Conference Call transcript

3 May 2019

SAFARICOM FY19 RESULTS

Operator
Good afternoon ladies and gentlemen and welcome to Safaricom Plc's FY2019 earnings release conference call. You are welcome to familiarise yourself with the disclaimer which is available on the investor presentation on the Safaricom website. All participants will be in listen-only mode. There will be an opportunity to ask questions at the end of today's presentation. If you should need assistance during the conference please signal an operator by pressing star and then zero. Please note that this conference is being recorded. I would now like to hand the conference over to the CEO, Mr Bob Collymore. Please go ahead, sir.

Bob Collymore
Hello folks. This is Bob Collymore, CEO of Safaricom. I'm joined by Sylvia who is the Chief Customer Officer, Sateesh who is the Chief Finance Officer, Cyndia and Ilanna who are the investor relations team. So this morning we announced our full year results ending March 2019. And we're pleased to see that service revenue growth has been ahead of Kenya's GDP growth coming in at KSh 240 billion, which is a 7% growth on the year. I'm pleased with the positive jaws we've seen between the 7% revenue growth and the 13% EBIT growth – EBIT coming in at 35.8% – which really indicates improved cost management in the company.

So let me start with the things that we're disappointed about. We're disappointed with the data growth at 6.4%. Data is meant to be one of our drivers of growth. But actually we expected to be here, although we're disappointed. It came about because of some conscious decisions and actions that we took at the tail end of last year. I think I did mention this at half year. It was driven largely by an effort to regain our customer trust. So what those actions led to is an improvement in our NPS. We are still at number three, and we're not happy about that either. It has improved to an NPS of 61, up from 54. Having said that, our enterprise NPS at 24 points is still 23 points ahead of the number two, so we're pleased about that. We are also pleased this action has led to an improvement in trust from 88 points to 92 points. If you look at NPS with M-PESA we actually are at number one with a 17 point lead over the competitors.

The other action which has come about from those decisions/actions that we took was that we've now added 1.16 million customers, which is 6.6%. Sorry, this is data growth, because the actions we took were largely around repricing of data, doing things like providing a data save option and a play store bundle because a lot of customers were losing their data bundles through play store updates. Overall the impact of those actions was that we reduced the price per MB by about 42%. So that explains the 6.4% growth. It is not the high double figures, the high teens that we would have been expecting from data. But overall it was an investment in the future, and we have seen that picking up now not just with data customers but also with regular customers.

Customers are now at 31.8 million, which is a growth of 2.2 million. And to put that in context, the population of Kenya is growing at about a million per year, with a million people achieving the age of 18 or whichever metrics you want to look at. So a growth of 2.2 million we think is pretty good. Voice revenue is still holding up. It is just sitting in the black at 0.3%. And that is despite the fact that the average rate per minute has been reduced by about 10%. The half year growth incidentally of voice was at 1.4% so we are pleased that voice is flat and not yet in the negative space.

I’m really pleased with M-PESA. We’ve seen growth improve from the half year at 19.2%, and I think the full year last year we were at 14% growth. Now we are at 19.2%. We have added 2.1 million customers. So where has this growth come from? It has come from a number of things, but most notably an increase in the average number of transactions per user. So users are now making about 12 transactions per month. That’s because we’re growing the use cases that customers can use M-PESA for. Notable are things like M-PESA Global which is our umbrella name for the relationships we have with people with PayPal, Western Union, more recently AliExpress. AliExpress surprisingly is pumping out probably about 1,000 transactions per day using M-PESA. So we’re pleased about that.

And this calendar year we have launched Fuliza, which is our overdraft product. And just as an update, not reflected in the numbers you would have seen in the presentation today, we’ve got about 11 million customers who have signed up for this product and since the beginning of January we have loaned KSh 4 billion to KSh 5 billion in that period. We are very pleased with this performance although it’s not really going to reflect in the big numbers as yet. A lot of criticism we get for lending is that you increase customer debt. Well, this is not the case here because we are finding that customers are repaying their debt in about 3.5 days. The debt is typically only about KSh 600 per customer. So it really is doing what it is designed to do, which is to help people complete transactions where they miscalculated how much funds they had in their accounts.

So all of that has led to the headline numbers which is net income growth – Sateesh doesn’t like to talk about net income. He likes to talk about earnings per share, but then people need to figure out what that is – of 14.7% at KSh 63.4 billion. Free cash is at 13.9% to KSh 63.1 billion. We were therefore able to give out a dividend in line with the policy of KSh 50 billion which is a 30.6% increase on last year. And this year because of the free cash situation we have given out a special dividend of KSh 24 billion. So it takes us overall to KSh 75 billion which I think may well be the record dividend pay-out in Kenya.

