

Conference Call Transcript

14 May 2018

ANNUAL RESULTS ANALYSTS

Operator

Good day ladies and gentlemen and welcome to the Vodacom Group Ltd results conference call for the year ended 31 March 2018. Vodacom Group CEO, Shameel Joosub, will host the conference call. I will read the forward-looking disclaimer before handing over to Shameel.

This announcement which sets out the results for the Vodacom Group Ltd for the year ended 31 March 2018 contains forward-looking statements. These statements have not been reviewed or reported on by the group's auditors with respect to the group's financial condition, results of operations and businesses and certain of the group's plans and objectives.

In particular such forward-looking statements include statements relating to the group's future performance, future capital expenditures, acquisitions, divestitures, revenues, expenses, financial conditions, dividend policy and future prospects, business and management strategies relating to the expansion and growth of the group. The effects of regulation on the group's businesses by governments in the countries in which it operates, the group's expectations as to the launch and rollout dates of products, services or technologies, expectations regarding the operating environment and market conditions, growth in customers and usage and the rate of dividend growth by the group.

If you do not have a copy of the results announcement it is available on the investor relations website on www.vodacom.com. All participants are currently in listen-only mode and there will be an opportunity for you to ask questions later during the conference. If you should need assistance from an operator please press star and then zero. Please also note that this call is being recorded. I would now like to hand the call over to the group CEO, Shameel Joosub. Please go ahead, sir.

Shameel Joosub

Good afternoon everybody and good morning to those joining the call in the US. I'm joined by our CFO, Till Streichert, and Sean van Biljon, our Head of Investor Relations. You've already seen the numbers and we've taken you through most of it at the results presentation. For this call I will take you through a few of the highlights for the year. This has been an excellent year for Vodacom with solid financial results achieved through successful execution of our strategy. During the year, we've completed the transformative R42 billion acquisition of a strategic stake in Safaricom. Including in these results is eight months of attributable earnings from Safaricom since acquisition. In the same month we became the first and currently only telecommunications company to list on the Dar es Salaam Stock Exchange. Both Safaricom and Vodacom Tanzania released detailed results last week and is now available online on their respective websites.

From a group perspective we have seen strong customer growth, adding 7 million customers. Safaricom added a further 1.4 million customers. Together we now have over 103 million customers. I am very pleased that the successful delivery on our strategy has enabled us to secure and outright at promoter score lead in all our markets.

Group revenue was up 7.8% on a normalised basis taking currency fluctuations into account. EBIT grew 4.4% or 2.8% normalised with good improvement in our international operations. EBIT has been impacted by the lower margin business from handset sales and our roaming agreements with Rain. Net profit increased 18.6% to R15.6 billion which includes Safaricom.

We've spent R11.6 billion on expanding and improving all our networks. Headline earnings were flat at 923 cents per share. This is despite 233 million shares issued for our stake in Safaricom. And finally, the board declared a dividend of 425 cents per share in line with policy and translating into a yield of just over 5.1% on Friday's holding share price.

Our South African operations continued to deliver good results supported by strong customer additions and growth in data and enterprise services. Revenue growth was strong at 8.1% boosted by smart phone sales. Our international operations performed particularly well with all operations posting second half results in the right direction. Tanzania has seen strong commercial execution with improvement coming through in their results while Mozambique and Lesotho delivered particularly well. Performance in the DRC has improved as the currency and economic environment began stabilising in the second half of the year and action was taken to stay closely aligned to official ranks between the US dollar and the Congolese Franc in this dual currency market.

Safaricom performed very well, delivering a net profit of 14.1% for the year supported by strong data and M-PESA the revenue growth. We have included eight months of profits of R1.5 billion after deducting amortisation of fair value assets and received the cash dividends during the year of around R1.6 billion which has been passed on to investors.

I will now show that we continued to make good progress against the strategic priorities network differentiation, offering customers more value through segmented and personal offers through Just 4 You while reducing effective pricing. Our bundle strategy and personalised offers are delivering good results and this year we sold 2.3 billion bundles, which is up 51.3% in South Africa with big data analytics being an enabler for revenue growth and efficiencies for the future.

