Conference Call transcript

29 April 2020

FY2020 RESULTS PRESENTATION ANALYSTS

Operator

Good day ladies and gentlemen and welcome to the Safaricom Plc FY20 earnings release conference call. All participants are currently in listen-only mode and there will be an opportunity to ask questions later during the conference. If you should need assistance during this call please signal an operator by pressing * and then 0. Please also note that this call is being recorded. I would now like to turn the conference over to Mr Michael Joseph, the outgoing CEO of Safaricom Plc. Please go ahead.

Michael Joseph

Thank you. This is Michael Joseph. I'm the outgoing CEO of Safaricom and the founder CEO of the first ten years of Safaricom. On the line with me is Peter Ndegwa, the incoming CEO who has been in the job since 1 April, and Sateesh Kamath, who is the CFO. I will speak first, and then Sateesh, and then Peter and I and Sateesh will answer any questions you might have going forward, and then Peter might close it. Just to take you in the past year I think Safaricom has done really well in the past year. Our service revenue has increased by 5% which is quite good under the circumstances. Of course you will see that voice has been rather flat. M-PESA has grown by over 12%. Data revenue has gone very well. And of course I think we've seen an increase overall in our number of subscribers. We ended up the year with what we expect for a 66% market share in terms of numbers and 88% market share in terms of revenue.

In addition, which is the highlight, which I'm sure Sateesh will mention, is the EBIT has grown by 13.5% and now is at KSh 101 billion. And earnings per share have gone up to KSh 1.78 which is an increase of 14%. And free cash flow increased by 11% to KSh 70 billion. I think those are the highlights of the year. Operationally the first half of the year was a little challenging. The second half I think we did a lot better as Safaricom changed the direction in which it's going, trying to be simpler, more transparent and honest with our customers, improving our customer care, improving all of our customer touch points in fact including our back office. Also we invested significantly in the network even though the actual capex spend was not as great as the previous year. That was through efficiencies with equipment with the manufacturers with our suppliers. We still increased our radio network in terms of 4G, increased our coverage of 4G. It is probably about 65% geographic coverage and we aim to go to 85% in this coming year. We also improved our core network so that we could handle the back office traffic, core in terms of our data both internally and externally, and we made a significant upgrade to our billing system to handle the volume.

M-PESA of course has done extremely well. It is the payment platform of choice. We have probably 95% market share in terms of M-PESA. But you will see there has been a decline in cash out revenue, which is shown by the not the same growth as we had previously. And the main reason why that has happened is actually M-PESA is doing pretty well because what's happening now is it's becoming a true wallet. People are putting money in, paying their bills, and actually using it as a true wallet and not going to the other extreme of taking cash out. And therefore that cash out revenue has declined over the past year. I think one other thing probably is fixed data. We are focussing definitely on fixed data which is fibre to the home and fibre to the buildings. We increased our investment significantly in the second half of the year to fibre to the building in particular and then fibre to the home. Of course we are also investing in IoT, and you will see that coming up in the results in the coming year. IoT is going to be a big thing for us. We continue to invest in agriculture, in education and in health. So far that has not shown up dramatically in the revenue, but we expect that going forward. I think that's enough I'll say now. I'll hand it over to Sateesh to take us through the detailed results. Over to you, Sateesh.

Sateesh Kamath
Thanks so much, Michael. Good morning, good afternoon, and good evening to all of you who have joined from various parts of the world. Overall I would describe the financial year 2019/20 as a good year. Service revenue on an underlying basis was steady half year to H2 while profit expanded and we outperformed guidance. We are delighted with the performance on mobile data which registered a double digit growth again as we had guided at the beginning of the year, growing at 12.1% with the second half reporting an impressive 21% growth. M-PESA by 12.6%. The performance was weighed down a bit by the contraction in the betting industry which we have always called out for our investors, and also due to the free transactions in response to the COVID crisis. On an underlying basis M-PESA grew by 17.2%.

With the onset of coronavirus we have seen customer habits have changed. Fewer withdrawals, as Michael called out, more cautious spending, and an increase in balances being held in M-PESA. While we expect things to be challenging in the short run, in the long run we believe we are well placed to bounce back as adoption of digital services would increase and we are creating more reasons for people to use M-PESA. We have been gradually changing our operating model in line with the changing shape of our P&L, and this year we have successfully managed to reduce operating expenses year on year on the back of digital and operational efficiencies. This meant that despite the top line pressure our earnings before interest and taxes grew by 13.5% year on year, which is an acceleration from the 12.7% recorded in the first half. With that I open the floor for questions and answers. Thank you.

Operator
Thank you very much sir. Ladies and gentlemen, at this time if you do wish to ask a question please press * and then 1 on your touchtone phone. You will hear a confirmation tone that you have joined the queue. If you wish to withdraw the question please press * and then 2 to remove yourself from the queue. Our first question is from John Kim of UBS. Please go ahead.

John Kim
Hi everyone. Three questions please. First, in the new reporting you do separate chargeable active data users from the overall user base. Where do you see that chargeable percentage going to over the next 12 to 18 months? A second question, you did indicate that there were some concessions or freebies given around COVID and the lockdown with regard to M-PESA. The number I seem to remember is KShs 650 million. Is that a service revenue number that was forgone? And give us a sense of timing. How early or late in the fiscal year did that occur? The last question on M-PESA. My understanding with the buy-out of the brand is that M-PESA is now owned through a 50/50 JV structure. If we look at below the line there's a small equity accounted profit. The same question with regards to timing. Does that reflect the fact that you're now paying a royalty to an entity you own 50% of? And how should we think about that number on an annualised basis? Thank you.

