Conference Call transcript

9 May 2018

SAFARICOM FY 2018 RESULTS

Operator
Good day ladies and gentlemen and welcome to the Safaricom Plc FY18 earnings results conference call. All participants will be in listen-only mode and there will be an opportunity to ask questions later during the conference. If you should need assistance during the conference please signal an operator by pressing star and then zero. Please also note that this call is being recorded. I would now like to turn the conference over to Bob Collymore. Please go ahead, sir.

Bob Collymore
Good day ladies and gentlemen and welcome to this year's full year results investor call. I'm joined not in the same room because I'm in London and they are in Nairobi by Sateesh who many of you will know is the CFO, Silvia Mulinge who is the Director of the Consumer Business Unit, Rita Okuthe, who is the Director of the Enterprise Business Unit, Steve Chege, our Director of Corporate Affairs, Sitoyo, who is our new – he is returning actually – Director of M-PESA, Rosemary from financial planning and from the IR team we've got Cyndia. I want to break this into three areas today, perhaps a little longer than it usually is. The first one is I want to give you guys a personal perspective on where I am. Secondly, we're going to cover very briefly the company's performance. I assume that you may have read some of it. Then I will give you my focus for the way forward.

So on the personal side the first thing I want to say is thank you very much for all the get well messages from the investor community. It has been great to get those from the time I came to London. The period of absence has been a little longer than what I expected. But what actually happened is from a personal viewpoint a little bit more clarity on the diagnosis. And the diagnosis we haven't discussed publically in Kenya, but the diagnosis has been called acute myeloid leukaemia for which I received chemotherapy for the first period. So by the time we got to February I was in complete remission but there needs to be a second phase just because of [unclear]. And that second phase is the stem cell transplant which actually I'm doing tomorrow, and then just the rebuilding of the immunity which we expect to take about 100 days. So my return to Kenya whilst we've been a bit fuzzy about it in some of the comments we made earlier what I can say to you is I'm expecting this recovery period now to be 100 days before my immune system is strong enough to get onto an airplane. So that's the personal perspective.

The second thing I want to cover then is the company performance and highlight some of the good news and some not so good news. We have had a little bit of a tough year because we've had an electioneering period. [Inaudible segment – line breaking up] 4 million. We are currently up at 20 million. [Inaudible segment] to 23 million customers. Of those 20.5 million are 30 day active. Let's just focus on the 30 day active customers rather than total customers. 20.5 million are 30 day active customers, which now represents about 90% of our active base. The active 30 day active mobile customers increased slightly to 17.67 million, which is 71% of our total base and up from 69% last year. Mobile data revenue grew by 24% which I think is probably largely in line with expectations. [Inaudible segment]. Fixed data revenue is coming off a relatively small base. We were pretty proud to see hat that has grown by 27% to KSh 6.67 million. And this is really reflective of our renewed focus on investment in the fibre rollout which is now sitting at 5,000 km, and we have passed 144,000 homes and we have connected 15,000. So testament really to the [unclear].

All of that then leads to a couple of numbers, which is the 10% growth in service revenue to KSh 274.5 billion. Not what we wanted to see, but then we didn't want to have the electioneering period and the boycotts the way we did last year. So nonetheless we are still pretty proud of the double digit growth in the economy where we are operating. EBIT grew by 18.3% to KSh 79.27 billion. And for those of you unreconstructed investors who are still looking for the EBITDA number [inaudible segment] this is still a pretty respectable number if you compare with our peers. So the EBITDA is now standing on KSh 12.8 billion. Net income grew by 14% to KSh 55.3 billion. Free cash again we're pretty pleased with. Sateesh can talk a little bit more about this. 27.3%. We have managed our debt pretty well, which in turn has left free cash slightly ahead of net income at KSh 55.39 billion. Dividend is up 13% to KSh 44.07 billion. When Sateesh mentioned it this morning on the presentation he didn't get as big a round of applause as he would have expected, but nonetheless. That translates to KSh 1.10 per share.

So let me turn to the third and final part which is the way forward. Our financial guidance is only on EBIT and capex. I know many of you are going to be twisting Sateesh's arm to get more detailed guidance, but Sateesh is now pretty well versed on how to bounce you guys back. The EBIT we are guiding to a range of KSh 85 billion to KSh 89 billion this year, up from KSh 79.3 billion this year. And capex we are guiding at between KSh 35 billion and KSh 38 billion, and that is up from KSh 36.4 billion this year. My focus then for this year in terms of my focus I'm expecting everyone else to deliver those numbers we just talked about. And I think they have done a fantastic job in the last year as a whole, but more especially in the time that I have not been in the country. So that is not the stuff that I'm worried about. What I'm worried about is where we head in the future. So we are not going to talk about a new strategy. We are just going to talk about the same strategy and increased focus on execution.

So let me start with the… We talk about four or five different things here. The first one is we are going to have a deeper focus on what we call the home world, fibre to the home. We have now defined this as a very unique segment with much greater customer insight. So we are now accelerating our fibre rollout. As our emphasis now is much more on always on connectivity and security [unclear] fibre this is a little bit of surprise to us and we really started to investigate this segment in detail. We thought that everybody wanted to get Netflix actually this insight tells us that what is more important to people is to have always on internet connectivity and security in applications. So content is still necessary but it's going to be less important to us. You are not going to hear us talk too much about [unclear], although of course we will continue to do that. That's the first, the deeper focus on the home. And as I said we accelerated our fibre rollout and are now at 5,000 km.

