Conference Call transcript

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H1 FY2021/2022 INVESTOR BRIEFING CALL

Philip Muchaba

Good morning, good afternoon and good evening to everyone depending on where you are joining us from. We are glad to have you for our half year FY22 earnings release investor briefing call. My name is Philip Muchaba. I'm the Acting Head of Investor Relations and Financial Planning at Safaricom and I'll be moderating today's call. In today's call we'll have a short update from our CEO, Peter Ndegwa, who will also introduce the leadership team accompanying him on the call. Thereafter we will be giving you a chance to field your questions which Peter will answer with support from the rest of our leadership team.

Before we kick off the session I would like to speak through a few housekeeping rules. Throughout this session any questions you have for our leadership team should be shared via the Q&A tab. Please type in your questions and we will read them out and provide answers. At the end of your question remember to include your organisation name. Please ensure you have joined the session with your full names for ease of identification when you post your questions. If you haven't, you can rename yourself now by hovering the cursor over your name and clicking 'rename' on Zoom. In staying committed to our promise on diversity and inclusion, a live transcript has been made available for the comfort of anyone with hearing difficulties during the call. You can access this by clicking the 'view transcript' tab at the bottom of your Zoom application under 'more options'. This will allow you to keep up with the conversation in a more comfortable manner. I now welcome our CEO, Peter Ndegwa, to kick off the session. Thank you.

Peter Ndegwa

Thank you, Philip, and good afternoon, good morning, good evening everyone, our investor community and anyone else who is joining us this afternoon. I'll make a few comments and then I'll invite Dilip to summarise our financial results that we announced this morning, then we'll go into Q&A. This morning we announced our H1 results for Safaricom Plc and we are delighted to be engaging investors and analysts this afternoon. I am joined today by our CFO, Dilip Pal, who will join me in answering the questions, Sitoyo Lopokoiyit, MD M-PESA Africa and Steve Chege, who is our Chief Corporate Affairs Officer. Between the four of us we should be able to pick up all the questions that you will ask this afternoon. If we are not able to answer all of them, I'm sure the Investor Relations team from Safaricom will reach out to you directly and give you whatever answers that we might not be able to confirm. Without further ado, Dilip, if you can spend about five minutes just summarising the key results that we announced this morning for anyone who may not have watched the video or seen the results, and then we'll go into Q&A directly. Thank you.

Dilip Pal

Thank you, Peter. Hello everyone. Good morning, good afternoon and good evening. I hope you can hear me well. As Peter mentioned, this morning we have released our H1 results, a strong set of numbers I would say. As you have seen, we grew our service revenue by 16.9% on the back of economic recovery, strong execution that we have done in the half year, and also a lot of innovation around our M-PESA products that we have delivered. I'll just give you some perspectives on some of the areas, like for example starting with the customer numbers. We have seen growth in customer numbers across all segments. Our customer base has now crossed over 40 million. We have seen one month active days going up, whether it is voice, mobile data or M-PESA.

From a revenue perspective voice revenue we have seen some good progress in the second half of last year and we have seen that continuing in the first half of this year as well. Voice revenue grew 3.2% and we also managed to maintain our voice traffic share at around 68%, a strong rebound on M-PESA with 45.8% growth. And of course this is also on the back of the charging that started from January 2021. But more than that I think you may have seen from our financial results that financial services on some of the fintech areas have done extremely well beyond just traditional transfers and withdrawals. Both volume and values have recorded significant growth. Our volumes grew 42%. Values grew 52%. And more importantly, the velocity, which is the number of transactions per customer per month, almost doubled if you compare the same period last year. We launched our super app as you may have seen from our public announcement. And in a very short period of time we see a significant customer engagement with 4 million downloads and 2 million active customers engaged in this platform. We are super excited about this. You may have seen our progress also on the business side as well.

Mobile data revenue grew 6.3%. While we were expecting it to be better than 6.3%, I think what you need to keep in mind is we have seen a bit of price rationalisation during this period. And also the excise tax which came in from August, the industry decided to absorb the tax and that also weighed down overall revenue growth. But on customer KPIs and the fundamental KPIs on mobile data we are actually tracking quite well with usage growth from 1.3 GB last year to 2 GB. The 4G customers using more than 1 GB are all progressing quite well. We managed to onboard close to half a million Lipa Mdogo Mdogo customers, which as all of you remember was a key initiative in FY21. So that is gaining scale now. So overall I would say mobile data is gaining traction, but we do see that there are opportunities to grow beyond what we have done.

Fixed continues to be a strong growth driver. We have grown over 20% driven by growth in both the home as well as on the business segment driven by acquisition of new customers. On the cost side overall I think our cost leadership pillar is strong. We have done KSh 2.3 billion opex cost saving this year. That actually could manage to neutralise some of the cost increase that you have seen.

But of course on a year over year basis the cost has gone up. It's also a fact of last year's similar level of decline that you saw in H1 of last year. EBIT grew 28.8% year on year with an EBIT margin expansion of 3.3%. We sustained a high capex, investing in customer experience and also expanding our footprint. Our capex includes spent for Ethiopia.

