

Interconnect hits TeleMasters

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TeleMasters plans to turn into a telecommunications company, says CEO Mario Pretorius.

The drop in interconnect fees has directly hit profitability during the last six months, says least-cost routing company TeleMasters.

The firm held back on renewing SIM card contracts, because of the uncertainty around interconnect rates. This affected the company's profitability in the six months to March.

At the beginning of April, the Independent Communications Authority of SA (ICASA) dropped a bombshell on the industry, proposing large-scale mobile and fixed-line termination rate cuts. The new cuts will see mobile termination drop to 40c a minute, by 2012, and fixed-line rates drop to 10c a minute in the same year.

TeleMasters is a tele-management and business communication strategy player, operating in the local market with a focus on the corporate sector. However, the company lost out on connection incentive bonuses, which contributed to a decrease in gross profit of 11%.

Revenue grew to R117.5 million, from R113.8 million, but net profit dropped by about half, to R3.6 million from R6.9 million.

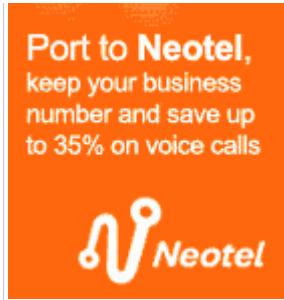
Waiting game

CEO Mario Pretorius explains that the company felt it best to hold back on renewing its SIM card contracts as it did not know how low ICASA would drop interconnect rates. This delay in renewing SIMs cost the company in sales growth, which only moved up 3.2%. "We thought it best to sit on our hands."



At the moment, he says, TeleMasters is in a sticky situation as it does not want to renew contracts in case the prices from the cellular companies come down again. This would force it to pass on more savings to clients, eating into its own profits, explains Pretorius.

Earnings were also hampered by other items, including a higher staff complement, two new directors, and a R1.7 million bad debt write-off. Basic earnings per share dropped to 8.68c, from



16.45c, while headline earnings per share went down to 8.79c, from 16.45c.

Changes ahead

However, Pretorius says the company does have a plan to grow revenue and margins. By September, he wants TeleMasters to be operating as a telecoms company.

Pretorius explains that it will spend R6 million this year digging up pavements and connecting clients to other networks' backbones.

He says he is targeting areas where clients and potential clients are concentrated, such as office parks. The company has a licence that will allow it to circumvent Telkom's last mile. Pretorius says Sandton is a key market, as Telkom switches more calls there than in all of the Western Cape.

Cash generation during the half-year increased 136%, to over R17 million. "This is the most important factor we measure our business by," he notes. "Revenue is up... we are satisfied that the engine is working and is pumping cash."