

Vox takes a knock but is adapting to lower cell fee

VOX TELECOM

Interim	2010	2009
Revenue (Rbn)	1,044	1,059
Pretax (Rm)	35,6	43,5
Net Income (Rm)	25,5	31,05
Headline EPS (c)	2,3	2,81
Dividend (c)	-	-

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VOX Telecom has frozen the renewal of client contracts to align the new agreements with the revised cellphone interconnection rates, but the move reduced earnings in the half-year to February by 18%.

Vox, through subsidiary Vox Orion, provides least-cost routing services to corporations to help them reduce telecoms bills. It diverts calls from one network to a cheaper network, undercutting the rates business users pay.

As the cost of cross-network calls falls, there will be less need for least-cost routing services, so providers that offer them as their sole service are under threat. Although the bulk of Vox's earnings comes from least-cost routing, it has diversified into areas such as internet services.

Last month, cellphone interconnection rates fell to 89c from R1,25. A further reduction to 65c is due in July this year, then to 50c by July next year and 40c in July 2012.

Vox has previously warned of a dent in earnings due to the fall in interconnection rates. In November, Vox took a strategic decision not to renew least-cost routing contracts that were coming to an end, in anticipation of the proposed changes in interconnection rates. The move led to Vox generating R3,4m from connection incentive bonuses in the six months to February, against R37,7m in the previous period.

Vox's profit after tax was down 18% to R25,5m.

Earnings per share per share fell 18% to 2,3c and revenue dropped 1% at R1,04bn.

Vox Telecom CEO Tony van Marken was not concerned by the revenue dip. He said the substantial reduction in interconnection rates would enable Vox to offer customers "much more competitive rates for their outbound voice traffic".

"Things are finally coming together for South Africans to enjoy a genuinely competitive telecommunications market for the first time. A couple of key pieces are still missing — notably carrier preselect and local loop unbundling — but we are continuing to lobby hard for those."

To mitigate the losses, Vox Telecom would persuade its important customers to transfer all their incoming and outgoing calls to a network that it had built.

At the same time, Van Marken said Vox was taking advantage of the advent of full local number portability to speed up migration of important customers to the Cristal Vox voice and data solution. Telkom's fixed-line clients will be able to switch to other networks without losing their numbers.

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