The second focus area is on the regional opportunities. I know you guys [inaudible segment]. You will talk with Sateesh in much more detail when you see him. So what does that mean and where are we currently heading with this? The first thing to say is because we have not been a company [unclear] M&A activities [inaudible segment] in-house. But we are also managing the relationship that we have with Vodafone [inaudible segment] a couple of exploratory opportunities at the moment, but really it's too early for us to comment further at this stage. And as soon as we're in a position then the IR team will talk more about it. The opportunities we are exploring we make mistakes as we go through and learn quite a lot. By half year we should be able to say something. But we are also building the capability and the collaboration with [unclear].

The third area is Masoko which is our e-commerce solution. And in this area we are thinking big but we're starting small. Rita Okuthe who is on the call can take some of the more detailed questions. What I would say is that over the past six months there has been a great deal of learning and we are now taking a much more agile approach to address some of these problems. So don't expect to see any meaningful numbers this year, but what I will commit to you when we get to the half year you should be asking me about the relevant KPIs that Safaricom are looking at. And the relevant KPIs shouldn't be so much around the financials because I said this is something which is a bit of a slow burn for us. But ask me, what are those relevant KPIs, why did you pick those KPIs, and how are you progressing against them? At half year I'm not going to be able to give you a tick on all of those, but I think that's what you should be looking at from me.

The fourth area is the innovation garage, innovation hub, whatever you want to call it. We actually call it the Alpha Unit. We call it the Alpha Unit because the Alpha Unit is a [unclear] for the [unclear]. The unit is now up and running and has been both [unclear] and philosophically outside of the [unclear] of Safaricom. Now, some of you would have seen something of an over-reported project which is the [unclear]. I think over-reported because [inaudible segment] but it is just one of the many initiatives that the team are currently working on. And here we are actually extending our reach to the local developer ecosystem. And here is something that we have already done very well in the past. But we are also working collaboratively with some of the big boys like Microsoft and MIT. Indeed our head of the innovation garage is a business lecturer at MIT.

The next area is data analytics. Now we see this as being a quick tool in getting a deeper insight into customers and predictive analysis. Already this year we have seen some very good results through our CVM analytics. And that is encapsulated very well in a number of things, in our NPS scores, in our average revenue per user, and it really ends up giving us positive daily targets and deals which will change by day and gives you a target that if you spend so much then you get [unclear]. But this is really only the start. And that's why I've created a centre of excellence on data analytics. And the members of this team will support the rest of the company. Eventually as we continue to build the capability both internally and externally we want to reintegrate these data analysts into the business unit. It really is starting to look at analytics much more scientifically. I am also very mindful of our need to protect customers' privacy and that's why we're working with Vodafone to make sure that we are at least up to a GDPR compliant state. And you will see [unclear] in Nairobi and we can give you a little bit more detail. We do want to operate at the highest standards and not wait for those standards to be [unclear].

Finally my focus is on agility. The company started embracing a more agile way of working. And this comes under the operational excellence and better focus on execution. Now, I see this as being an 18 to 24 month journey, so it's not an overnight thing. We are learning quite a lot from big companies and small. We have learnt a lot about why they failed. So we started by setting up a separate [unclear] clearing an entire floor in a new building and setting up in a way different way to the way the rest of the company works. And we currently have squads [?] that are looking at [unclear]. It is looking at fibre to the home. It is looking at the My Safaricom app, and it is looking at DigiFarm which is an agricultural range of solutions. And we will take the learnings from these four squads and really roll them out into other parts of the company as we pick up the learning.

One final thing I want to touch on, because I know you guys are going to ask, is about the dominance report. The dominance report has been around for quite a while and I think we're comfortable with the results without any clarity on this. We are now seeing some degree of market consolidation. There are those that might argue that if you are getting market consolidation dynamics if you change the market dynamics then you need to also re-examine the relevance of the dominance report. My guess is that the regulators – because there are more than one – may well be taking a second look at whether that dominance report is still relevant. Sateesh I think can give you more detail, but some of the things we've seen, some of the progress we've seen since when I last spoke is we've seen them drop this ludicrous [unclear] M-PESA. We have seen they have dropped this ludicrous suggestion of retail pricing floor. They haven't given up pricing that of course because Kenya is not a country which has policy around pricing floor apart from energy. And you have seen them try to impose it on banking and how that backfired. So we don't think there will be much support for a retail pricing floor. On network sharing as Sateesh said this morning on the presentation we are quite happy with sharing, but it has to be on a commercial basis rather than on a [unclear] basis. So that's the end of my somewhat longer introduction than I usually give. I think I can hand over for the questions. Sateesh, unless you want to add anything?

Sateesh Kamath
Thank you Bob. Nothing in particular. I think you have given us a very comprehensive update. I will probably now open up the floor for questions and answers where we can give you clarity on areas that you want more information on.