On the balance sheet side very quickly, you would have seen borrowing levels going up. We did borrow locally in Kenya to fund our license bid, as you recall the $850 million which was the fee that we paid for the license. So for our share, we did take a bridge loan locally and then we are now in the process of syndicating that loan into a long-term loan. So we did the funding for Ethiopia license, about $850 million as the consortium, which is what I was mentioning through the local debt that we have taken for our share.

You may have also seen the revised guidance. Just to remind all of you, when we put our guidance in May this year excluded Ethiopia. As we are now consolidating our financials it is important that we include Ethiopia as part of the full year guidance. As you may have seen, underlying our overall EBIT guidance actually improved both on the lower end as well as on the higher end based on the improved performance that we have seen in H1. Capex guidance for Kenya Safaricom operations remains the same, but we have added now Ethiopia as part of the full year guidance at the consolidated level. So that's a quick update on the financials that we have released this morning. Now back to you, Philip, to moderate Q&A. Thank you.

Philip Muchaba
Thank you Peter. Thank you Dilip. We have two questions from Kungela Mzuku from UBS. They are congratulating us for a good set of numbers and the first question is; Please clarify Safaricom's share of cost and capex over the next three years. This is relating to Ethiopia. I have KSh 30 billion in capex and a total cost of $600 million in year one. Please also clarify that $1.5 billion to $2 billion in five year plan are specific to Safaricom's share of costs for the consortium in its entirety. Their second question is on the funding. To talk about the current funding plan for Ethiopia and how much of the capex and opex is to be funded by debt, and to also call out what kind of interest rates, term of loans we have and whether this debt has recourse to Safaricom.

Peter Ndegwa
Thank you Philip. I would like Dilip to answer both questions. Dilip, please.

Dilip Pal
Thank you Peter. Okay, let me confirm that you can hear me well. Okay. Let me clarify on those numbers. Thanks for your question. $600 million is Safaricom's share of funding. So just to confirm that's the year one funding for Safaricom. Largely this is the spectrum payment and then the other funding requirement that we have for year one. To your other questions to clarify whether $1.5 billion to $2 billion capex is Safaricom's share or for the business, I can confirm that $1.5 billion to $2 billion is for the entity as a whole and not Safaricom's share. That's the five year capex outlook

that we have provided. Your question on the funding plan, so what you are looking at is an optimal capital structure which will have a combination of equity and debt, both local debt as well as foreign currency debt. And we have also looked at vendor financing to augment the funding requirement.

So the funding which has gone into Ethiopia is largely through equity. For Safaricom's part of equity, as I mentioned, we took a bridge loan of $400 million and we are currently in the process of syndication and that we will be converting to a long term loan. Beyond that the entity is currently funded well, but then we are also looking at local debt options because we do have a lot of payments that we need to make in local currency. Because of the currency situation, as you are aware of, we want to make sure that to the extent possible the local payments are made through local borrowing, and that is also work in progress.

The bigger piece is on the debt side on the foreign currency part. Our engagements have been with multiple DFIs including what you would have seen in the public domain, our discussion with DFC, IFC and the like. At this point in time what I can confirm is that the discussions in some of those DFIs are progressing quite well. And we believe that by the time we need our funding we'll have enough funding to take care of the business to make sure that the business is fully funded. And in terms of interest rates and other related information, we will share that information in due course when we have more visibility around confirmation of those debts that we are currently looking at. Thank you.

Philip Muchaba
Thank you, Dilip. Just to remind you, at the end of your question please post the name of your organisation. The next question is about Ethiopia from Madhvendra Singh. What are your medium-term targets in Ethiopia? How does your plan get affected from recent political developments in the country?

Dilip Pal
Peter, do you want to take this?

Peter Ndegwa
I will comment on the impact that we see given the issues that Ethiopia is facing at this stage. So as you know, as we assessed the risks of going to Ethiopia the political elements were always part of that risk because the potential conflict was always there. Clearly that has crystallised given the state of emergency that has been declared. And at the moment as we said during our announcement we are assessing the situation as it evolves. We had a small team there in Ethiopia and we have prioritised their safety and security both for anyone who was seconded from outside of Safaricom or Vodacom into Ethiopia but also for our local employees which we had already started to recruit.

And this is primarily to make sure that in the next couple of weeks as we assess the situation we take care of the employee safety and security. And it's precautionary. We are seeking advice from various sources and we hope for a speedy resolution of the current issue and peaceful resolution of the current issue. And over the next couple of weeks or few weeks we will be able to assess the situation and understand if it impacts our ability to launch. In the meantime, we are preparing as we were doing before to prepare for launch, which is supposed to be mid 2022 based on our license obligation where we expect to have approximately 1,000 sites to give us the scale that we need to be able to deliver on commercial launch.

If the current issue of course has carried further we'll be able to assess that and discuss with authorities as to how that affects our ability to launch on time. At the moment, we are working on the basis that we can continue to build the infrastructure because quite a lot of it will be exported from outside of Ethiopia. And should the situation change whichever way and we think that there is need to update investors, we will do that at an appropriate time. As you know, the investment in Ethiopia is a long-term play. Our hope is that this matter would be resolved in a speedy and peaceful way. In terms of the long term KPIs from an investment perspective I'll ask Dilip. I think we did cover some of that in the presentation. So, Dilip, if you can talk through that.

