

Corporate SA wakes up

Growing faster, though margins will come under pressure

TELEMASTERS CEO Mario Pretorius is confident the least cost routing (LCR) market won't die off any time soon. In fact, he says it's never grown faster. It seems South African companies are finally recognising they're paying too much for their telecoms needs and are open to any measures to rectify that – 10 years after the advent of LCR.



Using the crystal ball.
Mario Pretorius

LCR relates to installing equipment on a switchboard to route calls over the cheapest path. The cellular component of calls make up roughly 70% of your bill, which is why TeleMasters operates in the cellular LCR sector, Pretorius says.

But it's trying to add on other offerings to its range of CLCR and telephony auditing services and is currently trading under cautionary in relation to one particular transaction.

With a turnover of R150m at its maiden results to September 2007 (announced in November), TeleMasters isn't one of the "big boys", and Pretorius says that's not likely to change, as it won't buy anything

outside its core focus. And it won't sacrifice profitability.

TeleMasters has just 24 employees (they operate efficiently and are highly incentivised day-to-day, he says). Income is all annuity-based and it made 10,3% operating margins, paid dividends on 2,2 times cover (a historic dividend yield of 6%) and has no debt.

The one key issue it must address is liquidity in its share, with Pretorius still holding 85% of the company's stock. When it came to market in March last year, it raised just R1,47m and placed shares with staff and business partners as part of that.

Pretorius says when you place shares at 50c and the stock rises to 200c, that doesn't make for great tradability, as the owners want to hang on to the shares – particularly in light of its generous dividend policy. He says it will improve liquidity by making acquisitions and issuing shares for cash to pay vendors. First, there will be an acquisition that will increase the free float to nearly 30% and then, later, a black empowerment transaction, although that's yet far down the road.

Pretorius is a confident, outspoken businessman and made a number of predictions for how SA's telecoms market will pan out this year (see table). Some seem highly likely; others will probably set tongues wagging. But he's willing to stick his neck out.

Top of his predictions is that cellular interconnect rates will drop by at least 20% to 30%. Interconnection is the cost operators pay each other to transfer and terminate calls on another's network. It's widely believed that will be the case when regulator Icasa makes its pronouncements with regard to the wholesale interconnect market. It has the right to impose "pro-competitive" measures to markets that so require.

Although both have risen significantly over recent years, fixed line and mobile interconnect rates are way out of kilter with each other. Mobile termination rates rose by 515%, from 20c to 123c, between 1999 and 2001 and currently sit at 125c. Fixed line termination rates are now 31c, after rising by 47% between 2001 and 2005.

The anticipated drop in interconnect rates is the reason some believe the LCR market is a dying one. Pretorius concedes that margins will come under pressure and says those already operating on paper-thin margins and offering no other value-add will be the casualties. But LCR will always be around, particularly with the proliferation of new telephony providers that's already started – Vox, M-Web and iBurst being among recent entrants – and expected to continue this year.

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TELEMASTERS' 10 PREDICTIONS FOR 2008

1. Interconnect cellular rates will drop by 30% plus.
2. Telkom back in the LCR market as a contender, due to above.
3. Neotel announces good LCR rates; ouch for players with large clients.
4. Neotel grabs top 10 telephony clients in SA, including Absa, Standard Bank, RMB, Edcon, etc (but clients also keep Telkom).
5. Satellite broadband access to SA comes at a great price if Africa's first satellite – the RASCOM, launched in December 2007 – does well.
6. More companies using 3G access rather than ISDN/ADSL lines – until Telkom media rolls out, that is.
7. VoIP dies due to broadband charges and lower LCR prices.
8. Vodacom buys Global Telematics (Thint subsidiary and Vodacom service provider) and Glocell (the Glomail, Investec cell accessories, airtime and service provider joint venture) and kills off both brands.
9. China gets foot in the door in SA telecoms.
10. Cell C finally falls off or gets on the bus – taken over by a surprise choice. ☐