Conference Call transcript

10 May 2017

SAFARICOM FY17 RESULTS

Operator
Good day ladies and gentlemen welcome to the Safaricom FY2017 results conference hosted by SBG Securities. All participants will be in listen-only mode. There will be an opportunity to ask questions later during the conference. If you should need assistance during the call please signal an operator by pressing star and then zero. Please note that this call is being recorded. I would now like to turn the conference over to Gregory Waweru of SBG Securities. Please go ahead, sir

Gregory Waweru
Right. Thank you very much, Irene. Hello to everyone who has dialled in today. I am your host, Gregory Waweru, from SBG Securities. Welcome to Safaricom FY17 results conference call hosted by Standard Bank. Hopefully you have all received the results presentation circulated earlier today. The Safaricom team will summarise the presentation and we will then open up the call for Q&A. so without further ado I would like to introduce the Safaricom team, Bob Collymore, Sateesh Kamath, Ilanna Darcy and Steve Chege. Bob, over to you. You may go ahead.

Bob Collymore
Hi folks. Morning, afternoon depending where you are. I'm pleased to present this set of full year results. At the top line we saw service revenue grow by almost 15% to KSh 204 billion, and this is fuelled by a few things. The first one which we are particularly pleased with is we have added 3 million customers to our base which now sits at 28 million customers. That is a growth of almost 12%. [Unclear] which is what we probably ought to be concentrating on much more is at above 24 million, and that's 9% growth. The last regulator's release numbers shows that we are sitting at 71% market share, and that was dated at the end of December. The second thing which has fuelled the growth has been M-PESA where we have grown our customer base to 19 million. That's 14.6% growth. Transactions per month have increased. We are now at ten transactions per month. Those of you who are long-timers with us will recall this is more than a doubling over the past few years. And revenue has grown at 32.7% and now sitting at about KSh 55 billion.

Mobile data continued its growth. Active customers have grown by 18% to 16.6 million. The average revenue per user has also grown and is now sitting at KSh 153, a growth of 17%. And the overall revenue for mobile data is sitting at KSh 29.3 billion. Voice we are still pleased with the growth. The active customer base there has grown to 22.24 million. That's just under 10% growth. ARPU has declined, and that has really declined because of how we are currently bundling and managing our customer value management. We are positioning very specific propositions below the line to our customers. Our headline price remains at KSh 4 of course. So ARPU has declined to KSh 363.50 [?]. That's a decline of about 6.4%. But overall revenues I'm pleased to say are sitting under a [unclear] growth at KSh 93.4 billion. SMS has finally got to that place where we're seeing a decline. We have defied the market for some years. Whilst our SMS customers have grown by 10.6% the ARPU has actually declined, the SMS ARPU, to KSh 85.13. Revenues overall have declined by 3.7% to KSh 16.68 billion.

So what does all of that mean in the numbers? It means that our EBITDA is sitting at 48.6%. Sateesh will explain if you exclude the one-off adjustment that takes it down to 47.1%. Still a very respectable performance we think. And that is a growth of about 24.7% and KSh 103.6 billion. Net income has grown by 27% to KSh 48.4 billion and our free cash flow sits just below that at KSh 43.5 billion. The dividend this year we are recommending to the AGM KSh 38.8 billion. That translates to 97 cents per share. And that is an earnings per share of 1.21, a 27% growth. Our guidance – we don't really guide beyond this – is at EBITDA level we are now guiding between KSh 71 billion and KSh 75 billion and capex we expect to increase a little bit. This year was KSh 35 billion and we're guiding to KSh 35 billion to KSh 38 billion.