Operator
Thank you very much sir. Ladies and gentlemen, at this time if you do wish to ask a question please press star and then one on your touchtone phone. If you decide to withdraw your question please press star and then two to remove yourself from the queue. Again if you wish to ask a question please press star and then one now. Our first question is from Chris Grundberg of USB. Please go ahead.

Chris Grundberg
Thanks very much. And Bob, wishing you obviously a very speedy recovery. If I can I would just like to explore a couple of areas and get your thoughts. Firstly maybe you can flesh out a little bit more your thoughts around the general competitive landscape in Kenya at the moment, thinking specifically what you're seeing from both Airtel and Telkom at the moment, and I guess any indications or developments around the press mooted combination of those two assets and what you think that might mean for the market. And as a secondary question just on the economic backdrop, obviously you touched on this a little bit but I'm keen to understand your perspective on the degree to which that has linked into M-PESA growth. Any signals or signs you've seen I guess in the more recent months or closing out of the final quarter of any recovery or improvement in trends there. And I guess just generally an appraisal of how you think the economic backdrop looks right now would be great. Thank you.

Bob Collymore
So let me give you the answer on the consolidation of the competitors and then let me ask Sateesh to give you the answer on the environment impact on M-PESA. On the consolidation of the competitors I think it is actually a good thing for us and it's a good thing for the marketplace. It will be a struggle for either of them to continue the way they are to get any traction. Safaricom is sitting at… Depending on how you look at it, whether you look at revenue market share or customer market share, we're sitting at somewhere between 70% and 80% revenue market share. And to crack that has been very difficult for any single competitor to do. So for them to combine their forces to get their costs down I think will make sense for them. It also makes a lot more sense for the industry in the sense that what you are seeing between the two players is a race to the bottom. You are still seeing a race to the bottom now. Airtel should have learnt because this is what they did before. The race to the bottom didn't get them into a good place. And I think if you see that consolidation then the race to the bottom will stop. That's for the industry at large. For us it's much better news because we could have a 25% [?] market share competitor which takes a little bit of pressure off us and takes a little bit of pressure off the whole dominance noise in the background. Having said that all we've seen is the speculation in the media. We have good reasons to believe that it could come real, but these deals are quite complex and anything can go wrong between now and then. Sateesh, do you want to cover the market environment, the economic environment impact on M-PESA, how we see that going?

Sateesh Kamath
Chris, thank you for the question. The economic activities we believe will gradually recover in the course of the year. Normality has started resuming with the handshake between the two political parties. And that's a huge sigh of relief from the overall perspective of how the country is performing. The rains have been good this year. In fact in some places the rains have been too much, so we are now starting to worry whether that will impact the agricultural crops. On your specific question as to whether we have started seeing a recovery, very marginal. I wouldn't attribute it already to the economic recovery. But the first months of the year the signs are good.

Chris Grundberg

That's really helpful. Thanks both of you.

Bob Collymore
And Chris, I want to congratulate you. You are the first one to get out a view this morning. I was surprised. I had hardly stopped watching the live stream and you were there.

Chris Grundberg
That's fine, Bob. We aim to surprise.

Operator
Thank you very much. The next question is from Mikhail Arbuzov of Renaissance Capital. Please go ahead.

Alex Kazbegi
Hi. It's really Alex Kazbegi from Renaissance. Good to hear from you, Bob. Hopefully we will see you soon in Nairobi. Now getting on with the questions I have three areas if I could touch base on. One would be on the cost side. I just noticed that some of the costs, for instance your licencing fee cost, that has been growing every year pretty much for the past five. It is the first year which it dropped. We also saw a bit of a decline in the interconnect cost. So I was just wondering the reasons for that and whether this is something which we could see further. Presumably there is more traffic on net and that's what takes care of that, but it would be good to understand the continuation of this trend. The second question, I wanted to check on the 1Tap, if the actual CB approvals have been received on the product in general. And you gave us also the overall Lipa na M-PESA number which is I think 140 million. Could you also give us the value of these transactions, how big the value was and what the increase was year on year? That would help to understand what is going on in this domain. And lastly since you mentioned the figure and the focus on the fibre, just maybe some ideas about what you are targeting in terms of the homes passed for the next year just in very broad terms. Thank you.

Bob Collymore
Okay, so let me give all of those questions to Sateesh. Maybe the licence we can bounce on to Steve.

Sateesh Kamath
Alex, the way to look at it is I will give you the specifics of the cost lines, but the business is moving more towards more profitable margin lines which is reflected in the contribution margins. So the contribution margin went up by 1.2% year over year. If I look at what is driving that there are many line items, but if I focus on the big ones and keep the noise away the real big ones are two. It is M-PESA licence fee as a percentage of service revenue. This is because of the reduction in M-PESA license fee that we have negotiated after the G2 came down here. and the second-largest driver of this is airtime commission as a percentage of revenue. now, you would recollect that we were on a programme of further digitalising ourselves and making the life of the customer better by allowing the customers to recharge through M-PESA and promoting that to make customers' lives better. This also drives cost savings. At this point in time in the course of the year the percentage of recharge that used to come through M-PESA moved from 47% to 53% or so. And on those numbers we save commissions to the trade. Those are the two key reasons that are driving. Interconnect has a little bit to do with the improvement, but not the biggest driver on the contribution margin.

