Conference Call transcript

2 November 2018

SAFARICOM INTERIM RESULTS

Operator
Good afternoon ladies and gentlemen and welcome to the Safaricom Plc interim results announcement. All participants will be in listen-only mode. There will be an opportunity to ask questions at the end of today's presentation. If you should need assistance during the conference, please signal an operator by pressing star and then zero. Please also note that this conference is being recorded. I would now like to hand the conference over to the CEO, Mr Bob Collymore. Please go ahead, sir.

Bob Collymore
Hi everyone. Morning or afternoon depending on where you are. It is a pleasure to be here actually in person. The last time we did this I think I was at the other end of a drip in London, so it is good to be back here joining the team. This morning we announced the half-year results. I will just move on through very quickly with the headline numbers, give you a little bit of perspective on some of it, and then we will open it up to questions. I will assume that you have seen the pack, but in any case, I will cover the headlines. What we have seen is 7.7% service revenue growth to KSh 118 billion. EBIT has grown by 18.7%, now at KSh 44.56 billion. Free cash flow has grown by 19% up to KSh 38.5 billion. Earnings per share is a 70.2 improvement on last year up to 79 cents per share. That equates to a net income of KSh 31.5 billion.

For those of you who are still on reconstructed and still stick with EBITDA, although we do EBIT and capex, our EBITDA sits at 50.6%, up from 47.4%. I would caution a little bit on this EBITDA that this is not setting a new paradigm that we have broken the system up. Although we are not guiding on EBITDA we would say we do not expect that to be delivered again next year. Contribution margin increased from 68.5% to 71.6%, which is a 3.1% improvement. And our customers grew at 1.5% so we are now nudging onto 30 million customers. So what is the breakdown for [unclear]? It came in at 1.4%. Again, a little surprising that we are still seeing a positive growth number there. Voice is now representing 37% of our total service revenue compared to 47% last year. As I said to see a 1.4% growth looks good, but I do not think that is setting a long-term trend.

We were really pleased about the strong growth in M-PESA particularly in the second half of the period. We came in at an 18.2% growth and M-PESA is now representing 30% of our service revenue, up from 22.8%, which we think really reinforces what we said about needing to diversify away from the traditional telco revenue streams. The other thing we are pleased about in M-PESA is we are seeing a growth in ARPU and we are seeing a growth in transactions per month. 12 transactions per month is an increase of just under 15% in the year. And we have got about 21 million active customers, so we're really pleased about that.

Fixed data we are up 21% growth, albeit from that low base. And then finally mobile data. Actually, this was a little bit disappointing at 10.8% growth despite the usage growth of 6% to 7% year on year. So what is driving that? Obviously, we were expecting to get better growth in mobile data. Well, a couple of things. The first one is we are seeing increased price competition which has led to a 5% reduction in effective price on data over the year. And secondly, which is I think even more important for us, is the loss of customer trust in Safaricom's billing. And so quite a lot has been said about data bundles disappearing etc., and I will come back to what we are doing to fix that problem in a minute.

We continue to invest in building out the network. Today we cover 96% of the population. With 3G that's 91%, with 4G it's 53%, and fibre we have now passed 200,000 homes and connected 79,000 homes. In total, we have about 5,500km of fibre laid out. Our capex intensity we are pleased with. It is 14% to 15%. And we spent about KSh 17 billion in the half year. Opex grew by 7% and we want to assure you that we are committed to keeping the opex growth below the service revenue growth.

A few things I want to call out. I want to call out Digifarm where we are providing agri knowledge, credit and insurance, affordable inputs – seeds and fertiliser and stuff like that – and access to markets using the mobile phone. We haven't really launched this thing above the line, but since introducing it we've got about a million farmers who have registered and about 200,000 who are using it regularly, 14,000 of whom have access to credit. And we anticipate that this will eventually reach about 20 million customers. Agriculture is really important in this country. It represents about 20% of the country's GDP. And most of these are very poor famers. In line with what we always say, we want to transform lives. We think that we can actually make a big difference to these small-scale farmers. That is something that we are actually pretty proud about.

On Masoko, we are still learning, and to be honest with you we probably could have made a better job of this over the past year. But we are learning. We are now finding the customer satisfaction scores have improved from 61% when we launched to 88%. We have now managed to deliver the product to 45 out of the 47 Kenyan counties. And honestly the other two counties it is more of a security issue trying to get into some of those places. And we've increased our active vendors. Now, when I say increased our active vendors we wanted to make sure that these are quality vendors. What we want to hear our customers say is when you buy from Masoko you know you are getting a quality product. So we now have 120 active vendors.