Dilip Pal
Thank you Peter. You may have seen from our slide deck we have provided some information around the capex, which is $1.5 billion to $2 billion for a five year capex outlook. We expect EBITDA breakeven in year four. As Peter mentioned, we expect to launch with approximately 1,000 sites and site count could go up to 10,000 in Y10. We will use our own build as well as sharing as part of our site build. I think from a medium to long term perspective that's our outlook, based on the business case that we have evaluated, and on which we went for the license bid. Thank you.

Philip Muchaba
Thank you Peter. Thank you Dilip. The next question is on M-PESA from Madhvendra Singh. Can you please discuss the growth acceleration within M-PESA? What is the penetration now of Lipa na M-PESA versus overall M-PESA business?

Peter Ndegwa
Go ahead, Dilip.

Dilip Pal
I mean within M-PESA in the slides if you have seen we have grown 45.8% year over year, but it's not only the traditional business that has grown. Within 45.8% we have seen the fintech solution growing actually 43.7% year over year. 50% of those fintech solutions are driven by payments, which is quite encouraging. And then we have seen IMT, international money transfers, growing 22.6% and lending and savings always growing 17.2%. So if you look at the overall M-PESA I think it's not necessarily only the withdrawals and transfers, which has of course grown significantly, but

we have also grown the other parts as well year over year. In terms of Lipa na M-PESA, Sitoyo, do we have more colour in terms of the contribution?

Sitoyo Lopokoiyit
I was just saying with regards to Lipa na M-PESA our volume on a monthly basis is about KSh 750 million or $7.5 billion in terms of value going through it, which on totality is about 2 trillion on a monthly basis. It shows you the scale of the payment side of it. I think what is more exciting is what we are doing, as Peter mentioned, in terms of empowerment of businesses. And we are beginning now from the business over 43% of the transactions are now digital, meaning that we are now beginning to open a new era in which B2B is available. What we call the transacting till is empowering payments from the business side. And we are quite excited about how that is going to evolve from capacity enhancements from a learning perspective for SMEs. I think overall from Lipa na M-PESA that side of the business is growing extremely well and we are looking to develop new products and services that empower businesses.

Dilip Pal
Just to add to what the Sitoyo said, in terms of the growth overall M-PESA grew 45.8%. Lipa na M-PESA has grown actually 83.6%. So that's a significant scale up of growth that we have seen in H1 of this year.

Philip Muchaba
Thank you Dilip. Thank you Sitoyo. Our next question is from Ali Al Nasser. What has been driving down data prices? Has there been aggressive competition or is this just a natural decline in prices over time? They also have a question on Ethiopia. Can you give us an update on the situation in Ethiopia and whether this has impacted overall plans? I believe that has been answered.

Peter Ndegwa
Thank you. The one thing that I wanted to add on Ethiopia before I hand over to Dilip to talk about the pricing of data is that there are two components on the Ethiopian business that we've been working on. The first is just setting up or finalising a lot of the governance elements, the shareholding vehicles that allow us to operate in Ethiopia, ensuring that the license was paid and all those elements that were to do with the bid process and confirming all that.

Then the second aspect is preparing for launch, which as I said is mid-2022 based on the license obligation including recruitment of a CEO, recruitment of an ExCo, seconding suitably qualified employees from across Safaricom and Vodacom, and then starting to accelerate recruitment of local employees. I did put quite a bit of colour during the conversation we had this morning when we announced the results, but for those that may have missed it, that is where we are. I have spoken about the impact the current crisis has had, but the team is now working remotely. And of course should things be resolved quickly we will make a judgement as to when the team is able to fully operate. I will hand over to Dilip to talk about data pricing.

Dilip Pal

Thanks Peter. I think on data pricing I would remind us of what we said before. What we said before is that our ambition is to make sure that we drive affordability and then we said that we want to reduce the price premium that we had on data pricing compared to competition. So this is something that we have been driving down to make sure that the price premium becomes more reasonable, more rational. And the second part is the affordability. I think this is important for this market. As you are driving more penetration, as you are driving more usage growth the price pressure will be coming. But as I said this is a combination of driving affordability and reducing premium.

I think while we do that, one thing we are conscious about is that we don't do anything on a large-scale basis. We do this by the customer value management propositions which are more individual customer offers. Customers get more for the same price or they pay a little bit more and they get more. And that's also reflected, as you have seen, in the mobile data year over year. You have seen an ARPU uplift of 7.9%. So yes, the price is under pressure because of the affordability and the price premium reduction. But we are focussing on the ARPU improvement to make sure that we can sustain a high mobile data growth in future.

Philip Muchaba

Thank you Dilip. Thank you Peter. We have three questions from Silha Rasugu of EFG Hermes. The first question is what are the terms of the $400 million bridging loan? The next question is which institution financed the bridging loan. The last one is on guidance. Capex guidance seems high for Kenya. This is excluding Ethiopia. Can you please provide more colour on how this capital will be allocated considering we have high 3G and 4G coverage and targeted application of 5G?

Peter Ndegwa

Thanks Philip. Dilip, those are in your street. Please go ahead.

