

## TeleMasters

- Aggressive dividend policy
- Conservative forecasters

**CELLULAR LEAST COST** routing (LCR) company TeleMasters, which came to market in March, recently reported revenue of R150m for its full-year to September – 16% better than the prospectus forecast for that period.

It had said it would pay out 70% of earnings in dividends. On a prospectus forecast of 17,28c in HEPS that amounts to roughly 12c/share, which is what TeleMasters has declared.

But with much better HEPS achieved – it posted 26,95c/share – that amounts to just 45% of earnings. TeleMasters says it had decided to rather retain some of the cash, as that might be needed for future acquisitions.

Colleague Michael Coulson accused TeleMasters of being overly conservative in April, when overly conservative forecasts for the interim period saw it shooting the lights out and its share price responding accordingly.

However, CEO Mario Pretorius, who owns 85% of its shares, says he's just a conservative *boytjie* from Pretoria who's not out to hype the shares and made the forecasts to the best of his knowledge at the time. Trading has been considerably better and a one-off windfall in the form of a bonus from a supplier earlier in the year helped.



Mario Pretorius

TeleMasters was trading under cautionary but cancelled that in June. Pretorius says that potential deal hadn't been right for the company and although it wants to make acquisitions, he's pretty happy to be reporting maiden financials based on organic growth alone.

TeleMasters placed shares at 50c each and it was last seen trading around 220c/share, putting it on a historic earnings multiple of 8,2 times.

The LCR business model is an interesting one, with its proponents saying there will always be a need for companies to route calls via the lowest cost path to save money, and the more alternatives, the better. However, others say it's a dying business model, particularly if regulator Icasa imposes reductions in interconnect fees (the price operators pay to route calls from their network to that of other operators). That would seemingly impact on margins.

TeleMasters is evolving beyond LCR, Pretorius says, to offer its clients broader telephony advice and says it will be well placed to withstand the margin shock a potential cut in interconnect charges Icasa is expected to impose. ■