Our SKUs are now greater than 30,000 units. And we're leveraging on our partnerships, which is always a challenge for any e-commerce business for those of you who have invested in them, using [unclear] which is something that we invested through our spark fund a little while ago. And we are starting to use our dealer network in the same way that you have click and collect with Amazon in other parts of the world. We think that this is a big deal for us, a huge opportunity, because we can start to work on insights from big data analytics as well as of course a very convenient payment mechanism in M-PESA.

The other thing we are disappointed about – because I do not want you to think we are sitting here being pretty happy with the results – is that we weren't really able to deliver extending the M-PESA geographic reach. But we are hoping to have something to tell you by the time we come back to talk to you in six months' time at the full year. One of the reasons that we have not been able to do that is because we're not really that well equipped. We do not really have the M&A skills in the business, and we are currently recruiting that. Today we also announced a restructure in the organisation creating a role called a Chief Business Development Officer. So there will now be one person who reports to me who is in charge of driving that kind of business.

I said earlier that we will touch on how we are rebuilding the customer trust. The complaints that we have had is that data is disappearing. You are too expensive. And by the way, it really is a proxy for other things. People are always happy with the quality of the network, the speed of the network, the reach of the network. But they are not happy that they load KSh 100 airtime and immediately KSh 60 seems to disappear and they are not quite sure where it is. So when we took a deep look at this in the past couple of months we realised it was disappearing in a few places. Play Store app upgrades can actually suck quite a lot of your data without you even knowing it. The second thing is if you buy a fast car, which can do 200km per hour, actually you do not want to do 200km all the time. There are times when you want to do 20km per hour.

So we have introduced a few things. The first one is on Play Store bundles. We give you the opportunity to buy a KSh 10 bundle in a day, and then you can have as many Play Store app upgrades as you wish. Or you can pay KSh 100 for the month and again it is then all inclusive. Data save allows the customer to choose what speed they want to drive the car at, whether they want to drive it fast and therefore the bundle will deplete quickly, or whether they want it slow. This has come from insights particularly with students. A lot of times we just want to browse Google and we don't need speed to do that.

The other one is bundle rollover. Now, if you get to the end of your period you have a one-week bundle and you have not bought a new bundle before expiry you lose whatever it is. And I use an analogy to say when I go fill my car with petrol I don't have to take the car back to the petrol station and have them take the petrol out of the car, because I've paid for it and it's mine. What we have done is we have introduced a bundle rollover. So we will hold your data bundles for seven days to give you a chance to renew. Actually quite a lot of times customers were saying I just simply forgot because I've got other things to think about. So we fixed that.

We have introduced some new pricing which includes now free WhatsApp on bundle expiry. So it's not free WhatsApp, but providing you bought a bundle for a day or for a week then when that bundle is exhausted you will continue to get a scaled down version of WhatsApp. So you don't' get video and you don't get pictures and stuff, but you do get WhatsApp messaging. And you will get that for the unexpired period of the bundle. And finally we have looked at the PRSPs, the premium rate service providers, and what we found when we spoke with customers was that a lot of them were subscribed to stuff which they didn't know about and were paying for stuff which they didn't know about. We try to educate customers quite a lot, so we had a bit of a purge. And you will find that the numbers of PRSP subscriptions have declined because we've made it a lot easier to tell customers what they have subscribed to, and secondly to give them a one click ability to unsubscribe from that service.

Finally, from the start of this year, we have started to embrace a much more agile way of working, particularly in the area of Masoko, in Digifarm and in Home, which is our fibre to the home project – we have actually set up a whole new segment called Home – and that is actually teaching us some interesting things. If you treat it like a segment, you really start to understand what it is that customers want from that segment. So in Home for example we started out by thinking they wanted to have internet, but more importantly they wanted to have Nat Geo Wild, or they would want to have Netflix. And customers said, no, we don't. We want to have unlimited internet and we will pay for the speed. So the more you pay the faster it is going to be. And we want to have security. We want to be able to see what is happening in our homes when we're not there, what is happening to our children when we are not there. So these are some of the insights we have picked up. And of course the other thing we are doing with agile is we're working on our CVM, our customer value management.

So at the end of that, ladies and gentlemen, the guidance that we give remains the same. We're pretty confident that we can continue to guide an EBIT of between KSh 8 billion and KSh 9 billion, and on capex we will guide between KSh 35 billion and KSh 38 billion. With that I think we've covered most of the stuff. I will open up to questions. And in the room – sorry, I should have said at the beginning – we have Ilanna and Cyndia who are from the IR team. We also have Steve Chege who is our Chief Officer for Regulatory and Corporate Affairs. And we have Sylvia Mulinge who is the newly appointed Chief Customer Officer, because it really is a focus on customers rather than just a focus on commercial. And of course, we have the Chief Finance Officer, who is as you all know Sateesh. With that, ladies and gentlemen, I'm open to questions.

