

Vodacom / YeboYethu

BEE milestone, ownership in focus

Vodacom Group's Black Economic Ownership (BEE) is back in focus, as its R7.5bn deal reaches an important milestone. On 3 February, the Black Public shares in the structure will begin restricted over-the-counter (OTC) trading. Given this milestone, we provide an overview of the deal, key disclosures of the BEE vehicle (YeboYethu) and the upside and downside risks of the underlying asset (Vodacom South Africa). Our view on Vodacom Group is not impacted by this milestone, although its BEE status does highlight the opportunity for increased ownership. We retain our UW rating, with a R117 PT.

BEE deal hits important milestone. Vodacom South Africa ("VSA"), which makes up 85% of the group on our estimates, has three core BEE shareholders (see body for details). YeboYethu (not covered), the largest of these, is approaching a key milestone – restricted trading of its share by the Black Public. The Black Public own an effective 1.89% of Vodacom South Africa. According to the latest financial statements of YeboYethu (FY1H14), the fair value of its share is R36.6/share. Given the initial equity contribution of the Black Public into the fund, we estimate their shares are valued nearer R49/share.

Vodacom South Africa – the key risks and opportunities. The valuation of YeboYethu's shares is not straightforward, and impacted by inter alia the notional funding in the structure. The company value (VSA) is, however, a key variable. We value the equity of VSA at R150bn (inception R120bn). Looking ahead we see the key upside risks to VSA from mobile money/data, while downside risks include changes to the industry structure (eg. new funding for competitors) and regulation.

Vodacom BEE status. VSA is a level 3 BBBEE contributor. The company's black economic ownership presents an opportunity to improve this rating. Initial regulatory guidance on 4G spectrum introduced a requirement for a 30% historically disadvantaged individuals (HDI) stake. It was not clear on how HDI would be measured, but likely that Vodacom would fall below this level (see *Pick countries rather than continent*, 27 Sep 2013).

VODJ: Financial and Valuation Metrics ZAR

FY Mar	2012	2013	2014	2015	2016
EPS	6.91A	8.85A	9.15E	9.59E	10.39E
Previous EPS	6.91A	8.85A	9.15E	9.59E	10.39E
Consensus EPS	7.06A	8.70A	9.47E	9.90E	10.53E
P/E	18.3	14.3	13.9	13.2	12.2

Source: Barclays Research.
Consensus numbers are from Thomson Reuters

Barclays Capital Inc. and/or one of its affiliates does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report.

Investors should consider this report as only a single factor in making their investment decision.

This research report has been prepared in whole or in part by equity research analysts based outside the US who are not registered/qualified as research analysts with FINRA.

PLEASE SEE ANALYST CERTIFICATION(S) AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 12.

Affiliated with



Absa Capital is a division of Absa Bank Limited

Equity Research

Telecommunications | Emerging Markets
Telecom Services
28 January 2014

Stock Rating	UNDERWEIGHT Unchanged
Industry View	NEUTRAL Unchanged
Price Target	ZAR 117.00 Unchanged

Price (24-Jan-2014)	ZAR 126.75
Potential Upside/Downside	-8%
Tickers	VOD SJ / VODJ

Market Cap (ZAR mn)	188598
Shares Outstanding (mn)	1487.95
Free Float (%)	20.79
52 Wk Avg Daily Volume (mn)	1.8
Dividend Yield (%)	6.5
Return on Equity TTM (%)	67.52
Current BVPS (ZAR)	14.53

Source: Thomson Reuters

Price Performance	Exchange-ZAR
52 Week range	ZAR 134.33-100.66



[Link to Barclays Live for interactive charting](#)

Emerging Markets Telecom Services Industry View: NEUTRAL

Vodacom Group Ltd. (VODJ.J) Stock Rating: UNDERWEIGHT

Income statement (ZARmn)	2013A	2014E	2015E	2016E	CAGR
Revenue	69,917	74,713	77,855	82,346	5.6%
EBITDA	25,253	27,199	28,552	30,417	6.4%
EBIT	18,897	20,542	21,216	22,469	5.9%
Finance costs - net	-810	-704	-594	-323	N/A
Pre-tax income	18,434	19,650	20,622	22,146	6.3%
Tax rate (%)	28.3	30.0	30.1	29.5	1.4%
Net income	12,991	13,433	14,082	15,247	5.5%
EPS (adj) (ZAR)	8.85	9.15	9.59	10.39	5.5%
Diluted shares (mn)	1,468	1,468	1,468	1,468	0.0%
DPS (ZAR)	7.85	8.20	8.63	9.35	6.0%

Price (24-Jan-2014) ZAR 126.75
 Price Target ZAR 117.00

Why Underweight? At current levels we do not believe that risks to (calendar) 2013 are adequately priced in. We see incremental risk to domestic contract (post-paid) revenues, pre-paid voice price competition and SMS into 2013.

Upside case ZAR 148.00

Where our concerns on domestic mobile do not play out, the company could beat. A 2pp EBITDA margin beat (versus our base case) would likely see the share push towards our upside case.

Downside case ZAR 102.00

Were the final MTR decision to remain similar to the October 2013 draft, and a fresh round of voice price cuts initiated, we would expect the share price to fall towards our downside case.

Margin and return data	Average				
EBITDA margin (%)	36.1	36.4	36.7	36.9	36.5
EBIT margin (%)	27.0	27.5	27.3	27.3	27.3
Pre-tax margin (%)	26.4	26.3	26.5	26.9	26.5
Net margin (%)	18.6	18.0	18.1	18.5	18.3
Operating CF margin (%)	25.7	23.3	24.5	22.5	24.0
ROIC (%)	26.1	25.5	24.8	24.7	25.3
RONTA (%)	55.6	51.8	48.5	46.8	50.7
ROA (%)	26.1	25.5	24.8	24.7	25.3
ROE (%)	64.7	60.0	54.1	50.5	57.3

Balance sheet and cash flow (ZARmn)	CAGR				
Tangible fixed assets	27,741	30,552	33,835	37,011	10.1%
Intangible fixed assets	5,332	6,035	6,855	7,649	12.8%
Cash and equivalents	6,528	5,436	6,257	6,175	-1.8%
Total assets	55,591	57,156	62,206	66,014	5.9%
Short and long-term debt	14,511	14,873	14,330	13,957	-1.3%
Other long-term liabilities	536	536	536	536	0.0%
Total liabilities	34,375	33,587	33,670	34,216	-0.2%
Net debt/(funds)	8,007	9,437	8,073	7,781	-0.9%
Shareholders' equity	20,800	22,830	27,467	30,363	13.4%
Cash flow from operations	25,320	26,906	29,052	31,417	7.5%
Capex and acquisitions	-7,286	-9,822	-9,440	-11,918	N/A
Free cash flow	12,711	10,847	12,860	12,593	-0.3%
NOPAT	13,556	14,380	14,829	15,841	5.3%

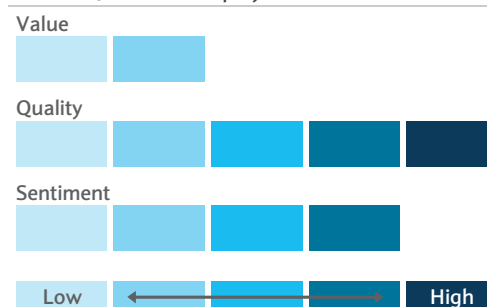
Valuation and leverage metrics	Average				
P/E (adj) (x)	14.3	13.9	13.2	12.2	13.4
EV/EBITDA (x)	7.7	7.1	6.8	6.4	7.0
Equity FCF yield (%)	6.8	5.8	6.9	6.8	6.6
EV/sales (x)	2.8	2.6	2.5	2.4	2.6
P/BV (x)	8.8	7.9	6.5	5.9	7.3
Dividend yield (%)	6.2	6.5	6.8	7.4	6.7
Total debt/capital (%)	26.1	26.0	23.0	21.1	24.1
Net debt/EBITDA (x)	0.3	0.3	0.3	0.3	0.3

Selected operating metrics	2013A	2014E	2015E	2016E
SA service rev growth (%)	1.8	3.4	5.0	N/A
SA mobile data rev growth (%)	16.3	25.6	16.6	N/A
SA subs (k)	30,349.0	32,441.0	33,905.0	N/A

Upside/Downside scenarios



POINT® Quantitative Equity Scores



Source: POINT®. The scores are valid as of the date of this report and are independent of the fundamental analysts' views. To view the latest scores, please go to the equity company page on Barclays Live.