So what are we focussing on for the coming year? Digifarm is teaching us a few things. We’ve got a million sign-ups. Many of you may not be unfamiliar with that number. About 300,000 of these farmers are active. We are learning a few things through Digifarm. We are learning how to extract revenue out of this new area without going back to the conventional voice and data pricing. So we’re partnering with banks to provide credit. If you look at the revenue share model that we have with things like KCB M-PESA and M-Shwari you can see how that is likely to be a fruitful endeavour for us. We are providing the farmers with access to affordable input, but with that input comes and insurance on the crop. And we make our money there not just through a commission on the sale of the input but also a commission on the insurance, and finally with off takers. This morning we mentioned one of the big buyers we have is Bidco Africa who are buying products from 640 farmers and in fact have built their own factory closer to the farming community. And we make money out of the price that they pay to the farmers. So Digifarm is an area of focus for us.

A bit of a hands up from me on Masoko. We talked about this over the past couple of investor calls. What we’ve got with Masoko is a very poor execution of a very good strategy. When you’ve got that you can only blame yourself as the CEO. So what did I do wrong here? I didn’t put the right people in place. I just believed that it can’t be that difficult, can it? And of course it can be that difficult. So we need to look at the whole people strategy around this area and make sure we’ve got the right people to do this. And this is a lesson which we will take across into other areas as well, where just because we’re good at selling GSM, voice and data, it doesn’t mean the same people can get into some of the other spaces.

We’re making some good inroads in the digital space. Our ambition now is to become Kenya’s leading digital company providing digital lifestyle products. And there is a whole range of these things including things like IoT, the work we’re doing in Digifarm etc. Today we have about 20 squads working in various areas across the company. We have introduced in the past year our own ChatBot, Zuri. We've introduced voice biometrics. We've introduced interactive voice IVR. And finally in the digital journey for us is that we have built a digital data analytics team. That team has been populated, and this time it isn't the GSM people. It's people who do know about data analytics. And the intention here really is to get to more advanced customer profiling rather than simply providing credit scoring for customers. And we are working in partnership also with people who know this area much better than us. So with that I'm going to hand over to Sateesh to give you a little bit more colour on the numbers. Much of the stuff is on the website.

Sateesh Kamath
Thank you Bob. I will just add a little bit more colour to what Bob has explained in a fair amount of detail already. So to give you a little bit more colour to start with on service revenue, we grew 7% year over year. if I look at it from the perspective of where the growth came from, 5% of the growth came from customer additions and 2% of the growth came from ARPU growth, which is pretty much 70/30. This is slightly different from the breakdown that you would have seen in the first half of the year where it was more 60% from customer additions and 40% from ARPU.

If I split the growth by business verticals to give you colour, M-PESA contributed 75% of the growth, mobile data contributed 14% of growth and fixed data contributed 10% of the growth. M-PESA grew 19.2%, faster than the 14% as Bob explained earlier on. the growth in a way is a vindication of the strategy of stepping back a little bit to create more use cases, which we explained in the previous year's results in a way was cannibalising withdrawal revenues. But we did believe it was the right thing to do to sustain the resilience in the business in the long term. And we are very happy to see that it has translated into a further acceleration of business after a brief step back in the previous year.

Mobile data on the other hand is going through a maturity curve which is slightly different from M-PESA. In a way in mobile data in this year we had to step back a little bit to what we think makes the slice of the cake a little bigger and take a larger share of the larger pie than scramble for the smaller share. Mobile data hence grew only by 6.4%. The story for mobile data is plain and simple. Last year almost 60% of the growth came from ARPU and 40% came from customer growth. This year ARPU is pretty much flat and we only had customer growth. We had a 42% decline in the effective yield for mobile data which even organically would have been between 25% and 30%. If I normalise it, which is not the case in actual reality but to give a feel, we are looking at the 7% overall service revenue growth closer to 9% if we hadn't taken those price corrections in the year. And mobile data growth normalised for this would have been closer to 15% as compared to 6.4%.