The headlines for us, what is on our minds as the leadership team, the dominance report is still sitting there and we're joined by Steve Chege who is our Corporate Affairs Director who can give a little bit more colour to this. The second issue on regulatory is the overhang from parliament, the threat to break the company up and split M-PESA away from the core business. I would say this was a draft amendment to a Bill which had been [unclear] parliament. The election is still a few months away, but we don't expect there to be much activity in parliament between now and then, certainly not much activity in this kind of space unless it becomes malicious. The government has stated their position on this. The minister has fairly clearly stated that government is not supportive of the breaking up of the company. And the final one is interoperability. I think it is worth raising as a final one on regulatory the interoperability of M-PESA. The minister has taken a lead in this space and brought the three mobile operators together. So this doesn't include banks at this stage. We expect that within three months we should have wallet to wallet interoperability. Pretty much the same kind of format that Tanzania uses except that we are advocating for no interconnect charge between the operators. That is where the current agreement is. So there is no receiver pays or sender pays.

As we look forward the things which are exciting us is the growth of connected homes. We have now passed 53,000 homes. We reported 47,000 at the half year. That translates to another 6,000 homes passed in the last six weeks which we have connected just over 12,000 homes. We have been doing a lot of work as many of you recall since we launched the big box in developing the content portfolio. We are still outstanding a broadcasting license or the relevant license to broadcast that content, but we are working on that. We are pretty confident about that. We are confident about the pace of that rollout. The second thing that we are working on and continuing to develop is the e-commerce thing. And I think we've mentioned this to you in the past. So now we are staffing up for that. We don't expect to see any reflection in this year's numbers from e-commerce or indeed from connecting the home, but this is laying the ground for the future. My other focus this year or two will be on becoming smarter with how we manage data analytics in the business to improve our own efficiency but also to really commercialise the data that we have using best practise from mobile phone companies around the world. So with that I want to stop and then open it up to questions.

Gregory Waweru
Thank you for that. Just to get the Q&A session started, on the regulatory front what are the specific issues that you picked up in the dominance report, and any particular issues you would like amended before the publication of the final report? And secondly could you perhaps give us the reason for the change in guidance from an EBITDA basis to an EBIT basis, and why capex seems to be accelerating a little bit as per the new guidance? Thank you.

Bob Collymore
I will let Steve answer the first question and Sateesh will answer the questions around EBITDA guidance.

Steve Chege
Okay. The dominance report proposed by the regulator suggests that the competitive environment will change if there are a number of interventions. One of the interventions that they have identified is national roaming. And they would want national roaming to be imposed on Safaricom on rates that are not negotiated commercially but that are mandated by the regulator. The other one that they would want to see is infrastructure sharing on

the same terms with mandated terms as opposed to negotiated terms. So if I can deal with those these are things that we have pushed back on, because where this has happened there has always been the opportunity for operators to negotiate terms and agree how this would be done. In the case of infrastructure sharing this is already happening in this country. We have towers that we share with Airtel, Telkom and vice versa for those two particular networks. And there is still an opportunity for this to continue happening, and we do not necessarily need to see the regulator stepping into this.

For national roaming this tends to happen where there is a new entrant in the market and in very specific cases. We do not think that the current market structure warrants national roaming in a blanket form the way that has been proposed in the report. And we have therefore pushed back. And we wait to hear what the regulator will say. And we are quite specific on the areas that we have pushed back on because if we had to have national roaming we thought that it should be negotiated between parties. It should time-bound and it should be only specific regions of the country. The other area that we've pushed back on was on issues of retail price management. The report suggests that a number of areas where Safaricom is able to give specific pricing tailored to our customer segments that we would not be able to do that. And our pushback in this area of pricing was to look at the consumer that was benefitting from the end service. And the argument here was that some of the proposals that are being made would actually be harmful to customers and would stifle the innovation that has seen our market develop to the extent that it has. The focus of our pushback was on investment, and we asked that the regulator review the investment levels that have been conducted by competitors in the market and make sure that they put in as much as Safaricom is putting in, because that basically underlies a lot of the inefficiencies and problems that we've seen with them falling back significantly in the market.