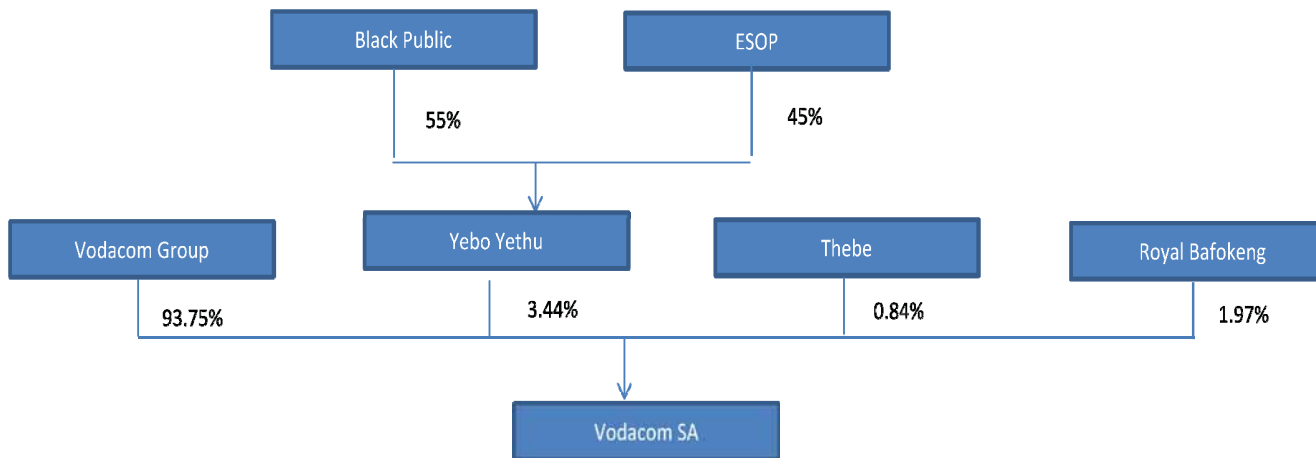
Source: Company data, Barclays Research
 Note: FY End Mar

Recapping Vodacom’s R7.5bn BEE Deal

In March 2008 Vodacom announced its intention to implement a R7.5bn broad-based black economic deal. This was formalised in July 2008. These BEE partners own an effective 6.25% in Vodacom South Africa (“VSA”). On 3rd February 2014, the Black Public shares in YeboYethu will begin restricted trading. Given this, in this section we provide:

- An overview of the BEE deal
- The key financial highlights of YeboYethu
- And the potential upside/downside risks of the underlying asset – VSA.

FIGURE 1
Vodacom – BEE Transaction structure



Source: Company data

Overview of the BEE deal

Vodacom South Africa allocates 6.25% of its share capital to BEE deal

In 2008 VSA issued the 6.25% of its share capital to the BEE participants as follows:

- **YeboYethu:** 7.2m ordinary shares and 82.8m “A” shares was made available to YeboYethu. YeboYethu is a publicly incorporated company and consequently held the equivalent of 3.44% interest in VSA;
- **Employee share scheme (ESOP):** 75m “A” shares was made available to the ESOP. YeboYethu held these shares, with the ESOP benefitting through its shareholding in YeboYethu.
- **Strategic partners:** 10.8m ordinary shares and 124.2m “A” shares was made available to Royal Bafokeng and Thebe. This gave the strategic partners a respective 1.97% and 0.84% direct interest in VSA;

YeboYethu (owns 3.44%) allocates share to Black Public and Employees

The Black Public and the ESOP own their underlying investment in Vodacom South Africa through YeboYethu. Given the share allocation to YeboYethu noted above, YeboYethu in turn issued shares separately to the Black Public and ESOP in the following allotments:

- 14.4m ordinary shares in YeboYethu was issued to the Black Public, given them a 55% stake in the company and an effective 1.89% in VSA;

- 12m compulsory convertible “N” shares in YeboYethu was issued to the ESOP.

The final shareholding in Vodacom South Africa through the various participants in the BEE deal amounted to:

FIGURE 2

Vodacom South Africa shareholding post implementation of BEE deal

Post implementation	Number of Vodacom SA shares	% of Vodacom SA post the BEE transaction	% of BEE Transaction	Current market value (R'm)
Black public	90.0	1.89	30.0	2,250
Royal Bafokeng	94.5	1.97	31.5	2,362
Thebe	40.5	0.84	13.5	1,012
ESOP	75.0	1.55	25.0	1,875
Vodacom Group	4500.0	93.75	0.0	112,500
Total	4800.0	100.0	100.0	120,000

Source: Company data

Funding for the deal

Funding for the deal was facilitated through either an equity injection from the BEE investors, notional funding and an upfront R750m discount from VSA.

FIGURE 3

Vodacom SA BEE Transaction funding

	Equity contribution (R'm)	Upfront discount (R'm)	Notional vendor finance (R'm)	Value of Vodacom SA shares acquired (R'm)
Royal Bafokeng	378	236.3	1,748.3	2,362.5
Thebe	162	101.3	749.3	1,012.5
YeboYethu	360	225.0	1,665.0	2,250.0
ESOP	-	187.5	1,687.5	1,875.0
Total	900	750	5,850	7,500

Source: Company data

“A” shares subject to redemption to settle notional funding

“A” in VSA shares carry the same rights as the ordinary shares, except that A shares will not have received dividends on their shares until the notional funding has been paid up. Each “A” share carried a notional value of R20.1087 at the implementation date, however, “A” shares allocated to the ESOP had a notional value of R22.50 at implementation date. Finally, VSA does retain the option to re-purchase “A” shares, in order to settle the notional funding balance post the facilitation period. This repurchase value (fair value) will only be determined in 2018.

Black Public shares in YeboYethu begin restricted trading on 3rd Feb

Only the shares held by the Black Public, through its investment in YeboYethu will commence restricted trading on the 3rd February 2014. These will trade over an OTC platform, and for the first five years, shareholders will only be permitted to trade the shares with an equivalent/ higher status BEE shareholder. Two factors are important to consider:

- **Disclosed valuation of the YeboYethu shares.** YeboYethu provides semi-annual financial updates which value the option asset (VSA). The valuation is derived using a Monte Carlo simulation. For the year ended 31 March 2013, the value of the Vodacom SA option was R998m. This implies a value per share of R37.83 for YeboYethu.

Given the **Black Public** provided R360m of upfront funding, we estimate their shares in the structure are worth nearer **R49/share** (on an accounting basis).¹

FIGURE 4
YeboYethu – Five year disclosed share value history, R

	31-Mar-09	31-Mar-10	31-Mar-11	31-Mar-12	31-Mar-13
Value per share	36.45	33.03	29.36	35.49	37.83

Source: Company data

- **Asset held by YeboYethu.** The asset held by YeboYethu is represented by the 3.44% shareholding in Vodacom South Africa. The Black Public's stake in YeboYethu is 55%, which implies an effective ownership in Vodacom South Africa of 1.89%. This comprises 7.2m ordinary shares, and 82.8m "A" shares, issued by Vodacom SA to YeboYethu.