The second question was on Lipa na M-PESA. So on Lipa na M-PESA we believe that the potential is far higher than what we are tapping in. and like what Bob said, we believe that we need to do the right things at the beginning to take that product stream to scale. So the following is what has happened to Lipa na M-PESA in the course of the year. We realised that out of the merchants that we have signed up roughly 40,000 are active on a monthly basis, and the real potential is far higher. To unpack the real potential we did a couple of things. One, we reduced the tariffs for Lipa na M-PESA by 50%. That made it far more attractive for merchants to jump onto it. As a result of it we already see Lipa na M-PESA active merchants per month has more than doubled from 40,000 or 50,000 to now 100,000 on a monthly basis. This tariff reduction resulted in a huge increase in volume as well. Year over year volumes or values have gone up in Lipa na M-PESA by 70%, but revenues have gone up only by 1% because of the tariff reduction that we did. But we believe this is the right way to go ahead in future.

To speak about 1Tap, 1Tap is our strategy to make the life of the customer faster and better in completing a transaction. So 1Tap is a source that we have used, and we have then plans to do it much more, including [unclear] calls that we launched later on in the year. So as a strategy we will start pushing more merchants to use Lipa na M-PESA, keep the tariffs at an affordable level and start finding ways and means of making customers' lives more convenient to complete the cycle of improving the values from Lipa na M-PESA. We are really optimistic on Lipa na M-PESA. The third question was on…

Alex Kazbegi
Sateesh, but on the regulatory side just to clarify on the 1Tap there were regulatory issues there from the central bank and so on. Is that all hurdles behind?

Sateesh Kamath
We want to do some promotions on Lipa na M-PESA. The regulatory requirement here is that all changes that we do on M-PESA need to be filed with the regulator. We would like to get over the bureaucratic process required to move on from there, but at this point in time we do not think that itself is a stumbling block for the overall scope of Lipa na M-PESA.

Alex Kazbegi
Yeah.

Sateesh Kamath
Alex, if I could answer your third question.

Alex Kazbegi
Sure.

Sateesh Kamath
On fibre I'm hesitant to put a number to it because we have been pleasantly surprised by the speed at which we have executed this. Last year we had internal targets of 10,000 or 20,000 homes and we ended up with close to 45,000 or 50,000 homes by the end of the year. And then we thought we will double in the course of the year and budgeted accordingly, but the teams moved faster than what we thought initially and have brought now a science of how to go about the rollout which initially we were struggling with as we were learning the game. And we have ended up with 140,000 homes. I would look at giving you a directional thinking about what home means to us. Home means a lot to us, because once we get into people's home we think that we have a deeper and stronger relationship than just having a SIM card with you and opens up a window opportunity with us. So on the one side the growth prospects would be fuelled by further homes that we would roll out. And as we see there is more demand than what we are able to service the next stage of it is then moving on to see what else we can layer to the basic internet services that we have. Initially for the first six months most of the customers used to come at the lowest entry point which is called the bronze plan, which gives us roughly $25 a month. To put things in context our overall telco ARPU is $6.50 a month. So that was a great relationship uplift, though the quantities are of very different nature. But we already see people moving from bronze to silver, and some of them have moved to even the highest plan called platinum which gives 40 MB speed. So we then think there is much more layering that can be done in the future years, but that is something that we will keep adding as and when we get to scale.

Bob Collymore
If it helps you in your thinking around this, think something between Alibaba and Amazon here. For those of you who operate in Amazon markets you can see how smart Amazon is and how you can start to link your e-commerce into your home, into your M-PESA and into your mobile use. So that's why I say this is a slow burn. It's a complex burn. And we don't want to rush into this and fall flat on our face. We do think there is a joined up strategy across these things, and that's why home is important. It is not just about giving you always on connection, but it is about how we join up all those.

Alex Kazbegi
Very clear. Thank you very much.

Operator
Thank you. The next question is from Madhvendra Singh of Morgan Stanley. Please go ahead.

Madhvendra Singh
Hi, thanks for the call. And I would say a pleasant result in the circumstances. And Bob, welcome back as well. Now to the question. Just on M-PESA the revenue growth rate slowed to around 12.5% [?] so I'm just wondering what are the trends that you are seeing for the months of April and May and it there a recovery already being seen there? And in terms of the various components it seems like the withdrawals and deposits were actually the ones which grew the least during the period. So what is specifically happening on that since the year end as well? Thank you.

Bob Collymore
Sateesh.

Sateesh Kamath
I will take the questions. Madi, thank you for the questions. Madi, I think the fuelling of the economy as I answered earlier with Chris we believe will be gradual and not a step change. So it will be a gradual fuelling, gradual recovery of the economy. But that notwithstanding if I look at M-PESA as a business the following are trends that you may want to think through. One, we are working on finding ways and means of circulating the money within the ecosystem. So while the deposits grew at a decent pace this year withdrawals did not because we are creating more use cases. The good part of this creation of use case is that money remains in the ecosystem which means we continue to have engagement with that wallet money with the customer continuously. And that we think is the right thing for the long term. So things like Lipa na M-PESA when it grows means that withdrawals will go down because Lipa na M-PESA money goes to merchants who then use it either onward for a payment if it is small, or for settling into the bank which doesn't give you as much money as withdrawals.