Looking at some of the changes in South Africa in a little bit more detail. South Africa delivered robust performance delivering service revenue growth of 4.9% for the year despite the low GDP growth environment. We added 4.5 million customers for the year supported by our segmentation strategy and personalised value offers through Just 4 You. This includes a strong performance in prepaid where the customer base increased 13.4% when compared to last year and contract continuing to do well with a 4.5% growth in the year. In the post-paid space we launched more value packages which have more included value which we highlighted at the interims.

When upgrading customers, we are now migrating them to more inclusive bundles for more spend. This creates some short-term effects where customers first need to grow into these bundles with the results that we have to defer revenue for up to a month as customers use the bundles. Migration to these packages now stands at 43%. In prepaid we are transforming pricing by proactively moving customers to our new plans and retiring old plans. We now have 99% of the base on these plans and have therefore effectively moved everyone to improved pricing.

I would also like to unpack data revenue growth in a bit more detail. We achieved data growth of 12.8% while managing the effects of reducing out of bundle spending. Demand for data remains robust with traffic in the year still growing at 44%. The elasticity that this brings allows us to manage the effects of the reduction in pricing. Other data metrics are strong with more smartphones on the network, more data users and higher usage per customer. Overall the effects of price changes and adoption of bundle usage has resulted in price per MB decreasing 21.6%. On EBITDA in South Africa, I'm happy with the growth that we've seen in EBITDA of 4.7%. We are managing operating

expenses tightly, maintaining opex growth of 2.8% points below service revenue growth. Margins have been impacted by expenses from the Rain agreement moving expenses to the direct expenses line as well as the increased sales for the low margin into business.

In our international operations we continue to see good results with normalised service revenue increasing 7.4% as the macro-economic conditions began to stabilise in each country. We are also seeing good, positive progress across the portfolio. These results were driven mainly in two areas; data and expansion of M-PESA. Data increased 18.7% on a normalised basis. We achieved this on focusing efforts on being the best data network in all these operations. While we've expanded our 4G network in Tanzania and Lesotho, we are still awaiting licences to roll out 4G in Mozambique and Tanzania. I'm happy to say that we have now switched on 4G in the DRC on Friday following the issuance of the licence there. Driving affordable devices has seen success operations especially in Mozambique and Lesotho where we have seen a strong uptake in smartphone penetration.

We are also forming social media partnerships so that we can give customers more of what they want through specific services and bundles. Tailor-made bundles continue to drive the adoption of these services across our base and contributed to the 27.5% rise in overall data users to 16.6 million. At base our revenue is going strongly by 19.6% to 11 million people using this service. It now contributes R2.3 billion in revenue or 13.8% of the international segment service revenue. We have achieved this by expanding the reach of the M-PESA network by adding more agents and expanding the ecosystem, in other words, reasons for customers to transact. The Lipa Kwa M-PESA, our merchant payment system in Tanzania has seen tremendous take up with over 6,300 active merchants outgrowing the number of card payment services in the country.

From a profitability perspective we've also seen good progress across the portfolio expending EBIT margin by 2.5% points. This was driven from scale benefits from strong top line growth but also our vigorous focus on cost containment across these operations. We are now NPS leader across these markets. We have achieved this by focussing our efforts on network improvement in the year ensuring improved data performance and improvement in availability.

Safaricom released results last week. They reported 10% growth in service revenue and 12.6% growth in EBIT. We are building on Safaricom's extensive M-PESA experience to expend our merchant payment system in Tanzania and learnings in other operations. We'll be sharpening our focus on cooperation with Safaricom particularly with Mobile Money, now a significant contributor to Vodacom Group avenues.

M-PESA remains a strong growth engine with 32 million customers across Africa and 1.3 trillion transactions processed through the system in hours and the Safaricom operations. Revenue contribution from M-PESA is R2.3 billion in our international operations and R7.9 billion in Safaricom. 70% of Safaricom customers are using M-PESA while only 37% of our customers in our international are utilising this service. This remains a huge potential for growth.

