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Vox confident of beating LCR blues



Posted by [Editor](#) on Apr 22nd, 2010 and filed under [In-depth](#). You can follow any responses to this entry through the [RSS 2.0](#). You can leave a response or trackback to this entry



Vox Telecom will feel “short-term pain” as wholesale mobile call termination rates fall. But the AltX-listed company should be able to rebuild lost profit within two years as it moves customers onto its own voice network.

That’s the view of Vox CEO Tony van Marken, who says the company has actively begun moving customers from its least-cost routing (LCR) products across to its own voice network infrastructure.

Mobile termination rates are the interconnection fees cellphone operators charge each other operators to carry calls onto their networks. They were reduced in March and look set to fall again in July, with further reductions in 2011 and 2012.

Vox’s share price has been punished in recent months as investors fret over the impact of lower termination rates on the company’s profitability, particularly because of its large exposure to the LCR market.

Van Marken says the proposed new rates will mean its LCR business, which has taken advantage of arbitrage opportunities that have been available due to high termination rates, is no longer viable.

Simply speaking, LCR operators like Vox subsidiary Vox Orion buy thousands of contract Sim cards from the mobile operators and route calls on behalf of clients along the most affordable channels. They also earn valuable connection incentive bonuses from the mobile providers.

Vox Orion is SA’s largest LCR player. Other companies that provide LCR services are Huge Group, Nashua Mobile and Altech Autopage Cellular.

Because of deflation in voice telephony in SA, Van Marken doesn’t expect that switching clients from LCR to its own voice products will be sufficient to prevent a decline in revenue. But he hopes to maintain earnings. “In 18-24 months we should have a more sustainable revenue model, with the majority of traffic sitting on our own network.”

Vox Orion contributes the vast bulk of Vox’s revenues. In the six months to 28 February 2010, it generated R659m of Vox’s R1,04bn in sales — that’s 63% of the total, but down from 66% in the comparative period in 2009.

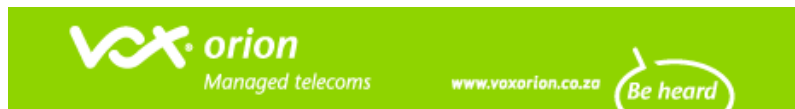
So far, only 14% of Vox Orion’s customers have switched from LCR to the Cristal Vox product, Van Marken says.

He says Vox supports the move by government and the telecommunications regulator to bring down termination rates, provided this is done in combination with other regulatory interventions. Van Marken wants the Independent Communications Authority of SA to move quicker to introduce carrier preselect rules, which will allow consumers to route their calls over a network of their choice. He also wants local-loop unbundling, which is important for bringing down fixed-line broadband costs, to happen as soon as possible.

Vox’s share price closed down 8,1% on Thursday after publication of its interim financial results. Profit fell 18% on revenues that declined marginally. — *Duncan McLeod, TechCentral*

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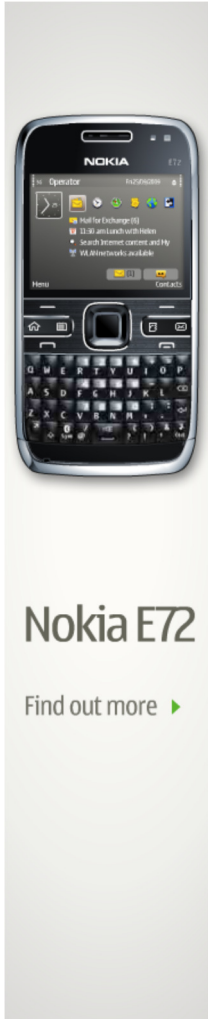
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