If you look at the positive trends let me call out a few. For instance as I earlier mentioned Lipa na M-PESA volumes have almost doubled. And there are other positive trends like Kadogo, we reduced the price for Kadogo for less than KSh 100 and in the process what we have done is foregone some revenue. But what it has done is increased the volume of transactions – not value, volume – by almost 60% year over year. This creates habits in consumers, bringing a whole new set of consumers into the ecosystem, which we think is the right way to build the business to further monetise it rather than relying on the more risky withdrawal revenues for future. So we are betting more on the new revenue stream. We are betting more on circulation rather than withdrawals. But it is a tough battle because Lipa na M-PESA transactions on average give us something like KSh 9, whereas a withdrawal, one transaction, gives me like KSh 23 or KSh 24. So we need a huge amount of volumes to compensate, but we are looking at the long-term sustainability rather than short term.

Madhvendra Singh
Thanks Sateesh. Also a follow-up on the guidance you provided. So on the top end of the guidance almost 12% growths in EBIT. I'm just wondering if you could break it down a bit for our understanding. How much of that is coming from revenue versus EBITDA margin and D&A? Thank you.

Sateesh Kamath
At this stage… [Overtalking]. Madi is particularly strong in pushing. So Madi, we are going through an uncertain phase for now a reasonably long period of time for almost a year where we had to change gears very often as management to deliver shareholder value. What we are now going through is still an uncertain period. While the political turmoil has settled down, economically speaking there are many things that need to fall in place. Hence I don't think we are confident enough to guide at line levels. We believe we have a strategy to achieve this, but we might need to change gears depending on how the year is going. So at this point in time we believe we have all the right gears to get to the EBIT that we have guided. But we will probably be better positioned in half year to give clarity as to what we are likely to end the year towards.

Madhvendra Singh
Okay. Sounds good. Thank you.

Operator
Thank you very much. Our next question is from Samuel Njihia of Faida Investment Bank. Please go ahead.

Samuel Njihia
Thank you so much. I would like to take you back to M-PESA Kadogo. In your presentation you said that the effective prices on person to person transactions declined by 29% mainly due to M-PESA Kadogo. So my first question is how much was transacted under M-PESA Kadogo? In other words what are the transactions that were previously chargeable but are not chargeable right now under M-PESA Kadogo? And also you talked of foregoing the revenue under M-PESA Kadogo. How much in revenues was foregone?

Bob Collymore
That's a very granular question. Do you have those numbers with you?

Sateesh Kamath
I'm going to give a directional answer. We transact almost 1.1 billion transactions, person to person transfers, in the course of the year. 40% of it roughly is Kadogo. And you can do the maths of what that means. The way to look at it, we do not look at it as revenue lost due to Kadogo. It's a bit of a theoretical exercise because the volumes are surging because of Kadogo. And probably one can argue that those volumes wouldn't have been there if there was no Kadogo. So it is a bit of a theoretical debate there which we do not think is the right one as an organisation. What we believe Kadogo is doing is increasing the propensity of usage. So let me give you a feel of what I mean. The chargeable transactions per customer per month have already surged to 11. And including Kadogo it has surged to 14. You would recollect this was like six to seven transactions per customer about three years ago. So Kadogo has meant that we do not get revenue. You are abs9olut5ely right. But it has created a habit, and habits thereafter can be monetised later.

Samuel Njihia
Yes. So you will take not really a burden to the company? There is no plan to adjusting it?

Sateesh Kamath
Could you repeat your question please? I heard nothing.

Samuel Njihia
So would you say M-PESA Kadogo is not a burden? There is no need to adjust it maybe by limiting the number of transactions? There is no need for that.

Sateesh Kamath
Good question. You seem to understand the Kenyan market well enough. Anything that one does in society you will have a lot of good people using it the right way and you will have some not so good people using it the wrong way. We know the right ways and the wrong ones clearly from our systems. But at this point in time we are focussing on the larger picture of what we want to achieve. And at the right time if needs be we have the capability to apply the brakes where it is being misused.

Samuel Njihia
Okay. Maybe I can ask another set of questions on mobile data. So you have talked about your personalised offerings which have grown usage. And I'm looking at Tunukiwa. And there is one offer there that has caught my attention, and that is the unlimited data option for 4G users. So I'm wondering, with such an offer where do you expect to see the usage and also the effective prices? And second, with such an offer will the network be able to handle the traffic without margin taking a bit hit?

Sateesh Kamath
Maybe I will answer not specifically for that particular product that you are referring to because Tunukiwa in itself is meant for personalised offers as opposed to being offers for the moment not necessarily a headline offer. So we will always have tactical stuff that we will do in Tunukiwa which will be slightly different from strategic things that we do. So to answer your second question which I thought was important, in this area we grew our data volumes by 56%. In the previous year we grew by a similar 60%. So we continuously monitor the usage and do network investments as appropriate because we think data usage has still a way to go and we need to offer the right products to the right set of customers.