Dilip Pal

Thanks Peter. Thanks for your questions, Silha. I think on the terms of the bridge loan I won't get into the details of it, but what I can confirm to you is that they were very competitive terms. We scanned the market and then we went ahead with the most competitive bid we got. It was on very competitive terms that we got the bridge loan. As I also mentioned previously, currently we are doing syndication to convert that bridge loan into a long-term loan, which should be finished soon. We deal with quite a few banks as our core banks, so we used one of those banks as a lead and then we had other banks participate. I won't go into details of which institution, but it is part of the core banks that we deal with.

Silha, on capex guidance I think we have not changed our capex guidance, or the capex guidance remains the same you have seen first half. The capex guidance of KSh 40 billion to KSh 43 billion in the first half of the year, for Kenya alone we spent about KSh 19 billion. So actual spend includes capex of KSh 3 billion for Ethiopia. So we are within the ballpark guidance that we had given. And we mentioned to you before also when we were doing the guidance in May, we are very clear to make sure that we expand our footprint, upgrade our network to give better customer experience, and also keep investing in the growth areas that we have highlighted. That is fixed and also expanding capacity for the mobile data growth that we've seen and also the financial services where there were upgrades required that spent.

The other thing to highlight is also if you see that almost one third of the capex is spent in IT. That's an important point to note, as we are trying to become a purpose led technology company. So there will be IT spend in order to do what we need to do in order to become a technology company. So these are the things we are focussing on to make sure our growth revenues for future are protected in terms of the capex spend that we do. I think we are comfortable within the guidance that we have provided. And on your question on 5G I think we didn't have a lot in that capex guidance that we have. Currently we are about 15 to 20 sites that we have launched. By the end of the financial year maybe we will grow by about 150 to 200 sites. So it's not a lot from a 5G perspective. I hope that clears all three questions that you have asked.

Philip Muchaba

Thank you Dilip. I will proceed to the next question. It's about dividends and also on guidance from Kungela Mzuku from UBS. How should we think about dividend policy going forward? Then on guidance, if we look at guidance for this year the Ethiopia impact is 10 billion in losses above EBIT. Is this figure for the consortium or just Safaricom's share?

Dilip Pal

I'll start with the second one on the guidance. At EBIT level we consolidate the full amount. So the 10 billion loss that you see in EBIT is the negative EBIT number for the Ethiopia operations as a whole and we consolidate in our numbers. So that is what is reflected in the 10 billion. On the question on dividend policy, our dividend policy allows us to pay a dividend at the interim and final. I think you recall from last year we started paying an interim dividend, which is what many companies do globally and also in Kenya as well. So this is something we believe that we could continue with, but of course these are all subject to board consideration at an appropriate time. Otherwise I can confirm you that our dividend policy remains unchanged, which is to pay 80% of net income at a consolidated level. So that remains unchanged. But it allows the flexibility to pay interim and final as we have started from last year. Thank you.

Philip Muchaba

Thank you Dilip. Our next question is from Tracy Kivunyu from SBG Securities. They are asking why our voice users declined year over year. They also have a question on mobile data subscriptions, why they are flat year over year. Then they are also asking on opex what is driving the 31% year over year increase in opex. And lastly they also have a query on Ethiopia. Is the approval for

Safaricom's mobile money license in Ethiopia predicated on the country having a successful bid process for the second GSM license?

Peter Ndegwa

Let me answer the question with respect to mobile money in Ethiopia and then I'll hand over to Dilip to answer the other questions. So prior to our bid the Prime Minister had announced that mobile money, or rather foreign operated entities would not be allowed to operate mobile money until three years later. At around May time when Ethiotel launched mobile money the Prime Minister mentioned that mobile money would be allowed within one year. So we would be allowed to operate mobile money within one year. And more recently as they issued the RFP for the third license they have now confirmed that mobile money would be included in the third license.

So we are currently engaging the Ethiopian authorities and now are trying to find out what conditions are required for us to be included and be able to operate mobile money. So the letter has gone in. We are currently awaiting response from the Ethiopian authorities. But our understanding is we will be allowed to operate mobile money, but there are certain conditions that the government will be confirming to us including potentially some additional fee. But that has not been confirmed. So that's what we are awaiting, and when we do get that response I'm sure we'll share with you.

Dilip Pal

Thank you Peter. I will take the other three questions now. On the voice we sustained our 30 day active customer voice number. It's a small improvement compared to last year, but I would consider this as more of a sustained 30 day active voice customers. I think what I would also like to highlight is what I mentioned in my opening brief. Actually we are holding on very strongly in voice share, voice traffic share. As per June data you would see that our voice traffic share is holding at 68.2%. So actually for us voice has been a very strong performing segment given what was happening in the H1 of last year, if you would recall. But there is significant recovery happening in H2 of last year and we have seen that sustaining in H1 of this year as well.

On mobile data I think the numbers to look at would be the one month active mobile data customers, which has grown 4.7%. The other numbers to look at, the distinct bundle users, which is what we are driving. More and more bundle customers are coming in, that has grown 8%. And then the customers we call the [unclear] customers, the really serious users who use more than 1 GB per customer per month, that has now reached to 6.8 million, which has also grown 26% or 27%. So underlying if you look at all the KPIs that we monitor on the customer side they are progressing quite well.

