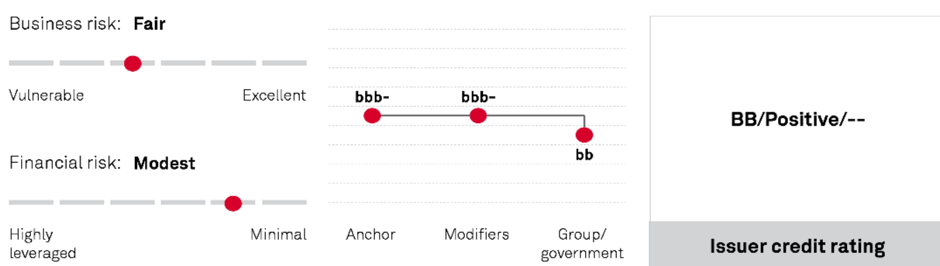
# Telkom SA SOC Ltd.

October 5, 2022

## Ratings Score Snapshot

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## Credit Highlights

### Overview

| Key strengths | Key risks |
|---|---|
| Diverse product offering as the dominant provider of fixed-line services and fiber infrastructure in South Africa, with increasing presence in mobile and next-generation data business. | High exposure to structurally declining fixed voice and data business, given its status as the former fixed-line incumbent. |
| Strong free operating cash flow (FOCF), supported by disciplined, growth-focused capital expenditure (capex) deployment. | Weak margins relative to domestic peers', largely attributable to the sizable fixed-line business orientation, and a rigid cost structure. |
| Strong balance sheet with forecast adjusted debt to EBITDA below 1.5x. | Challenging operating environment, encompassing regulatory uncertainty and an evolving political landscape. |
| Industry leading fiber backhaul for fifth-generation technology. | Sovereign risk exposure due to 40.5% state-ownership, resulting in the potential for change in government policy toward the entity, or a negative rating action on the sovereign. |

**S&P Global Ratings expects Telkom SA SOC Ltd.'s (Telkom's) top-line to remain under pressure over the 2023-2025 fiscal period (ending March 31, 2025).** Whilst we believe that Telkom is well placed to scale considerably, in line with the emergence of new business models requiring end-to-end communication services, increasing subscribers, and exponential data traffic growth, we anticipate the competitive landscape (for voice and data) will continue affecting all mobile network operators' (MNOs') pricing. In addition, we note consumer affordability concerns will likely increase competitive pressure and limit MNOs' (like Telkom) ability to adjust prices, an important tool in our view to counter inflation-indexed operational costs like salaries. As a result, we forecast revenue growth of 0%-1% in fiscal 2023 and2%-3% in fiscal 2024-2025, resulting in annual revenue between South African rand (ZAR) 43 billion-ZAR45 billion. Telkom currently pursues a data-led strategy with emphasis on a value-led pricing approach. Similarly, other MNOs are placing emphasis on data and value-led propositions, given the strong data demand. We thus expect data pricing to be largely similar for all MNOs in the next two to three years. We believe Telkom's top-line revenue acceleration will be dependent, to some extent, on how it succeeds in differentiating itself through nonconnectivity and value-added services revenue. Moreover, unlike other MNOs, Telkom will continue to contend with the effects of its business transitioning from traditional fixed voice to newer technologies.

**We forecast a stable S&P Global Ratings-adjusted EBITDA margin of 25%-26%, despite a constrained top-line.** Telkom continues to make positive strides in optimizing its operating cost base. In fiscal 2022, its adjusted EBITDA margin improved to 27.5% from 27.0% on the back of Telkom's cost management program aimed at containing operational expenditure growth below inflation and the optimization of the cost to serve. We see further opportunities for Telkom to optimize its legacy cost base as well as mobile's cost to serve (through roaming cost optimization). That said, we note the impact of increasing overheads such as employee expenses (linked to inflation), increasing roaming costs owing to power supply restrictions in the country, and the general high inflationary environment to put downward pressure on margins in the near term. We expect the pace of revenue mix evolution and the scaling up of new businesses to be crucial for EBITDA margin expansion in the longer term.