Operator
Thank you very much sir. Ladies and gentlemen, at this time if you would like to ask a question you're welcome to press star then one on your touchtone phone and that will place you in the question queue. If you however decide to withdraw the question you're welcome to press star then two on your touchtone phone to remove

yourself from the question queue. Just a reminder, should you wish to ask a question you are welcome to press star and then one. The first question comes from Madhvendra Singh of Morgan Stanley.

Madhvendra Singh
Hi, can you hear me?

Operator
We can hear you. Please go ahead sir.

Madhvendra Singh
Sure. Thanks for the call. There are a couple of questions. Firstly if you could update on the competitive environment in the market, what kind of pricing behaviour are you seeing, has there been any improvement in the pricing behaviour in the last three or four months? Then secondly on the tax changes in the country, when are the new taxes effective from? And if it is already effective then what kind of elasticity are you seeing on the revenue front? I'm particularly talking about the revenue level taxation. And also from when the new corporate income tax rate will be effective. Thank you.

Bob Collymore
Sylvia will take the competitive pricing question and Sateesh will take the tax question.

Sylvia Mulinge
This is Sylvia. I think for us we are still [unclear] trust from customers. And the reason why we exist is because of our customers. So the critical thing is to make sure that we are always giving customers products and propositions that make sense to them in the different journeys of life they are in, whether they are at home, whether they are on the move, on mobile, or whether it is our enterprise customers. Now, we have seen a much more intensified price-led kind of a market, but I think the approach that we have as a company is first of all identify the needs that our customers have and make sure our products and propositions make sense to them.

Obviously, because of the tougher macroeconomic conditions that we are seeing in the country the consumer wallet is coming under pressure. Therefore, the task that we have as a company is to ensure that the propositions that we are giving our customers offer value so that they remain connected, they remain socialising and they remain in business on our network. So we have made some changes with regards to our data pricing. We have made a move last month. We are able to offer more for more, which obviously resulted as Bob alluded earlier to an effective drop in the price. But we are seeing this compensated in the pricing and also paying back in terms of customers. The second thing [break in audio] CVM where are offering a lot more personalised offers to our customers. And that is why we are continuing to see the growth of about 1.4% as we structured different voice propositions for our customers. So offering value remains the critical component in ensuring that we are able to deliver what our customers want rather than focussing on getting [unclear].

Sateesh Kamath
Madi, thanks for the question. There is a bit of a background noise. I'm not sure if somebody needs to go on mute please. To answer the tax question, Madi, we have taken the decision to pass on the consumption taxes to the consumer. This we think is very important, except where it is creating coinage problems and bundles are getting complicated. But the majority of the taxes get passed on. We passed on the increase in taxes on M-PESA from 1st July, which was the increase from 10% to 12%. The increase from 10% to 15% we passed on from 20th October or so. So it is too early for us to see the impact of it. However, this is where the advantage of per second billing is kicking in. The earlier rate was KSh 4 per minute. So if a customer talks for ten seconds he is charged proportionately for ten seconds. And on a per second basis the rates have moved from KSh 6.7 to KSh 7.1, which thus far we haven't seen causing any negative elasticity. But as I said ten or 15 days is too early for us to assess

this impact. As regards to corporate tax the suggestion that was made in the parliament is to increase it from 30% to 35% from the beginning of 2019. However this has not been converted into a law yet and the consultation processes are carrying on. So I would like to think that it may or may not be, but it is not earlier than 2019. So more likely a next financial year issue. Thank you.

Madhvendra Singh
Great. Thank you.

Operator
Thank you.

Madhvendra Singh
Could you also help us with the competitor behaviour from your competition? Has there been any change in their behaviour as well in the last three or four months?

Sateesh Kamath
They initially did not move on the taxes when we moved, but three or four days later they followed through as well with similar level of increases in their products. When it comes to competitive intensity, the intensity is high relatively speaking, especially on data space where competitors are trying to replicate our product and just communicate a cheaper price point for it. So for example if we give a KSh 99 1GB, they are actually not using their imagination. They are also just matching the price point of KSh 99 and giving 2GB. We have two things in mind of how to handle this, but obviously that is confidential at this stage. But you will see what we have done in the time to come.

Madhvendra Singh
Great. Thanks for the call and congratulations on a great set of results. Thanks.

Sateesh Kamath
Thank you Madi.

Operator
The next question comes from Alex Kazbegi of Rencap.