To your question on the opex what I would like to highlight are a couple of points. To start with, the increase that you see is also on account of Ethiopia consolidation effect. So our current year's opex includes broadly around KSh 300 million equivalent of opex that we have incurred in Ethiopian operations which we have consolidated which of course was not there last year. Other than that, the increase we have seen is also a result of H1 being extremely muted in terms of the cost.

As you recall, the cost actually declined over 10% in H1 of last year because of COVID pandemic, the lack of movement, and therefore a lot of cost avoidance that happened. It's not that a lot of cost has come back; it's just the lapping effect of that is also reflecting here. And the area that we have seen cost increase happening are in energy, which is something that we could not avoid. The rates have gone up for diesel as well as the electricity. And then some of the accounting shift of IT expenses for cloud services which moves from capex to opex also comes as an IT expense, which has also resulted in an increase in cost. I think overall we are quite satisfied with the progress that we have made with our cost leadership programme wherein we have managed to save KSh 2.3 billion in H1 of this year. Thank you. Back to you, Philip.

Philip Muchaba
Thank you Dilip. We have next question from Solomon Kariuki of AIB Capital. Their question is what contributed to the 51% year over year jump in income tax expense. The other two questions are on M-PESA. What plans does the company have on getting a bigger share of the huge diaspora remittance market that has been dominated by the banks? They are also asking what the update is on Mali Wealth Management platform.

Dilip Pal
Peter can start on that one.

Peter Ndegwa
Go ahead, Sitoyo, and then Dilip can answer the first question.

Sitoyo Lopokoiyit
We are focussing heavily on remittances as well as global payments, so you can receive from over 200 countries. And today we do have the majority of the market share. We now command over 65% of all remittances coming into the country. So we are very strong in that side and more importantly now is to look at the opportunities around e-commerce. With regards to the products that are under approval by the regulator it's difficult to comment on that, but we are actually engaging the regulator to ensure that we'll be able to launch those products. But until then we await the regulatory approval. Thank you.

Dilip Pal
Thanks Sitoyo. On income tax expenses you would recall there was COVID relief for corporate tax rate which was brought down to 25%. That was for nine months of last financial year. And this was restored from 1st January 2021. So the increase in income tax expenses that you see is actually a combination of profit before tax has grown over 20% and also the rate increase from 25% to 30%. That is reflected in income tax expenses.

Philip Muchaba
Thank you Dilip. Thank you Sitoyo. A couple of questions on M-PESA. The first one is bank to M-PESA wallet transactions account for 18% of the transactions. Could you please comment on the volume growth that Safaricom has witnessed given that this service is currently free? Then when do you foresee reinstatement of charges for this service? And upon reinstatement do we expect to see an adjustment in the fee structure? And lastly, finally comment on the revenue split with the different particular banks expected post fee reinstatement.

Sitoyo Lopokoiyit
Thanks for the question. I think for us we did that with the regulator to cushion customers during the COVID period. It is still ongoing, so we are still working with the regulator with regards to when these measures will be lifted. Yes, we've seen growth in customer to bank transactions as well as bank to customer transactions. And similar to what we did with P2P we are analysing the trends to ensure that we sustain the new customer behaviour. So when we do finalise with the regulator then we will be able to relook at the tariffs with regard to M-PESA to bank and bank to M-PESA transactions. Thank you.

Philip Muchaba
Thank you Sitoyo. Continuing still more questions on M-PESA. We have a question from Ali al Nasser. What are the next features in the pipeline for the M-PESA customer app? Two other questions from Irene Wanyoike of Jubilee Financial Services. What has been the reception of the M-PESA business app, and which M-PESA product has performed best in the app during the period?

Sitoyo Lopokoiyit
I think those are great questions with regards to the app. Those are great questions. One is on the business app we are seeing over 120,000 merchants are using it out of close to 400,000 merchants on it. What we are doing is empowering businesses so they can see the inflows, the outflows, and more importantly they can do B2B transactions. In addition to that we are making the business app become a super app by incorporating what we call mini programmes. These are third party systems that empower enterprises to perform their businesses better, to see how they can grow their business.

With regards to the M-PESA super app I think some of the key things that have come in play are the 'send to many' functionality, the QR code, the ability to look at real-time statements, international money transfer. But what we are seeing now is hundreds of thousands of customers using the mini apps. And the mini apps are what will transform M-PESA to become a lifestyle super app. This is where we become the "Google Play" store in which we are seeing today we have published over 17 mini apps and over 65 are in development with a target of over 300. So those are some of the key things that you will see on the road map in addition to some of the wealth management products. Once we get them approved you will see them coming into the super app. Thank you.

Philip Muchaba

Thank you Sitoyo. I would like to remind you to ask your questions via the Q&A tab. I'll move to the next question from Ali Al Nasser. The question is what has driven the loss from associates. The same question has been repeated by Silha Rasugu from EFG Hermes. They are also asking could we please have a breakdown of the finance costs for the period. And they are also asking for an update on M-PESA Africa.