**Potential merger and acquisitions could unlock value in Telkom's business, but the format and timing of this activity is uncertain.** In September 2021, as part of its value unlock strategy, Telkom announced plans to separately list the Gyro masts and towers business (Swiftnet). According to Telkom's management, a separate listing of Swiftnet, which has operated as a separate tower company for over four years, could affirm the valuation of the masts and towers business and its contribution to the overall valuation of the Telkom business. However, the transaction was delayed due to poor market conditions. In July 2022, Telkom and MTN Group Ltd. proposed the acquisition of Telkom by MTN Group. In "MTN Group's Proposed Acquisition Of Telkom Could Reduce Rating Constraints But May Face Regulatory Hurdles," published July 25, 2022 on RatingsDirect, we note that such a deal could bring material operational benefits to the combined organization and reduce rating constraints for both entities, but that such a deal would be a prolonged and complex process, given that it would be subject to several regulatory and government approvals. As the format and timing of any transaction are uncertain, we do not include the impact of such developments in our base case.

**Our ratings on Telkom are influenced by those on the South Africa sovereign, even though we assess the likelihood of support or negative intervention as low.** Our ratings on Telkom are constrained at one notch above the foreign currency rating on South Africa (BB-/Positive/B). A change in our rating on South Africa or Telkom's status within the state-owned company (SOC) framework, could affect our rating on Telkom. Currently, the South African government owns about 40.5% of Telkom, and therefore we consider the company a government-related entity (GRE). We view the likelihood of state intervention in Telkom's operations as low, based on the government's current policy, the company's for-profit focus and listed status, and the governance and management structures in place. Nonetheless, the risk remains that key exemptions from provisions applicable to SOCs could be altered.

## Outlook

The positive outlook on Telkom mirrors the positive outlook on South Africa. Despite Telkom's 'bbb-' stand-alone credit profile (SACP), we believe the rating cannot exceed our long-term foreign currency rating on South Africa by more than one notch, given the company's predominantly domestic operations, as well as the government's significant minority ownership stake.

### Downside scenario

We could revise the outlook on Telkom to stable if we take a similar action on South Africa. This could occur due to a significant increase in fiscal financing or external pressures. The ratings on Telkom could come under pressure if the SACP deteriorates by more than two notches. We could also lower the rating if weakened liquidity leaves Telkom unable to pass our sovereign stress case, and we cap the rating at the level of our foreign currency rating on South Africa.

### Upside scenario

We could raise the rating on Telkom if we take a similar action on South Africa and Telkom continues to pass our sovereign stress case, allowing it to be rated one notch above our foreign currency rating on South Africa.

## Our Base-Case Scenario

### Assumptions

- South African GDP growth of 2.0% in 2022, 1.6% in 2023, and 1.7% in 2024.
- Relatively flat revenue growth of 0%-1% in fiscal 2023, primarily because of challenging market conditions and constrained consumers. We anticipate revenue growth of 2%-3% in fiscals 2024 and 2025, based on improved economic conditions.
- Stable EBITDA margins of 25%-26%, supported by ongoing cost optimization and partially offset by inflated overheads, resulting in EBITDA of ZAR10 billion-ZAR12 billion over the next two years.
- Working capital outflows of ZAR450 million-ZAR500 million per year.
- Capital expenditure (capex) of ZAR7.3 billion-ZAR7.8 billion in fiscals 2023-2025, reflecting capex intensity of 17%-18%.
- We currently do not incorporate potential acquisitions or disposals during the forecast period.
- Dividends of ZAR1.7 billion-ZAR1.9 billion in fiscal 2024-2025.