Moving on to bottom line and giving you a quick highlight on the bottom line, EBIT grew by 1.9% which we are pretty pleased with, unlike the specifics of mobile data and some of the other elements in the business that we earlier spoke about. The 1.9% can be split in the following fashion. Depreciation and amortisation accounted for 20 basis points. Opex efficiency accounted for 20 basis points. Contribution margin accounted for 150 basis points. Let me give one level of detail on these three line items. Depreciation is explained by the improvement in capex intensity. In the slide that we have put up in the website you will see that our capex intensity is getting better by the day, and the strategy to sweat the assets even more is paying off with a 70 basis point improvement in capex intensity year over year. Opex intensity is driven by efficiencies achieved especially in the network areas. Despite growing our network significantly this year we managed to keep our network cost flat. So overall the cost grew at a slower pace than the service revenue giving us a 20 basis points efficiency coming in from there.

Finally on contribution margin, which is the biggest one at 150 basis points, I would put the 150 basis points into three large buckets. The first one is the M-PESA business model in itself. When I was on road shows in the previous years I did explain that the withdrawal revenue is much richer, but when you step back from here what we will be creating will be a more resilient and stronger business model where the incremental velocities would come at a better margin because it is all digitalised and not necessarily with manual intervention. It was very well coming out in the results this year where the direct costs for M-PESA grew at 12.6% against a revenue growth of 19.2% resulting in a significant accretion to the margin.

There was further digitalisation in the telco space where airtime distribution moved from 54% of recharges being done digitally to now 60% of recharges being done digitally. As a result again in the annexure you can see clearly that while the revenues went up our costs of distribution came down by 3.5%, which again makes the business more efficient and robust. Finally, we also achieved cost reduction on handsets, cost reduction on bad debt, and we also did not incur some of the costs that we incurred in the previous year like [unclear] costs which resulted in overall 150 basis point improvement in the margin.

Just before I close I want to lay out the context for special dividend. As of end of March this year we closed with a net cash positive of KSh 24 billion including the short-term government bonds that we are invested in. Given the strong cash position we believe that the strength of balance sheet enables us to reward the shareholders with a special dividend of KSh 25 billion without compromising any of the business plans that we have. With that I open the floor for questions and answers.

Operator
Thank you very much sir. Ladies and gentlemen, at this time if you would like to ask a question you are welcome to press star then one on your touchtone phone and that will place you in the question queue. If you however decide to withdraw the question you're welcome to press star then two on your touchtone phone to remove yourself from the question queue. Just a reminder, should you wish to ask a question you're welcome to press star and then one. The first question comes from John Kim of UBS.

John Kim
Hi everybody. Two questions please. When I look at the revised guidance it seems to indicate EBIT growth of 7% to 8% year on year. When I compare and contrast this to the last couple of years it feels like a bit of a deceleration. Is there something happening in the business mix that would potentially reduce the positive jaws that work through a telco model? That's question number one. And question number two, any details, any context you can give us on succession planning at this point would be helpful. I know you can't speak about it until it happens, but can you give us a sense of timing and process please? Thank you.

Sateesh Kamath
Let me start with the EBIT guidance. If you look at the way we set the guidance at the beginning of the year we always go through a number of variables which are in the air as we get into the year. So consumer wallet is under strain. Mobile data is recovering. So it's fair for you to call out the fact that EBIT guidance is on a conservative side. We would rather look at it to be a good enough guidance to start with. And we're very happy to update at the first half of the year where we hopefully, as we have done in the past come back and said some of the things that we expected were better and hopefully give you a better performance in the second half of the year. So that's on EBIT guidance.

Bob Collymore
And on succession planning I think the board is taking a responsible approach. You know I've had some medical challenges in the last year, and I think that has forced them to really scout the market and see who is out there. In terms of timing my contract does end in August, but it ended in August for the past nine years every two years. So there is honestly no intention that I'm stepping down in August, but the board has been proactively looking at the market to see who is available.

John Kim
Okay. Helpful. One follow-up question on the data side. Given the new taxation is it right to say that the Safaricom numbers lap the absorption of the additional tax in H2 of FY20?

Sateesh Kamath
This is true. In the second half of the coming year we would lap that impact, which to give you a little bit of colour would have cost us around KSh 1 billion odd in the second half of the year.

John Kim
Okay. Helpful. Thank you.

Operator
The next question comes from Samuel of Faida Investment Bank.

Samuel
Hi everyone. I had three questions. The first one is on voice and SMS. So we've seen quite a slowdown in voice and SMS. I'm interested in the second half because I saw in the second half you had quite good growth in customer numbers and there were several promotions that were done in the second half. So I'm wondering, was there anything unique that impacted performance for these two segments in the second half of the financial year. My other question is on mobile data. At 24 cents an MB I'm just wondering is there any room for further cuts in mobile data? I know Sateesh doesn't like to comment on segments in isolation, but is there a concern that these data rates may impact profitability of the segment and also the overall company margins? The last one is on M-PESA. I noticed the information on M-PESA transaction value was missing from the presentation. Maybe you can provide a breakdown of M-PESA transactions in terms of deposits, withdrawals, P2P and other businesses. Thank you.