Alex Kazbegi
Good afternoon. Thank you. Just to pick up on the same topic, Sateesh, on the data, your data growth was relatively slow this first half of the year. Again I'm talking about competitively of course. Did you answer this question by saying it is basically the competition which is biting into it, or do you see any other reasons why the data revenues have slowed? And conversely somewhat unexpected your SMS revenues actually grew. So maybe a couple of comments on that one. The second question would be if you look at the value transacted, the so-called other category always grows very nicely. It actually probably recorded in net absolute terms its highest growth in this first half. Maybe just give us a bit of colour. What are the main driving elements of that? I think before you always said that Lipa's contribution is relatively insignificant here. Maybe you can give us a bit more colour in terms of what you see from Lipa, so the number of the merchants, but in terms of actual revenue contribution there would be great. Then the last one, you always said that the margin is probably just as good as it gets at 48% or 49%, yet it seems to be getting ever better. I understand there is an operating leverage in the business which is there, but still where do you see this margin progression? We are looking at 50.4% EBITDA margin and there seems to be a very steady general increase over the past couple of periods. Do you see this potentially going still further up? Thanks very much.

Sylvia Mulinge
Okay. I will take the data question and then I will let Sateesh answer the rest of the questions. So with regards to data, yes, there has been a softening of our top line growth. But this I think is something that we were deliberately working on, because if you look at the data I think we had shared that we have over 70% of the data capable phones on our network using less than 100MB. And obviously one of the things that shape the usage behaviour of our customers is the ability to be able to get access. So we are reviewing the access and trying to drive a lot more usage on our network. So it is paying back for us in terms of increased usage.

If you remember last year at about the same time we had also taken such a strategy with M-PESA. We had a softening of M-PESA because of the changes that we had made to the pricing structure. And this has paid off for us this year, and that is why we are returning stronger growth. So for us data is the future. We want to continue to grow our customers. We all know the model of chasing users, so we want to have more active customers getting onto our network. We want to unlock that huge 2G base that is not active on 3G and 4G by lowering the access and giving the more affordable value propositions. This will give us a short-term impact in terms of our top line revenue, but we are confident that it is going to pay back for us in terms of usage and ultimately bring us back to a stronger top line on data.

Sateesh Kamath
Thank you, Sylvia. Alex, you might recall our earlier conversation in London last year when I walked you through the M-PESA softness at that point in time. And I set out how M-PESA will bounce back and why we think we are taking the right steps, which are not necessarily short-term beneficial but long-term and medium-term beneficial. And that is exactly what happened in M-PESA. We grew last year 14% full year. The first half was 16%; the second half was 12.5%. So we got into the year with a momentum of 12.5%. However, all the steps we had taken to democratise M-PESA and make it sharper and more segmented, have started paying off and we are seeing acceleration. Acceleration is happening in two places. One is in traditional P2P where for the first time we have started running promotions on a customer to customer basis and are seeing that M-PESA is also displaying elasticity, which otherwise wasn't proven. As a result, P2P revenue has grown stronger at 26%. That is against 17% at the previous year.

On Lipa Na M-PESA last year, we did the following things. We increased the number of merchants using. We ran a number of promotions, which gave us temporary hits on data. We also reduced the price of Lipa Na M-PESA by 50% last year. The pleasing things are the number of merchants that are using Lipa Na M-PESA has almost doubled from what it was last year. The number of customers has increased. The number of transactions has gone up. Values have gone up. And as a result finally 50% growth in Lipa Na M-PESA revenues as well. You are right in saying that Lipa Na M-PESA has scale-wise yet to go there, but we are really focussing on it as an engine for growth. I'm happy to note that almost 5% to 8% of M-PESA growth this year has come from Lipa Na M-PESA and will come through in that fashion for the second half of the year as well. So we are very pleased with M-PESA. M-PESA moving away from withdrawal, which is a more risky revenue, to more transaction-based digitalised customer habit-based revenue is what is pleasing about the portfolio.

Moving on to margins. This is what happens to margins when you do not have a CEO around. The CFO runs the company. The top line becomes fragile and margins go down. I'm joking of course. Alex, the reason for the margins has been we have optimised some of the structural changes that we could do which has given us a strong contribution margin. So let me reassure that we are not going for margin at the cost of growth. So opex in terms of publicity, in terms of promotions, in terms of other things like investments in the innovation centre will continue to happen. What we will try to do is create a war on waste so that we run opex growth slower than revenue growth to the extent possible always by reducing the waste, increasing efficiency and reinvesting the money that we are so saving into areas that are required for growth in the future. I will not guide for increase in EBITDA margins. In fact, I would caution like what Bob said, that when necessary we will not hesitate to invest in areas, which will give us growth for future, and we would not do the short-term thing of trying to push EBITDA margins higher. If it goes down a little bit, please do build that in your expectations. Thank you.

Alex Kazbegi
Thanks very much. That's all very clear. Thank you.

Operator
The next question comes from Thando Skosana of UBS.