### Key metrics

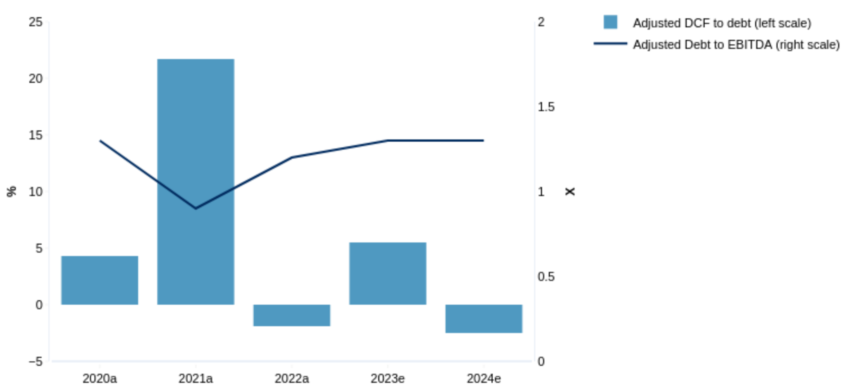
**Telkom SA SOC Ltd.--Key Metrics***

| | --Fiscal ended March 31, 2022-- | | | | |
|---|---|---|---|---|---|
| **Bil. ZAR** | **2021a** | **2022a** | **2023e** | **2024f** | **2025f** |
| Capital expenditure | 8.1 | 7.9 | 7.3-7.8 | 7.3-7.8 | 7.3-7.8 |
| Debt | 10.9 | 14.2 | 13.0-14.0 | 14.5-15.5 | 16.0-17.0 |
| EBITDA margin (%) | 27.0 | 27.5 | 25-26 | 25-26 | 25-26 |
| Debt to EBITDA (x) | 0.9 | 1.2 | 1.0-1.5 | 1.0-1.5 | 1.0-1.5 |
| FFO to debt (%) | 73.5 | 67.6 | 60.0-65.0 | 55.0-60.0 | 55.0-60.0 |
| FOCF to debt (%) | 26.6 | 0.9 | 5.0-10.0 | 5.0-10.0 | 5.0-10.0 |
| DCF to debt (%) | 21.7 | (1.9) | 4.0-6.0 | (1.0)-(5.0) | (1.0)-(5.0) |

*All figures adjusted by S&P Global Ratings. a--Actual. e--Estimate. f--Forecast. FFO--Funds from operations. FOCF--Free operating cash flow. DCF--Discretionary cash flow. ZAR--South African rand.

**Telkom's credit metrics are strong and stable, but the higher levels of planned capex and potential negative discretionary cash flow (DCF) following the resumption of dividends could weigh on them over the next two years.** We expect Telkom's capex to remain between 17%-18% of revenue, due to continual investment in strategic areas, which include expanding existing networks, services, and mobile networks, the Next Generation Network program, and Network Evolution initiatives. However, we view the company's commitment to its financial policy as strong and note that it is currently below its target reported leverage range of 1.5x (at 1.2x reported debt to EBITDA as of fiscal 2022), which implies ample headroom on both net debt and EBITDA.

**Telkom's Credit Metrics**




a--Actual. E--Estimate. DCF--Discretionary Cash Flow. Source: S&P Global Ratings.


## Company Description

Telkom owns and operates South Africa's largest national wholesale telecommunications infrastructure, comprising integrated copper and fiber lines linked to a high-speed backhaul network. Fixed broadband internet and mobile voice and data services are available to individuals and small and midsize enterprises, while a diversified information and communications technologies (ICT) product offering--including access to telecommunications, data centers, and IT services--is aimed at the enterprise market. On June 30, 2022, Telkom had 0.6 million fixed broadband subscribers, 0.4 million homes connected with fiber, and 17.3 million active mobile subscribers.

The company also undertakes property and tower management services (through Gyro) and print and digital marketing services (through Yellowpages). Telkom generated annual revenue of ZAR42.4 billion (about $2.9 billion) in fiscal 2022 and is listed on the Johannesburg Securities Exchange with a current market capitalization of ZAR21.5 billion (about $1.3 billion) as of Aug. 31, 2022).

## Peer Comparison

**Telkom SA SOC Ltd.--Peer Comparisons**

| | Telkom SA SOC Ltd. | MTN Group Ltd. | Turkcell Iletisim Hizmetleri A.S. | Turk Telekom |
|---|---|---|---|---|
| Foreign currency issuer credit rating | BB/Positive/-- | BB-/Stable/-- | B+/Negative/-- | B+/Negative/B |