Sateesh Kamath
Gregory, the second question was why the guidance was moved from EBITDA to EBIT. We moved from EBITDA to EBIT because we think EBIT is a better measure of what is a reflection of performance of the business given the large capex spend that our industry has. Progressively we have matured internally and have started moving from measuring internally as management KPIs EBIT now more than EBITDA. And hence we thought it's appropriate that what management is focussing on is reflected in the guidance.

Gregory Waweru
All right. Thank you very much.

Sateesh Kamath
Sorry, Gregory. I didn't answer your other question. Your other question was capex.

Gregory Waweru
Yes. Any particular reason why you have a slight acceleration in capex?

Sateesh Kamath
In the current year the capex is around KSh 35 billion. We think next year we have a variety of things over and above the normal ones that we are talking about which is things like homes that Bob spoke about, a little bit on e-commerce maybe. So we want to give us that room and inform the market that there is a potential for it growing. It is not concluded that we might grow to the higher end of the capex range, but definitely it is prudent that we call it out at the beginning of the year, hence we are giving a guidance of KSh 35 billion to KSh 38 billion.

Gregory Waweru
All right. Perfect. I think we can open up the call to the rest of the participants.

Operator
Thank you. If anyone would like to ask a question please press star and then one on your touchtone phone. If you wish to withdraw the question please press star and then two to remove yourself from the queue. I will repeat that. If anyone would like to ask a question please press star and then one on your touchtone phone. Our first question is from Chris Grundberg of UBS. Chris, your line is open if you want to ask your question. It seems we have no response from Chris. Our next question is from Craig Hackney of NOAH Capital Markets.

Craig Hackney
Hi. Thank you. I have three questions please. Firstly on the SMS or messaging slowdown in the second half, it was quite a sharp slowdown. Was there anything unusual in there, or was it purely the cannibalisation that we're seeing with other operators around the world? So should we expect that going forward, that type of slowdown? Secondly on your fibre project. I think you might have given the numbers but I didn't catch them. I just wanted to get a sense of the number of homes you are connecting versus the number that you've actually passed, so the uptake rate there. And lastly just a small one. On your police network project has that all been invoiced or is there still some to come through? Thank you.

Sateesh Kamath
Right. Thank you for the questions. I will answer one after the other. On SMS first if I step up onto the larger picture what we are seeing is more and more people are getting into data and are getting used to data services and smartphones. We have hence proactively taken steps to continue with the usage of SMS and democratise the SMS rates a little bit. So what we are seeing after the changes that we have incorporated is that a lot of customers are moving into higher SMS volumes, high volume SMS bundles, the impact of which is we are seeing 19% increase in SMS volumes. So what we are seeing is not a reduction in volumes but a continuation of increase in volumes. However, to keep customers incentivised we had to bring the price down which resulted in the rate reduction.

Your second question was, was there anything unusual between the first half and the second half? Yes, there is. Within the SMS revenues there are two types of revenues. The first one is pretty much person to person SMS, whether it is out of bundle or in bundle. That contributes 55% of revenues. Roughly 40% of SMS revenues comes from special SMSs which we call SBRS [?] revenues here. These are basically premium rated SMS services. In the first half we realised when we analysed some of the customer complaints that some of those customers were unwillingly included into a subscription due to an error on the part of our vendor. And what we did in the second half is refund all the customers who were impacted even by KSh 1. We put customer ahead of revenue because we thought that more appropriate. So the first half has this revenue. The second half has the reversal impact of this revenue. It is approximately KSh 750 million of impact from that line. So two issues. One is the reversal that has happened in the second half and the other one is a general decline in the price of SMS.

Your second question was on fibre. We have passed roughly 50,000 homes as Bob said. If you are trying to measure it to the uptake against the homes passed we are at a scaling up stage at this point in time. Hence we are focussing on scaling up and rolling out at a fast pace. The homes connected are around 10,000 so the uptake ratio looks at around 20,000, but it is probably a bit of a misnomer because we are rolling out at a faster pace than what the customer can uptake at this stage. Our first focus is to get it to a certain scale for us to start pushing the advertisements and things like that. The third question was on NPS, the National Police Service contract. There are two portions to that contract. One is the construction of the entire system and handing it over to the police services. That portion is completed. Then the maintenance for a certain period of time. Every year we will invoice for that certain period of time. Roughly speaking 20% of the total contract value is service and 80% is construction. The construction billing is over. The 20% will continue every quarter on quarter.