Sateesh Kamath
Okay. So maybe let me answer the question which I normally avoid answering, which is what you accused me of on mobile data. The way to look at this, Samuel, is mobile data prices will come down further. But a large correction has happened, so the rate at which it will come down in the coming year will be lower. To give you a sense, what you see on the chart of 24 cents is a weighted average for the year. We are exiting the year at between 18 and 19 cents. So already the 24 cents is a weighted average of the high price at the beginning and the very low price at the exit level. But more important for you to know is the profitability of data. I always mention some of these profitability calculations are… if I give it to two accountants they will come with three answers. So it is directionally right but not an absolute science. So the way to look at this is while the price is coming down the reason we posted a strong EBIT margin is because some of the business models are also re-oriented to service these price points.

On mobile data more specifically, in the results this morning Bob announced the fact that we would go even deeper and wider with 4G network. Now, while on the one hand it is investment and we do have a demonstrated capability of monetising investments – I'm less worried there – what it does is it leverages the 4G technology to bring the cost of data down even further, which makes us competitive and profitable at the same time. So we are yet to look at and say what the data cost will come down in the coming year, but we believe that the margins will be maintained even in the coming year despite the price going down. So less worried on the margin impact of the price. But at some point in time it needs to stabilise for sure, and we believe that the larger drop is done and now it is more the organic drops that you would see, as is the case globally. On M-PESA transaction value we will be shortly uploading it into the website, or if it's required even earlier to save time in the call going through line by line our IR team will mail it across. So that shouldn't be a problem.

Bob Collymore
It doesn't really tell you much, the transaction value, because there's not much you can deduce from it because a lot of these are zero rated anyway. I mean it's a number we're happy to give, but I'm not sure you can deduce [unclear].

Sateesh Kamath
The third portion of your question was voice and SMS slowdown. So it depends on how we look at it. We have always guided the market that voice and SMS would come down. In fact every year it is one of the unique situations where we guide it will go down and by the end of the year we have held it in a reasonable state. So as far as getting closer to the customer and acquiring larger customer share mobile data was one place where we definitely explicitly brought the prices down and repriced in the market. But on the voice and SMS portion we did run a lot of campaigns to keep ourselves relevant. So we are looking at now slowly but steadily on a portfolio way of looking at the customer where we are trying to give away a little but on voice and SMS but make up on some other legs, keeping the overall customer engagement in a more profitable space. Your next natural question would be to see where it would evolve to. I would again guide to say we would expect voice and SMS to decline a little bit. As long as we can control it and then keep the overall customer ARPU at a reasonable level we wouldn't be unhappy about that.

Samuel
That's great. Thank you so much.

Operator
Ladies and gentlemen, just a reminder, should you wish to ask a question you're welcome to press star then one. We have a question from the office of Vergent Asset Management.

Vergent Asset Management
Hello. Congratulants on the strong set of numbers and thanks for taking my question. I would like to ask something with regard to the current recent blowback [?] that we're seeing whereby a number of players on the global scene are concerned about the activities of Huawei. I believe Vodafone came out recently and said that they discovered some weakness in the network that they had purchased from Huawei, and given that you use the equipment in your own infrastructure is there any reason to worry right now as investors that there might be some sort of disruption in your network as things transpire in the global landscape? Thank you.

Bob Collymore
One of the advantages of being part of the Vodafone family is that we do get access to this. So when it gets fixed we benefit from that. We don't have to go fight for it ourselves. I don't think the risk to you as the investor is any greater than the risk with any other networks that use Huawei.

Vergent Asset Management
Sure. Thank you.

Operator
The next question comes from Kuda Kadungure of Investec Securities.

Kuda Kadungure
Good day guys. Could you give us a quick update on the competition? Have anything changed materially since the JV?

Bob Collymore

Nothing has changed. Really we don't expect to see that materialised until maybe the end of the year. I think they're not going to seriously talk until August with the regulators. And how we're thinking about it, first of all we think it's a good thing because it will take some of the heat away from us in the regulatory space. But Sylvia is here. I don't think she's looking particularly worried about the JV. I think she's feeling that at least she's got a competitor who will be solid who will have about 30% market share or so, which makes sense for an operator. I think the current rates that people like Telkom are at in single digits, that's not a viable business. And we're often accused of driving people out of business, which we don't think we're guilty of.