Dilip Pal

On associate companies' losses, primarily driven from losses from our associate company. Like many other companies, first of all these are start-ups. So it's expected that they will have losses in the beginning. And secondly, during COVID time I think many businesses have suffered on the customer acquisition side. So I think this is very normal that in a start-up phase there would be losses. So that's on the associate companies' losses. On finance cost I think this can be provided. Just to tell you in finance cost there is around KSh 1.1 billion as currency losses as part of this. The rest is increase in interest cost because of the bridge loan that we have taken for funding Ethiopia. And also I think you see the net figure is also a combination of the interest income. Our cash balances of course have gone down, so of course our interest income is also low compared to the previous year. So in combination of that these are the big numbers that are reflected here. But the more detailed breakdown if you need can be provided to you separately. On M-PESA Africa, Sitoyo, are you on the call?

Sitoyo Lopokoiyit

Yes. So for M-PESA Africa the key thing we are doing is to deliver standardised platforms in order to be one M-PESA< the largest fintech and digital system in Africa. So we are looking at verticalisation of all our products and services across all buckets in order to consolidate them and have this one view of M-PESA across the entire footprint. So it's an exciting time and how we are setting up M-PESA Africa to ensure that we optimise our capex as well as opex. Thank you.

Philip Muchaba

Thank you. The next question is from Madhvendra Singh. They are asking what kind of trends you are seeing in voice revenues vis-à-vis growth in data segment. They are also asking how long before you move completely to data/voice combo bundles, or is that not really something you are looking to do?

Peter Ndegwa

Go ahead, Dilip.

Dilip Pal

I think I tried to explain in the opening remarks we have seen very strong performance on the voice side of 3.2% compared to mobile data of 6.3%. I think in relation to that voice growth was very strong and we are holding on to high minutes of use per customer and we are holding to a very high sustained traffic share in the market. I think on voice I would say that our work on customer value management proposition has worked very well, because you are able to, over a period of time, increase minutes of usage and therefore the slide that you have seen, we are able to stop that. That's on the voice.

On the data side what I was explaining was that we did see some headwind in H1, mostly driven by the absorption that you have to do for the excise tax increases from August and also the price rationalisation. Some part of it is part of our own strategy to reduce the price premium as well as driving affordability. I would say that the voice performance has been quite satisfactory and we believe that the work that we are doing is quite encouraging in order for us to manage the slowdown- the decline of voice that we have seen in the past. And we believe that the data, all the fundamental KPIs which drive data growth are working quite well and they are visible. And we believe that this can also be accelerated as we go along. So that's on the voice revenue and data trend that we see.

On combo, I don't know exactly what you mean by combo. We do have combos. You can add voice to our data bundles. When you buy a bundle you can have those combos. But if you're referring to some of the products that some advanced markets like Europe do, they just have one price point and then the customers can use whether it is for voice or data. I don't think we are there yet, and I don't think we need to do that yet. We will see as we go along. This is also part of the evaluation. We are still at the very nascent stage of data evolution. We believe that's some time away, getting to a basic composite bundle using voice or data as we have seen in the other markets. Thank you.

Peter Ndegwa
Probably I will add a couple of things to what Dilip has said on voice and data. We feel we understand a bit more about how we could increase engagement with customers on voice. It is a mature market. It's a mature category, sorry. And we are not messaging that we think that there will be significant growth in the future. What we do know is given our scale we do need to defend the actual segment and ensure that we keep our customers engaged. And that's one of the reasons why we've invested significantly in customer value management. So in putting a new platform that will allow us to be able to drive Just 4 You propositions. And they have been very well received. Certainly given our scale in the market we don't go for headline price competition, and we won't do that. So therefore on voice you can expect that we will work through those kinds of tramlines. But the category will continue to be under pressure.

I think it's also useful to understand that we also had an excise duty increase. So the actual performance of voice includes an excise duty increase that went through and was put through in pricing in August. So that will affect the trajectory that we see on voice. To be fair we believe there is a lot more opportunity in data. The penetration of 4G phones is still in the 20s. Now we have network at 96% on 4G, and also content is still at an early stage. So we still feel there is a lot more we can do on the data side. We do need to make sure that we understand Voice over IP and how that impacts everything. And also on the SMS side we've also started to see that we need to engage customers so that they have a holistic offering depending on their lifestyle, especially the high value customers. The customer value management would help us going forward.

Philip Muchaba
Thank you Peter. Thank you Dilip. Our next question is from Linet Muriungi of Absa Kenya. And the question is on the consortium targets to break even in year four. Please take us through the underlying assumptions guiding this estimate.

Peter Ndegwa
Dilip, go ahead.

Dilip Pal
Thank you, Linet, for that question. I think underlying assumptions are basically if you look at the capex which you have as an outlook for five years, capex of $1.5 billion to $2 billion, key drivers are also the number of sites that we put into place. We start at 1,000. This could go up to anything around 10,000 as we mature the business. I think for us those are the key things to consider, the level of capex and the sites that we put in.

Philip Muchaba
I will continue to the next question from Tracy Kivunyu of SBG Securities. Four questions. The first one is: what are the mobile money regulations currently in Ethiopia. The second question is on Ethiopia still. What is the pricing environment like in Ethiopia with respect to mobile termination rates, and will there be price floors or caps in the market? The third question is on M-PESA. What is driving the delay in the approval for M-PESA innovations such as wealth, insurance and Visa partnerships?