Risks and opportunities for the underlying asset (Vodacom South Africa)

We value the underlying VSA equity at R150bn which equates to 6.7x FY15 EBITDA. This has increased from when we initiated coverage in July 2010, at which date we valued the asset at R105bn. From here we see the following opportunities and risks for Vodacom South Africa:

- **Opportunity – Mobile money.** Vodacom is planning to re-launch its mobile money offering (M Pesa) in South Africa in calendar 1Q14. Vodacom is already experiencing great success in Tanzania with M Pesa, with 35% of airtime currently purchased via this platform. The company will be hoping that similar successes can be replicated in its local market. Current estimates are that 31.4m of South Africans are unbanked – this represents a staggering opportunity for a successful mobile money operator given the breadth of distribution this platform will afford. We have assessed the opportunity for Vodacom in this regard – Refer to *Emerging market telecoms: Africa's unbanked opportunity*
- **Opportunity – Margin expansion.** Vodacom has implemented a number of measures as part of a targeted drive to reduce costs (FY13 cost reductions added 0.4pp to service revenue margins). Additionally, the company expects further cost reductions by leveraging more scale benefits through the Vodafone Procurement Company. Cost savings will be clearly beneficial to margins, and given the level of operational leverage, will be accretive to earnings. We have assessed the opportunity for mobile operators on this front, refer to *SA Connect: Cost control softening revenue pressure*
- **Opportunity – Mobile data.** The increased availability of lower cost smartphones has assisted greatly in driving the data revolution (further assisted by the current lack of extensive broadband coverage in South Africa). Additionally, Vodacom has seen much success in driving data revenues since the launch of its integrated tariffs (Red and Smart). Data revenues were up 29% yoy in the FY1H14 result alone, and continues to represent a key growth driver for the group. In a scenario where data revenues/profitability beat our estimates, it would drive valuation up towards our upside case.
- **Risk – Regulation.** South Africa faces significant regulatory headwinds. Government continues to cite that the cost of communication in South Africa is too high, and will be looking to drive this down. Current headwinds include the MTR proposals and government's intended wholesale access vehicle on affordable broadband. If regulation

¹ VSA option value = R998.5m, less equity contribution of R360m = R638m. Divide by 26.4m shares = R24/share. Add the equity of R25/share = R49/share.

toughens and is combined with competition we see VSA dragging down our group valuation towards the downside case.

- **Risk – Competition.** Through 2013, MTN lost revenue share on our estimates. There is a risk that the company could initiate price competition to stem market share losses. Separately, there is a risk that Telkom Mobile (or the assets therein) and/or Cell C receive new funding. This would enable them to be more price aggressive. We believe that the recent rapid depreciation of the Rand improves the prospect of new offshore funding.

South African Mobile – Market recap

Benign growth prospects, regulatory headwinds

The South African mobile market has undergone a marked change over the last 12 months. Specifically the growth profile has come under pressure. Service revenue declines (-3%) in calendar 3Q13 compare unfavourably with +3.2% posted a year ago. Secondly, the regulators rhetoric around mobile competition has also undergone a step change, with the key objective being to reduce the costs to communicate.

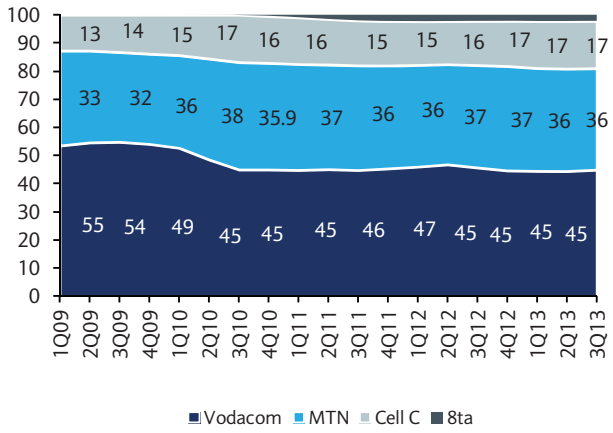
On a company specific level, Vodacom has made some market share headway through 9M2013 (calendar). The operator recorded +3% growth in underlying service revenues in calendar 3Q13, boosted by a solid quarter in net adds, and some usage benefits coming through given reduced pricing. The company does remain relatively upbeat on the prospects for the local market, citing continued positive growth into 4Q13E. Conversely, MTN recorded a substantially poorer result, with an 8.4% decline in ARPU revenues.

- **Vodacom – Gaining share in prepaid.** Vodacom reported net prepaid subscriber additions of +843k in FY2Q14 (FY1Q14: +84k, FY4Q13: -308k), significantly up on recent trends. Updated disclosure shows the split between Machine-to-machine (M2M) subs and contract. Within this mix, contract adds was up 14k (FY1Q14: +8k, FY4Q13: +24k) to 4.8m customers. Contract adds continue to be positively impacted by the company's stated strategy to migrate customers to an integrated tariff. 41.8% (excluding top-up customers) of the contact base is currently on an integrated tariff, with in bundle spend up 1.1pp YoY.

MTN posted net subscriber adds of +234k in 3Q13, compared with the +51k recorded in the previous quarter. Prepaid net adds made some recovery in the quarter at +118k (2Q13: -72k, 1Q13: -609k), on the back of some revised offerings. Postpaid net adds remained positive at +116k for 3Q13, but decelerated slightly on the growth recorded in the previous quarter (2Q13: +123k, 1Q13: +138k). Overall, this quarter highlighted that South Africa continues to remain tough, particularly within the prepaid segment of the market.

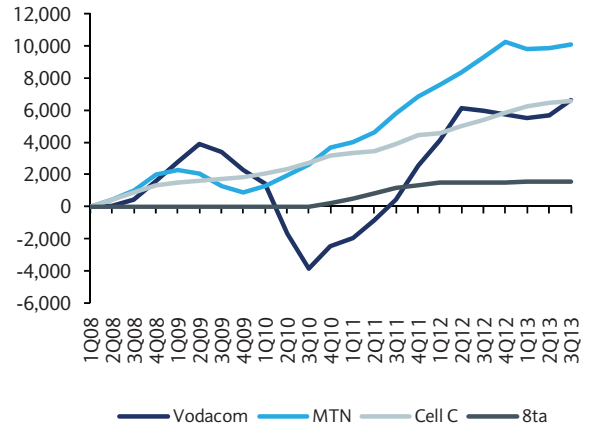
- **Revenue trends showing a decline.** Vodacom recorded 3.0% growth in underlying service revenues. However, implied ARPU revenues showed some pressure in the quarter, with prepaid down 1.0% (+2.0) and contract ARPU revenues down 1.3% (-1.6%) on our estimates. MTN's reported subscriber and APRU data implied an ARPU revenue decline of 8.4% in 3Q13 (-13.4% for prepaid and 0.6% on postpaid) versus -6.3% in 2Q13.
- **Usage growth remains positive, Vodacom shows small deceleration.** Vodacom's outbound usage growth decelerated slightly to +13.7% (FY1Q14: +15.3%, FY4Q13: 8.5%, FY3Q13: +7.4%, FY2Q13: +8.3%, 1Q13: +6.3%, 4Q12: +6.8%). This reflects a significant pick-up in bundled usage, coupled with reduced pricing (on the prepaid side), with effective pricing now at R0.54/min. We estimate that MTN's outbound usage reflected a 9.2% increase for 1H13.
- **Data revenue growth continues positive momentum.** Vodacom reported data revenue growth of 29.0% in FY2Q14 (SA data revenue growth is 20.6% and comprising 21.5% of service revs). This was driven by a combination of tariff adjustments and increased bundled uptake (+108% in no. of bundles sold). Data revenue growth in the international operations was significantly higher at 100.6% for the quarter, with 25.6% of the active customer base using data, vs. 22.5 a year ago. At MTN, growth in data remains the largest contributor to growth, with management citing data revenues are up 16% YoY. As a reminder, at the interim result (1H13), data revenues, including SMS, made up 30.7% of service revenues (FY12: 27.5%), up 8.3% YoY (2012: 38.5%) with traffic volumes up a substantial 63% YoY.