Let's move onto regulatory, starting with out of bundle. We remain committed to reducing out of bundle exposure in a managed way following the final amendments to the end user and subscriber charter regulations issued by ICASA. We will now prioritise its implementation within the set timelines. Naturally these changes will reduce customer exposure to out of bundle. We'll manage this change through increased elasticity to minimise the financial impact to driving more reasons to consume and increase penetration of data cable devices.

With regards to the amendments in the Electronics Communication Act, we have made our submissions to the minister and now await the next steps in the process which is the redrafting of the act before being submitted to Cabinet. We have also had a number of high level engagements

in government in this regard. Our position however, remains unchanged. We have proposed a hybrid model where we see the formation of comparative holds field network alongside the allocation of spectrum to current players. We are engaging with government to speed up processes to open and allocate spectrum soon as possible especially in the face of 5G networks looming in the horizon. We are anticipating spectrum processes in Tanzania and Mozambique in our international operations this year which we will be participating in. On a positive regulatory note, the Competition Commission has indicated that they will not pursue further investigation on the Rain matter as it does not constitute a merger.

Finally, that we move over to our medium-term targets and provide an update on priorities. We are positioning ourselves as part of our vision 2020 to become a leading digital company. To this end, we are changing the way in which we operate to be more agile, we are utilising big data and machine learning in a bigger way across business. Data and M-PESA will continue to drive growth our international operations. A key focus from me is to closer cooperation with Safaricom and also fast-tracking access to spectrum across our markets. Our group medium targets remain the same; mid-single digit growth for group service revenue, mid to high single growth for group EBIT and capex of 12% to 14% of group revenue. The Safaricom guidance is given separately and you can access that on its website. This concludes my comments and Till and I are now ready for any questions.

Operator

Thank you very much sir. Ladies and gentlemen, at this time if you wish to ask a question please press star and then one on your touchtone phone. If you decide to withdraw your question please press star and then two to remove yourself from the queue. Again, if you wish to ask a question please press star and then one now. Our first question is from Cesar Tiron of Bank of America Merrill Lynch. Please go ahead.

Cesar Tiron

Yes, everyone thanks for the call and for the opportunity to ask questions. I have a couple of questions. I apologise for that. First one, international. Do you think you can continue to grow international revenues by double digits on a recurring basis of course excluding any FX impact? Second question on the tax rate. It was a little bit lower than usual this year, is that a good basis to forecast? Third question. Can you please update us on the upcoming BEE transaction and would you expect it to be significantly larger than the one you've done about ten years ago? And then last question. Finally, I mean I think on the lower than expected dividend, it seems to be coming mainly from non-cash items especially the increase in the net loss on measurements, is there any way to accurately forecast this site time? Do you expect it to decline into 2019? Thank you.

Shameel Joosub

Okay, I'll take the double-digit growth and BEE transaction and Till will deal with the other two. On the international portfolio, I think for us double digit growth should be achievable in the international operations particularly because we're seeing more stability around the economic environments but also, we've seen a strong up take in data and M-PESA avenues. And so, we believe that we can achieve double digit growth in that segment.

In term of the BEE transaction, we're not in a position to announce the details as yet but will be soon, a lot of the negotiations have already happened with the interested parties and basically, we're reaching finality around that process. The deal is designed to basically replace the current ownership percentages that we have. It is not designed to be a... It's not designed to increase the ownership more than the current percentages.

Till Streichert

Cesar, I'll take the two other questions, starting off with the tax one. So, I think it is a good basis to work off from where we are just now. So, on an effective tax rate kind of between 29% and 30% and remember last year we accounted for the Helios Tower adjustment which we quantified at about 1.4%. That was out of the system this fiscal year hence we reported a 29.6% ETR. And again I've given the breakdown in terms of the benefits that we've got from the Safaricom transaction but equally, kind of the other items that reconcile back to the 29.6%. So, in short, I think it is a good reflection of our effective tax rate going forward.