Peter Ndegwa
I think the question about approvals Sitoyo did cover it. He said that we normally would not comment on approvals that are awaiting regulatory scrutiny because we only announce products when they have been fully approved by the regulators. I think Sitoyo mentioned that. I will also briefly cover the mobile money piece in Ethiopia. At the moment we are at an early stage given that mobile money was only launched by Ethiotel in May. So the Bank of Ethiopia is currently working through how the regulations will evolve. We have just been told that telecommunication operators owned by foreigners will be allowed to operate mobile money. So it is at a very early stage, and until we have enough conversations with the authorities in Ethiopia we will not be able to give a structured view of how they will evolve over time.

Clearly we are giving our own experience about mobile money regulations in Kenya and across the region that the Ethiopian authorities will use as input into some of the regulations that they will come up with. But how those evolve we await to see. And as I said, we've also sent a letter to ask for clarifications on the guidelines and also the requirements for us to be allowed to operate mobile money. It is still not yet in law, although it has been announced as part of the RFP requirements. In terms of MTRs there are some guidelines that were given as part of the bid process and we can give those specific details to the person who has asked the question. I can get our investor relations team to give the specific details. Of course the Communication Authority of Ethiopia is currently in the process of ensuring that they govern the sector as they invite new players. But we're happy to share those guidelines that are existing in place that were announced as part of the bid process.

Philip Muchaba
Thank you Peter. We have two other questions.

Peter Ndegwa
Sorry, Philip. I don't know, Steve, whether you have any further comments on any guidelines with respect to regulatory framework in Ethiopia for MTRs or GSM.

Steve Chege
You have covered the mobile money very well. So on the interconnect, the ECA, which is the regulator in Ethiopia has pronounced itself and given a termination rate. And we can share those, as Peter has mentioned. If you understand that apart from Ethiotel there is no other operator that exists in Ethiopia, so these are the first interconnection rates that have been set aside by the ECA. And we wait for them to be implemented when we finally launch the service early next year. So that's the only update I would give to what Peter had explained in detail.

Philip Muchaba
Thank you Steve. Two other questions on Ethiopia. The first one is from Kungela Mzuku of UBS. Can you please share how Ethiopian tax works for mobile operators in country? Is it calculated at profit before tax? The second question is from Linet Muriungi from Absa. Might you have any information on which interested telco companies have made a bid for the third license since announcement in August?

Peter Ndegwa
I will just comment on what is in the public domain with respect to the interested parties, so not with respect to the recent announcement of the RFP for the third license. We knew that Orange and MTN have been interested and there are other players who have expressed interest. What we don't know is whether they are interested given the announcement of the third license. So we await to hear the results from the government process. But at this stage we can't comment other than what has been covered in the media. On the tax question I'll hand over to Dilip. There was a question on how tax is calculated in Ethiopia. I think on a lighter note we are not expected to pay

tax soon, so that is not the most urgent issue to deal with. But I'll hand over to the CFO to comment on how tax is calculated in Ethiopia.

Dilip Pal

Thanks Peter. I think what we could do is if you are looking at this for a model update I will try to get these questions a bit more offline. Let us know what exactly you are looking at, because tax calculations are no different. If you're looking at what the objective is of this, then we can help you. But I think we'll leave it here because I don't think the methods are any different. Up until a particular point in time you are allowed to carry your losses, because we will have losses in the beginning. We can share more details offline, if you are okay.

Philip Muchaba

Thank you Dilip. Thank you Peter. Our next question is on messaging from Wesley Manambo from Genghis Capital. With a 90% market share in SMS traffic, what plans do you have to revamp revenues from this segment? Or should we expect a gradual decline as customers continue to embrace other messaging channels?

Peter Ndegwa

Dilip, go ahead.

Dilip Pal

Thank you for the question and also calling out the market share data which is available in the public domain. Our understanding and based on what's happening across the telecom operators globally is that messaging revenue, like voice as Peter mentioned, comes under pressure simply because as mobile data grows customers are finding it more useful to use those means of communication. But at the same time what you also noticed – and that is something we are working on – while messaging revenue will be a declining trend and I think that's fair to assume, I think there is a lot more engagement we could do.

You see when we engage more and we bring back promotions which are very specific to customers, we see customers actually taking those promotions and using more. So I think there is a space where we are currently working on to make sure we increase our level of engagement with the customers, and also to make sure that the pricing works well for customers to look at messaging also as one of the ways to communicate. It's fair to say that this will be a declining trend, but I think it's not to the point that we are saying that we're going to give up. No, we are not. We are trying to make sure that while our market share is still high, we believe that with the right level of engagement customers use more and we can keep on seeing a relatively stable line of revenue, but of course on a declining trend.

Philip Muchaba

Thank you Dilip. I'd like to remind all the participants to please post your questions via the Q&A tab. I'll move to our next question from Danesh. And the question is: what is the price premium on effective data pricing versus Airtel currently?

Dilip Pal

I think our understanding we are roughly still about double that of the nearest competitor in terms of our price per MB for mobile data.

Philip Muchaba

Thank you Dilip. Another question from Tracy Kivunyu of SBG Securities. And this is on Fuliza. Please give an update on Fuliza for business. How many businesses have taken this up, and what proportion of Fuliza revenue does this account for currently?