Michael Joseph
Okay. Let me jump in and answer the second and possibly some of the third question on M-PESA. On the second question, when the COVID crisis struck here we were requested by the government to zero rate transactions below KSh 1000. It was not our choice. It was a request from the government which we could hardly refuse. Previously all transactions below KSh 100 were zero rated. The impact has been as you can see in the second half of March which was KSh 650 million, and we estimate this will continue. Sateesh can give you that figure. What has happened a lot in those transactions below KSh 1000 is that people are starting to split transactions. If they want to send KSh 60,000 they split it into 60 transactions. And believe it or not, people actually do that. We have pressurised the central bank to allow us to cap the number of split transactions at five. So far central bank

has not obliged, but we are continuing to put pressure on them. And we hope as we go forward that we will be able to cap transactions below five. This has had an impact on service revenue.

The third question is the JV. What we have done now is the whole M-PESA business that was located with Vodafone has been bought jointly by Safaricom and Vodacom. Now, it's not just the brand. It means that the operations and maintenance and development of new products is now in the JV. So it's a 50/50 split from a cost point of view that we split the costs 50/50. That means that the cost to develop new products for Safaricom has reduced by 50%. Operations similarly. We will continue to pay our royalty of 2% to the JV and the other Vodacom entities will pay 5%. Sateesh can take you through the financial impact of that on the bottom line. Okay, over to you, Sateesh.

Sateesh Kamath
Michael, thank you so much. John, thanks for your questions. To add a few more things to what Michael has said, on the 50/50 JV the KSh 3.3 billion which you then see under headline earnings per share is a one-time gain on acquisition accounting of the JV. So this is the difference between the fair value of JV as independent people value versus the bargain price that we have paid which is part of IFRS bargain price accounting. This is a one-time gain as I explained. Since it is a one-time gain we want to call it out specifically, and hence it is denoted below headline earnings per share. And the headline earnings per share exclude that one-off gain.

To add to what Michael said on COVID, which was question two, the expectation is that we would continue the free P2P up until the end of June. And that would be forgone revenues of KSh 5.5 billion based on the projections that we are currently seeing, of which KSh 650 million materialised already in the previous financial year. These are of course best estimates based on what we see as consumer behaviour now. So based on forgone revenue I'm happy to report some remarkable changes in consumer behaviours. Consumers are using M-PESA more. We can see a significant increase in active customers. We are seeing again a strong increase in customer balances that they hold in the digital wallet. So while it will definitely impact the financial results of 2021 I would like to remind us that this is something that will hopefully help us in the long run as consumer habits are getting more fortified than ever before. That was on question two.

John, your first question was on chargeable customers. The way I would encourage us to look at this is us painting the picture of the true long-term potential versus where we are. So at this point of time we have only 6 million customers having 4G devices. That's a number that we have reported and will continue to report. And that number has grown by 84% in the course of the year. In the course of the coming year we will do a number of interventions including some that we have already made public of an intention to do device financing. Not device subsidy, device financing. Over time we would like to see that number grow closer to 15 million to 20 million, so there is a lot of runway left for mobile data. I hope I've answered all your questions, John. Thank you.

John Kim
Thanks guys.

Operator
Thank you. The next question is from Godfrey Mwanza of Absa Asset Management. Please go ahead.

Godfrey Mwanza
Hi guys. Thank you for the call and congrats on good results. I have three questions. The first is to do with airtime commissions. They were actually down marginally, a lot less than I expected. Is there any scope to get this down further on the back of topping up airtime using M-PESA? That's the first question. The second question is on mobile data. As you said, your revenue is back up to around KSh 20 billion for the half year after falling to around KSh 16.7 billion in the six months to March 2019. But based on your one month active

chargeable customers and the increase in ARPU it suggests that if that continues you could easily see mid-teen growth in data revenue. It looks like more people are using data and more data per person is being used. And actually the same thing for M-PESA. Is that the right way to think about it, mid-teen growth in data even in 2021? FY21 is not out of the question. And then the third question is could you just explain why the M-PESA commission costs have gone up as much as they have? Thanks.

Michael Joseph
Let me answer the second question on data. As you know when we had the COVID crisis here a lot more people started to work from home, which will account for more usage of data obviously, which is every other mobile operator's experience. But when we launched Neo in October last year we introduced data without expiry, data with no expiry. And this really increased the usage of data and people really understood it and appreciated the data without expiry. Now, the question is does it continue to grow? I think we have to balance two things. Yes, it will probably continue to grow, but it depends on the disposable income of the majority of our customers going forward. Remember that our market doesn't have a social cushion as much as other markets and we might see a decrease in disposable income going forward. But so far I think we can still be hopeful that particularly as we roll out and grow our 4G network and introducing a new 4G phone, very inexpensive at KSh 20 per day, we might see this continuing to grow. Sateesh, I will leave you with the other questions.

Sateesh Kamath
Thank you Michael. Godfrey, thanks for those questions. Let me start with airtime commission. Airtime commission is a factor of the number of recharges that happen through M-PESA. So M-PESA recharges now account for approximately 60% of recharges. In the previous year, or in the year 2019/20, the average recharges or the total recharges that happened through M-PESA was roughly 61%. Is there a scope for this to increase? Yes. Would we like this to increase substantially from a cost perspective? The answer is not quite a lot more because there's a balance where we need to balance the amount of volume that we do through the dealer network and the sustenance and profitably as well. In this situation where COVID is impacting logistics and physical movement of people we are seeing an increase already, and we are seeing a 5% to 7% increase from where we left at the end of the pre-COVID period. In your models, Godfrey, I would not encourage you to add further profitability from here, because if at all we increase this for digital purposes we might reinvest a portion of it in different form and shape from the long-term perspective in mind. So that's on airtime commission guidance.