FIGURE 5
South Africa Mobile – Subscriber share, %



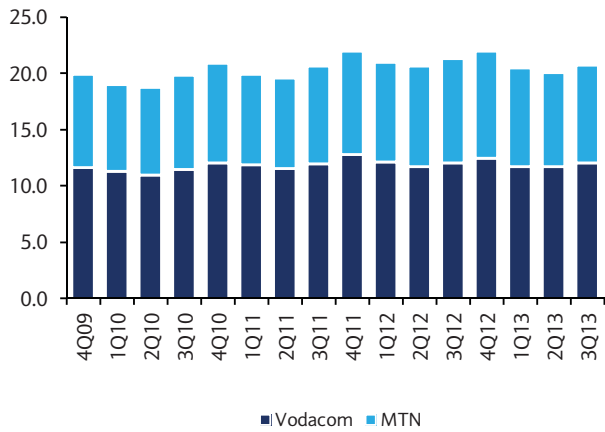
Source: Company data, Barclays Research *Cell C estimates

FIGURE 6
South Africa Mobile – Cumulative net adds, 000s



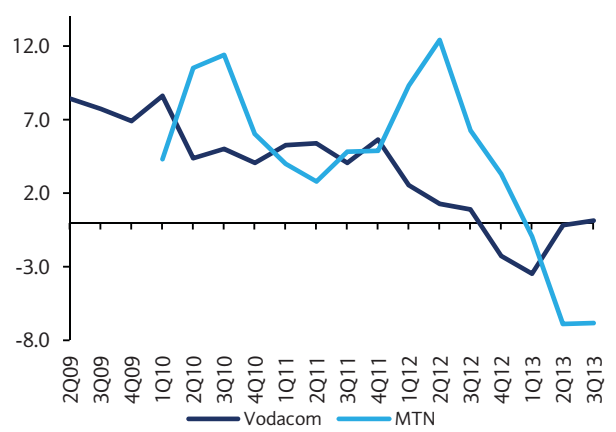
Source: Company data, Barclays Research

FIGURE 7
South Africa Mobile – Service Revenues, ZARbn



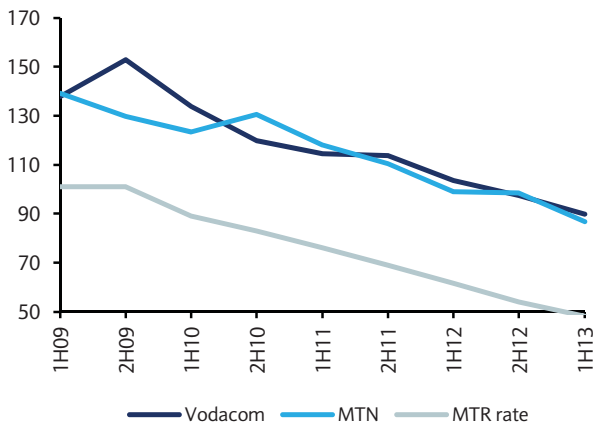
Source: Company data, Barclays Research

FIGURE 8
South Africa Mobile – Service Revenue growth, %



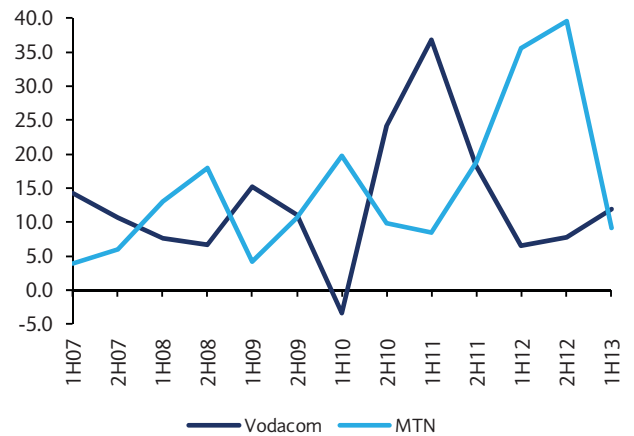
Source: Company data, Barclays Research

FIGURE 9
South Africa Mobile – Voice prices, ZARc



Source: Company data, Barclays Research

FIGURE 10
South Africa Mobile – Outbound minute growth, %



Source: Company data, Barclays Research

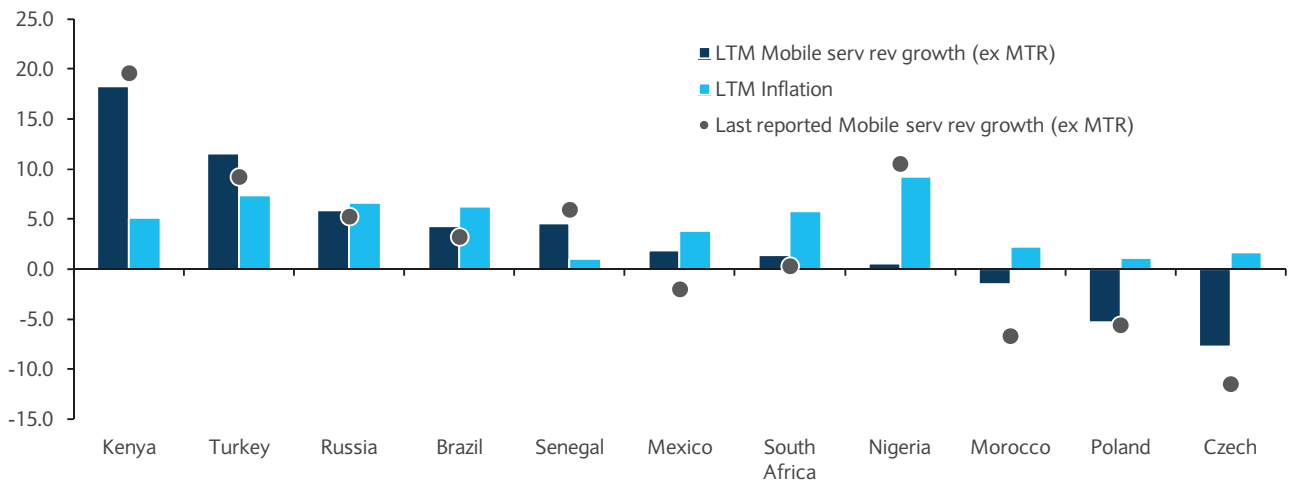
How does SA stack up to other EM?

In order to evaluate the attractiveness of the SA mobile market in a greater EM context, we assess the market on the basis of 4 metrics: real growth/margin profile, key changes in regulation, competition and cash flow potential.

1. South African underperforming on real growth

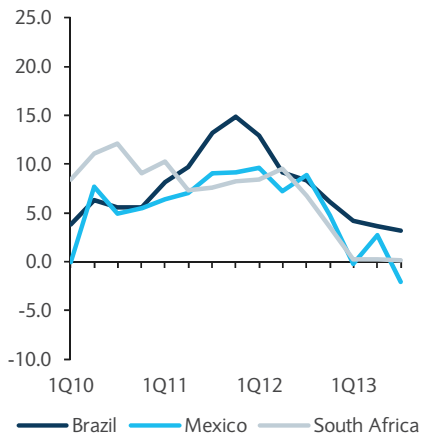
We align our ratings with markets/operators that are outperforming inflation, for example Turkcell (mobile Turkey), MegaFon (mobile Russia), Safaricom (mobile Kenya) and MTN (mobile Nigeria). In contrast we remain cautious on South Africa.