Craig Hackney
Okay. Thank you very much.

Operator
Our next question is from Binta Cisse Drave from Exotix.

Binta Cisse Drave
Hi. Thanks for the presentation. I just had a question. First of all SMS as you mentioned the growth is slowing and we see a decline in revenue. Do you expect this trend to carry on in the near future in the next two to three years? The second question is about the handset revenue which also dropped slightly this year. Is that something that will carry on also over the next two years, or are you intending to introduce measures that will revive these two segments?

Sateesh Kamath
Thank you for those questions, Binta. The first question was will we continue to see the decline on SMS revenues. A little difficult to predict at this stage because what we have done is an intervention of getting customers to use more SMSs albeit at a lower price. Will we need to take the prices any lower than this is a difficult one to judge at this stage. But certainly I would not build growth into SMS. I would be happy if it was around stable or a small decline. That's fine as long as we are able to get overall APRUs higher from the customer. So what we have done is engage with the customer to get higher ARPUs. Our ARPU went up by 6.4% overall. So which component do we play will be a game that we will continue depending on customer behaviour. The second question was on handset revenues. Yes, you are right. Handset revenues have declined. However the way we monitor it is the number of handsets that we have sold. Last year we sold roughly… Sorry, am I audible? There is no response.

Bob Collymore
Are you guys still there?

Gregory Waweru
Yes. We can hear you, Sateesh.

Sateesh Kamath
Thank you Gregory. So I can continue with the handset explanation. Last year we sold roughly 1.4 million handsets or so. This year we have sold 1.7 million or so. So we have actually sold more number of handsets, but we have been able to manage better pricing with the handset vendors which has passed on to the customers. For me it's a happy situation because I don't look at handset revenues as a core business at all. It is facilitating handsets for the customers. And if the prices come down I would rather be happy if the volumes go up and the price comes down.

Binta Cisse Drave
Thanks. Many thanks. Just a last question if I may. In your capex for this year you mentioned spectrum spent on 4G. Would you be able to give us an indication of how much it was?

Sateesh Kamath
Definitely, Binta. It cost us $25 million.

Operator
Our next question is from Gabor Sitanyi of Charlemagne Capital.

Gabor Sitanyi
Hi. Good afternoon. Thanks very much for the opportunity. Just a few technical things. I couldn't find this time around the smartphone subs. So perhaps if you can share either together the 3G and 4G subs you had on the network at the end of the period or separately what it was. The second thing is that looking at the mobile penetration number you gave and the subscriber share you gave it doesn't seem to add up unless some of your competitors disconnected a large number of subs in the last three months of the year. I remember previously you had a 66% sub share. Now you make reference to 71.3%. Perhaps I'm missing something there. And the third question is the recent system outage. How would you actually go about proving that it was an act of God, i.e. that you don't have to pay any sanctions? And what was the lost revenue as a result of that? Thanks.

Sateesh Kamath
Okay. I will take the first two questions. The smartphone penetration is roughly around 41% of the base. I would caution from using the word smartphone. I would rather prefer to call it data-enabled devices, because some of the phones are not as smart as what the word in itself denotes. But for us what is important is that the phone is capable of using data and the customers are using data. So it is roughly 41% of our base. This is approximately 10% better than what it was at this time last year. If I could answer your second question on whether any of our competitors did change, yes, we did see after Telkom Kenya was taken over by the new management which was Helios they have revised their subscriber numbers for reasons that they know better, as a result of which the market share numbers changed. So it is less to do with our numbers. It is more to do with Telkom Orange revised their numbers after the new management took over.