### Telkom SA SOC Ltd.--Peer Comparisons

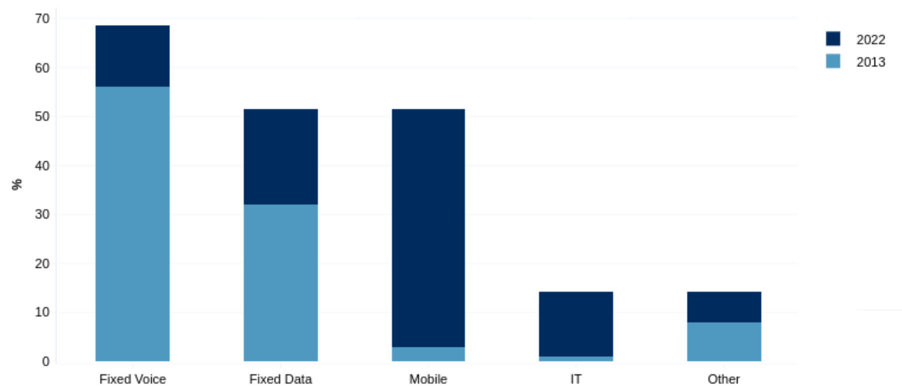
| Local currency issuer credit rating | BB/Positive/-- | BB-/Stable/-- | B+/Negative/-- | B+/Negative/B |
|---|---|---|---|---|
| Period | Annual | Annual | Annual | Annual |
| Period ending | 2022-03-31 | 2021-12-31 | 2020-12-31 | 2021-12-31 |
| Mil. | ZAR | ZAR | ZAR | ZAR |
| Revenue | 42,474 | 181,247 | 56,333 | 41,430 |
| EBITDA | 11,662 | 81,050 | 20,004 | 17,611 |
| Funds from operations (FFO) | 9,632 | 52,525 | 15,303 | 14,047 |
| Interest | 1,190 | 18,564 | 2,177 | 3,218 |
| Cash interest paid | 1,266 | 17,571 | 3,754 | 2,869 |
| Operating cash flow (OCF) | 8,079 | 61,860 | 21,555 | 18,492 |
| Capital expenditure | 7,953 | 35,225 | 10,880 | 9,552 |
| Free operating cash flow (FOCF) | 126 | 26,635 | 10,675 | 8,940 |
| Discretionary cash flow (DCF) | (272) | 24,294 | 8,989 | 6,676 |
| Cash and short-term investments | 3,239 | 44,910 | 23,403 | 7,670 |
| Gross available cash | 3,239 | 44,910 | 23,403 | 7,670 |
| Debt | 14,242 | 139,002 | 22,628 | 27,375 |
| Equity | 34,044 | 114,982 | 38,352 | 17,226 |
| EBITDA margin (%) | 27.5 | 44.7 | 35.5 | 42.5 |
| Return on capital (%) | 10.8 | 20.8 | 18.4 | 28.5 |
| EBITDA interest coverage (x) | 9.8 | 4.4 | 9.2 | 5.5 |
| FFO cash interest coverage (x) | 8.6 | 4.0 | 5.1 | 5.9 |
| Debt/EBITDA (x) | 1.2 | 1.7 | 1.1 | 1.6 |
| FFO/debt (%) | 67.6 | 37.8 | 67.6 | 51.3 |
| OCF/debt (%) | 56.7 | 44.5 | 95.3 | 67.5 |
| FOCF/debt (%) | 0.9 | 19.2 | 47.2 | 32.7 |
| DCF/debt (%) | (1.9) | 17.5 | 39.7 | 24.4 |

## Business Risk

Telkom's fair business risk profile reflects its diverse product offering as the dominant provider of fixed-line services and fiber infrastructure in South Africa as well as an increasing presence in mobile and next-generation data-based business. Telkom has leveraged its legacy fixed-line infrastructure to roll out fiber, and now has the largest fiber network in South Africa, with more than 170,241 kilometers (km) deployed, more than 890 000 homes passed with fiber with a fiber connectivity rate of 46.6% (market leader), as of June 30, 2022. Given Telkom's committed capex toward fiber and mobile, including LTE rollouts, we see continued good growth prospects in its broadband (both fixed and mobile) and ICT solutions businesses, which will help it offset volume losses in the traditional fixed-line voice business. We also expect Telkom's operating efficiency to improve over time, as it realizes greater value from investments in new revenue streams, supported by cost-control initiatives across its business lines.

Telkom-Revenue Mix: 2013 Compared with 2022

Revenue Segmentation




Source: Telekom SOC Ltd. Annual Report 2022. S&P Global Ratings.



Telkom has invested heavily and successfully in new technologies, with capex in fiber and mobile networks and infrastructure providing required growth platforms. We acknowledge Telkom's investments, particularly in mobile (17.3 million subscribers; third position in South Africa) and IT, which has helped company to diversify its revenue streams and offset the decline in traditional fixed voice and fixed data. At the end of fiscal 2013, fixed voice and fixed data constituted a combined 88% of revenue. By 2022, revenue from fixed voice and fixed data declined to 32%, with mobile and IT revenue increasing to a combined 62% from 4%. Moreover, the acquisition of BCX further aided the shift from voice reliance by increasing Telkom's footprint in the Enterprise business. Although the supply chain challenges and global shortages of semiconductor chips affected the BCX business in 2022, we believe Telkom is well positioned to capture new business models and data use cases that are emerging in the future digital economy.