FIGURE 11
EM Telecoms – Kenya outpacing other countries in our screen



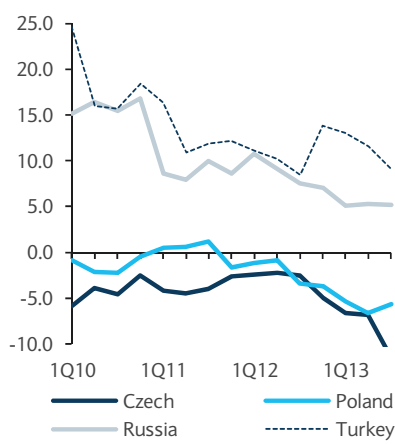
Source: Barclays Research, Company data, Bloomberg

FIGURE 12
EM Telcos: Service rev growth (ex MTR)



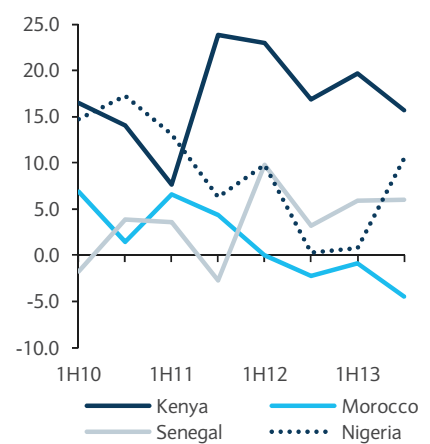
Source: Company data, Absa Capital

FIGURE 13
EM Telcos: Service rev growth (ex MTR)



Source: Company data, Absa Capital

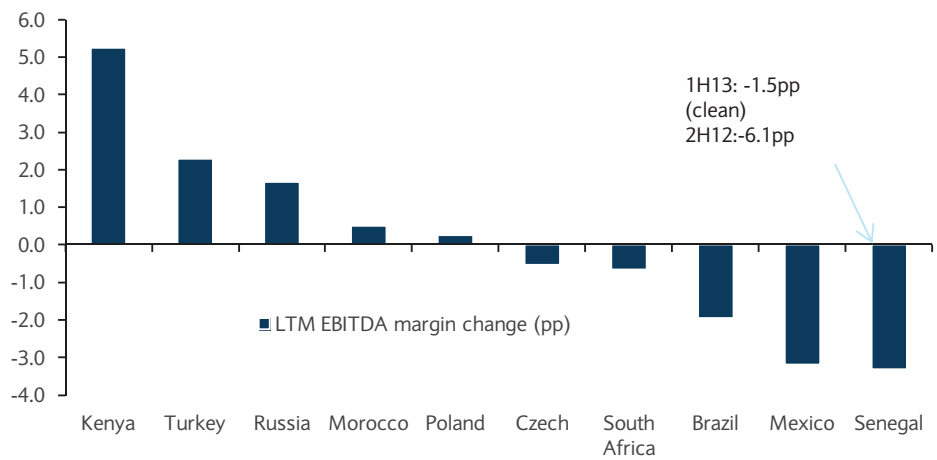
FIGURE 14
EM Telcos: Service rev growth (ex MTR)



Source: Company data, Absa Capital

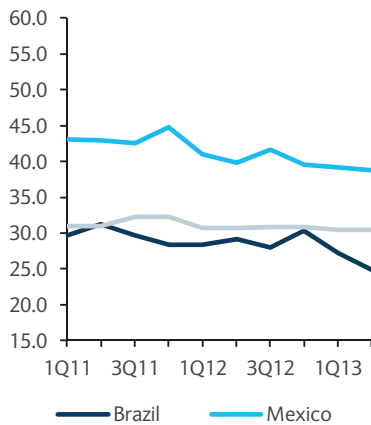
We believe telcos that deliver real growth attract a premium rating. This is owing to the high gross margin nature of the industry. Our analysis of EBITDA margins across EM telecoms supports this view. Kenya's Safaricom is seeing strong EBITDA growth, while markets like South Africa are seeing pressure for the first time in years. In Senegal, Sonatel is seeing its domestic margins squeezed by price competition on international traffic.

FIGURE 15
EM Telecoms – Real growth driving margin expansion for Kenya (Safaricom)



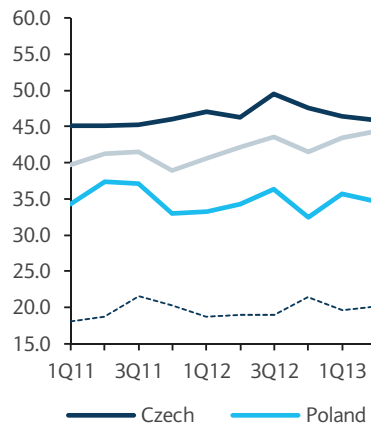
Source: Company data, Barclays Research

FIGURE 16
EM Telecoms: EBITDA Margin, %



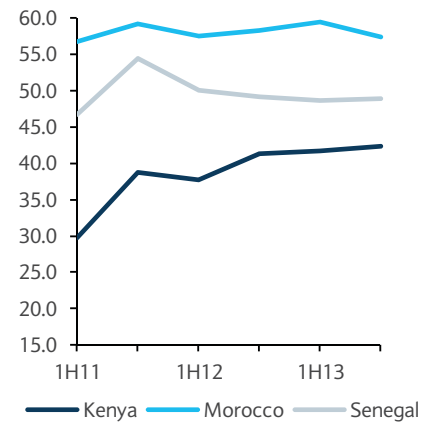
Source: Company data, Absa Capital

FIGURE 17
EM Telecoms: EBITDA Margin, %



Source: Company data, Absa Capital

FIGURE 18
EM Telecoms: EBITDA Margin, %



Source: Company data, Absa Capital

2. Regulation a potential risk

Two key potential regulatory amendments drive our negative outlook on the SA market. On the current MTR proposal, our negative view would be supported by the steep glidepath proposed, as well the level of asymmetry proposed for challengers Cell C and Telkom Mobile. Our assessment of how this decision will affect mobile operators shows that it could lead to a 4pp impact on SA service revenues for FY15 for Vodacom, and be detrimental to the EBITDA profile for MTN. Additionally, other markets where we have seen similar decisions include Kenya and Morocco, where both markets saw subsequent incumbent market share and retail pressure. We provide further detail on the MTRs in *South African Telecoms: Regulator reveals asymmetric MTR decision; risk profile worsens*.

Secondly, government's recently gazetted national broadband policy aims to deliver affordable access to all. The SA government cites the high costs of broadband as a barrier to growth, and aims to address this through a wholesale access vehicle that will drive competition for vertically integrated operators such as Vodacom and MTN. See *SA Connect: Open access to support broadband for all*.

3. Competition – keeping an eye on MTN/challenger funding

As eluded to above, these regulatory changes have the potential to materially alter the competitive landscape for SA operators. Additionally our review of pricing in the market indicates that although there has been no stepped change in pricing for 4Q13, operators will have to remain relevant (i.e. bring down costs) from a pricing point of view to maintain/ capture share.

4. Market cash flow growth constrained by topline

The wireless market is facing ongoing voice price pressure. Amidst a softer macro backdrop and a penetration rate of >130%, further voice price cuts will not entirely be absorbed by elasticity. Combined with higher capex this would imply free cashflow pressure.

Overall, we remain cautious on the prospects for SA mobile, particularly given emerging regulatory risk and challenging valuations. We maintain our preference for other emerging markets, like Nigeria in an African context, given its real revenue growth profile. Further afield, we prefer Turkey, which although is clouded by negative sentiment, will continue to see buoyant revenue growth.