Bob Collymore
I think they are now reporting along the same lines we're reporting which is the 90 day active. They had been reporting customers who had been inactive for a longer period. So they just brought it in line with the rest of us. On the system outage, the statement that the CA made about penalising us unless it is an act of God, let me give that one to the regulatory guy here to give you a clear answer.

Steve Chege
So the regulator had to come in and do its job and appear that they were keeping a tight eye on us. But the fact is the regulations and the license that we currently have do not provide them any opportunity to have an extra penalty for events such as this. We would then just fall back into the usual quality of service assessments that they usually do. And the fines for this are well proscribed and very clear. So in as much as they have said to the public that they will issue a fine to Safaricom we think they may fall back to the quality of service penalties which we are well aware of and have experience in the past.

Gabor Sitanyi
Sorry, what was the lost revenue as a result? I don't know if you have that number.

Sateesh Kamath
It was not very large because we recovered most of the services in two hours' time, and some of the services a little later. The estimate is that day we lost, plus the next day we gave free P2P, altogether roughly KSh 200 million.

Gabor Sitanyi
Thank you very much.

Operator
Our next question is from Samuel Mejia [?] of Faida Investment Bank.

Samuel Mejia
Hello. My question is on interoperability. The consultants recommended that you establish what is called agent to agent interoperability. Now, has that been factored in with all the other players? My next question is on your direct cost. Could you please break down the direct cost, M-PESA commissions, airtime commissions and license fees? Thank you.

Steve Chege
So interoperability and your questions specifically about whether we have agreed on agent to agent interoperability the straight answer is no. when we have had these discussions with our competitors what we have said is let's get the system working before we run too far with it. The example that we are referring to from time to time is the one in Tanzania. And in Tanzania they have what we call wallet to wallet interoperability which means customers from different networks can send money to each other which reflects directly in their wallets. Even Tanzania which has had interoperability for two years does not have agent to agent interoperability working there. So in Kenya we are going to start with wallet to wallet. Agents will be held for much later. And even the wallet to wallet will be based on a prefunded basis. Transactions will be able to go through if the amounts that are being transacted have been prefunded by the respective mobile networks.

Sateesh Kamath
On your question for direct costs I'm happy to give you a high level number now, but we can subsequently send you an email for the details. But at a high level because this query has already appeared from a few more analysts. In the period we paid M-PESA commissions at KSh 17.7 billion, airtime commissions of KSh 11.4 billion, interconnect at KSh 7.4 billion, the mobile ANR was KSh 7.2 billion, handset cost was KSh 6.2 billion and other direct costs was KSh 15.7 billion. Apologies for throwing too many numbers on the call, but I'm happy to follow it through from our IR team as an email to you giving the details of the costs.

Operator
Our next question is from Chris Grundberg of UBS.

Chris Grundberg
Hi. Can you hear me this time?

Sateesh Kamath
We can.

Chris Grundberg
Hi. You can hear me. Sorry, guys, for the first time. I just had a quick couple of questions if I may. The first one was just around the Kenyan economy and political backdrop, just any views you have in terms of the impact you may or may not see on your business from the election. And as a sub-question to that any thoughts on the Shilling through the rest of the year would be helpful. And then a further question – and apologies if this was asked already – just to help us out for modelling purposes next year can you give any indication of how you anticipate depreciation and amortisation moving? Any funnies in there or will it just be moving in line with historic capex? Anything that would help us with our models would be good. Thanks.

Bob Collymore
Hi Chris. I read your great report this morning which says that any investment in Kenya is risky. Look, we've got election year. We've already got the noise happening. I think much of the noise is going to happen around the nomination period which is now more or less behind us. The difference between this election and the last election is if it is a Jubilee stronghold and you get nominated then likely you will win that one. Or if you are in a

NASA stronghold and you've been nominated then there is no contest to follow. So we think that the noise is probably behind us. You can never say never of course.