On mobile data Michael has explained it well, so I wouldn't dwell any further. On the M-PESA commission, yes, M-PESA commission has increased year over year, but that is driven by the increase in revenue. If I look at M-PESA commission as a percentage of revenue it has actually come down year over year. So M-PESA commission is not growing at the same pace as revenue. And the reason for that, as I've explained in the previous calls as well, is M-PESA's business model is evolving. As we are evolving we are adding more use cases. So for example when Fuliza happens it doesn't attract M-PESA commission for the agent. So more number of clicks that happen in the ecosystem, or in other words the more transactions that happen between the time the customer brings the money in and take sit out, that will increase the profitability of M-PESA. And we can see that now.

Now, at some stage I'm sure somebody will ask me this question hence I'm pre-empting and answering that portion as well. M-PESA's margins have steadily improved again this year as we have guided in the previous year. Of course this is based on management's splitting of numbers. As we speak the M-PESA EBITDA margins are now as close to the group EBITDA margins. It's just one or two percentage points here or there. Of course there is judgement involved, however from management's perspective M-PESA is becoming more profitable than ever before. Thank you, Godfrey.

Godfrey Mwanza
Thank you very much.

Operator
Thank you. The next question is from Sunil Rajgopal of HSBC. Please go ahead.

Sunil Rajgopal
Hi. Thank you. I have three questions. Firstly on the company's ambitions with regards the fibre to the home and fibre to the building, what is the scope of expansion and what are the targets that the company has? And secondly, a question on Ethiopia if we have any update on that. And thirdly, since the COVID-19 situation how has that affected new M-PESA services, particularly in terms of financing products or insurance? How has that been impacted? Thank you.

Michael Joseph
Okay. Sorry, I keep on jumping in to answer questions because I can't remember. If I don't answer first I won't be able to remember all the questions. The first question… There I am. I've forgotten the first question. What was the first question again?

Sateesh Kamath
Michael, FTTH and FTTB.

Michael Joseph
Fibre to the home. Sorry, yes. In the second half of the financial year we decided to have a much bigger emphasis on fibre to the buildings. We are not well represented in fibre to the buildings in all the major cities. So we did make a significant investment in fibre to the buildings. Unfortunately we haven't seen the result because just as we put the fibre into some of the buildings COVID struck and people are now working from home. Our ambition is quite strong here, to go to all the major towns and cities in Kenya and to have coverage at all the major buildings. I'm not sure of the number, but Sateesh can maybe give the numbers if we have such numbers. But that's our intention. That same thing applies to fibre to the home. We would like to provide fibre to the home to all the major middle class and upper class areas in the country. And we continue to actually roll out our own fibre extensively. I can't remember the figure. Sateesh can maybe give you an update.

On Ethiopia what I can say on Ethiopia is mostly what's happened in Ethiopia has been postponed until after the elections which is now scheduled for later this year. We have not yet seen the scope or the detailed request for bids yet. All we know is what we have discussed between us and the Ethiopian government that it will no longer be a pure auction bid. It will be based on a combination of a beauty contest and then an auction bid. We're not going to see this as just skyrocketing bids. We still think this will happen towards the end of this year. Maybe it will be into early next year. That's about all I can say. It's the same group of people that are bidding for the license. It hasn't changed much. But we don't really know. We still don't have the detailed terms of the request for the proposals coming from the Ethiopian government. The other thing to mention just briefly on mobile money is the government has come out with new regulations which essentially say that only majority Ethiopian companies can offer mobile money. So that's a bit of a blow for us, but we still believe that there is room to change those regulations. That's all I would say.

On other products in M-PESA, I think M-PESA overall is doing very well both in terms of providing loans to SMEs and loans to individuals, providing more convenient services to our merchants. That continues to roll out and I think that still is holding its own. Thank you.

Sunil Rajgopal
All right. If I can follow up on that, has your strategy changed after the COVID-19 situation in terms of how you offer the loans or the insurance products? Is there more cautiousness now?

Michael Joseph
No, not as yet. Not as yet.

Sunil Rajgopal
All right. Thank you.

Operator
Thank you very much. The next question is from Danesh Ranchhod of Templeton. Please go ahead.

Danesh Ranchhod
Hi. Good day. Thanks very much for having this call. Can you hear me fine?

Michael Joseph
Yep.

Danesh Ranchhod
Okay. I've got three questions. The first one just relates to the zero rating of transactions less than KSh 1000. Just your views on what you think about the government possibly requesting that it continues past the three month period to the end of June. That's my first question. My second question just comes to mobile data growth. Would you be able to give us a sense of what the run rate on mobile data growth is since the lockdown was enforced, so around about the 21st March onwards? I know it's a short period to the end of the month, but just to give us a sense of that. The third question just relates to the opex number. You've shown considerable good management in opex even last year and the year before. I just want to get a sense of how far or close are you to accessing all the low hanging fruit in managing opex, or is there still some runway on that? And the fourth question relates to capex. That number has come down to 14% of revenue. Should we think of that as a sustainable number or is that more of a temporary effort especially given the fact that you are trying to expand the 4G base?