Kuda Kadungure
Thanks for that.

Operator
The next question comes from Deborah Armah Akotey of Databank Asset Management Services Ltd.

Deborah Armah Akotey
Thank you for the opportunity and thank you for the presentation. My first question was on competition which was just asked. And then if you can give us any update on Internet of Things. Thank you.

Bob Collymore
So Internet of Things, we've got a few customers today largely in the transport sector. Again we're riding off the back of the IoT experience and knowledge that Vodafone have got. And we believe that today we're probably one of if not the leader in the market, taking advantage of our narrow band functionality in 4G. So we can't give you numbers of what that really means right now. It's pretty small. But certainly the customers seem happy with what we've given them. And as I said it's largely around asset management and asset tracking.

Deborah Armah Akotey
Thank you.

Operator
The next question comes from Ramesh of HSBC.

Ramesh
Hi everyone. Thank you for taking my question. My question is on operating expenses. In FY2019 other operating expenses have increased by 50%. Is it going to be the new base for this, or do you expect it to come down going forward? And the reason for the spike up in this please.

Sateesh Kamath
Sure. Thanks Ramesh. The overall operating expenses as you rightly saw have come down. The other operating expenses line that you specifically picked up has a few one-offs that we don't expect to recur. So roughly 60% of that increase is one-off by nature, so we wouldn't expect to recur that in the coming year. The balance is some of the costs that we are streamlining elsewhere is getting booked into other operating costs. So I wouldn't spend too much time on that line item. I would look at it more as an overall line item. But overall there was approximately KSh 1.4 billion that we think is a one-off that will not recur.

Ramesh
Thank you.

Operator
The next question comes from Henry Kabue of ICEA Lion Asset Management.

Henry Kabue
Thank you for the presentation. I had a few questions. What is the revenue from Fuliza as a percentage of M-PESA revenue? And specifically in the second half what drove the increase in operating expenses? What are the nature of these one-offs?

Sateesh Kamath
So on the first question, Fuliza, it's a very small percentage of M-PESA revenue. Fuliza did only two months or so before we closed the year, so the product in itself is three months old. To give you a rough number from top of my mind I think it was KSh 0.3 billion or so that we earned from Fuliza by end of last financial year. Your second question was the details of one-off expenses. So if you remember there was a reasonable amount of confusion around the dates at which the new taxation policies were applicable. So there was a particular date on which the taxations were announced. Then the president ratified it at some particular point in time, which was three or four weeks later. And then there was an amount of time that we took as management to review and then finally decide what we absorb and what we pass on, and then tailor it down with the IT systems etc. So during that period of time the law was applicable but we needed time to either absorb or implement it. We do take the hit of it through the cost line which comes into other operating expenses. So that's the single largest item there. Some of it is related to withholding taxes disputes which we have sorted out which we don't think will recur again next year.

Henry Kabue
Okay. Thank you.

Operator
The next question comes from Dilya of Citi.

Dilya
Hi. Thank you very much for the opportunity. Congratulations on the strong results. I had two questions please. The first is on your partnership that has been announced with Equity Bank. Maybe you could give us a bit more detail on the scope of relationship. Is it going to be comparable to what you currently have with KCB and CBA or is it going to be broader specifically in Kenya? And second question is on the take rate on the partnership products like the ones with AliExpress and PayPal and the other ones. Specifically on the take rate is it comparable to that of merchant payments, Lipa Na M-PESA? If you could give us any indication where the rate is that would be great. Thank you.

Bob Collymore
Let me take the one. Sateesh will take the other one. It's going to be different to the other relationships we've got. One of the things we're looking at is the fact that Equity is in a number of other markets like Rwanda, Uganda, Tanzania and DRC. So we're going to be exploring how we can use their licenses and their operating footprint to roll out M-PESA services. The other thing that we can do is we will refresh M-Kesho because we still have about 20,000 customers on M-Kesho despite having done nothing for marketing over the past eight or nine years. So we're going to look at what that product should look like now. Using Equity Bank for financing our dealers and our agency network, using Equity for providing credit facilities to our agricultural sector for Digifarm customers. We've got a million of those. And then we will also explore what we can do with SMEs.

So what we signed was an MOU. There is nothing which is concrete yet. And of course we are a big bank customer, so Sateesh sits at any one point with a lot of cash. And that's the advantage of Equity if we can put the bank to use. But like I said, this is an MOU which shows an intention and we've identified areas that we want to explore. We can't give you the details on those just yet. But we want to be starting to see launch of those initiatives over the next two or three months.

