkom's costs and haul the company back into the black.

He hopes to save as much as R1bn every year through cost cutting, a move that will inevitably include layoffs. Over five years, this means Telkom could save R5bn - enough to regain its profitability, and provide shareholder value.

What is clear, however, is that the "painful steps" that Maseko is prepared to take will place him and the company on a collision course with the unions and to some extent the ANC, which is seeking to preserve and create new jobs. Given that the government owns 38% of Telkom, it could be quite a dramatic run-in.

Acceptability

Immediately after his turnaround plan was leaked - it may have been a plan by Telkom's spin doctors to test its acceptability in the market - Telkom's share price gained 2.85%.

Finally, Telkom's management seems to be talking up the market with real facts that it believes will turn around the ailing group, which has lost market share to mobile phone operators Vodacom, MTN and Cell C.

Many analysts had been pretty negative on Telkom, pointing out that it wasn't clear if it was acting for shareholders or to achieve government's objectives. In a January 2013 report, JP Morgan said that "on fundamentals alone, we believe Telkom offers no upside with the potential for further earnings downside surprises".

But investors who've stuck it out would been nicely surprised, as Telkom's shares have rocketed up 167% in the last year alone.

This rise seems to be more on sentiment than concrete changes, as Maseko and chairman Jabu Mabuza have certainly talked the right talk.

Crucially, is a R5bn saving over five years enough to make Telkom an agile and competitive entity that will deliver the sort of services it failed to produce for many years?

One of the major initiatives announced in the past year is that Telkom will do a deal with MTN, which will allow Telkom's mobile arm to roam on the larger operator's network.

Bumpy ride

But if this is the entire strategy that Maseko and his team of well-heeled consultants have come up with, Telkom is still in for a bumpy ride.

Telkom's management still has to address the main regulatory problem - the way in which the regulator plans to force Telkom to sell off the last mile of copper cables that go to people's houses through regulations referred to as "local loop unbundling".

If Telkom isn't able to protect its turf, the company will lose large revenue streams from its fixed-line business, at a time when the mobile arm is already weak.

One of Telkom's juicy advantages is that the 0800 toll-free numbers used by companies appear to be a secure source of revenue because companies can't port these numbers anywhere else.

However, what would appear to make this strategy something of a farce is that, at the current rate, the R1bn annual "savings" will only cover Telkom Mobile's cash burn. In 2012, the mobile arm lost R3bn and in 2013, a further R1bn.

What remains a big worry for investors is that Telkom's main fixed-line business continues to lose clients to mobile voice and Internet service providers

In particular, Maseko has failed to explain how the company's management will arrest the decline in fixed-line telephone service.

Source: Business Times via I-Net Bridge