Michael Joseph
Okay. I will take the first question about the zero rating of transactions below KSh 1000, whether the government will ask us to extend it. It's difficult to say. We just don't know how long this COVID is going to affect us in Kenya. As you probably know the actual numbers of people infected is still below 400 as of today. The number of deaths is still very low at 14. But we still don't know how this thing is going to grow and so on, so I think we've got to be a bit more cautious about what would happen and when it could possibly end. I would expect that the government will probably try to come back to us and ask us to extend this. I think we would have to fight back a little bit here and say this is costing us an enormous amount of money. Can we not bring it down to a more reasonable amount, let's say KSh 500, and/or cap the number of multiple transactions going to the same recipient. That would be my answer right now. We don't really have a clue. We don't have clear answers, but that would be my opinion. I think Sateesh can answer the balance of the questions.

Sateesh Kamath
Thank you Michael. Danesh, thanks for those questions. On mobile data we do see an upside after the first few days of COVID. If I could give you a run rate – and I would quickly caution on that run rate as well – the run rate is 15% to 20% better than the pre-COVID days as I speak. The reason I would caution it is the consumer wallets we do expect will have a larger impact because the health crisis thus far has not blown out of control, but the

larger crisis that this country may expect is the socio-economic crisis. And that will manifest a little later. Yes, we see the numbers have gone up, however I would caution that there is uncertainty on consumer wallet for that upside to sustain.

As far as opex is concerned, Danesh, you're right. There has been an effort that's going on for a period of time, a lot more intensified in the last 12 to 18 months. The way we have gone about this is not by cutting corners or cutting employee salaries or stuff like that. This is done a lot more by holding the ship tight and pushing a lot more through digitisation and other operational efficiencies. For example, a portion of our calls are now answered by Zuri, our AI based robot. Our cell sites are now monitored through software which tells us how much data goes into each cell site and what the efficiencies are and so on and so forth. There is a long list of things that we have done to get this opex efficiency. Current opex efficiency that we have is very good compared to most of the telcos worldwide. A portion of that is because of the fact that we have a strong denominator of revenue. So in terms of looking forward, Danesh, have we exhausted all the opex efficiency opportunities? The answer is no. Have we gone a long way in the process on the material line items? The answer is yes. So it's going to be a lot more difficult for the next set than the ones that we have already achieved.

On capex, Danesh, the capex that we've invested in the year is in line broadly with what we have been investing, which is a range of KSh 35 billion to KSh 37 billion for the last four years consistently. In the medium term while we would not guide specifically yet on capex I would say it is reasonable for you to model KSh 35 billion to KSh 40 billion of capex. The capex for this year, the way I would explain it, has got us a lot more for the same money than the previous year as we managed to get some very clever deals with our vendors, as a result of which with similar or marginally lower capex than previous year we have this year rolled out like 1,500 4G layers and almost 360 3G layers and so on and so forth. Over and above that, as Michael briefly mentioned earlier on in the call, we are also focussed on strengthening the core in transmission so that the end to end customer journey is good. So medium-term capex KSh 36 billion to KSh 40 billion is not a bad range for you to work with. Thank you, Danesh.

Danesh Ranchhod
Okay. Thank you very much.

Operator
Thank you. The next question is from Renaldo D'Souza of Sterling Capital. Please go ahead.

Renaldo D'Souza
I just have one question with regards to in monetary terms what the loss of revenue was from gaming and the contribution of Fuliza to M-PESA revenues.

Michael Joseph
Sateesh, will you take that? I'm not sure I heard it correctly. Maybe you did.

Sateesh Kamath
I will take that, Michael. Thank you. So the gaming loss or reduction in gaming revenue more specifically that we have seen started from July of FY2019/20. I would quantify that as KSh 1.9 billion in the year. As we close the year the gaming revenue has come down to KSh 175 million a month and through the course of this year I would expect even that to unwind. So we should have one more year left for gaming to bottom out. What was your second question please?

Renaldo D'Souza
My second question is with regards to the contribution of Fuliza to M-PESA revenues.

Sateesh Kamath
Sure. So M-PESA revenue growth on an underlying basis was 17.2% of which 3.6% came from Fuliza.

Renaldo D'Souza
In monetary terms what was the figure?

Sateesh Kamath
Can I come back offline with you? It's 3.6% of M-PESA revenue. I don't have the absolute numbers in my mind yet.

Renaldo D'Souza
Okay, that's fine. 3.6% of total M-PESA revenue.

Sateesh Kamath
Correct.

Operator
Thank you. The next question is from Dilya Ibragimova of Citi. Please go ahead.

Dilya Ibragimova
Thanks very much for the opportunity. Sateesh, in answering your earlier question I missed that the earlier call was open for media as well. The question I have is on M-PESA gross transaction volume. So looking back at the second half of FY2020 it seems like gross transaction volume growth was at 3.5% in the second half, which is quite low. And I was just wondering if you could unpack that. How much of that is related to loss of betting? You did mention the impact on revenue, but if you could also mention what the impact is on transaction volumes and also what are the other factors in there, and whether the growth was equally slow in the third quarter as in the fourth quarter and also whether it is a slower trade maybe as people stay at home. Is it possible that the transaction volumes overall will be negative in terms of growth. Any colour. And a second question is on Fuliza. I think Michael did mention that you continue lending to SMEs and to merchants. Last year was a very strong base, a strong take-up. Have the terms maybe changed from the banks in terms of how much they are willing to give away considering the outlook on the cost of risk could be higher, whether you'd expect Fuliza volumes to maybe decline year on year at least in the first half of the year 2021?