Dilya
Thank you.

Sateesh Kamath
Before I answer your second question, I was just wondering whether you were asking this question more as a Safaricom analyst or as an Equity analyst.

Dilya
No, I'm not an Equity analyst. Just to answer that.

Sateesh Kamath
I'm just pulling your leg, Dilya. On your question on all of these new things that we've introduced, the take rates are low yet. The way to look at these businesses is we are celebrating them for the stickiness that it creates and the larger velocity that it creates in the system. Some of these businesses that we are celebrating will not translate into a large enough sizeable chunk of M-PESA revenue in the immediate foreseeable future. But what it does is keeps the customer in a relevant ecosystem. And making the system all the more relevant has got ripple effect on other revenue streams. So the larger impacts sometimes are felt on the other revenue streams. More specifically, there are X number of products within M-PESA which all add up to less than 5% of M-PESA's revenue. So we celebrate them more for the qualitative impact it creates than the quantitative impact. And the partnership with AliExpress currently is one of those.

Dilya
That makes sense. Thank you very much. Very helpful.

Operator
The next question comes from Ziyad Joosub of HSBC.

Ziyad Joosub
Hi everyone. Thanks very much for taking my question. On the special dividend could you maybe give us a bit more colour on the logic or the rationale behind the actual size of the special dividend, so the KSh 24.8 billion? It also seems like you've paid out your entire net cash position. So would it be fair for us to assume at a management level it would be viewed as an inefficient capital structure to continue to be in a net cash position?

Sateesh Kamath
So let me answer the first one about the logic for the special dividend. The logic for the special dividend is driven purely by cash flow forecasts. We did look at what we are currently at. We looked at what we need for the next three years. We forecasted some of the things that we currently can forecast, and also made provisions for some things which unfortunately we have limited visibility on. After we did that we looked at the options we have and we reached a conclusion that we would generate more cash in the next two or three years than what we actually need to deploy in the business. And that led to the thinking of this is time to reward the shareholders. And I hope you're happy with what that decision looks like.

Ziyad Joosub
Definitely.

Sateesh Kamath
The second bit is of inefficient capital structure. Well, it's interesting because we are ending up in a situation where the business model… I wouldn't use the word 'ending up' probably. I would say we are leading the business into a structure which is becoming more efficient profitability-wise, the way we devise our products, the way we are digitalising the business and the way we are coming up with new use cases. So the business is becoming more efficient in that sense. The business is also becoming more efficient on capital deployment. We actually are becoming efficient from operating expenses and capital expenses as well, resulting in better generation of cash.

If I go back for the last five years our EBITDA CAGR is between 15% and 16%. Our cash flow CAGR is 23%. So it speaks about how we are evolving the business. As a result of which we do not have need for debt. Now, in a Kenyan market I would always be hesitant to take debt because the cost of debt is either high or it needs to be foreign currency debt which brings volatility along with it. So we are managing cash in my view reasonably efficiently. Bob says I'm very polite about it. So that's the way we're looking at it. So we do not want to structure the balance sheet unnecessarily with debt for the sake of debt. Rather structure it to run tightly with our debt, generate more cash and return it back to the shareholder or invest it prudently as and when an opportunity giving returns emerges at any point in time.

Ziyad Joosub
Thank you very much.

Bob Collymore
Thank you Ziyad.

Operator
The next question comes from Jake Ward of Ashmore Group.

Jake Ward
Hi. Thanks for the call. Just one question specifically on mobile data subscribers. I saw that penetration of the active data subscribers as a percentage of the total subscriber base actually declined for the year to 59%. Are you able to explain a bit more on specifically what's happened here over the year? And then looking forward is the expectation that we should begin to see this increase over the medium term and perhaps any medium-term targets that you may have? Thank you.

Sateesh Kamath
So the way to look at this is in the course of the year Sylvia and her colleagues really went aggressively to acquire customers. So if you look at the first half/second half breakdown of customers we added only 400,000 customers in the first half and then we decided that we needed to put the pedal on the accelerator very differently. So Sylvia and team did end up acquiring a lot of customers in the second half of the year. Now that's the beginning. Once they acquire the customer then we start engaging with the customers to add use cases. Let me link it back to our larger strategy of what Bob's been saying of rolling out more 4G sites. We rolled out the 4G that became an enabler, and then we layer content, we layer handsets and make use of the asset and the infrastructure enablers to convert them into more mobile data customers. We believe in this strategy. We believe we are doing the right thing and stepping back and even further accelerating the 4G network. And we believe the strategy will pay off. Now, obviously what comes first? And in this case we believe getting the customers, laying the road, getting the right infrastructure comes first and the rest will follow. So you can hold us accountable for this strategy in a year, a year and a half where we believe we will show more mobile data penetration than what we have.