Sitoyo Lopokoiyit

Thank you for that question. Today we have not yet launched Fuliza for business. This is part of what we're awaiting regulatory approval for. So it's something that we are really keenly looking at given we have over 400,000 businesses that use Lipa na M-PESA. So for now I'll just give it as the same comment I had. Wait for regulatory approval. Thank you.

Philip Muchaba

Thank you Sitoyo. That was our last question. Probably I can give you a minute to ask more questions, and if not we can close the session. We have the next question that has just come in from Lisa Kimathi of SIB. And she is asking us to comment on the performance of Lipa na Mdogo Mdogo and the repayment rate. The other question is are we partnering with any corporates or existing super app in developing the M-PESA super app?

Peter Ndegwa

I'll hand over to Sitoyo on the super app.

Dilip Pal

Thank you for the question. I think I did mention about Lipa na Mdogo Mdogo when I was commenting on mobile data. It is one of our key initiatives to drive device penetration in the market through affordable B2B payments. We are just short of half a million Lipa na Mdogo Mdogo customers. And in terms of the payment I think we do see it as quite reasonable in terms of what we expect this kind of initiative to drive customer repayment. So, there isn't anything we have seen which worries us. This is something that we really want to continue. We always evaluate in terms of how we put a 4G device in the hands of a customer. There are options that we do, either we put an upfront subsidy or we do the propositions through LMM. So, at this point in time I think we're quite satisfied with the progress we have made and we continuously evolve and try and improve in our ability to target those customers who are eligible and who could take advantage of this. Thank you. Over to you, Sitoyo.

Sitoyo Lopokoiyit

Thank you. With regard to the super app from a technological standpoint, the M-PESA super app uses the Alipay technology that we have deployed in terms of the mini programme platform. So from a technology standpoint we are partners with Alipay. But I think with regard to other corporates it's how we are working. Today you can see NHIF, NSSF, SGR and DSTV and so many more partners onto it. So the idea is this will be put similar to what we have with the open API platform that we have. And today we have 42,000 developers on our open API. The intention for this is to make it as easy as possible for a mini programme to come onto our platform. So instead of taking roughly about two weeks, this will be done in a day or so.

So the intention is to work with the fintech community around the M-PESA ecosystem to make sure we can bring in as many mini programmes into it. This just showcases the power of what we're trying to do from a lifestyle perspective because if a Kenyan has an app, let's say the acquirer, the fintech, they can publish it within our ecosystem and now 28 million customers can have access to their services. So it is a marketplace and will be driving e-commerce from this perspective to truly make it a lifestyle app as I mentioned earlier. So we're really looking forward to partnership with many organisations to be able to take advantage of the super app capabilities that we have built. Thank you.

Philip Muchaba

Thank you, Sitoyo. That was our last question. Thank you all for attending the investor call today. We look forward to continued engagement with you during the road shows that begin on Monday. I'm handing over back.

Peter Ndegwa

There is one that I've just seen, if you can pick it up.

Philip Muchaba

This has just come up. It is on the M-PESA wallet. How has this progressed? We have 18% share of volumes coming from the free wallet. How has this progressed as we remain on the free wallet?

Dilip Pal

I'm assuming this is with regard to bank to M-PESA.

Philip Muchaba

Yes. Yes.

Dilip Pal

I think I mentioned that because we are interoperable with banks we're seeing good inflows from bank to M-PESA and vice versa. We are seeing great traction between M-PESA to bank. And we are seeing that interoperability is good. Today it's free to cushion customers from the COVID response. But as we work with the central bank and work with other stakeholders it's just to see when those terms end and then looking at the customer behaviour and ensuring that we sustain that behaviour that's there in terms of interoperability between ourselves and the bank industry. I hope that answers the question.

Philip Muchaba

Thank you Sitoyo.

Peter Ndegwa

And probably one other comment is there was already a significant increase in the base, so it doesn't look like it was a significant shift but there was already substantial growth last year. We saw very significant growth and we messaged that will be used as a collection ecosystem, and we have seen that continue. Probably that's one of the reasons why it might not look as – the scale may have felt like it has slowed down, but the base was quite significant.

Philip Muchaba

And with that, Peter, let me hand back to you to close the session.

Peter Ndegwa

Thank you, Philip, for facilitation. And thank you to my colleagues, Dilip, Sitoyo and Steve, for answering the questions. And thank you to everyone attending today, investors and analysts. Any questions that we have promised to get back to you, we will. And also if you want to reach out to our investor relations team, please do. I think we feel that we are on track in terms of delivering on our strategy in Kenya, whether that is strengthening our core connectivity business, expanding our financial services business, whether that's on the cost side and broadening our participation beyond our existing transaction business.

And also on the Ethiopia side despite some of the challenges that we are experiencing I should say that Ethiopia is a long-term play, so hopefully we are able to navigate through the near-term challenges that we are seeing. But we are delighted with the results and looking forward to continuing to drive our strategy in the second half. Thank you to all of you for your support, and looking forward to speaking to some of you in the detailed sessions that we'll have subsequent to this. Thank you very much and have a great afternoon or morning. Thank you very much.

END OF TRANSCRIPT