John Kim
Hi. Afternoon everyone. It's John Kim from UBS here. A couple of questions. First, can we delve into service revenue a little bit? I'd like to understand how much is in and out of bundle. Just paint a picture of how these re-pricings can affect the overall service revenue base. Secondly, on a three to four year view when you think about the market opportunities for M-PESA how much of that is domestic in Kenya versus international? And is it more driven by usage or penetration? So when we interrogate the new working conditions and interoperability which of the factors is most meaningful for the next two or three years? Thank you.

Sateesh Kamath
I will take that question. Thank you for that. In terms of in and out of bundle it's a bit challenging to look at it in that way given we're not a contract market. So voice is predominantly out of bundle. So a customer decides to call. When he decides to call he pays. There is no fixed fee that the customer pays predominantly for voice. We do run promotions where we give individual offers where customers take up a specific bundle as part of the offer but not as part of the headline pricing. If you look at voice, which is 40% of our revenue roughly that is construct of the market. When it comes to data we are consciously moving more and more people into the bundle revenue structure. That gives customers better control. And we also think that's the right way to move the data market in the long run. We do not have much integrated bundles as you have in South Africa for example in our market. Integrated bundles constitute 5% or so of our revenue. So 75% of data is in bundles. 75% of voice is out of bundle roughly speaking.

The second question was, where would M-PESA's growth come from, domestic or global? My answer is both. At this stage as Bob has explained at the beginning of the call we have not yet struck the deal. We are in advanced stages of the deal but haven't completed, hence the financials do not reflect any of the global revenues. I wouldn't factor in global revenues even if we strike a deal of a scale initially because we all know M-PESA takes time and the first few years it is solid work on the ground, including investment in building channels and distribution, and we reap the benefit from year three, year four and so on and so forth. So speaking of domestic M-PESA we still believe there is a lot more growth left.

I spoke about elasticity within P2P. I'm very pleased with that. Our volume growth in M-PESA has been strong. 14.8% increase on a per customer basis on number of transactions is very pleasing. These are charged transactions. We do not count the free transactions that we give. Including free the growth rate is faster. So I think a lot more growth is left in M-PESA domestically speaking. Another fact is that Kenya is still a strong cash market. Despite the strong growth in M-PESA we believe cash will still account for more than 70% of the transactions. And the closer we get to the customer the more we can shift them and move cash to digital. So we are very optimistic about M-PESA's future. Thank you.

Operator
John, does that answer your question?

John Kim

It does. Thank you.

Operator
Thank you very much. The next question comes from the office of Ziyad Joosub of HSBC.

Ziyad Joosub
Hi everyone. Thanks very much for the questions. Just a few questions from me please. If possible could you maybe give a bit more colour on the commission structure of Lipa Na M-PESA? How different is it from your traditional P2P commission structure? And on the direct costs could you maybe give a bit more colour on how that cost line was managed so well? And then on the international money transfers has that business accelerated in this current period, and if so, why? And is it as big a contributor to other transactions as let's say Lipa na M-PESA is? Thanks very much.

Sateesh Kamath
This is Sateesh here. Thanks for the question. I will take them and start with the commission structure. When you used the word commissioned structure I suspect you meant what rates do we charge in Lipa na M-PESA compared to P2P. Well, Lipa na M-PESA transactions are first of all paid by the merchant and not by the customer. In P2P, it is meant for C2C type of transactions where the sender pays the cost. On average, a Lipa Na M-PESA transaction gets us about KSh 8 per transactions. A P2P transaction gets us KSh 18 or so, just to give you a flavour. In fact in last year's call we did explain that we would shift more towards these types of transactions which would be lower monetisation per transaction but more resilient as a business model as we build momentum.

Secondly, your question was the benefit that is coming in from the direct costs. The direct cost benefits are coming in for a variety of reasons. The first reason is we are digitalising the company more than ever before which means we are using all the existing infrastructure to try and move more transactions through a digital fashion. So the more recharges we push through by encouraging customers to use M-PESA means we do not need physical sales force to sell these products, which is resulting in an improvement in contribution margin in the course of that. The other reason is also products like Lipa Na M-PESA are increasing the velocity of transactions within the system. And when money moves within the system, we do not need physical forces of sale for bringing in cash, deposit commissions, withdrawal commissions etc. And as and when the new revenue streams in M-PESA grow the contribution margin of M-PESA grows as well. The rest is a variety of reasons. There is what I call a hundred small things that then add up to the rest of the contribution margin improvement.

Your third question was international money transfer growth. International money transfers continue to grow. If you give me a moment, I can tell you the growth rate. It has grown by 58%. And it was still a small portion of the overall revenue stream, as would be the case as you can imagine, as all the new revenue streams are small but growing at a faster pace, hence contributing better in the growth of the overall M-PESA.

Ziyad Joosub
Understood. Thank you so much. That's very clear. And at the moment your top-ups via M-PESA, is it at 70% of airtime top-ups that are done by M-PESA if I'm not mistaken? Could you confirm that?