Jake Ward
Perfect. Thank you.

Operator
The next question comes from Tracy of Tellimer.

Tracy
Thank you very much, ladies and gentlemen, for your time. I have two questions. The first question is on acquisition targets. Is Ethiopia part of the countries you will be considering, and how do you plan to structure that? And second would be the impact of IFRS 16 on your numbers for FY20.

Bob Collymore
We're not planning any acquisitions in Ethiopia. There is still no clarity on what's going to happen in Ethiopia. We've seen a proclamation which talks about de-regulation, but until you've got more visibility on what that's like and who indeed who you expect is going to be in that space, then we've got no plans. Having said that, would we be interested in putting a FinTech solution in Ethiopia? The answer is yes. And are we actively investigating that? Yes. Is it going to cost a lot of money? We don't think so.

Sateesh Kamath
Tracy, the second question on IFRS 16, I'm going to give that one to Bob because the other day he explained to me I should actually be calling it "IFRIS 16" and not IFRS 16.

Bob Collymore
If you're a proper finance person then you say "IFRIS" and if you're someone like me you say "IFRS".

Sateesh Kamath
Tracy, given that I am only slightly better than Bob with numbers, which qualifies me to become the CFO, I will continue to call it IFRS 16. But on a more serious note, Tracy, we did reforecast for IFRS 16 and what we are seeing is the thing washes out mostly at EBIT level. So in a way we are very glad that we always thought that EBIT is the right measure and continue to measure now. We made the change two years ago from EBITDA to EBIT. So at an EBIT level from an investor's perspective there are no material changes of IFRS 16, though some bits of this will wash out at an EBITDA level. Next year we will see a slight increase in EBITDA compensated by an increase in depreciation and amortisation more or less washing out at the EBIT level.

Tracy
Thank you very much. If I may just ask a follow-up question. Is Safaricom concerned about the mode by which M-PESA expansion will go out? And by this I'm talking about bank-led versus telco-led expansion.

Bob Collymore
Sorry, just repeat the question again so I can understand it better.

Tracy
All right. Would M-PESA prefer to be rolled out outside Kenya by a telco-led platform or a bank-led platform?

Bob Collymore
I think given what we can see in other markets an MNO, a mobile operator led solution seems to be more successful than a bank-led. But having said that you have to keep an open mind. And every market is going to be different.

Tracy
Got it. Thank you.

Operator
Ladies and gentlemen, just a reminder, should you wish to ask a question you're welcome to press star and then one. I have a follow-up question from John Kim of UBS.

John Kim
I just wanted to circle back to the international expansion plans. I just want to see if there is any progress or update versus what we discussed at the half year or at the FY2018 results. Thanks.

Bob Collymore
Unfortunately it is slow in that space. There is nothing that we can report on which would get past the regulator right now.

John Kim
Okay. Thank you.

Operator
The next follow-up question comes from the office of Vergent Asset Management.

Vergent Asset Management
Hello. Just a quick follow-up question with regards to M-PESA global. When you are making the partnership between yourselves and other payment platform providers such as eBay [?] and PayPal are there any third party entities which sit in between your own platform with that of other providers such as PayPal or Western Union?

Bob Collymore
No. They are all direct relationships with these players.

Vergent Asset Management
Okay sure. So there is no one that sits between yourselves and other payment…?

Bob Collymore
No.

Vergent Asset Management
Thank you.

Operator
Ladies and gentlemen, just a final reminder, should you wish to ask a question you're welcome to press star and then one. We have a follow-up question from Delia of Citi.

Dilya
Hi. I have two follow-ups please. First, you somewhat answered my question on 4G expansion plans as you mentioned broader and wider into the country. You mentioned that you will be layering content and then devices. Who do you see as your primary users in the rural areas? Is it going to be a household using a device as an entertainment or do you think there will be 4G devices used instead of 2G devices? Just some insight into

how you're thinking, what you think is going to be the initial use case and then how it would evolve. If you could share that would be great. And the second question is just on the Lipa Na M-PESA, what the progress is like, whether you're happy with the growth rate, whether it's going according to the plan. Just some comments on that. Thanks.

