

Year of reckoning for ailing Telkom

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This year could mark the beginning of a major turning point for Telkom as it faces tough competition from mobile service providers and more people ditch their landlines.



Its mobile unit, 8ta, is struggling to compete with strong rivals MTN and Vodacom.

In addition to its continuing market share decline and financial losses, the company lost a number of board members at a dramatic annual general meeting in October, and shortly thereafter its chief executive, Nombulelo Moholi, resigned.

But by the end of last year, it had managed to reconstitute its board with the appointment of directors with experience in a wide range of sectors including finance and telecommunications.

It is now searching for a new chief executive who will be faced with the difficult task of balancing the needs of the private sector with those of the government.

Telkom is majority owned by the government, which has stated that it wants this investment to address its socio-economic programmes, a key one being the rollout of broadband infrastructure.

Whatever decision the company makes, it will take a while to implement and may result in the company losing even more market share, warned Denis Smit, a telecommunications analyst at BMI-TechKnowledge (BMI-T).

"For two years, Telkom's eyes will be off the ball," Smit said recently.

The government has been working on options that it hopes will help revive Telkom but denies it is considering nationalising the company. It has also dismissed rumours of a merger between Cell C and 8ta, saying this would not resolve the

company's overall challenges.

There have also been talks on separating Telkom into two entities - retail and wholesale.

Smit said Telkom did not face easy choices right now. There were no "elegant solutions" and whatever decision the government and Telkom's board took, it would be difficult and would take a while to implement.

Smit said separating the company into two entities made sense, as long as the government did not venture into the retail market. However, separating Telkom would require nationalisation, which could meet with opposition from minority shareholders.

"Investors will ask, what's in it for me? That decision also will create problems. If that happens, then what happens to 8ta?"

BMI-T has also predicted significant price cuts that will put more pressure on Telkom.

"This year we will have a different pricing structure. The pressure on operators will be huge," Smit said.

Jeff Fletcher, co-founder of three6five, said the absence of established pricing regimes, apart from those of Telkom, had caused uncertainty among service providers as to what to charge, particularly in the fibre-optic market, which had a range of pricing models.

Uncertainty around the government's policy aimed at guiding Telkom's strategy has also affected the company's share price, which has dropped significantly since the government last year rejected an offer by South Korea's KT Corp to buy a 20% stake in Telkom.

Ernest Kaplan, managing director of Kaplan Equity Analysts, said recently the share price was low as people were wondering what would happen next.

"All the metrics show that investors are very uncertain as to what will happen," he said, adding that the new board members, were "a step in the right direction" for the company.

He said despite the challenges Telkom had lucrative assets which would attract buyers.

Source: *Business Day* via I-Net Bridge

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