Samuel Njihia
Okay. Actually my question was with these effective prices coming down are margins on mobile data coming down also? Would you say they are coming down?

Sateesh Kamath
We don't comment on specific product line margins, but what we said as a trend you have seen that we have overall improved the margins. So as management we will always look at portfolios and take calls on what is required strategically or tactically for the moment.

Operator
Thank you very much. Ladies and gentlemen, if you wish to ask a question please press star and then one. Our next question is from Gregory Waweru of SBG Securities.

Gregory Waweru
Hello. Good afternoon. Sateesh, could you please help me unpack the elements underlying M-PESA or rather mobile data growth trends? I think the second half seems to have been a bit soft. I'm just curious as to whether you have seen any impact because competition seems to be a bit aggressive there on data, and whether you have seen a decline in your overall usage levels. And secondly if you could elaborate on voice. It seems to have re-accelerated. What are really the drivers behind this? Are we seeing a pick-up in MOUs? Thanks.

Sateesh Kamath

The second half of the year was weaker, and this was weaker in most of the revenue streams, not specifically only data but generally in most of the revenue streams. And it's a combination of a lot of things. The GDP growth was one of the lowest in that half. You know the situation with the unga crisis and the impact on consumer wallet. The credit situation wasn't great either. And not to say the least the prolonged election had an impact including the press' [?] campaign and so on and so forth. So we did have an overall weaker second half compared to the strong first half that we had. Remind me your second question, Gregory.

Gregory Waweru
Yes, that was around voice trends, underlying trends on voice revenue growth.

Sateesh Kamath
So in voice we have customers who migrate to data and cannibalise a little bit on voice, but overall our commercial arm is well equipped to work with this Tunukiwa campaign that we have to understand the voice requirements which are sprinkled down there in parts of the society. As a result of it overall for the whole company as a whole voice outgoing volumes went up by 2% odd, and the effective rate of voice was up by some 0.23%, adding up to 2.4% growth year over year.

Gregory Waweru
Thanks Sateesh. If I may go back quickly on mobile data, I think the second element of my question was not really answered. I was wondering… There has been some noticeable aggression from competition on mobile data. Have you seen any impact from that?

Sateesh Kamath
Yes, we have seen the competitive intensity on mobile data has gone up. we have done our plans on what we need to do to protect ourselves as well as enhance the growth rates there. And as you can imagine it's a tactical move of how we move around from here. So we are very cognisant of it, very aware of it, and we have plans for it. But unfortunately I won't be able to disclose the plans in the call.

Gregory Waweru
Okay. Thanks Sateesh.

Operator
Thank you very much. Our next question is from Tracy Kivunyu of Exotix Capital. Please go ahead.

Tracy Kivunyu
Thank you very much for the call. I have two questions. The first question will be on M-PESA. M-PESA is evolving now towards [unclear] attract a lower transaction charge. But at the same time you are also getting efficiencies from lesser withdrawals, more money in the ecosystem. So my question there is how should we look at the EBITDA margin for M-PESA? Would you expect any further improvement to the current margin or will the effect of the lower-value transactions offset that, leaving the margin where it is? The second question is on the M-PESA license fee. Could you please give the particular reduction in the proportion of licence fee for M-PESA and whether we should expect further reductions going forward? [Break in audio].

Operator
I'm sorry gentlemen, Tracy's line seems to have disconnected. I don't know if you would like to wait a moment for her to re-join and I can move on to the next question in the meantime? The question is from Harrison Gitau of Apex Capital. Please go ahead.

Harrison Gitau

Good afternoon. I have a few questions. The first one is you talked about over 140,000 homes passed, but what is the actual number of homes connected? The second is have you seen any impact after the launch of mobile wallet interoperability? And do you see any threat in inter-agency operability in terms of M-PESA? The third one would be what is your target average rate of 4G sites, seeing that any increase in coverage from 95% to 96% was mainly driven by the increase in 4G sites? And do you have any timeline for the launch of Bonga?

Bob Collymore
All right. Sateesh, do you have the percentage of homes passed? I think it was 20% isn't it?

Sateesh Kamath
Bob, I could hear part of what you said.

Bob Collymore
You heard part of the question or part of my answer?

Sateesh Kamath
Part of your answer.

Bob Collymore
Why don't you take it? You can answer all these questions.

Sateesh Kamath
Sure. Harrison, thank you for the questions. We have a conversion rate of 30% to 40% of homes that we cross, and moving monthly as and when the number of homes that we've passed depending on the speed of rollout, which is very healthy compared to international benchmarks. Your second question was mobile wallet interoperability. On the mobile wallet interoperability it's the first month. Thus far we have connected already to Airtel and at a later stage when Telkom is ready we will connect to them as well. The first month transactions have been good in terms of customers getting a choice to move money around. At this point in time we do not think that mobile money interoperability transaction-wise will in itself significantly shift market shares. Of course it needs to be complemented by many other things.