Our business risk assessment is constrained by a challenging operating environment, which includes slow economic growth, and structural weaknesses, among them, very high unemployment, and social inequality, and rising social tensions. The business risk assessment also considers that Telkom still has much lower mobile market penetration than MTN Group, which has about 34.5 million South African mobile subscribers, and Vodacom Group, which has about 45.4 million. Nonetheless, Telkom's scale is increasing, and its mobile subscriber growth has significantly outstripped that of earlier-to-market peers in the past few years.

# Financial Risk

Telkom's modest financial risk profile reflects our expectation that the company's leverage will remain below 1.5x, supported by positive free operating cash flow (FOCF) and a conservative capital structure through to fiscal 2025. The financial risk assessment also recognizes the company's capex intensity to support strategic investments and shareholder dividends. In June 2020, Telkom suspended its dividend policy (annual dividend of 60% of headline earnings, with an interim dividend of 40% of interim headline earnings) for three years. Accordingly, we factor in dividends of about ZAR1.8 billion-ZAR1.9 billion in fiscal 2024-2025-based on the resumption of the existing dividend policy in fiscal 2024. It is our understanding however, that Telkom will introduce a new policy by the end of fiscal 2023. Incorporating dividend in fiscals 2024 and 2025, we anticipate negative discretionary cash flow to exert downward pressure on Telkom's financial profile.

## Debt maturities

As of March 31, 2022:

- Maturities within the next 12 months: ZAR2.6 billion.
- Maturities in 12-24 months: ZAR2.3 billion.

- Thereafter: ZAR7.2 billion.

### Telkom SA SOC Ltd.--Financial Summary

| Period ending | Mar-31-2017 | Mar-31-2018 | Mar-31-2019 | Mar-31-2020 | Mar-31-2021 | Mar-31-2022 |
|---|---|---|---|---|---|---|
| Reporting period | 2016a | 2017a | 2018a | 2019a | 2020a | 2021a |
| Display currency (mil.) | ZAR | ZAR | ZAR | ZAR | ZAR | ZAR |
| Revenues | 40,970 | 41,018 | 41,583 | 42,764 | 42,939 | 42,474 |
| EBITDA | 11,582 | 11,301 | 11,394 | 9,642 | 11,579 | 11,662 |
| Funds from operations (FFO) | 9,583 | 8,757 | 9,326 | 6,896 | 8,063 | 9,632 |
| Interest expense | 1,017 | 1,273 | 1,214 | 1,623 | 1,280 | 1,190 |
| Cash interest paid | 818 | 1,051 | 1,123 | 1,426 | 1,322 | 1,266 |
| Operating cash flow (OCF) | 8,073 | 8,662 | 8,084 | 10,222 | 11,060 | 8,079 |
| Capital expenditure | 8,278 | 7,638 | 7,525 | 7,660 | 8,141 | 7,953 |
| Free operating cash flow (FOCF) | (205) | 1,024 | 559 | 2,562 | 2,919 | 126 |
| Discretionary cash flow (DCF) | (2,610) | (1,993) | (1,334) | 519 | 2,377 | (272) |
| Cash and short-term investments | 1,612 | 4,237 | 3,001 | 4,889 | 5,003 | 3,239 |
| Gross available cash | 1,612 | 4,237 | 3,001 | 4,889 | 5,003 | 3,239 |
| Debt | 8,550 | 8,975 | 11,309 | 12,076 | 10,965 | 14,242 |
| Common equity | 27,906 | 27,385 | 29,768 | 29,475 | 31,341 | 34,044 |
| Adjusted ratios | | | | | | |
| EBITDA margin (%) | 28.3 | 27.6 | 27.4 | 22.5 | 27.0 | 27.5 |
| Return on capital (%) | 15.5 | 14.6 | 13.7 | 7.0 | 11.7 | 10.8 |
| EBITDA interest coverage (x) | 11.4 | 8.9 | 9.4 | 5.9 | 9.0 | 9.8 |
| FFO cash interest coverage (x) | 12.7 | 9.3 | 9.3 | 5.8 | 7.1 | 8.6 |
| Debt/EBITDA (x) | 0.7 | 0.8 | 1.0 | 1.3 | 0.9 | 1.2 |
| FFO/debt (%) | 112.1 | 97.6 | 82.5 | 57.1 | 73.5 | 67.6 |
| OCF/debt (%) | 94.4 | 96.5 | 71.5 | 84.6 | 100.9 | 56.7 |
| FOCF/debt (%) | (2.4) | 11.4 | 4.9 | 21.2 | 26.6 | 0.9 |
| DCF/debt (%) | (30.5) | (22.2) | (11.8) | 4.3 | 21.7 | (1.9) |