Sateesh Kamath
Was your question what is the percentage of top-ups coming through M-PESA?

Ziyad Joosub
Yes please.

Sateesh Kamath
60%.

Ziyad Joosub
60%. Thank you so much. Thanks.

Operator
Ladies and gentlemen, just a reminder, should you wish to ask a question you are welcome to press star and then one. The next question comes from Kuda Kadungure of Investec Securities.

Kuda Kadungure
Hi guys. Thank you for hosting this call. Just two questions. What were the average on-net tariffs over the first half? And with regards to your mobile data how has smartphone penetration evolved? And if you can give us the number for 4G as well I'd appreciate that. Thank you.

Sylvia Mulinge
Okay. So with regards to smartphone penetration we continue to drive a very deliberate strategy of getting a lot more data-enabled handsets into the hands of our customers. We have just about 10 million or so data-enabled handsets, and therefore there is still a big opportunity to be able to convert the larger 2G base. Currently our penetration is at about 37% with the majority of the devices being 3G and 4G enabled. As we continue to roll out our 4G network, which right now is about 53% of population coverage, we are also aggressively working with handset vendors to avail a lot more 4G affordable devices. Right now, the cheapest device is for about $60 or $70, and I think there is great opportunity for us to be able to bring this down to a sub-$50 price so we can be able to drive data smartphone penetration.

Sateesh Kamath
With regards to your other question of on-net and off-net pricing we do not have on-net and off-net pricing. We have all net pricing. That has always been KSh 4 per minute for voice until 20 October when we increased it to KSh 4.30 to accommodate the increase in taxes.

Kuda Kadungure
All right. Thank you for that, guys.

Operator
Thank you. The next question comes from Tracy Kivunyu of Exotix.

Tracy Kivunyu
Thank you very much for the presentation and the call. I have a couple of questions. First, what is the mobile data effective increase in price post the excise implementation? Second, how have transactions per customer per month evolved including the zero-rated M-PESA Kadogo transactions. From July, I believe we are restricted to two transactions per customer. Third, in terms of Lipa Na M-PESA what would you say is the profile for Lipa na M-PESA merchants currently? Are we seeing more informal merchants coming in, or is it really mainly activation in the formal sector? And fourth on direct costs, there was a strict reduction in other costs contributing to direct costs. What was the driver for that? And when we say EBITDA margin may not remain at 50% do you foresee pressure being mainly on the opex side or on the direct cost side? Thank you.

Sateesh Kamath
That was a long list of questions, Tracy. Let's start with one after the other. The excise duty on data is passed on for the out of bundle data, which moves from KSh 4 per MB to KSh 4.30. It mirrors what is happening on voice.

Your second question was Kadogo. Well, the intent for clamping down the number of transactions on Kadogo was not to re-think about Kadogo. The Kadogo thinking remains exactly the same. It's just that we wanted to clamp down on the number of people who are misusing Kadogo. What we have seen is not a significant increase or decrease in volumes. We saw a number of transactions going down on Kadogo, but a 5% to 8% increase in the next band after Kadogo. So that is what we are seeing. Overall Kadogo volumes grew 120% year over year, and P2P volumes grew at 55% year over year. So Kadogo is still there. It is still transforming lives and getting a lot of people out of cash into digital.

Your third question was on Lipa Na M-PESA. On Lipa Na M-PESA, definitely at 100,000 plus merchants we have penetrated beyond just the organised places like Tuskys and Nakumatt now to the mama mbogas. Within the 100,000, we have a good combination of variety of merchants. So we now are monitoring the uptake of merchants who are doing more than KSh 5,000 transactions per month and less than KSh 1,000 transactions a month. These are two different sectors and our teams are doing a very good job of managing the requirements of both these sectors within Lipa Na M-PESA.

As regards to direct costs you had a question on other direct costs. Last year we did make some specific investment on a number of equipment like devices which are required to enhance Lipa na M-PESA growth and also to increase the devices required in the trade for better customer registration, all of which this year we get the scale benefit of the investment of last year, and hence you see that benefit. So you shouldn't factor in further benefit in the coming year because this was the lapping of expense that we incurred last year. I think I missed your last question. Was it on EBITDA?

Tracy Kivunyu
Yes. I was asking if we would see pressure on EBITDA coming from the opex line or the direct cost line.

Sateesh Kamath
It's difficult to predict that at this stage, Tracy. Basically as a management, we are happy with slightly lower EBITDA if the investment is made for something that is going to add to the business for the future. So it depends on where the investment is coming. We do not have any specific line item against which we are tagging EBITDA at this point in time.

Tracy Kivunyu
Thank you very much.

Sateesh Kamath
Thank you Tracy.