Sateesh Kamath
Okay, Dilya, let me take the transaction volume question first and then work down to Fuliza questions as well. So on the transaction volumes the second half has been a mixed bag of a number of things. The fourth quarter of the financial year was weaker economically speaking than the first three quarters. And we could see that in the momentum of M-PESA transactions that were happening. What is also contributing to the reduction in volume in the second half, as you rightly called out, is betting because betting started declining strongly in the second half as compared to the first half. So that did have an impact in the second half. The third is the decline that we are seeing in withdrawals as well. So we are seeing people holding a bit more cash from the fourth quarter as compared to the first three quarters.

However, if I look at it overall for the whole financial year we are very pleased with how it's panning out. M-PESA, whether we like it or not, will be closely integrated with the economic prosperity or economic momentum in the country. To that extent it will to some extent mirror what the economic activities are in the country. And the economic activities have been weaker from the fourth quarter onwards, significantly accentuated by the COVID-19 situation towards the tail end of Q4.

Dilya, your second question on Fuliza. We are not at this point of time anticipating any fundamental change in the relationships that we have with banks. So we do expect it to continue at the current levels. Would it result in higher volumes? I'm speculating at best at this stage because we haven't seen any evidence of it yet, but Fuliza could see some upside as and when we see the next phase of economic slowdown driven by COVID, which as I mentioned earlier in the call we haven't seen fully yet. I don't have any numbers to guide at this stage.

Dilya Ibragimova
Thank you.

Sateesh Kamath
Thank you Dilya.

Operator
Thank you. The next question is from Alistair Jones of Newstreet Research. Please go ahead.

Alistair Jones
Hi. Thank you for the opportunity to ask questions. Three questions. You mentioned the oil price. I was just wondering if you've got a rough percentage of your revenue that is actually driven by the oil price. Secondly,

Michael Joseph
Sorry, we cannot hear you. Sorry, it's a very bad quality of your call. Sorry, we cannot hear you at all.

Alistair Jones
Is that better by any chance?

Sateesh Kamath
Yes. Are you able to hear the question from Alistair? If yes, do you mind passing it on to us?

Michael Joseph
I think he's come back with another line.

Alistair Jones
Can you hear me or not?

Michael Joseph
Yes, we can hear you now.

Sateesh Kamath
Yes, much better. Thank you.

Alistair Jones
Okay. Sorry about that. I have a question just on the oil price and whether that could potentially be a positive for your margins going forward, and what percentage of revenue is driven by diesel within your cost base. The second thing is you mentioned data traffic, that you've seen an uptick. I'm just wondering if you've got any initial stats – obviously it's very early – on what happened to the voice traffic on your network post the COVID scenario. And then just finally, I know this is a very odd question potentially, but there are many analysis that are done as to what percentage of your customers generates what percentage of revenues. I was wondering if you've done any analysis or broad picture thinking around that in terms of what percentage of your customers

generate X percent of your revenues. Is there a big difference there in terms of 30/70 or it is more evenly spread? Any thoughts on that would be very helpful. Thanks.

Michael Joseph
Sateesh, I think I'm going to let you take these questions. I think you could have heard them better than me. It was a bit of a struggle.

Sateesh Kamath
Sure, Michael. Alistair, to start with on oil prices, at this stage I wouldn't guide any upsides because what we have seen – which you would have probably seen across many emerging markets in the globe – is a depreciation in currency compared to the US Dollar. So our currency which has been stable for a reasonable period of time has declined by 6.5% more or less in the last six weeks or so. So that would have an impact on our financials. Hopefully when the oil prices start hitting the imports that should ease the currency situation. I would quickly jump in also to remind us that the currency situation that we're seeing in Kenya is thus far not too bad compared to what I've seen of South Africa and some of the other currencies. So I would say a balanced situation at this stage. By the end of one quarter from now we would have a lot more clarity and we would be able to guide you a little bit more authentically than what we are at this point in time.

I did not catch clearly your question on data traffic, so I would have to come back to you on that question. But if I may just answer the last question before I give it back to you. We do a number of analyses on the customer cohorts of the top 10% of customers gives us how much revenue, 20% gives us how much revenue, and so on and so forth. And we also do it by segments. I would not be comfortable sharing those numbers in public. It is part of our way of managing the situation. But at a high level if I can give you a feel, we have a solid set of strong customers who are the heart of the Kenyan economy who hustle between various things as part of the way they do businesses as part of our customer base. And they do contribute a significant portion of our revenues. The quality of customers that we have compared to what competition has is clear when Michael called out earlier on that we have 65% customer market share but more than 85% revenue market share. It gives you a lead feel of how the customers are in terms of contributing to us as a share of wallet compared to competition. Alistair, I will have to come back to you for the data traffic question now.

Alistair Jones
Sorry. I hope you can hear me. Apologies for the bad connection. It was actually about voice traffic. It was trying to understand what has happened to voice traffic post COVID. We got the information on data traffic. I would be interested to see what has happened in terms of voice traffic on your network post COVID. Obviously it is early days still, but an indication.

Sateesh Kamath
Thank you, Alistair. Now it's clear. Early days as you rightly said, but what we are seeing in voice traffic is a bit of decline. We are seeing that happening to competition as well. We do measure competition's performance through a number of surrogates like how many calls are coming in to us, what the trend is, and so on and so forth. It has probably got to do with the fact that customers are making choices now of the money that they have left in their wallets and are prioritising the essential necessities for voice and not necessarily as they would in the normal course of their lives. But to start with, it is down compared to what it was pre-COVID, while data is up compared to what it was pre-COVID.