Your question on coverage, on 4G now we have got 1,600 sites. End of last year we had 1,000 sites. So it is almost like 50% more than what we had. 2G coverage is already high. 3G coverage is almost done. We have a few more sites which have to be made 3G, but the rest are already 3G. On 4G we have some more sites to go, and we will go through that gradually as and when the ecosystems are ready. Your last question was on Bonga. As we explained earlier in the presentation Bonga is in testing stage. [Background noise]. Sorry, somebody is not on mute. Bonga is one of the many innovations that Safaricom is currently working on. It is not the one and only answer but one of the many answers that we start working towards for the customer. Bonga is currently in test stage where we will take further feedback to refine the product and make it even better before we launch it finally to the market. So the date of launch depends on what comes up in the test stage and how much more refinement we need as we move along.

Bob Collymore
Can I do a little bit of a build on Sateesh's comments? Can you hear me, people? You are not confirming so I guess you can't hear me. You have all gone quiet. Let me speak nonetheless. Sateesh has given you a slightly diplomatic answer on the impact of wallet interoperability because I think he doesn't want to say that actually we are net receivers. Sitoyo who is our new FS Director has just come in from Tanzania where wallet interoperability has been running for some time. And Sitoyo has always said to me before he came that he didn't think it was going to have a negative impact. What we have seen is by a factor of almost ten times more

incoming from the other network than outgoing. 4G coverage, something I said earlier is that we're using data analytics to inform our decision process. So rather than simply look at the map and see where the hole is we're using data analytics to help us to determine where we do the 4G rollout. I also said that we have redirected some of the cash away from 4G into fibre because we felt that the 4G rollout needed to justify itself based on data rather than on what we think. And on Bonga timing I referred to it a moment ago as an over-reported project. Honestly we shouldn't have even said anything it. And I was pretty pissed off when I heard that we had gone public because it's not ready to go public. It's in an alpha trial. And of course it slipped out to one agency who then talked to another agency. But the thing is not ready yet. So I would urge wait for the half year. We might be able to talk a little bit more about that and maybe about one or two other things coming out of the garage.

Operator
Harrison, does that answer your questions?

Harrison Gitau
That's wonderful. Do you see any threat in inter-agency interoperability if mobile money agents… Do you see any threat in that?

Bob Collymore
There is no agency interoperability. We have all invested in our agents. There is nothing to stop other people from investing in their own agents. And I have to say this is one of the things that I get pretty upset about and pretty vocal about. Why aren't people going and opening their own agencies? Interoperability is not going to be a silver bullet either. That has never been on the cards. It has never been on the cards through the dominance report. So I don't even know why people are talking about it. It's not going to happen, as Donald Trump would say. I shouldn't compare myself to Donald Trump.

Harrison Gitau
Thanks Bob.

Operator
Thank you very much. Gentlemen, it appears that we have no further questions in the queue. Do you have any closing comments? My apologies, we do have the questions from Tracy that still needed to be addressed. Tracy, your line is open.

Tracy Kivunyu
Sorry guys, I got disconnected. I'm not sure which questions you have heard or not heard. So should I just start from the top?

Sateesh Kamath
Yes please Tracy.

Tracy Kivunyu
All right. Thank you. So my question is first on M-PESA. I was looking at the evolution of M-PESA as it is going for business-related transactions, but at the same time these transactions are not earning at the level of course that withdrawals were. If you look at the other side of it, the cost side, you are actually gaining efficiencies because there is more money circulating in the ecosystem. So putting these two factors together how are you seeing margin evolution for M-PESA? Is the effect of the reduced revenue-generating transactions making the EBITDA margin stable or do you still see further efficiencies building up to the M-PESA margin? And second on M-PESA is on the license fees that have come down. Could you please give us more detail on what proportion that was and

if there is any room for further reduction in that licence fee? And third is on SMS revenues which did quite well in the year. Were there any extenuating factors that contributed to this or is this actually achievable going forward? And last will be on depreciation and amortisation which was flat year on year. What were the drivers behind that, and should we expect any changes on that as well going forward?

Sateesh Kamath
Thank you Tracy. There were four questions. Let me start with the M-PESA licence fee question. The M-PESA license fee is now 2% and we expect it to remain at that level until something changes. And if something changes we will inform the market appropriately if it changes, but for the moment this will be the rate. Your first question was the new transactions in M-PESA while it realises less is that more profitable. The answer is yes, because what it does is monetise further the commission that you are paid by circulating the money further, and the further circulations come without the commission. So it does add to the margins in that sense. Your third question was SMS revenue. SMS revenue this year was high as you can imagine because of the prolonged elections, and probably in jest that is probably the only upward factor that I saw in a prolonged election period. On the D&A, D&A last year we had some accelerated depreciation on some of the assets that we were retiring. As a result the D&A in FY17 was slightly higher and in FY18 we have done most of the retirements that we have had to do and hence probably represents a more business as usual stage than otherwise. Thank you.

Tracy Kivunyu
Thank you very much.

Operator
Thank you. Ladies and gentlemen, we have no further questions in the queue. Apologies, we do have another question. It is from Kuda Kadungure of Investec Securities. Please go ahead.