Operator
Ladies and gentlemen, just a reminder, should you wish to ask a question you are welcome to press star and then one. The next question comes from Ielhaam Ismail of Prudential.

Ielhaam Ismail
Hi. Thank you for the call. It's Ielhaam Ismail here from Prudential. Just one question from me. How has this move to digitise the company impacted your relationships with your agents? Has it in any way impacted their income earning ability? How do you manage that?

Sylvia Mulinge
Okay. So first of all with regards to M-PESA and the recharges now being done by M-PESA translating to about 60% of value and about 49% of total recharges that are done, what we have now done with our distributors and

our dealers is to work with them to create a lot more revenue streams for them. So there is quite a bit of investment that is being done by ourselves in terms of propagating our enterprise products to our dealers. Our dealers are also now one of our biggest channels of selling our fibre to the home to our customers, not only just selling but also following up on the connections. This has also provided a new revenue stream for them. The digitisation is also working for them in terms of improving their processes. For example, something like subscriber registration which was previously a very manual process we have now digitised and are now doing it via an app, which therefore provides a better audit trail in terms of KYC. The opportunities are there. In terms of improving for them there are positives as well as expanding their revenue streams for the medium and long term.

Ielhaam Ismail
Thank you very much.

Operator
There are no further questions at this stage. We have another question from Cila Rashuga [?] of EFG Hermes.

Cila Rashuga [?]
Hi everyone. Thanks for the call. Just one question from my side. Could you kindly speak on fibre to the home and fibre to the business in terms of how that is evolving, how it is being monetised? Perhaps also helping us understand the reason behind the decline in ARPU and your expectation of how consumer behaviour will react to price changes following the tax increase, just considering that this is more or less a new service segment and it is also not so much mass market as mobile data. Thanks.

Sylvia Mulinge
You would be surprised at the demand that we currently have for fibre to the home. First of all, with regards to the opportunity that is there we have rolled out an additional 30,000 homes in the last 12 months, bringing the total base connected on fibre to the home to about 79,000. And we have an additional 2,000 buildings, which are now connected on fibre to the building, which serves our enterprise as well as our SME customers. I think for us the opportunity continues to be there. I don't know why you are saying it is a highly declining ARPU. Basically what we have done is because of the level of demand that we have we have moved from more traditional data-densified areas where we have a lot of high-value customers and begun to expand out of the city to other suburbs where we are now beginning to also see a lot of demand from customers who are living in middle class homes. And basically the propositions that they take up is they take up from the bronze rather than taking up from the platinum. That is why you see that dilution.

But for us it is exciting because it means that we are getting these customers to come onto our broadband. The challenge for our commercial team is to figure out how we layer additional services, provide surveillance, provide security and other services around the home, which will then help us to drive expansion. But the most important thing first of all is to get your fibre into that home, because once you are in it is very difficult for another provider to able to come into that space. The penetration levels that we have seen, homes connected versus homes passed, is quite impressive and quite high for this category, which is also exciting for us.

From a tax perspective, yes, we passed on the tax. Excise on fibre to the home did not exist before. It went from 0% to 15%, and we passed this on to our customers. I think what was exciting was when we made the announcement we had a lot of customers who tried to beat the deadline when the tax would become effective by paying up for longer periods of time, which shows then the stickiness of the product in consumers' lives. So I don't think the tax will really impact the continued uptake of the product. I think actually my challenge is for the CFO to give me more capex to roll out to more homes, because right now we are not able to keep up with the demands that we have.

Sateesh Kamath
Thank you, Sylvia, for that request. Just to clarify on the ARPU decline, it is something that you need to look at from a [unclear] perspective and not as an ARPU decline. The reason why ultimately it is declining is the speed at which Sylvia and team are recruiting new customers at the bronze plan. The reason why the ARPU was earlier higher was we had a smaller customer base, and we recruit first as bronze and then keep upgrading them with higher services into silver, gold and platinum plans. The rate at which we are upgrading the existing base versus the rate at which Sylvia is connecting new customers. So we are getting far more new customers. So it is arithmetically diluting ARPU, but in real terms the existing base is moving high and we are connecting a lot more new customers on the bronze plan, which subsequently will be moved up the value chain.

Cila Rashuga
Great. Thanks a lot. That is very clear. It sounds exciting. Thank you.

Sateesh Kamath
Thank you.

Operator
Thank you. The next question comes from John Munge of Vergent Asset Management.

John Munge
Hello and congratulations on having an impressive set of numbers. Just a quick question. Could you kindly provide us on data the current level of churn rate versus the last half last year, churn rates on your data subscribers? Also is there anything in the works with OTC service providers such as [unclear] or YouTube so that you can offer exclusive services that will lock in your data clients to your network rather than seeing them migrate to other networks to take advantage of lower prices? Thanks.