### Reconciliation Of Telkom SA SOC Ltd. Reported Amounts With S&P Global Adjusted Amounts (Mil. ZAR)

| | Debt | Shareholder Equity | Revenue | EBITDA | Operating income | Interest expense | S&PGR adjusted EBITDA | Operating cash flow | Dividends | Capital expenditure |
|---|---|---|---|---|---|---|---|---|---|---|
| Financial year | Mar-31-2022 | | | | | | | | | |
| Company reported amounts | 11,932 | 34,069 | 42,756 | 11,908 | 4,933 | 1,112 | 11,662 | 8,157 | 5 | 8,031 |

## Reconciliation Of Telkom SA SOC Ltd. Reported Amounts With S&P Global Adjusted Amounts (Mil. ZAR)

| | Debt | Shareholder Equity | Revenue | EBITDA | Operating income | Interest expense | S&PGR adjusted EBITDA | Operating cash flow | Dividends | Capital expenditure |
|---|---|---|---|---|---|---|---|---|---|---|
| Cash taxes paid | - | - | - | - | - | - | (764) | - | - | - |
| Cash interest paid | - | - | - | - | - | - | (1,188) | - | - | - |
| Lease liabilities | 5,374 | - | - | - | - | - | - | - | - | - |
| Postretirement benefit obligations/ deferred compensation | - | - | - | (120) | (120) | - | - | - | - | - |
| Accessible cash and liquid investments | (3,239) | - | - | - | - | - | - | - | - | - |
| Capitalized interest | - | - | - | - | - | 78 | (78) | (78) | - | (78) |
| Share-based compensation expense | - | - | - | 203 | - | - | - | - | - | - |
| Nonoperating income (expense) | - | - | - | - | 144 | - | - | - | - | - |
| Noncontrolling/ minority interest | - | (25) | - | - | - | - | - | - | - | - |
| Debt: Guarantees | 16 | - | - | - | - | - | - | - | - | - |
| Debt: other | 159 | - | - | - | - | - | - | - | - | - |
| Revenue: Finance/interest income | - | - | (282) | (282) | (282) | - | - | - | - | - |
| EBITDA - Gain/(loss) on disposals of PP&E | - | - | - | (47) | (47) | - | - | - | - | - |
| D&A: Impairment charges/(reversals) | - | - | - | - | 247 | - | - | - | - | - |
| Total adjustments | 2,310 | (25) | (282) | (246) | (58) | 78 | (2,030) | (78) | - | (78) |
| **S&P Global Ratings adjusted** | **Debt** | **Equity** | **Revenue** | **EBITDA** | **EBIT** | **Interest expense** | **Funds from Operations** | **Operating cash flow** | **Dividends** | **Capital expenditure** |
| | 14,242 | 34,044 | 42,474 | 11,662 | 4,875 | 1,190 | 9,632 | 8,079 | 5 | 7,953 |

## Liquidity

We assess Telkom's liquidity as adequate. We anticipate that Telkom's cash flows and available facilities will exceed its commitments and obligations by more than 1.2x over the 12 months started July 1, 2022.

### Principal liquidity sources

For the 12 months started July 1, 2022 we estimate the following principal liquidity sources:

- Unrestricted cash and cash equivalents of about ZAR2.2 billion.
- Undrawn committed revolving credit facilities totaling ZAR1.5 billion.
- Our expectation of cash funds from operations of ZAR7.9 billion-ZAR8.1 billion.

### Principal liquidity uses

For the same period, we estimate the following principal liquidity uses:

- Debt maturities of about ZAR2.6 billion.
- Negative (nonseasonal) working capital outflows of about ZAR500 million.
- Maintenance capex of about ZAR3.0 billion.
- No planned dividends, acquisition, or mergers.

## Covenant Analysis

### Compliance expectations

We expect Telkom will maintain sufficient headroom under its financial covenants, with headroom well in excess of 15% on its interest coverage (3.5x) and net debt to EBITDA (3.0x) ratios.