Kuda Kadungure
Good day guys. Bob, good to see you back. A quick one. This is with regards to infrastructure sharing. I know this is something that hasn't really been popular with you guys. But with regards to the selling of [unclear] have been designated for tower sharing, or rather that have been proposed, would you consider leasing those tower [unclear]? And also with regards to Telkom Kenya we understand that they have sold a number of their towers, 1,000 or so to an American tower company. Assuming there is maybe $120 million or $150 million from that how do you think they will spend those proceeds? We understand or have heard speculations that they would also look to ramp up their 4G coverage. And in that regard as well how competitive are they currently, and would that be a real boost for them?

Bob Collymore
Let me give both Sateesh and Steve Chege a chance to answer. I think it will be [inaudible segment]. I'm frankly surprised that they going with American Tower and not Helios. Helios has approached us to say could they manage our towers for us. Let me ask Steve and Sateesh to answer.

Sateesh Kamath
Kuda, thank you for the question. Unfortunately on this side of the line me and Steve could not hear what you said. We heard a few words here and there but could not make out what the question was.

Kuda Kadungure
Okay sure. There were two parts to it. The first one is in the counties where tower sharing has been proposed will you look to doing a sale lease-back with those specific towers? And then the other was Telkom Kenya we hear have sold 1,000 or so towers to American Tower Company. What do you think they will do with the

proceeds? Are they going to invest more aggressively into 4G? And how competitive are they currently? How much does that boost their offering? Essentially those are my two questions.

Steve Chege
Sorry if I don't fully answer your question because the quality wasn't very good even the second time. But if I could give a picture of what the regulators have said about tower sharing, they have tried to recommend that tower sharing be enforced as part of interventions through the competition study. What they want to do is for the regulator to be able to prescribe the price. It needs to be demonstrated that we have been sharing towers here in Kenya on a commercial basis for now close to eight years between ourselves and Telkom and Airtel. And even this latest sale that Telkom have done, basically what is happening is that they are transferring the towers from their books to a third party tower company. And they will still continue leasing towers from us and vice versa. We do lease a few towers from them. What we have advocated for is that the regulator should allow us to continue doing this on a commercial arm's length basis. What the regulator had proposed to do in the competition study is to regulate this based on a [unclear] basis which we think doesn't take into account the amount of effort and cost we have put in to acquire the towers that we have. As to what we expect Telkom to do with the money that they are raising from the sale of the towers I will give Sateesh a chance to look at that crystal ball and give you an answer.

Sateesh Kamath
Kuda, that's a very difficult one to answer because it is nothing but crystal ball gazing. I can only think about what I would do if I were Telkom rather than having an informed answer on that. Telkom has a lot of cash crunch. They would like to roll out 4G but I'm not too sure whether they would prioritise 3G or 4G sure. I'm not too sure whether they are first investing in the current quality of network before starting into new technologies. I'm not too sure how much of their network needs urgent replacement. So it's difficult to speculate as to where they are likely to invest. So probably it is nothing but a crystal ball gazing.

Kuda Kadungure
Thanks. Appreciate it.

Operator
Thank you very much. Gentlemen, we have no further questions in the queue. Do you have any closing comments?

Bob Collymore
Yes. I hope everyone can hear me. Just a few comments. Not very many. I think we have covered quite a lot of it. Last year had a few more challenges than we were anticipating. Certainly we were not expecting the elections to run for quite as long as they did. And that really had an impact on our achievement against what we had been forecasting or hoping for. This year there will be challenges, but I think as Sateesh said the famous handshake will give us a lot more political stability over the next couple of years. We will have some headwinds this year, but I don't think that they will be as unpredictable as they were last year. No one can predict two elections in one year. And no one would have predicted a boycott of the company by sectors of society. This year we don't anticipate having that. I think we are set fair with the guidance we have given.

The management team is a very strong management team. In my absence for the first few months, certainly until January this year I was not involved in the company at all except to be a nuisance to the management team. So the result you are seeing is the result of a very strong management team which we continue to boost, getting Sitoyo back into the business. You will see quite a renewed focus on evolving M-PESA from where it currently is today. So you should have a lot of confidence in the management. Thank you very much for the kind words you have said about the CEO. I appreciate that. My focus as the CEO now is setting the direction for the next few years. We talked a little bit about some of that stuff. We don't want to [unclear] new initiatives because that doesn't make any sense. We want to make sure the initiatives which we decided on last year in our strategy session with the board are still the right ones, and if they are not then we tweak them a little bit. And now we are focussing very much on execution and excellence in execution.

We welcome the change of ownership to Vodacom because that now gives us an opportunity to do some more interesting things which we wouldn't have been able to do if they weren't there. Shameel Joosub and I have known each other now for embarrassingly about 19 years, so we work very well together and I think that the collaboration between the two companies will be very good. And we have also seen young Silvia Mulinge – I use the word young jokingly – who has recently been announced as the new CEO for Vodacom Tanzania. So we will also see the exchange of talent and make sure that we are able to meet our [unclear]. So thank you very much for your continued support. I hope that you all feel happy about the dividend. I hope you all feel happy about the growth in shareholder value, those of you who have been with us for a long time. I would like to thank you for your continued support. Thank you very much, ladies and gentlemen.

Sateesh Kamath
Thank you.

Operator
Thank you very much. Ladies and gentlemen, that concludes this conference call and you may now disconnect your lines.

END OF TRANSCRIPT