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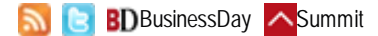
### EDITOR'S NOTE

*It's become a bit difficult, almost impossible, to talk about anything else other than the football. Or, rather, it's difficult to be heard or to raise any other subject amid the din and cacophony of the World Cup. It's taken over our lives.*

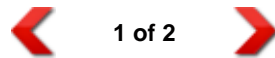


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## Small telecoms

# New directions

Larry Claasen | Thursday, 17 Jun 2010



Mario Pretorius

Least-cost routers specialise in finding the cheapest way to route phone calls through various telecom networks. But pressure from government to cut call rates is restricting the price range they can play in.



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**The demise of least-cost routing (LCR) has been greatly exaggerated.** Well, that's what the CEOs of the telecom groups that specialise in this business are saying.

### Wine industry

Down to a drop

### Nine questions - Wale Tinubu

Wale Tinubu, CEO of Oando Plc

Least-cost routers specialise in finding the cheapest way to route phone calls through various telecom networks. But pressure from government to cut call rates is restricting the price range they can play in.

The latest results from companies in this business bear this out. Huge Group's revenue dropped 5,7%, to R573m, for the year to end-February; TeleMasters saw earnings per share drop by 42%, to R5,4m, for the half-year to end-March; and Vox Telecom's revenue for the half-year to end-February stood still at R1bn.

The recession gets the blame for much of the softness in these numbers but the reduction in the interconnection rates — the fee operators charge each other for transmitting calls over their networks — compounded the problem .

TeleMasters CEO Mario Pretorius minces no words about how tough it is in the LCR market. "There's blood and guts out there," he says. But as difficult as it is, Pretorius says the best days for small telecom companies like his are ahead .

The reduction in interconnection rates is putting them under pressure but the 2005 Electronic Communications Act (ECA) has removed the restrictions that prevented them from acting like a fully fledged telecom company.

Pretorius points out that under the old Telecommunication Act, LCR was the only way his company could get any part of the action because only companies like Telkom, Vodacom and MTN had licences to operate in the sector.

Now, under the new act, instead of just acting like a switchboard and routing calls through various networks, the likes of Vox Telecom, Huge Group and TeleMasters can provide a full range of telecom services.

The ECA might have provided the legal framework but it was a court case brought by Allied Technology (Altech) that gave clarity on how far small telecom companies can go in using their own infrastructure to offer these services.

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### Nine questions - Wale Tinubu

#### Wale Tinubu, CEO of Oando

### Plc

Charlotte Mathews

Pretorius says without this decision, his company would have been forced to depend on Telkom's infrastructure.

What new services TeleMasters plans to offer Pretorius is not saying, only that it is looking at data and "value-added services".

Rival Vox Telecom is trying to get the bulk of its 500 largest customers to switch from LCR to Crystal Vox, a new service that runs over its own infrastructure.

LCR operators are under pressure but Huge Group CEO James Herbst does not see a sudden end to the practice just because interconnection rates are dropping. He points out that the rate was as low as 25c/minute in 1997 and 50c/minute in 2000. The Independent Communications Authority of SA now demands that it be cut to 65c/minute in July, 50c/minute by July 2011 and 40c/minute by July 2012.

Herbst says Huge Group pushed up gross margins despite the cut in interconnection rates. "LCR is going to have its best three years," he says.

But are these companies good investments? As current valuations they look attractive and do talk a good game on offering new services and taking on the large telecom companies. But this has yet to be seen in their results.

It's probably best to hold off on buying into them until their big plans start to pay off. But if you're feeling lucky, they might not be a bad bet.

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