And the second question on the EPS side, first of all, I'd just like to remind everyone that we have got in our share base the 233.5 million additional shares that we issued to finance the Safaricom transaction. That is of course, the main item in terms of dilution. Talking about the other aspects that you mentioned on financing costs, let me just unpack that and give you a bit of my view in terms of forecasting or the way we manage it. Number one, we have taken steps last year and I did comment on it, to reduce the exposure on measurement by reducing foreign dominated loans both in Tanzania where the US Dollar loan got fully repaid and the same in Mozambique, where half of the US Dollar got repaid. That was a benefit and that is of course an element of protecting ourselves against volatility. The second item which is less in our control is foreign denominated cash balances and that relays particularly to the DRC where we were affected already at the interims by Congolese Franc balances with a devaluing US Dollar. They got revalued and that we needed to account for.

Now, what makes me a bit more confident, but again the DRC is a volatile economic environment, but what makes me a bit more confident is that we recently have seen the cash collection. Remember, it's a dual currency market, the cash collection swinging back from a high share of Congolese Franc collection to a higher share of US Dollar and that actually gives us some protection. And the third element which relates a little bit to a particular item on the South African side round FECs that we had taken out in November and December for terminals and that happened before the elective conference, the ANC elective conference and remember following that, the rand strengthened a lot and some of those FECs needed to be revalued and some of those FECs equally, due to timing differences in terms of deliveries, needed to be rolled respectively surrendered on close out we had a negative effect. We haven't had such an effect before so I would attribute that to the particular situation with rand gaining a lot in terms of strength during fourth quarter.

Operator

Thank you very much. The next question is from Myuran Rajaratnam of MIBFA, please go ahead.

Myuran Rajaratnam

Hi, guys. Thanks for taking my call. Just, firstly, I've got a couple of questions but I'll ask them one at a time. The BEE deal, you reckon that it's pure replacement rather than an increase in size, but if the regulation requires 30%. Does this deal automatically get there, or will you come back from the market with a bigger deal, if that's the new requirement?

Shameel Joosub

So, just to be clear, the current legislation does not require 30%. I mean, there is always a risk that that can happen. But I think it will be more aligned to the BEE charters. Previously, it was 30% or a level four. We do comply with the level four requirements.

Myuran Rajaratnam

Okay. The second question, I see you contained costs very well. I mean you've had below inflationary increases in staff calls. And for a couple of years, I've noticed now in publicity calls it's negative actually, negative growth. How sustainable is this longer term? I mean, you can't really cut costs forever; these are below inflationary increases for your staff, right?

Till Streichert

Let me take that question, look, taking a cost cutting approach is far too simplistic, and I think we have stayed away from that. We have successfully, nonetheless, worked over the past few years on putting efficiency measures in place. And that's also what we intend to do going forwards. And remember, a lot of the efficiencies has been coming from just doing things smarter, and basically more efficiently. Take our call centre for example, over the past years we've seen a number of calls dropping due to the improvement of first call resolution. We are now putting chat bots into our call centre, and we are targeting again another 20% to 25% call volume reduction, which in the end you translate into financial benefit. On the staff side, we are going with inflationary increase in each of our markets to attract and retain best talent. And we are investing as well into new growth areas to support our digital transformation. So, on that end I think we are well pretty well positioned in the approach that we are taking to cost.

Shameel Joosub

And on the staff part, it's not from under paying and so on. It's more from optimisation on the current portfolio.

Myuran Rajaratnam

Right, it's just that the number that you see suggests the staff costs are flat year on year or slightly up if I remember. Okay, that's fine. On the depreciation and the automation, that's growing faster than revenue, because you're just coming off a big capex programme, and your direct costs are growing faster than revenue in importing, because you are roaming more on Rain, because as your data revenues grow, you start offloading traffic onto Rain. There is a much bigger competitive environment now in South Africa, given MTN getting back together, Cell C recapitalised, Telkom is batting well. There are all these regulatory pressures, market enquiries and so on. So, my question I suppose is a more general question, you have this revenue guidance mid-single digits and EBIT guidance, which implies an operating leverage, but all I see is costs either growing faster than revenue, or at unsustainably low level. I mean, how credible is the medium-term guidance is my question, I suppose? I'm just trying to get my head around, how are you going to manage to get this operating leverage, given revenue guided got to go at [inaudible] but operating profit as guided to grow faster, so where is that operating leverage coming from?