## Environmental, Social, And Governance

Environmental, social, and governance (ESG) factors are an overall neutral consideration in our credit rating analysis of Telkom. We view the inherent social tensions and inequalities in South Africa as having the potential to translate into weaker business and investment conditions. Furthermore, increasing risk of infrastructure damage from human encroachment and criminality could affect the stability and quality of Telkom's network. We see potential exposure to governance risks stemming mainly from Telkom's SOC status, and regulatory risks. Although Telkom is a SOC, we believe its listed status and solid management have protected it from the governance weaknesses that many other South African SOCs are exposed to. The regulatory environment exposes Telkom to mobile and data price reduction policies, plus data protection and SIM registration requirements, which may pressure future revenues or margins.

## Group Influence

The Telkom SA SOC group comprises the parent company and its subsidiaries. In line with our criteria, we consider an assumed group credit profile (GCP) at the same level as the issuer credit rating (ICR) on the parent company Telkom. The assumed GCP is based on the scope of consolidation and Telkom can be referred to in terms of the assumed GCP, in accordance with our criteria.

## Government Influence

Our foreign and local currency sovereign credit ratings on South Africa are 'BB-' and 'BB' with positive outlooks (see "South Africa Outlook Revised To Positive On Resilient External Sector; Ratings Affirmed," published May 21, 2022, on RatingsDirect). We consider Telkom to be a GRE, with a limited link and limited importance to the South African government. We therefore believe there is a low likelihood of government support for Telkom, given the government's minority (about 40.5%) shareholding, the company's listed status, and the commercial operating model.

## Rating Above The Sovereign

Telkom's stand-alone credit profile of 'bbb-' is higher than the foreign currency rating on South Africa ('BB-'). Based on our view of the low likelihood of government support, we do not cap the rating on Telkom at the foreign currency rating on South Africa. We assess that Telkom may be rated one notch above the foreign currency rating on South Africa since it passes our hypothetical sovereign default scenario, which includes a 20% earnings stress and a 50% depreciation of the South African rand. In our view, the one notch above the foreign currency rating on South Africa considers the conditionality of Telkom's Public Finance Management Act exemption status, and its predominantly domestic operational focus.

### Rating Component Scores

| | |
|---|---|
| **Foreign currency issuer credit rating** | **BB/Positive/--** |
| **Local currency issuer credit rating** | **BB/Positive/--** |
| **Business risk** | **Fair** |
| Country risk | Moderately High |
| Industry risk | Intermediate |
| Competitive position | Fair |
| **Financial risk** | **Modest** |
| Cash flow/leverage | Modest |
| **Anchor** | **bbb-** |
| Diversification/portfolio effect | Neutral (no impact) |
| Capital structure | Neutral (no impact) |
| Financial policy | Neutral (no impact) |
| Liquidity | Adequate (no impact) |
| Management and governance | Fair (no impact) |
| Comparable rating analysis | Neutral (no impact) |
| **Stand-alone credit profile** | **bbb-** |

## Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | Industrials: Key Credit Factors For The Telecommunications And Cable Industry, June 23, 2014
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 20, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

## Related Research

- MTN Group's Proposed Acquisition Of Telkom Could Reduce Rating Constraints But May Face Regulatory Hurdles, July 25, 2022
- Some South Africa Corporate and Infrastructure Issuer Outlooks Revised To Positive On Sovereign Action; Ratings Affirmed, May 27, 2022

## Regulatory Disclosures

Regulatory disclosures applicable to the most recent credit rating action can be found at "Some South Africa Corporate and Infrastructure Issuer Outlooks Revised To Positive On Sovereign Action; Ratings Affirmed", published May 27, 2022 on RatingsDirect.

## Glossary

- Anchor: The starting point for assigning an issuer a long-term rating, based on its business risk profile assessment and its financial risk profile assessment.
- Business risk profile: This measure comprises the risk and return potential for a company in the market in which it participates (its industry risk), the country risks within those markets, the competitive climate, the company's competitive advantages and disadvantages (its competitive position).
- Comparable rating analysis: This involves taking a holistic review of a company's stand-alone credit risk profile (SACP), because each of the subfactors that ultimately generate the SACP can be at the upper or lower end, or at the midpoint, of such a range. It may also touch upon the overall comparative assessment of an issuer in relation to its peers across industry and jurisdiction and may capture some factors not (fully) covered, such as a short operating track record, entities in transition, unusual structures, or contingent risk exposures.
- Competitive advantage: The strategic positioning and attractiveness to customers of the company's products or services, and the fragility or sustainability of its business model.
- Competitive position: Our assessment of a company's: competitive advantage; operating efficiency; scale, scope, and diversity; and profitability.
- Corporate Industry and Country Risk Assessment (CICRA): Derived by combining an issuer's country risk assessment and industry risk assessment.
- Country risk: This measures a country's influence on the overall credit risks for a rated company with regards to a country's economic, institutional and governance effectiveness, financial system, and payment culture/rule of law risks.
- CreditWatch: This highlights the potential direction of a short- or long-term rating over the short term, typically less than three months. Ratings may be placed on CreditWatch where, in our view, an event or a deviation from an expected trend has occurred or is expected and additional information is necessary to determine the rating impact.
- Creditworthiness: Ability and willingness of a company to meet its debt and debtlike obligations; measured by assessing the level current and future resources relative to the size and timing of its commitments.