Alistair Jones
Would it be reasonable to say maybe down 10% or something? I don't know if you're willing to give a rough number.

Sateesh Kamath
Single digits.

Michael Joseph
I think it's also too early to say. It's only one month in, so it's too early to say right now.

Alistair Jones
Sure. Absolutely. That's helpful. Thank you guys.

Operator
Thank you. The next question is from Kishan Popat of Kestrel Capital. Please go ahead.

Kishan Popat
Hi. Thanks for the call. I hope you can hear me. I just had a few questions. Has there been any discussion with the government on a pure auction of 5G spectrum? The second question relates to slide 15. I might have missed it, but what was the one-off benefit on depreciation? And then in terms of the M-PESA business after acquiring the rights what sort of licensing revenues can we expect? And then finally how is the Kenyan consumer holding up on the COVID side? Thank you.

Michael Joseph
Let me just answer the question on the 5G spectrum. Traditionally in Kenya we have not had auctions. The regulator sets a price and we just pay the price. We don't expect any change in that as far as I'm concerned. It should be just the regulator will set a price for a certain amount of bandwidth and we will just have to pay the price if we want that spectrum. And then just on the question of the consumer in Kenya, I think it's too early to say. Obviously there is a significant job loss because the casual market is very big in Kenya particularly on the major export in things like the flower industry and the horticultural industry. And that has taken a bit hit, although this week it is picking up because of mother's day and the government doing whatever it can to reduce the job losses. But it's probably a little early to say what the impact will be. The government is doing quite a lot to try to alleviate the impact on the everyday economy of the average Kenyan.

Sateesh Kamath
Thank you Michael. I will take the rest of the questions. Kishan, the one-off depreciation benefit is as a result of change in useful life of assets. So as required under IFRS we do continuously review the useful life of assets. And the life of some of the assets that we have like towers, which was hitherto depreciated over eight years, we still have towers that we built in 2004 in use. So some of those assets have much longer life than what we initially expected. That life was changed with prospective effect which gave that benefit which we have disclosed in the slide as you rightly called out, slide number 15. This benefit would continue through the years, but this being the cut-off year it makes the depreciation this year better than the previous year. And hence as part of good governance we called it out separately. Kishan, your last question on the M-PESA JV. Michael mentioned earlier briefly that we will continue to pay the 2% that we used to pay to Vodafone now to the JV, and we own 50% of the JV. So I will leave you to do the maths of what that would mean in absolute Dollars. Having said that I would just caution that this arrangement is for the moment. We will review the long-term requirement of the JV, but at this point in time we don't expect any material impact from there.

Kishan Popat
And revenues on that business?

Sateesh Kamath
Revenues from that business would be what we pay, which is 2%. And at this point in time the Vodacom OpCos repaying 5%. So that would be the revenues of that business. That business will do all the expenses needed for all these operating companies together, and what was left will come in as dividends to both of us 50/50 over time.

Kishan Popat
Thank you.

Operator
Thank you. The next question is from Jake Ward of Ashmore Group. Please go ahead.

Jake Ward
Thanks for the call. I have two questions if I may. Firstly, are you able to give a bit more colour on what drove the bigger decline in messaging revenue?

Michael Joseph
Decline in what? Sorry.

Jake Ward
In messaging revenue.

Michael Joseph
Oh, messaging. Okay.

Jake Ward
And just secondly, are you able to give the run rate of data ARPU in the final months of FY20, in January and February before COVID?

Michael Joseph
Sateesh, you can answer those questions.

Sateesh Kamath
Sure, Michael. Messaging revenue decline, pretty much half of it is driven by decline in what we call SPRS revenues. Those are premium rated messaging which you may recollect that when we announced Neo, which is a way of doing business with simplicity with the customers, we started calling out to the customers that they can save wallets by reducing this. So it's part of gaining customer trust. So almost 50% of the decline is driven by that. The balance of 50% of the decline is driven by customers adopting a lot more data. So messaging is getting cannibalised either through rate or by volume through WhatsApp and other mechanisms. Could you please repeat the second question because you broke up in between?

Jake Ward
Sorry. Yeah, of course. I was hoping if you could give a sense of the data ARPU run rate for FY20, so perhaps in January and February.

Sateesh Kamath
I wouldn't be able to do it at that level of granularity. Pre-COVID post-COVID we see an upside in data as I said in the range of 10% to 15% which is driven by both customers using more as well as more customers using. So it's a combination of ARPU as well as increase in customers. But again I would caution it is very early days because it is

just three or four weeks of COVID and life will change again when the economic issues start boiling a lot more than it currently does.

Jake Ward
Thanks very much.

Operator
Thank you. The next question is from Kuria Kamau of SBG Securities. Please go ahead.

Kuria Kamau
Good afternoon and thank you for making the time to speak with us. Just a couple of questions from me. The first one is just trying to understand what the net impact of the new tax measures are likely to be, the tax measures that were passed. How should we look at Safaricom? Are there any plans to align your business to take advantage of those tax measures? I know there was a reduction in VAT. Is that something you will pass on or is that something you will absorb in terms of higher margins? So the first question is around the net impact of the new tax measures. My second question is around what the impact of COVID will be on capex. I'm trying to understand are you fully stocked in terms of equipment for your cell sites. Do you have everything right now or could the delay in getting things from China negatively affect that and also negatively affect the capex outlook? Does it also impact your strategy in terms of increasing coverage as well just because of limited equipment?