Till Streichert

Okay, let me... I think you've raised a number of questions or points, let me start off and I'll try to cover each of them and Shameel will weigh in. Just on your final note on the staff expenses, because you came back that this appears to be unsustainable. Let me just clarify that what you are looking at is when you look at the group picture, and I will encourage you to look at the split between SA and international, of course you've got the translation effect as well in those numbers, hence they appear to be flat. In reality, each of the markets has got the requisite inflationary salary increase and as Shameel as said, in some markets we try to achieve efficiency from an essence, a bit of reorganisation and restructuring like in a market, like DRC. So, that's on the cost side, and I think with the track record that we've shown over the past few years, I'm feeling reasonably confident and comfortable that we are on a solid basis with regards to our cost management. And you will see going forward, us a lot more talking about and showing efficiencies from the digital space. That further automation, that kind of chat bot transformation in call centres. To some extent retail, but also on the internal side within the organisation, adding an element of machine learning and artificial intelligence is going to help us become faster and more agile.

Secondly, on the D&A, of course, we continue to invest, we always said we need to capitalise each of our markets properly and hence this explains, in line with guidance, the growth on the D&A line. From an EBIT guidance point of view, what I do expect going forward, you've seen it basically this

year happening, is that the international markets have given us already a boost. Mozambique had some fantastic performance. You did see the EBIT margin expanding by 6.1% points. Lesotho, strong performance again. And I do expect that also Tanzania and the DRC that are showing good top line growth, this flowing as well into bottom line. And in combination between the international segment and our South African operations, we have reconfirmed our target range of the mid-single digit service revenue growth and the mid to high single digit EBIT growth.

Shameel Joosub

Yes, maybe just to add one or two points. I think, obviously we were well aware that you can't save yourself to success, and that's not the intention. That said we have a number of countries where the margin is still low. And if you take that these are generally prepaid markets, then essentially there is still opportunity to grow, because they have their little subsidy. So, our intention is to try and get everybody to cut off at the 40% mark and above. Today, we have three countries, which are South Africa, Lesotho and Safaricom that meets those criteria. With Mozambique progressing well towards, you've seen the margin expansion coming through. DRC a little bit longer to get there and then obviously Tanzania. So, as Till was explaining, what we are trying to do as well is to try and optimise the services as best as we can. We are also trying to optimise in a number of different ways.

Firstly, shared platforms, so an example would be machine learning. The machine engine or the machine learning engine gets written in South Africa and the implementation happens in the different countries. But also, digitalisation, the implementation of chat bots and so on, will have a meaningful impact on our cost going forward. An example would be we set ourselves a target this year to take up 20% of calls in South Africa. And we intend doing that by making sure with the implementation of chat bots and digitalising our processes and also using the agile methodology to be able to do it. The same in distribution, more and more you will see a move towards direct distribution, especially it will start with contracts and upgrades. We have also made for ourselves a big target this year, so these are the type of things that will chip away at some of the underlying cost pieces. But we are also looking at how we can share more platforms, and how we can look at more shared services to try and drive down the underlying costs in each of operations, which we also think is important to be able to deal with any regulated threats and so on that might present itself.

One further clarification. You said that publicity in South Africa declined. It had not. It had increased by 5%. So your publicity in South Africa has actually increased by 5%. The other countries, Tanzania and so on, which had a much higher publicity to sales ratio, decreased as we introduced more efficiency measures, but also as we implemented global agreements with the likes of the MECs and media houses and so on. And we are optimising more spend now using social media and digital channels.

Myuran Rajaratnam

Awesome. Thank you very much.