ANALYST(S) CERTIFICATION(S):

We, JP Davids, CFA, Maurice Patrick, Jonathan Dann, San Dhillon, Roman Arbuzov and Michael Bishop, hereby certify (1) that the views expressed in this research report accurately reflect our personal views about any or all of the subject securities or issuers referred to in this research report and (2) no part of our compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

The POINT® Quantitative Equity Scores (POINT Scores) referenced herein are produced by the firm's POINT quantitative model and Barclays hereby certifies that (1) the views expressed in this research report accurately reflect the firm's POINT Scores model and (2) no part of the firm's compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

IMPORTANT DISCLOSURES

Barclays Research is a part of the Corporate and Investment Banking division of Barclays Bank PLC and its affiliates (collectively and each individually, "Barclays"). For current important disclosures regarding companies that are the subject of this research report, please send a written request to: Barclays Research Compliance, 745 Seventh Avenue, 14th Floor, New York, NY 10019 or refer to <http://publicresearch.barclays.com> or call 212-526-1072.

The analysts responsible for preparing this research report have received compensation based upon various factors including the firm's total revenues, a portion of which is generated by investment banking activities.

Research analysts employed outside the US by affiliates of Barclays Capital Inc. are not registered/qualified as research analysts with FINRA. These analysts may not be associated persons of the member firm and therefore may not be subject to NASD Rule 2711 and incorporated NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst's account.

Analysts regularly conduct site visits to view the material operations of covered companies, but Barclays policy prohibits them from accepting payment or reimbursement by any covered company of their travel expenses for such visits.

In order to access Barclays Statement regarding Research Dissemination Policies and Procedures, please refer to <https://live.barcap.com/publiccp/RSR/nyfipubs/disclaimer/disclaimer-research-dissemination.html>. In order to access Barclays Research Conflict Management Policy Statement, please refer to: <http://group.barclays.com/corporates-and-institutions/research/research-policy>.

The Corporate and Investment Banking division of Barclays produces a variety of research products including, but not limited to, fundamental analysis, equity-linked analysis, quantitative analysis, and trade ideas. Recommendations contained in one type of research product may differ from recommendations contained in other types of research products, whether as a result of differing time horizons, methodologies, or otherwise.

Primary Stocks (Ticker, Date, Price)

Vodacom Group Ltd. (VODJ), 24-Jan-2014, ZAR 126.75), Underweight/Neutral, A/D/J/K/L/M/N

Disclosure Legend:

A: Barclays Bank PLC and/or an affiliate has been lead manager or co-lead manager of a publicly disclosed offer of securities of the issuer in the previous 12 months.

B: An employee of Barclays Bank PLC and/or an affiliate is a director of this issuer.

C: Barclays Bank PLC and/or an affiliate is a market-maker and/or liquidity provider in equity securities issued by this issuer or one of its affiliates.

D: Barclays Bank PLC and/or an affiliate has received compensation for investment banking services from this issuer in the past 12 months.

E: Barclays Bank PLC and/or an affiliate expects to receive or intends to seek compensation for investment banking services from this issuer within the next 3 months.

F: Barclays Bank PLC and/or an affiliate beneficially owned 1% or more of a class of equity securities of the issuer as of the end of the month prior to the research report's issuance.

G: One of the analysts on the coverage team (or a member of his or her household) owns shares of the common stock of this issuer.

H: This issuer beneficially owns 5% or more of any class of common equity securities of Barclays Bank PLC.

I: Barclays Bank PLC and/or an affiliate has a significant financial interest in the securities of this issuer.

J: Barclays Bank PLC and/or an affiliate trades regularly in the securities of this issuer.

K: Barclays Bank PLC and/or an affiliate has received non-investment banking related compensation from this issuer within the past 12 months.

L: This issuer is, or during the past 12 months has been, an investment banking client of Barclays Bank PLC and/or an affiliate.

M: This issuer is, or during the past 12 months has been, a non-investment banking client (securities related services) of Barclays Bank PLC and/or an affiliate.

N: This issuer is, or during the past 12 months has been, a non-investment banking client (non-securities related services) of Barclays Bank PLC and/or an affiliate.

O: Barclays Capital Inc., through Barclays Market Makers, is a Designated Market Maker in this issuer's stock, which is listed on the New York Stock Exchange. At any given time, its associated Designated Market Maker may have "long" or "short" inventory position in the stock; and its associated Designated Market Maker may be on the opposite side of orders executed on the floor of the New York Stock Exchange in the stock.

IMPORTANT DISCLOSURES CONTINUED

P: A partner, director or officer of Barclays Capital Canada Inc. has, during the preceding 12 months, provided services to the subject company for remuneration, other than normal course investment advisory or trade execution services.

Q: The Corporate and Investment Banking division of Barclays Bank PLC, is a Corporate Broker to this issuer.

R: Barclays Capital Canada Inc. and/or an affiliate has received compensation for investment banking services from this issuer in the past 12 months.

S: Barclays Capital Canada Inc. is a market-maker in an equity or equity related security issued by this issuer.

Guide to the Barclays Fundamental Equity Research Rating System:

Our coverage analysts use a relative rating system in which they rate stocks as Overweight, Equal Weight or Underweight (see definitions below) relative to other companies covered by the analyst or a team of analysts that are deemed to be in the same industry (the "industry coverage universe").

In addition to the stock rating, we provide industry views which rate the outlook for the industry coverage universe as Positive, Neutral or Negative (see definitions below). A rating system using terms such as buy, hold and sell is not the equivalent of our rating system. Investors should carefully read the entire research report including the definitions of all ratings and not infer its contents from ratings alone.

Stock Rating

Overweight - The stock is expected to outperform the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

Equal Weight - The stock is expected to perform in line with the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

Underweight - The stock is expected to underperform the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

Rating Suspended - The rating and target price have been suspended temporarily due to market events that made coverage impracticable or to comply with applicable regulations and/or firm policies in certain circumstances including where the Corporate and Investment Banking Division of Barclays is acting in an advisory capacity in a merger or strategic transaction involving the company.

Industry View

Positive - industry coverage universe fundamentals/valuations are improving.

Neutral - industry coverage universe fundamentals/valuations are steady, neither improving nor deteriorating.

Negative - industry coverage universe fundamentals/valuations are deteriorating.

Below is the list of companies that constitute the "industry coverage universe":

Emerging Markets Telecom Services

America Movil (AMX)	Global Telecom Holding (GLTDq.L)	KCell (KCELq.L)
Maroc Telecom SA (IAM.CS)	Megafon (MFONq.L)	Millicom (MICsdb.ST)
Mobile TeleSystems (MBT)	MTN Group Limited (MTNJ.J)	Naspers (NPNJn.J)
NII Holdings (NIHD)	Oi (OIBR)	Orange Polska SA (OPL.WA)
Rostelecom (RTKM.MM)	Rostelecom (RTKM_p.MM)	Safaricom Ltd. (SCOM.NR)
Sonatel (SNTSbrg.XOF)	Telecom Argentina (TEO)	Telecom Egypt (ETEL.CA)
Telefonica Brasil (VIV)	Telefonica Czech Republic AS (SPTT.PR)	Telkom (TKGJ.J)
TIM Participações (TSU)	Turk Telekom (TTKOM.IS)	Turkcell (TCELL.IS)
VimpelCom (VIP)	Vodacom Group Ltd. (VODJ.J)	

Distribution of Ratings:

Barclays Equity Research has 2594 companies under coverage.

44% have been assigned an Overweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Buy rating; 47% of companies with this rating are investment banking clients of the Firm.

38% have been assigned an Equal Weight rating which, for purposes of mandatory regulatory disclosures, is classified as a Hold rating; 42% of companies with this rating are investment banking clients of the Firm.

15% have been assigned an Underweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Sell rating; 40% of companies with this rating are investment banking clients of the Firm.