Sylvia Mulinge

So the formula we have to unlocking acceleration on growth for this financial year is made up of a basic matrix which is used across the globe for all telcos that are starting on data growth. So first of all for that acceleration in terms of providing coverage on the network, which we made an announcement on today that we want to nearly double to about 5,000 sites by the end of this financial year. Once you have the coverage the next thing is how you create access. We know that the cost of devices in this market, especially 4G devices, has been on the higher side. So to catalyse the rate of the device manufacturers we have been quite aggressive in terms of the pricing that we are now have a device which is the cheapest 4G device in the market, just about KSh 4,000. This is going to help to unlock that kind of last mile access to customers who could not afford the device before.

And then over and above that we begin to layer on the reasons for use. So I have the network. I have the device. So now why should I use? We spent a bit of time trying to understand our customers based on the segments they are in. The younger customers of course are very big on video. Our mass market I think the lead use case would mainly be social. So my mom wants to keep in touch with me, so she wants to be on WhatsApp. She wants to be on Facebook so she can keep in touch with her children who are working far away from home. So we think social is going to be a great use case. When we consider the devices when we got to the rural markets the first question customers will ask you is, does this device do WhatsApp? This shows the attractiveness and the stickiness of social.

So in the month of April just a few weeks back we launched a partnership with Facebook that is giving access to customers who are probably called 'data dark' who have never used Facebook or these social platforms before, but they know about them, which allows us to introduce a Facebook Lite version. And it is actually performing very well. When you look at the number of users we have had in the last four weeks it is much higher than what we had done before. So we think social is a strong use case. When you look at the youth it is around entertainment, video as well as music. If you look at customers who are Bob's age I think they just like to read as they get ready to retire. I think the use cases vary from one segment to the other. The key thing is provide the network and expand our coverage, provide the device, have the right use cases, and of course make sure that our data bundles are affordable. That is the reason why we did the repricing work last year, and it has paid back for us in terms of increased customers as well as increased usage on the network.

Sateesh Kamath

Dilya, your second question on Lipa Na M-PESA. Yes, we are pleased with progress on Lipa Na M-PESA. 22,000 more merchants using Lipa Na M-PESA, which is 22% growth year over year. If I look at the value per transaction on Lipa Na M-PESA that has gone up by 40% year over year. We are actually quite excited about it, not because of the money it is generating but our Financial Services Director has got new plans now for Lipa Na M-PESA. He thinks that this could be a fantastic gateway for getting more money into the ecosystem and he wants to layer further use cases which are not necessarily plain vanilla charging for the transaction but using the money that comes into the ecosystem for further velocity in the ecosystem. So do not get very surprised if I come back in a year's time – I may or may not – and tell you guys for Lipa Na M-PESA we have got the monetisation rate down from 80 basis points to 50 and now it's around 30. We might come up with further use cases which bring the monetisation down but give us more downstream revenues which are more sustainable. We are still thinking this through, but overall I would say we're happy with where we're going with it.

Dilya
That's very interesting. Thank you.

Operator
Ladies and gentlemen, just a final reminder, should you wish to ask a question you're welcome to press star and then one. Sir, we have no further questions. Do you have any closing comments?

Bob Collymore
Yes. It's Bob again. I said at the beginning we have mixed feelings about these results. Yes, we are very pleased to be able to improve our returns to shareholders especially with a special dividend. We are very pleased with the growth in net income or earnings per share as Sateesh prefers to present it. We are understandingly disappointed at the data growth performance, but we've got a plan. We think we can easily take that back into double digits in the coming year. We didn't talk so much about what we're doing in the home. We did pass 300,000 homes and connected about 107,000 homes. We need to deepen what we do once we get into your home so it's not just an internet connection. That's an area we feel strongly about. We've seen pretty good growth on fixed data as well and we intend to continue that.

Our regional expansion is something which I think comes up every call, and we've not been able to tell you. These things do take a while, but we can assure you that we are looking at stuff in at least a couple of markets. One of the things that we are about to do is we're looking at moving the ownership of the M-PESA IP as well as the brand ownership into Africa as a joint ownership between us and Vodacom. That then gives us very good platform for taking M-PESA in particular as a brand into other African markets between us and Shameel down in South Africa. So we are making some progress, but sadly we're not able to tell you about that stuff yet. So 7%, are we happy with that as top line growth? No, not really. But I hope you understand why that is and how we can overcome that because of the actions we took earlier. So thank you very much, ladies and gentlemen. I hope you all have a great weekend. And don't spend all the dividend in one go.

Operator
Thank you very much sir. Ladies and gentlemen, on behalf of Safaricom Plc that concludes this afternoon's conference. Thank you for joining us. You may now disconnect your lines.

END OF TRANSCRIPT