Sylvia Mulinge
Okay. So for data…

Sateesh Kamath
We do not have churn per se of the data customers because they use it for one service or the other. A more appropriate way of looking at it is to look at active base. The growth in active base has been slower this year, as Bob spoke about at the beginning of the year, because we made price moves subsequently. What we are seeing is after recent changes our data using customers active base is moving in the right direction. So that is what we need to monitor. The real opportunity in our market in prepaid is not to keep it active but to keep active for more days. So can they be using our service for 25 days out of 30 instead of ten days? So that is the type of analysis that we are working. But obviously it is a complex metric that is not as simple as churn. So unfortunately we don't have one number to tell you. But what we can give you as a comfort is we know that we have an issue in the active data customer base and we have programmes in place which have shown early results but need to continue for the second half of the year for us to report. So please wait till full year for us to start giving you a little bit more information around that.

Sylvia Mulinge
We normally track inactivity by lack of use. So when a customer is on our network they are using data, they are using voice, they are using M-PESA. So we don't wait for the customer to leave us on all the services. We check when the data has been dropping on any of the legs. And obviously data right now is more sensitive, so we are keeping an eye on it so that we don't drop in terms of the active users. And if we see any customers dropping off

we have a very engaged CVM platform that has very targeted personalised offers for these customers to ensure that they remain with us on the network and give us their usage.

John Munge
You previously talked about offering WhatsApp specific bundles. Is there anything in the works with regards to other OTC companies, whether it is Netflix or YouTube?

Sylvia Mulinge
First of all, Sateesh is nudging me and telling me to define what CVM is. CVM is our engine that gives personalised offers to our customers. We have moved from an age of mass-market offers, then bucketing customers in segments, and now we are targeting customers on one-to-one marketing. That looks at your behaviour in terms of usage etc. and then we give you a personalised offer. Your question was what we are doing with regards to content. I think for us we have… [Overtalking].

John Munge
Sorry. I was just wondering what kind of initiatives you are making to make your client on the data side much stickier rather than seeing them move to other networks opportunistically to take advantage of lower data prices.

Sylvia Mulinge
Okay. So content definitely is one of those items to look at to drive a lot more stickiness. The plan that we have and that we are currently implementing is to be an aggregator of content, an aggregator of local content as well as international content. So we are making some investments this year. And we will be unveiling a proposition for our customers that will allow them to be able to consume that content on the go as well as in their home as part of the fibre to the home proposition.

John Munge
Okay. Great. Thank you.

Operator
The final question comes from Louise Pillay of Absa.

Louise Pillay
Hello. I would like to know, what steps are you taking to improve your NPS scores? If I recall correctly I remember your customer experience management software was last updated in 2016. Do we expect this software to be significantly outdated? And then what are some of the specific customer KPIs that you are targeting in the medium term?

Sylvia Mulinge
Okay. So in a market where there is pressure on disposable income as the Kenyan market is the player with the highest premium normally gets punished, especially as the reason for your premium becomes a lot more challenged. And we've seen this happening in the data space. So price is a significant driver of NPS performance in this market. And that is the reason why we are looking at the value proposition that we are giving to our customers. And I think for us the challenge that we have as a company is to figure out what the price position is in the industry that will reflect the experience that we deliver to our customers without necessarily compromising on the quality that we give. So we are working on that, and that is why you are seeing a lot more active campaigns on the value front.

The second opportunity that exists for us is then to begin to figure out how we innovate around the customer experience. So when the customer makes the decision to buy us, what is the experience that they actually have when they are purchasing our products and services? And that is why there is significant investment on the digital front so that consumer experiences are really simplified. We offer a lot more convenience. If you are coming to interact with us let's say on the app or on our website are you three clicks away from getting the service that you want? If you are coming to ask for service are we offering you channels that increase the level of accessibility and also empower you to be able to fix the challenges that you have? So a lot of work needs to be done with regards to innovating around that.

And the third thing which is very critical for us is to have the right culture within our teams so that our teams in every interaction that they have with our customers, whether they are building products for them, or they are serving them in the front line, they are projecting the right value that we embody as a company in terms of driving simplicity for the customer and therefore creating long-term trust, which will play back to us in terms of NPS.

Louise Pillay
Thank you.

Operator
That was the final question. Do you have any closing comments?

Bob Collymore
Yes. It's Bob again. Not much to say to close. I think in the beginning we said that we were confident with the guidance. We had a bit of a slow start on M-PESA. We were really pleased to see that pick up. We understand we are underperforming on data, but as Sylvia has explained there are a number of initiatives which we believe will arrest that slowdown in growth. But having said that it is a highly price competitive market. We believe that if we continue to invest solidly in growing the network then it will give us the advantage and we don't have to get into the price wars. So we are confident about the second half of the year.

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

END OF TRANSCRIPT