Guide to the Barclays Research Price Target:

Each analyst has a single price target on the stocks that they cover. The price target represents that analyst's expectation of where the stock will trade in the next 12 months. Upside/downside scenarios, where provided, represent potential upside/potential downside to each analyst's price

IMPORTANT DISCLOSURES CONTINUED

target over the same 12-month period.

Guide to the POINT® Quantitative Equity Scores:

The POINT Quantitative Equity Scores (POINT Scores) are based on consensus historical data and are independent of the Barclays fundamental analysts' views. Each score is composed of a number of standard industry metrics.

A high/low Value score indicates attractive/unattractive valuation. Measures of value include P/E, EV/EBITDA and Free Cash Flow.

A high/low Quality score indicates financial statement strength/weakness. Measures of quality include ROIC and corporate default probability.

A high/low Sentiment score indicates bullish/bearish market sentiment. Measures of sentiment include price momentum and earnings revisions.

These scores are valid as of the date of this report. To view the latest scores, which are updated monthly, [click here](#).

For a more detailed description of the underlying methodology for each score, please [click here](#).

Barclays offices involved in the production of equity research:

London

Barclays Bank PLC (Barclays, London)

New York

Barclays Capital Inc. (BCI, New York)

Tokyo

Barclays Securities Japan Limited (BSJL, Tokyo)

São Paulo

Banco Barclays S.A. (BBSA, São Paulo)

Hong Kong

Barclays Bank PLC, Hong Kong branch (Barclays Bank, Hong Kong)

Toronto

Barclays Capital Canada Inc. (BCCI, Toronto)

Johannesburg

Absa Capital, a division of Absa Bank Limited (Absa Capital, Johannesburg)

Mexico City

Barclays Bank Mexico, S.A. (BBMX, Mexico City)

Taiwan

Barclays Capital Securities Taiwan Limited (BCSTW, Taiwan)

Seoul

Barclays Capital Securities Limited (BCSL, Seoul)

Mumbai

Barclays Securities (India) Private Limited (BSIPL, Mumbai)

Singapore

Barclays Bank PLC, Singapore branch (Barclays Bank, Singapore)

IMPORTANT DISCLOSURES CONTINUED

Vodacom Group Ltd. (VOD SJ / VODJ.J)

ZAR 126.75 (24-Jan-2014)

Stock Rating

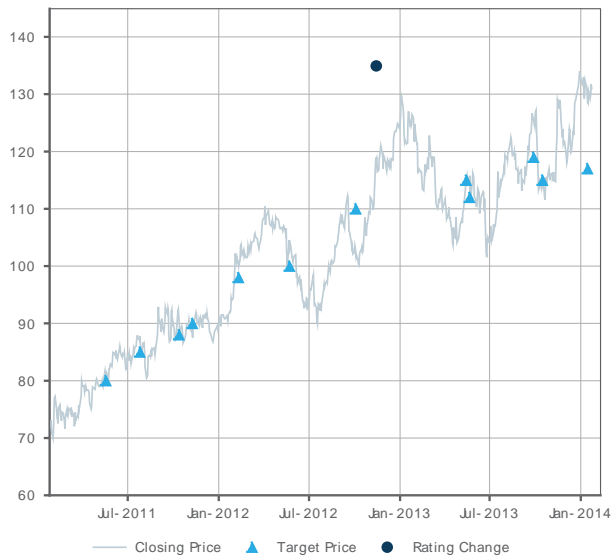
UNDERWEIGHT

Industry View

NEUTRAL

Rating and Price Target Chart - ZAR (as of 24-Jan-2014)

Currency=ZAR



Date	Closing Price	Rating	Price Target
14-Jan-2014	130.10		117.00
15-Oct-2013	114.10		115.00
27-Sep-2013	125.90		119.00
21-May-2013	114.17		112.00
14-May-2013	114.67		115.00
14-Nov-2012	118.70	Underweight	
03-Oct-2012	103.00		110.00
22-May-2012	104.50		100.00
09-Feb-2012	100.87		98.00
08-Nov-2011	88.45		90.00
12-Oct-2011	91.20		88.00
25-Jul-2011	87.00		85.00
17-May-2011	81.00		80.00

[Link to Barclays Live for interactive charting](#)

A: Barclays Bank PLC and/or an affiliate has been lead manager or co-lead manager of a publicly disclosed offer of securities of Vodacom Group Ltd. in the previous 12 months.

D: Barclays Bank PLC and/or an affiliate has received compensation for investment banking services from Vodacom Group Ltd. in the past 12 months.

J: Barclays Bank PLC and/or an affiliate trades regularly in the securities of Vodacom Group Ltd..

K: Barclays Bank PLC and/or an affiliate has received non-investment banking related compensation from Vodacom Group Ltd. within the past 12 months.

L: Vodacom Group Ltd. is, or during the past 12 months has been, an investment banking client of Barclays Bank PLC and/or an affiliate.

M: Vodacom Group Ltd. is, or during the past 12 months has been, a non-investment banking client (securities related services) of Barclays Bank PLC and/or an affiliate.

N: Vodacom Group Ltd. is, or during the past 12 months has been, a non-investment banking client (non-securities related services) of Barclays Bank PLC and/or an affiliate.

Valuation Methodology: We use a DCF and multiples-based SOTP to derive our price target. Our South African WACC and growth assumptions are consistent with those used for MTN.

Risks which May Impede the Achievement of the Barclays Research Price Target: Vodacom earns almost 90% of its EBITDA from its South African asset. While we believe this concentrated exposure can be used to leverage mobile data. Also any potential consolidation in the mobile sector presents upside risk.

DISCLAIMER:

This publication has been prepared by the Corporate and Investment Banking division of Barclays Bank PLC and/or one or more of its affiliates (collectively and each individually, "Barclays"). It has been issued by one or more Barclays legal entities within its Corporate and Investment Banking division as provided below. It is provided to our clients for information purposes only, and Barclays makes no express or implied warranties, and expressly disclaims all warranties of merchantability or fitness for a particular purpose or use with respect to any data included in this publication. Barclays will not treat unauthorized recipients of this report as its clients. Prices shown are indicative and Barclays is not offering to buy or sell or soliciting offers to buy or sell any financial instrument.

Without limiting any of the foregoing and to the extent permitted by law, in no event shall Barclays, nor any affiliate, nor any of their respective officers, directors, partners, or employees have any liability for (a) any special, punitive, indirect, or consequential damages; or (b) any lost profits, lost revenue, loss of anticipated savings or loss of opportunity or other financial loss, even if notified of the possibility of such damages, arising from any use of this publication or its contents.

Other than disclosures relating to Barclays, the information contained in this publication has been obtained from sources that Barclays Research believes to be reliable, but Barclays does not represent or warrant that it is accurate or complete. Barclays is not responsible for, and makes no warranties whatsoever as to, the content of any third-party web site accessed via a hyperlink in this publication and such information is not incorporated by reference.

The views in this publication are those of the author(s) and are subject to change, and Barclays has no obligation to update its opinions or the information in this publication. The analyst recommendations in this publication reflect solely and exclusively those of the author(s), and such opinions were prepared independently of any other interests, including those of Barclays and/or its affiliates. This publication does not constitute personal investment advice or take into account the individual financial circumstances or objectives of the clients who receive it. The securities discussed herein may not be suitable for all investors. Barclays recommends that investors independently evaluate each issuer, security or instrument discussed herein and consult any independent advisors they believe necessary. The value of and income from any investment may fluctuate from day to day as a result of changes in relevant economic markets (including changes in market liquidity). The information herein is not intended to predict actual results, which may differ substantially from those reflected. Past performance is not necessarily indicative of future results.

This communication is being made available in the UK and Europe primarily to persons who are investment professionals as that term is defined in Article 19 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005. It is directed at, and therefore should only be relied upon by, persons who have professional experience in matters relating to investments. The investments to which it relates are available only to such persons and will be entered into only with such persons. Barclays Bank PLC is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority and is a member of the London Stock Exchange.