Operator

Thank you very much. The next question is from Madhvendra Singh of Morgan Stanley. Please go ahead.

Madhvendra Singh

Hi. Thanks for the call. On the revenue performance in South Africa can you throw some colour on that, especially on the data revenues? If I remember correctly you said the rate for the third quarter was around 13% data revenue growth. It seems like fourth quarter was also not very different from that. Would you be able to give some colour on why it didn't accelerate further and what is the

outlook on data revenues for this year, especially given the implementation of the ICASA rules on the data pricing?

Shameel Joosub

So just to be clear you're seeing the question of data revenues coming through, but you are also seeing that it is becoming a bigger and bigger portion of the base. So just mathematically your growth rate then starts to slow down. I think the trend could obviously carry on continuing and so on, however you know I do have the issue of implementation of the ICASA regulations. That will have an impact on the financials. We are obviously trying to look at how we best implement that to reduce the impact on the one side. On the other side we've got to be happy that we've got a very good outcome of the discussions, I would say a more balanced outcome. And finally we then need to offset the impacts with increased utilisation and other revenue streams. And we are seeing some good uptake on some new revenue streams like airtime advance but also launching of new services like our video platform and so on, which we think will increase the reasons to consume.

Madhvendra Singh

Just in terms of the expected data revenue growth trend for this year should we expect still around 13% growth? That is what I think the guidance was previously, mid-teens kind of growth for the data revenues.

Shameel Joosub

I think it will be early teens. We are not giving specific guidance on that, but I think early teens is probably more realistic given the ICASA regulations.

Madhvendra Singh

Thank you very much.

Operator

Thank you. Our next question is from Michael Gresty of Citigroup. Please go ahead.

Mike Gresty

Hi guys. I think that's me. Anyway, a couple of questions from my side. Shameel, just one for you perhaps. If you look at the DRC and perhaps Mozambique the macro picture there is not great. Geopolitics in DRC seems to be deteriorating. You've got still issues about aid coming into Mozambique since they had that fraud a little while ago. And particularly Mozambique you've got such a big disconnect between the results you are printing and what the macro backdrop looks like. I was wondering if you could perhaps chat a little bit around how you see the outlook there and possibly some risks to performance in the year ahead in those markets in particular. And then this morning you alluded to what sounded like optimism that we were going to see some movements on spectrum in South Africa, which suggests you're confident on how the negotiations are with the Department of Telecommunications on the new policy. And obviously that didn't work out so well when you saw the amendments to the legislation, or proposed amendments. Can you just touch on how you see that progressing subsequently and why you are more positive that those negotiations are looking better than they were before?

Shameel Joosub

Okay, so let me start off with Mozambique. Firstly if we look at the macro environment in Mozambique certainly from the indicators that we're looking at inflation was below 5% this last quarter. So you start to see some of the benefits coming through. The currency decrease was only 5% or 6% against the US Dollar and the Rand. So a lot more stability in terms of the high level factors. I think we are seeing a recovery come through, but also I think you're also seeing the

benefit of the level of investment coming through. So we continue to invest heavily in Mozambique, and I think we are seeing that coming through in performance. You've got a mCel which is continuously weakening because of lack of investment. And you've got a Viatel who is slightly distracted I would say with the Tanzanian part. So you are seeing market share growth. You are seeing customer growth. So one is very encouraged that the factors are very positive in terms of growth and also from a market stability perspective that you are starting to see improvement. Now, obviously we don't have a crystal ball, but by all measures I would say getting a lot more stable.

The DRC on the other hand is the one in the portfolio where you've got to take a little bit more cautious approach specifically because of the political environment not having full resolution with the elections. Elections are planned for later this year. But I suppose in the end we have to watch those developments. That said, I would say that we have mitigated a lot of the risk associated with it by making sure that our pricing now effectively changes almost daily, aligned to the currency fluctuations. So we have taken away the Dollar Congolese Franc differential, which if you want to look at it a little bit harder you can actually say has been a price up in terms of what people are experiencing on it. But before that the industry was absorbing it. So this is being done by the industry at large and those adjustments happen weekly. So that leads to a much more stable environment if you like. Also we start to see more Dollar availability in the market. So I think those all lead to a much more positive environment. But there one would say we are cautiously optimistic because the election still hasn't happened. So there could still be some unrest and so on.

