

Why Telkom is not a Privatisation Success Story

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Former South African SOE **Telkom** privatised and listed on the JSE in 2003. Stripping out Vodacom, which it unbundled in 2009, its revenue in the 2003 financial year was R27.7bn, operating profit was R4.3bn and it employed 35,767 people.

For Telkom's 2019 financial year, ending March 2019, revenue was R41.7bn, operating profit was R4.8bn and it employed 15,296 people.

Nominal annual compounded revenue growth of 2.5% and operating profit growth of 0.7% over 16 years speak loudly for themselves. However, now also consider they acquired the former JSE listed **Business Connexion Group** in 2015, which at that time brought with it revenue of R6.5bn, operating profits of R446mn and 7,052 people.

Next, consider the current earnings quality. The 2019 operating profits include capitalised employee expenses of R463mn and key assumption changes in the defined benefit pension fund of R1.3bn.

Now, consider the current balance sheet reality. On balance sheet net debt is R12.7bn. Off balance sheet net debt in the form of operating lease obligations alone is another R9.5bn.

Lastly, consider the latest set of interim financial results to September 2019. In the fine print details I found they cut employee numbers at Business Connexion by an astonishing 28%, impairments in the debtors book is increasing, revenue in their fixed line business is declining by 21% "*at an accelerating pace*" and R500mn was released to operating profits from changes to the pension fund key assumptions.

With government still the control owner of Telkom and once this picture outlined above emerged it is starting to make more sense why they bid for Cell C and why the Competition Commission is recommending price controls aggressively targeting Vodacom and MTN.

Our work continues...

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