The Corporate and Investment Banking division of Barclays undertakes U.S. securities business in the name of its wholly owned subsidiary Barclays Capital Inc., a FINRA and SIPC member. Barclays Capital Inc., a U.S. registered broker/dealer, is distributing this material in the United States and, in connection therewith accepts responsibility for its contents. Any U.S. person wishing to effect a transaction in any security discussed herein should do so only by contacting a representative of Barclays Capital Inc. in the U.S. at 745 Seventh Avenue, New York, New York 10019.

Non-U.S. persons should contact and execute transactions through a Barclays Bank PLC branch or affiliate in their home jurisdiction unless local regulations permit otherwise.

Barclays Bank PLC, Paris Branch (registered in France under Paris RCS number 381 066 281) is regulated by the Autorité des marchés financiers and the Autorité de contrôle prudentiel. Registered office 34/36 Avenue de Friedland 75008 Paris.

This material is distributed in Canada by Barclays Capital Canada Inc., a registered investment dealer and member of IIROC (www.iiroc.ca).

Subject to the conditions of this publication as set out above, Absa Capital, the Investment Banking Division of Absa Bank Limited, an authorised financial services provider (Registration No.: 1986/004794/06. Registered Credit Provider Reg No NCRCP7), is distributing this material in South Africa. Absa Bank Limited is regulated by the South African Reserve Bank. This publication is not, nor is it intended to be, advice as defined and/or contemplated in the (South African) Financial Advisory and Intermediary Services Act, 37 of 2002, or any other financial, investment, trading, tax, legal, accounting, retirement, actuarial or other professional advice or service whatsoever. Any South African person or entity wishing to effect a transaction in any security discussed herein should do so only by contacting a representative of Absa Capital in South Africa, 15 Alice Lane, Sandton, Johannesburg, Gauteng 2196. Absa Capital is an affiliate of Barclays.

In Japan, foreign exchange research reports are prepared and distributed by Barclays Bank PLC Tokyo Branch. Other research reports are distributed to institutional investors in Japan by Barclays Securities Japan Limited. Barclays Securities Japan Limited is a joint-stock company incorporated in Japan with registered office of 6-10-1 Roppongi, Minato-ku, Tokyo 106-6131, Japan. It is a subsidiary of Barclays Bank PLC and a registered financial instruments firm regulated by the Financial Services Agency of Japan. Registered Number: Kanto Zaimukyokuchō (kinsho) No. 143.

Barclays Bank PLC, Hong Kong Branch is distributing this material in Hong Kong as an authorised institution regulated by the Hong Kong Monetary Authority. Registered Office: 41/F, Cheung Kong Center, 2 Queen's Road Central, Hong Kong.

Information on securities/instruments that trade in Taiwan or written by a Taiwan-based research analyst is distributed by Barclays Capital Securities Taiwan Limited to its clients. The material on securities/instruments not traded in Taiwan is not to be construed as 'recommendation' in Taiwan. Barclays Capital Securities Taiwan Limited does not accept orders from clients to trade in such securities. This material may not be distributed to the public media or used by the public media without prior written consent of Barclays.

This material is distributed in South Korea by Barclays Capital Securities Limited, Seoul Branch.

All equity research material is distributed in India by Barclays Securities (India) Private Limited (SEBI Registration No: INB/INF 231292732 (NSE), INB/INF 011292738 (BSE), Registered Office: 208 | Ceejay House | Dr. Annie Besant Road | Shivsagar Estate | Worli | Mumbai - 400 018 | India, Phone: + 91 22 67196363). Other research reports are distributed in India by Barclays Bank PLC, India Branch.

Barclays Bank PLC Frankfurt Branch distributes this material in Germany under the supervision of Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin).

This material is distributed in Malaysia by Barclays Capital Markets Malaysia Sdn Bhd.

This material is distributed in Brazil by Banco Barclays S.A.

This material is distributed in Mexico by Barclays Bank Mexico, S.A.

Barclays Bank PLC in the Dubai International Financial Centre (Registered No. 0060) is regulated by the Dubai Financial Services Authority (DFSA). Principal place of business in the Dubai International Financial Centre: The Gate Village, Building 4, Level 4, PO Box 506504, Dubai, United Arab Emirates. Barclays Bank PLC-DIFC Branch, may only undertake the financial services activities that fall within the scope of its existing DFSA licence. Related financial products or

services are only available to Professional Clients, as defined by the Dubai Financial Services Authority.

Barclays Bank PLC in the UAE is regulated by the Central Bank of the UAE and is licensed to conduct business activities as a branch of a commercial bank incorporated outside the UAE in Dubai (Licence No.: 13/1844/2008, Registered Office: Building No. 6, Burj Dubai Business Hub, Sheikh Zayed Road, Dubai City) and Abu Dhabi (Licence No.: 13/952/2008, Registered Office: Al Jazira Towers, Hamdan Street, PO Box 2734, Abu Dhabi).

Barclays Bank PLC in the Qatar Financial Centre (Registered No. 00018) is authorised by the Qatar Financial Centre Regulatory Authority (QFCRA). Barclays Bank PLC-QFC Branch may only undertake the regulated activities that fall within the scope of its existing QFCRA licence. Principal place of business in Qatar: Qatar Financial Centre, Office 1002, 10th Floor, QFC Tower, Diplomatic Area, West Bay, PO Box 15891, Doha, Qatar. Related financial products or services are only available to Business Customers as defined by the Qatar Financial Centre Regulatory Authority.

This material is distributed in the UAE (including the Dubai International Financial Centre) and Qatar by Barclays Bank PLC.

This material is distributed in Saudi Arabia by Barclays Saudi Arabia ('BSA'). It is not the intention of the publication to be used or deemed as recommendation, option or advice for any action (s) that may take place in future. Barclays Saudi Arabia is a Closed Joint Stock Company, (CMA License No. 09141-37). Registered office Al Faisaliah Tower, Level 18, Riyadh 11311, Kingdom of Saudi Arabia. Authorised and regulated by the Capital Market Authority, Commercial Registration Number: 1010283024.

This material is distributed in Russia by OOO Barclays Capital, affiliated company of Barclays Bank PLC, registered and regulated in Russia by the FSFM. Broker License #177-11850-100000; Dealer License #177-11855-010000. Registered address in Russia: 125047 Moscow, 1st Tverskaya-Yamskaya str. 21.

This material is distributed in Singapore by the Singapore branch of Barclays Bank PLC, a bank licensed in Singapore by the Monetary Authority of Singapore. For matters in connection with this report, recipients in Singapore may contact the Singapore branch of Barclays Bank PLC, whose registered address is One Raffles Quay Level 28, South Tower, Singapore 048583.

Barclays Bank PLC, Australia Branch (ARBN 062 449 585, AFSL 246617) is distributing this material in Australia. It is directed at 'wholesale clients' as defined by Australian Corporations Act 2001.

IRS Circular 230 Prepared Materials Disclaimer: Barclays does not provide tax advice and nothing contained herein should be construed to be tax advice. Please be advised that any discussion of U.S. tax matters contained herein (including any attachments) (i) is not intended or written to be used, and cannot be used, by you for the purpose of avoiding U.S. tax-related penalties; and (ii) was written to support the promotion or marketing of the transactions or other matters addressed herein. Accordingly, you should seek advice based on your particular circumstances from an independent tax advisor.

© Copyright Barclays Bank PLC (2014). All rights reserved. No part of this publication may be reproduced in any manner without the prior written permission of Barclays. Barclays Bank PLC is registered in England No. 1026167. Registered office 1 Churchill Place, London, E14 5HP. Additional information regarding this publication will be furnished upon request.