We have got some other headwinds, and I think the bigger headwind on the economic front has been the interest rate capping Bill which we are beginning to see the impact of that on the economy and the tightening of lending to businesses as banks – and I'm sure you've got your own investments in banks – chose to put their money on government paper instead. And I don't think that there will be anything done to address that issue for the next few months. I think we certainly have to get to the other side of the election. We have seen a lot of commentary from people like the World Bank and the IMF, but I think the horse has already bolted so not much can be done about that.

The currency, I mean Sateesh and I haven't discussed this, but I think the currency has performed reasonably stably over the past few months. The forecast is that it is going to decline a little bit more for the remainder of the year and I think it is going to get as bad as KSh 110. Sateesh might disagree. I don't know. And we have had problems with inflation. Inflation is running at 10% at the moment, just over 10%. Whilst the rains have come they have come a little bit late, so I can't say we are out of the drought problem yet. Oil prices haven't helped as oil prices have recovered around the world. So the 5.5% that the World Bank is predicting for this year I think is probably a little bit on the optimistic side, but that's a personal view.

Sateesh Kamath
I agree with Bob on the currency, Chris. Difficult to call out because the last three months the inflation has been high. Three months now inflation has been double digit or close to double digit which at some point in time should catch up with the currency. So most of the bankers are in the range of KSh 108 to KSh 110. In the guidance we have given we have taken an average for the year because the entry point is going to be different and exit is going to be different of KSh 105 to KSh 106 in the guidance that we have given. So to that extent it is covered. Chris, your third question was on depreciation. It is roughly around KSh 35 billion again next year.

Chris Grundberg
That's helpful. Thanks guys.

Operator
Our next question is a follow-up from Craig Hackney of NOAH Capital Markets.

Craig Hackney
Thank you. Just coming back to the subscriber market share issue I accept the comments you made earlier around Telkom disconnecting subscribers. But if we look at your total subscribers and we look at your net additions for FY15 and FY16 running at about 1.8 million a year and then this year close to 3 million, is that a function of your competitors being less aggressive on promotions or is it a function of you guys just out-executing? So is it what you've done internally or is it more a function of the market as a whole?

Bob Collymore
The guys are much more efficient in how they [unclear].

Craig Hackney
Okay. Thank you.

Operator
Our next question is a follow-up from Samuel Mejia [?] of Faida Investment Bank.

Samuel Mejia
Thank you. I don't know whether you were able to get my other questions but I will just repeat. The question was on interoperability. Now, the consultants have recommended what they call agent to agent interoperability, in other words having a single float system. Will that be implemented in the next three months or is it just customers being able to just send and receive money from any network? The other question is on your direct costs, a breakdown on those direct costs, M-PESA commissions, airtime commissions, license fees, all those media subdivisions. My last question is on mobile data. Now, the competition is planning to launch their 4G networks. With that increase in capacity do you see data rates coming down further? That will be all. Thank you.

Steve Chege
Samuel, the answer about agent to agent interoperability is no. That is not on the cards. That is not going to happen.

Sateesh Kamath
I did call out the direct cost numbers earlier. Probably there is some issue with the connection. We are happy to send you a subsequent mail with the details, but quickly M-PESA commissions is KSh 17.7 billion, airtime commissions KSh 11.4 billion, interconnect cost is KSh 7.4 billion, handset cost was KSh 6.2 billion, mobile ANR KSh 6.2 billion and other direct costs KSh 15.7 billion.

Samuel Mejia
On the competition 4G networks?

Sateesh Kamath
On the 4G, yes. Your third question was on the 4G data pricing. [Break in audio] customer to customer also depending on what suits the customer. We would continue to do that with or without competition because what we believe is a sustainable business is run by getting the latest technologies at affordable prices, and that is what we will continue to do.