- Diversification/portfolio effect: Applicable to conglomerates. An assessment of the extent to which an entity's multiple core business lines are correlated and whether each contributes a material source of earnings and cash flow.
- Earnings: Proxy for profit or surplus yielded by an entity after production and overhead costs have been accounted for in a given period.
- EBITDA margin: This is EBITDA as a fraction of revenues.
- EBITDA: This is earnings before interest, tax, depreciation, and amortization.
- Economies of scale: This is the cost advantage that arises with increased size or output of a product.
- Efficiency gains: Cost improvements.
- ESG credit indicators: ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicator Definitions And Their Application," published Oct. 13, 2021
- Financial headroom: Measure of deviation tolerated in financial metrics without moving outside or above a predesignated band or limit typically found in loan covenants (as in a debt-to-EBITDA multiple that places a constraint on leverage) or set for the respective rating level. Significant headroom would allow for larger deviations.
- Financial risk profile: This measure comprises our assessment of a company's cash flow/leverage analysis. It also takes into account the relationship of the cash flows the organization can achieve given its business risk profile. The measure is before assessing other financial drivers such as capital structure, financial policy, or liquidity.
- Free operating cash flow: Cash flow from operations minus capital expenditure.
- Funds from operations: EBITDA minus interest expense minus current tax.
- Government-related entity: An entity that could, under stress, benefit from extraordinary government support to meet its financial obligations; or conversely an entity controlled by a government that could be subject to negative extraordinary government intervention if the government is under stress.
- Group rating methodology: The assessment of the likelihood of extraordinary group support (or conversely, negative group intervention) that is factored into the rating on an entity that is a member of a group.
- Industry risk: This addresses the major factors that affect the risks that companies face in their respective industries.
- Issuer credit rating: This is a forward-looking opinion about the creditworthiness of an obligor with respect to a specific class of financial obligations or a specific financial program.
- Issuer credit rating: This is a forward-looking opinion of an obligor's overall creditworthiness.
- Leverage: The level of a company's debt in relation to its earnings before interest, tax, depreciation, and amortization.
- Liquidity: This is the assessment of a company's monetary flows, assessed over a 12 to 24 month period. It also assesses the risk and potential consequences of a company's breach of covenant test, typically tied to declines in EBITDA.

- Management and governance: This addresses how management's strategic competence, organizational effectiveness, risk management, and governance practices shape the issuer's competitiveness in the marketplace, the strength of its financial risk management, and the robustness of its governance.
- Operating efficiency: The quality and flexibility of the company's asset base and its cost management and structure.
- Outlook: This is the assessment of the potential direction of a long-term issuer rating over the short to intermediate term (typically six months to two years).
- Profitability ratio: Commonly measured using return on capital and EBITDA margins, but can be measured using sector-specific ratios.
- Rating above the sovereign assessment: Our assessment of whether an entity can be rated above the sovereign rating on a jurisdiction it has a material exposure to.
- Scale, scope, and diversity: The concentration or diversification of business activities.
- Stand-alone credit profile (SACP): S&P Global Ratings' opinion of an issue's or issuer's creditworthiness, in the absence of extraordinary intervention or support from its parent, affiliate, or related government or from a third-party entity such as an insurer.

## Ratings Detail (as of October 05, 2022)*

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|---|---|
| **Telkom SA SOC Ltd.** | |
| Issuer Credit Rating | BB/Positive/-- |
| **Issuer Credit Ratings History** | |
| 27-May-2022 | BB/Positive/-- |
| 12-May-2020 | BB/Stable/-- |
| 02-Dec-2019 | BB+/Negative/-- |
| 04-Dec-2017 | BB+/Stable/-- |

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.