In terms of spectrum in South Africa there have obviously been a number of high level engagements from myself with various members of government. And let's just say we're encouraged by the rhetoric around finding a solution to the problem. And can I say that under the new leadership one is optimistic that a solution will be found?

Mike Gresty

Great. That's very helpful. Thank you very much.

Operator

Thank you very much. The next question is from Slava Degtyarev of Goldman Sachs. Please go ahead.

Slava Degtyarev

Yes, hello. Thanks for the call. I think you have considered further M&A deals following the acquisition of Safaricom, but basically you haven't announced any other deals yet. So do you still find attractive assets in Africa and consider M&A as part of your strategy? Thank you.

Shameel Joosub

I think for us the big one and first and foremost is to make sure that all our markets are properly capitalised. So that is what we prioritise first. Secondly when in-market consolidation presents itself, as an example in the results we spoke about Tanzania, we would be very keen to look at an in-market consolidation in that market. And also where in a particular market it helps us to enhance our strategy and there is an acquisition that could be aligned to that, like fibre, like content and those types of things, we would consider it in a particular market. as far as international expansion goes we are very cautious and if a good asset presents itself of course we look at it, and if the price is right. What we will not do is go and buy other people's problems or plant flags. So I think you can rest assured that we are not going to rush off and acquire assets. So we are quite happy with our portfolio right now and we see a lot of opportunity for growth with about 60% data penetration in both Safaricom and the rest of the international market. So still a huge opportunity for growth. And also on M-PESA where you've got 70% penetration of the base in Safaricom but only 37% in the international. So a huge opportunity to still grow the international to get to the level of Safaricom.

And then obviously across the board there are a lot of digital content partnerships that we're tying up from South Africa into the markets which they can leverage off, like the relationship with Facebook.

Slava Degtyarev

Thank you.

Operator

Thank you very much. Ladies and gentlemen, just a reminder, if you wish to ask a question please press star and then one. Our next question is from Ziyad Joosub of HSBC. Please go ahead.

Ziyad Joosub

Hi everyone. Thank you for the question. My question is specifically on your fixed line business, the new revenue stream, the carrier business. It does seem that in Q4 enterprise revenues accelerated quite strongly. I was just wondering, this carrier business which is now more than R500 million revenue business, when did it get launched? How quickly has it scaled up? Maybe you can give us some guidance on how we should expect this business to scale next year in FY19. And also any insights. I mean I assume it might be a low margin business, but it probably consumes no incremental capex as well. Is that assumption correct on my side? Thank you very much.

Till Streichert

Okay. Ziyad, thanks for the question on the fixed line part. Look, carrier business, we have moved a lot of our business that we have got for our international markets which we previously had been routing with other carriers. We have consolidated that business and focussed a bit on increasing as well our external sale in that space. That gave you the basically a bit more than R500 million turnover that we've got in that category. Look, I think we are going to grow going forward pretty much driven by traffic and a little bit of share gains as obviously we've got a pretty sizeable platform that we can also attract third party business into it. But of course in our year one there was a bit of consolidation of existing business from inside Vodacom that we've put together. From a margin point of view, yes, you are right. By nature carrier business is low margin. You see it also partially eliminated in the group consolidation line. And nonetheless from an operating company point of view, in particular the international markets, for them it is obviously that we have got the scale advantages at good rates.

Ziyad Joosub

Great.

Operator

Thank you very much. Gentlemen, it would appear that we have no further questions in the queue at the moment.

Shameel Joosub

Okay. Thank you everyone for joining us.

Operator

Thank you very much sir. Ladies and gentlemen, that concludes this conference call and you may now disconnect your lines.

END OF TRANSCRIPT