Bob Collymore
We don't see the pressure. The other guys are pretty much free on voice at the moment and we don't think we have to respond to that. We play to our strength, and our strength is that we've got more than 80% of the population now with 3G. We've got about 1,100 4G stations. And if the competition roll out 100 4G then I don't really think that's' going to impact us. We've got the fastest network at the moment. I think on average we are delivering average speed of about 21 mbps compared to about 5 mbps for the others. Even when they get 4G we aren't going to feel the need to respond competitively.

Samuel Mejia
Thank you.

Operator
Our next question is from Madi Singh of Morgan Stanley.

Madhvendra Singh
Hi. Can you hear me? Well, I just wanted to discuss the growth outlook especially around the key growth drivers, M-PESA and data. I saw the commentary that Lipa Na M-PESA is also picking up quite well now. So I just want to know what kind of growth rate you expect at M-PESA. Could the 30% run rate continue in medium term? And on the data side it is still quite low as a percentage of overall service revenues so do you think that the pace could actually accelerate further going forward on data revenue growth?

Sateesh Kamath
Madi, thank you for that question. M-PESA can also surprise us because every time people think and we also sometimes think that it is going to plateau. Then when we reinvent ourselves and expand the ecosystem the customers respond very positively to it, which is why the growth rate has been good. We are very bullish about M-PESA continuing. We are expanding the ecosystem and we believe customers will respond positively to it. We are very excited about one touch. We think customers may really like it, it is what we expect, and that should also trigger some growth in the ecosystem. Data you are absolutely right. There is much more to go. 15.6 million customers are using it now. The usage per customer has gone up by 50%. But even after it has gone up by 50% it is less than 35% to 40% of what the average use per subscriber is in Europe at this point in time. So we think there is a way to go there as well.

Madhvendra Singh
In terms of [unclear] on the M-PESA side has that seen any changes as well? I mean if you look at the margins overall I suspect that M-PESA margin improvement has had a significant role to play there as well. Also in terms of the recharge which happens via M-PESA. Is there further progress there? If you could share some numbers with us that would be great.

Sateesh Kamath
Sure. So at this point in time compared to the previous year 42% of the recharges used to happen through M-PESA. As of now 47% of recharges have happened through M-PESA in the year. In fact at the exit rate we are almost 50% of recharges happening through M-PESA. So that definitely helps margin expansion. The other element is within M-PESA as and when we grow the non-bread and butter businesses the margins of those businesses are higher than the bread and butter ones. So there are commissions not being paid because it more direct to the customer type of relationship. So those definitely helped margin expansion in the year.

Madhvendra Singh
That sounds good. Thank you very much.

Sateesh Kamath
Thank you Madi.

Operator
Our next question is from [unclear] of African Alliance.

African Alliance
Thank you so much. I have more questions on M-PESA. What is the average transaction volume for the M-PESA customer currently? And can you give a breakdown of the ten transactions per customer? What is the split between person to person transactions for that customer versus person to business? Thank you.

Sateesh Kamath
Could you please repeat the second part of the question please?

African Alliance
The second part of the question was regarding the profile of the ten transactions per month that the M-PESA customer is doing. What is the split between the person to person versus a merchant payment?

Sateesh Kamath
Okay. So we don't split out the transactions at that level because we are still expanding that business one. But on an overall level if I comment about it to give you a feel the number of transactions per year moved from last

year of 7.4 transactions per active customer per month to 10 transactions per active customer per month. The traditional businesses including the Lipa Na M-PESA together grew at almost 16% year over year, and the rest were driven by an increase in gaming. So it is all channels shooting the volumes up. In La Na M-PESA we are seeing growth rates of 70%, but again I always like to caution that growth rate because it comes from a smaller base. So I would rather look at the real potential of Lipa Na M-PESA which is what excites us.

African Alliance
Just an additional question, Sateesh. Could you clarify what the average transaction value per customer per month is? And also on the launch of the One Tap what are the costs related to this in capex?

Sateesh Kamath
Right. The average transaction value is around KSh 2,500. And your second question was how much of the capex is because of the One Tap. Did I get the question correct?

African Alliance
Yes. And if I may add, is it a fully Safaricom owned product or will you be partnering with any payment platform?