The third question is around competition around data. I guess we've been seeing news reports on Google Loon partnering with some of your competitors. And there was also I think another story with regards to one of your competitors giving free SIM cards to students to enable them to work from home. I think there was an arrangement they had with institutions. I know you have your own plans and products. I'm just wondering how much competition you are seeing and what your strategy around that is. And my final question is around the M-PESA IP. Now that it's part of the joint venture you and Vodacom own it. What are the medium to long term plans and what is the strategy now that you have the IP? That's it from me.

Michael Joseph
I'm trying to remember now. Sateesh, can you take me through?

Sateesh Kamath
Michael, if you could just take the question on the M-PESA IP long-term prospect. The rest are mostly what I can take.

Michael Joseph
The M-PESA IP now belongs to the JV. Is it a license fee? Is it an IP fee that we pay to the JV? That will continue because the IP now belongs to the JV and will continue. Now, the plan is that this will now allow both Safaricom and Vodacom to take M-PESA out to the rest of Africa. Now, the question is where and by how much. It is still to be decided. The only viable big market right now is Ethiopia, and we're still pinning our hopes on Ethiopia. That's about all I want to say. The IP now belongs to the JV.

Sateesh Kamath
Thank you Michael.

Kuria Kamau
I guess medium term is to grow around the rest of Africa.

Michael Joseph
Yes, exactly. Yes.

Kuria Kamau
Okay. Thanks.

Sateesh Kamath
Thanks Michael. The net impact of taxes, VAT decrease was already passed on as soon as government made that announcement. So that is done. As far as the corporate tax decrease is concerned it's a bit tricky because on the one side government decreased the corporate tax but on the other side the depreciation allowances across various asset categories has also been reduced. Our teams are modelling to see the net impact. While I can't give you a number yet all I can say is the benefit of corporate tax decrease is more or less negated in the adjustments in the taxable allowances for depreciation across various assets. So net-net we see some benefit. We will come back to you on the net impact once things are a little clearer. That is the only indication that I can give you.

As far as COVID's impact on capex is concerned, we are fortunate that we started accelerating the rollout without any knowledge of COVID for strategic reasons in the second half of the previous year, and that has helped us significantly. We currently have logistics issues as you can imagine. A lot of it depends on how those logistics issues unwind in the course of the year, so I can't guide yet. Having said that, as Michael said earlier on in the call a significant portion of coverage is already achieved and equipment required for some portion has already been put into place between the end of March to April, including fibre to the home and fibre to the buildings. However, we do expect a period of slowdown. Whether we can accelerate thereafter I can't say. On Google Loon…

Michael Joseph
Sateesh, maybe I will take this question on Google Loon. First of all we have to understand what Google Loon is all about. Google Loon is an innovation from Google that provides care coverage to very remote areas. If you look at where it's actually really being used it's in Indonesia, the islands of Indonesia. There are over 1,000 and people living on those Islands. Telkom Kenya has taken up the partnership with Google Loon. I think it is more for the technology than anything else because where they're deploying the Loon balloons is in the northeast of Kenya. I can assure you where people are we have coverage in standard basic GSM coverage. And where Google Loon will go I'm not sure what additional coverage they will provide in a place like Kenya which is relatively flat and very easy to provide traditional mobile coverage. Perhaps in very remote areas in jungles and things that's where it will come into its own. I think it's more a PR stunt than anything else.

Kuria Kamau
Okay. So it won't be for the high density areas. It will probably be for the low density areas.

Michael Joseph
No, no. They can't operate… No, definitely not in the high density areas. The actual capacity per balloon… These balloons are very expensive. The actual capacity per balloon is less than 170 simultaneous calls at any one time. So there is not great capacity here. You can buy one if you like.

Kuria Kamau
The last question is around the partnership that we are seeing your competitors getting with certain universities. I'm guess you're not seeing that as a threat.

Michael Joseph
We are providing coverage to universities. We're not giving it away for free. We're only giving away free things to the medical staff, to the front line staff and various people to fight the virus. University students we have a package that we're offering them, and most of the university students, except possibly for the University of Nairobi, are on that package.

Kuria Kamau
Okay. That's it for me.

Michael Joseph
When you have zero customers you can afford to give away SIMs for free.

Kuria Kamau
That's true. Thanks. That's it from me.

Sateesh Kamath
Thank you Kuria.

Michael Joseph
Can we end this call?

Sateesh Kamath
Chris, do we have a lot more people on the queue? Will you give us an update please?

Operator
We've got another five or six parties on the queue, sir.

Sateesh Kamath
Chris, we are all happy to allow them to finish their questions.

Operator
Sorry, sir. Your line broke up there. What were you saying?

Sateesh Kamath
I was saying given there are a number of questions in the queue yet, it is possible,

Peter Ndegwa
We can allow callers to ask more questions. It depends on how long it will take. Let's see if five minutes will be enough.

Operator
Okay. Then the next question is from George Reynardson of Somerset Capital. Please go ahead.

George Reynardson
Hello. Just two questions. Firstly on Fuliza can you give guidance on the size of the book and whether there is any credit risk taken by Safaricom On Ethiopia, would you go there without being able to offer mobile money services? Thank you.

Michael Joseph
Okay, let me take the second question first. The answer is yes, but I don't think we want to say anything more than that because this is obviously a very competitive bid and we don't want to give anything away. As I said earlier in the call, we're not entirely sure when this regulation that has been put in place by the government might change and if it will change. And we will also put some lobbying effort to get this regulation changed, if not immediately in the next few years.

