

TeleMasters profit hit by reduction in interconnection rate

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THE reduction in mobile termination rates is starting to bite telecommunications company TeleMasters, which yesterday reported a decline in interim earnings.

TeleMasters provides least-cost routing services to assist companies cut telecommunications bills by switching calls made from land lines to the cheapest network.

The interconnection rates were reduced from R1,25 to 89c in March and further reductions have been proposed from July this year.

TeleMasters receives the bulk of its earnings from least-cost routing services, but it was in the process of diversifying into other areas.

As the cost of cross-network calls falls, there will be less need for least-cost routing services, so providers that offer them as their sole service are under threat.

“Interconnect rate regulatory changes had a direct impact on our profitability. Due to this factor, and expected changes in mobile termination rates, we decided to hold back on renewing expired SIMs and therefore did not earn connection incentive bonuses,” said CEO Mario Pretorius. The decision not to renew SIM card contracts contributed to an 11% decrease in gross profit to R19,4m for the half year to March.

However, Pretorius said it was a temporary freeze and the company had started renewing the contracts.

“We held back between R2m- R3m that will come through in the second half of our financial year since we have started renewing the expired SIM cards,” he said.

TeleMasters was targeting a 15% growth in earnings per share this year, but that depended on new retail cellphone rates for least-cost routing packages following a reduction in wholesale mobile interconnection rates.



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According to Pretorius, [Vodacom](#) has announced its new rates, which decreased by less than 5% to R1,22. MTN and Cell C new rates are still pending.

He is confident that the company could reach its earnings per share growth target because the reduction so far was not as substantial as initially expected.

Cash generation, however, increased 136% to more than R17m. "This is the most important factor we measure our business by" he said.

Revenue rose to R117,4m from R113,7m. "Revenue is up and we held back on claiming funds that will increase the margin until we have certainty, but above all we are satisfied that the engine is working and is pumping cash," Pretorius said.

Earnings per share dropped 7,76c to 8,68c, driven by a range of factors such as an 11% rise in employee costs, rental costs of additional office space to accommodate increased staff, and a write off of R1,6m in debt from one of its clients, which closed shop.

Pretorius said the factors that negatively effected the company's earnings per share and gross profits were temporary.

Despite the decline, Pretorius said TeleMasters remained well positioned to capitalise on the sustained growth it achieved during the downturn.

"We expect this growth to continue in future months," he said.

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