Sateesh Kamath
Okay. So One Tap is essentially a more convenient way for a customer to make a payment. Basically we had questions about why does the customer need to do eight steps to complete a Lipa Na M-PESA transaction. We initially worked on reducing it from eight to six etc. but then came up with this completely revolutionary idea saying we should be able to complete the entire transaction just by taping and putting a pin. Done. So that's the whole idea. It is not about partnering. It is about getting the right vendors to provide us with the right type of technologies and we have tied that back to back with the relevant vendors. Your second question was on capex. This item is not a high capex area. It does drive a little bit of opex. We are working after the first phase of launch around models of how we optimise those costs. But at this point in time we are working first to get the minimum critical mass and then we will reshape the model a little bit to get the cost in the right space.

Operator
Just a final reminder, if anyone would like to ask a question please press star and then one on your touchtone phone. We will pause a moment to see if we have any further questions.

Gregory Waweru
Maybe some final questions from me. Bob and Sateesh, could you perhaps give us a sense of when you expect the dominance report to be published and even perhaps the implementation of the dominance regulations? And finally also give us a sense of when you expect to roll out the M-PESA One Tap NFC enabled functionality?

Steve Chege
In terms of the dominance report there are a number of steps that have to be undertaken. The report was released late in March. We gave our submissions towards the end of April on 26th April as agreed with the regulator. The regulator will allow a two week period to review our comments. They will then open up thins to public consultation in the next two weeks. So we think they will be in a position to say they have a final document by mid of June. Now, by law if they're going to declare dominance this has to be gazetted. So there will be some timelines towards the gazettement of Safaricom being a dominant operator. So we are seeing this whole process if they follow the current timelines going through all the way to the end of June.

Bob Collymore

And your other question is about the rollout. It will take a few months. We are trying not to… We didn't want to do a nationwide launch because it takes time to train merchants. And a lot of these merchants are small guys. They are not necessarily big supermarkets. So you expect it to take a few months.

Gregory Waweru
All right. Perfect. Thank you.

Operator
Thank you. We have a question from Ava Masindi [?] CBA Capital.

Ava Masindi
Hi. I wanted to find out whether the dividend pay-out policy will be maintained at 80% for this year and the next year.

Sateesh Kamath
The official dividend policy is that we will pay progressive dividends, which is the official line here. So we pay every year more dividend than what we paid the previous year or at least maintain the same dividend depending on the position of the balance sheet. However for the last three or four years we have been able to pay 80% of net income in a growing net income environment. At this point in time I cannot guide on what we will pay for the coming year. But the past trend I'm sure sufficiently gives you an indication of what it is likely to be.

Ava Masindi
Should we expect anything like a special or interim dividend?

Bob Collymore
No. No, sorry.

Ava Masindi
All right.

Bob Collymore
You sound very disappointed.

Ava Masindi
A bit. A bit. That is something we were looking forward to perhaps in terms guidance. I had a meeting I think a year ago and the guidance I'd gotten from management was a pay-out policy of around 90% in the next two years. So I suppose that has changed.

Bob Collymore
We have always said it is a progressive policy which means that we will aim to pay out every year at least what we paid out last year or better it. The special dividend last year was a one-off. I think we made it quite clear that it was a one-off. So far it has been around 80% and no reason to suggest it is going to be anything else at this stage.

Ava Masindi
Okay fine. Thank you.

Operator

It seems we have no further questions on the line. Gregory, do you have any questions from your side?

Gregory Waweru
No, I think I'm fine here. I don't know whether Bob will have any closing remarks.

Bob Collymore
Probably not much more to add than what we've said so far. I think we are pretty confident. We are pretty upbeat. We think the economy will ride much higher than many other African or indeed emerging market economies, so we are pretty confident about that.

Operator
Ladies and gentlemen, that concludes this conference. Thank you for joining us. You may now disconnect your lines.

END OF TRANSCRIPT