Sateesh Kamath
Thanks Michael. On Fuliza, credit risk is by virtue of the partnership on the account of the partners, so Safaricom is not accountable for the credit risk.

George Reynardson
Thank you.

Operator
Thank you. The next question is from Samuel Njihia of FAIDA Investment Bank. Please go ahead.

Samuel Njihia
Thank you. So my first question is on the Neo bundles. Sateesh mentioned in the morning that is now contributes about 40% of the mobile data revenues, which means the adoption has been really good. So if you are to break down the usage profiles on these new Neo bundles you have below 100 MB usage per month and over 100 MB per month. Where do the majority of the users of these new Neo bundles lie?

Michael Joseph
Sorry, I don't think we can give you that kind of information right now. I think it would be inappropriate of us to give such competitive information away.

Samuel Njihia
Okay. And my second question is around the M-PESA JV. It was partially answered. The revenues would be the IP from Safaricom. What about the costs? Which costs will be borne by the JV?

Michael Joseph
Okay. So the revenues will be the 2% revenue on M-PESA gross revenue from Safaricom and 5% from the gross revenue of the Vodacom companies that are operating M-PESA, which is Mozambique, Tanzania, Lesotho, Ghana and DRC. That's the total revenue. The expenditure will be on the team, the management team which will be running the organisation, which will include maintenance engineers, development engineers and commercial people to actually develop new products and to offer operational support services to all the operators, and also the cost of development of new products.

Samuel Njihia
Okay. I remember when you moved the system from the UK to Kenya there were some costs that were transferred to Safaricom. Will those still be borne by Safaricom or the JV?

Michael Joseph
No, no. So the costs of the operations, of the support services will be transferred to the JV. So we will still have the business, the costs to support engineers and develop engineers, will now be borne by the JV.

Samuel Njihia
Okay. Thank you.

Peter Ndegwa
I think, operator, we can have the final call please.

Operator
The last question is from Tracey Kivunyu of Tellimer. Please go ahead.

Tracey Kivunyu
Thank you so much for the call. I just have three questions. The first question is that sales and advertising expenses came down by 23%. I just want to know whether the current bill of KSh 5 billion is what we should expect going forward. Second, can we have some sort of clarity on how the transport sector has changed in the face of COVID-19? What are the volumes in terms of transactions you are seeing there and do you think they are sustainable post COVID-19? And third, what is the contribution of M-Shwari and KCB M-PESA as a percentage of total revenue? Thank you.

Michael Joseph
Sateesh, I will let you answer them. I'm not sure you want to give the answer to the last question, but go ahead.

Sateesh Kamath
Thank you Michael. Tracey, your first question was something to do with advertisement. I missed the second portion of that question. Could you repeat it please?

Tracey Kivunyu
Sure. We saw 23% drop in sales and advertising expenses. Do we expect this to continue?

Sateesh Kamath
Got it. Let me answer more specifically on overall opex cost reduction, Tracey. The overall cost reduction that we have achieved is through sustainable mechanisms. So I do not see them going back to the levels that it was 18 to 24 months ago. So most of the reduction in SMB specifically is on a sustainable basis that we have achieved. As I explained earlier on in the call as well, we have been very cautious about what is dear for us, so we haven't done any shortcuts around employees and key stakeholders that we think are an integral part of our business. So most of the cost reduction is achieved through driving the business more efficiently and that should be a sustainable cost reduction.

Tracey Kivunyu
Thank you.

Peter Ndegwa
There was a question on transport.

Sateesh Kamath
Tracey, I missed your second question.

Tracey Kivunyu
Sorry, I think just to reiterate, I asked a question on the transport sector, how that has developed in terms of transaction volumes for M-PESA.

Michael Joseph
By transport you mean public transport?

Tracey Kivunyu
Correct.

Michael Joseph
I think there has been a reduction in public transport just due to the curfews and no crossing of some boundaries. But I think we have actually introduced a new product for paying for public transport with M-PESA, a much easier way to do it, so I don't think we've seen a decline in that revenue at this stage. But there is definitely a decline in transport.

Sateesh Kamath
Tracey, on the last question…

Tracey Kivunyu
Sorry, my question was regarding the increased volumes of M-PESA transactions coming from the transport sector. Has there been any significant increase there?

Michael Joseph
Sateesh, do you know the answer?

Sateesh Kamath
Tracey, as Michael guided, at this point in time we are seeing a general decline around transportation given the fact that the lockdowns and curfews are in place. However, the new product that we have rolled out it's very early days, so we do not know the impact of it yet. So we will be able to guide a little bit more in the course of time. And if we can just answer the last question you asked, unfortunately like Michael indicated in the beginning, Tracey, given that these products are also part of other listed companies in a way discloses their results. So I'm sure you understand why we can't do that. Thank you.

Tracey Kivunyu
Sure. Thank you very much.

Operator
Thank you sir.

Peter Ndegwa
Before we finish I just wanted to thank all the participants for calling in today. This is my first investor call and it has been great to listen to your questions and hear the areas that concern you. I want to thank both Sateesh and Michael for delivering strong results. It is my responsibility to continue the baton despite the challenging circumstances. And therefore I'm looking forward to working with you. Specifically I just wanted to really thank Michael for the period of acting as interim CEO, but also his support for me during the transition period including doing this call. So thank you, Michael. Thank you all of you for calling in. Operator, we are ready to end the call.

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

END OF TRANSCRIPT