Conference Call transcript

11 November 2022

H1 2023 RESULTS

Caroline Wambugu
Good morning, good afternoon, good evening from wherever you're joining us from, and welcome to our half year 2023 earnings investor call. We are glad that you're here for this session. My name is Caroline Wambugu. I am the Head of Finance, Planning, Analysis, and Investor Relations here at Safaricom Plc, and I'll be moderating today's discussion. On today's call, we will have a short update from our Chief Executive Officer, Peter Ndegwa, followed by some remarks from our Chief Finance Officer, Dilip Pal, who will speak briefly about our half year 2022/2023 results which we announced earlier today. Thereafter, both Peter and Dilip will address your questions with the support from the rest of our leadership team who are also on this call.

Before we kick off our session, allow me to just speak to a few house rules. Please ensure that you have joined the session with your full name for ease of identification when you post your questions. If you haven't, you can rename yourself now by hovering over your name and clicking rename on Zoom. Throughout this session, please share your questions via the Q&A tab. We will read this out later and have our leadership team address each question. Please leave a note at the end of your question with your organisation's name as well.

And in staying committed to our promise on diversity and inclusion, a live transcript has been made available for the comfort of anyone with hearing difficulties who has joined the call. You can access this by clicking the view transcript tab at the bottom of your Zoom application under e more options this will allow you to keep up with the conversation in a more comfortable manner.

Finally, and in case you need any assistance from us that is not related to the discussion at hand, you can write to us via the chat platform, and the investor relations team will be on hand to assist. Thank you. Welcome to the discussions and let me now invite our CEO, Peter, to start us off. Peter, over to you.

Peter Ndegwa
Thank you, Caroline. And just confirm that you can hear me, for the benefit of those who are calling in.

Caroline Wambugu
We can hear you, Peter. You may proceed.

Peter Ndegwa
Okay. So good afternoon, good morning, good evening, everyone. We have various parties calling from across the world and welcome to the half year results briefing. As Caroline has said, we'll make some very brief remarks. Dilip, who is our CFO, will give a little bit more information on the results that we announced this morning, which we released and already on our website in terms of the detailed results, but also the investor

presentation that we made this morning. Our intention this afternoon is primarily to respond to your questions rather than to go again through the material that we may have gone through this morning.

But it's fair to say that the results are in the context of a rather challenging macro-economic environment and an election period that we experienced in Q2 of our financial year. And we believe that we've delivered solid results that context in terms of top line. We also have flagged some impact of regulatory changes, especially the MTR from August, which we will give a little bit more detail. In terms of managing the P&L we are driving a lot of effort to ensure that we manage the impact of inflation, which has been significant given the external challenges through our productivity agenda. And therefore, we will be able to give a lot more colour in terms of understanding those results.

From a portfolio perspective, we have seen as we expected a decline in voice, but reasonably strong growth in data but also fixed. The growth of M-PESA moderated primarily because of the ongoing election period which we saw in Q2, especially July, August, and September. We saw a slight moderation in terms of consumer activity given the level of uncertainty. And then the final thing I wanted to say is we've started to see the impact of Ethiopia. We launched commercial operations recently, and therefore we’ve factored in a lot of the initial setup costs primarily relating to network costs, but also employee costs, and also some of the funding costs that reflect within the Kenya business at the Plc.

So, Dilip will be able to give a little bit more colour in terms of how that has affected our results. So that's all I wanted to say. But welcome. Beyond, of course, the commercial results that we have announced, we continue to be a purpose-led business. We've supported community in particular. As you know, there's a big drought. A function which I have just come from hosted by the President to rally both development partners, but also private sector to support more than 20 counties, which is half of the counties in Kenya, who are going through drought and famine. So Safaricom has been instrumental in orchestrating and in really leading the private sector in terms of an area that is very important to us. If our customers don't do well, our business wouldn't do well. So, I wanted to leave it there and ask Dilip to get into some of the shape of the financials, and then go direct to Q&A. Thank you very much.

Dilip Pal
Thank you, Peter. Good morning, good afternoon, and good evening. Caroline, confirm you can hear me well.

Caroline Wambugu
Yes, we can hear you well, Dilip. You may proceed.

Dilip Pal
Thank you. So, my intention is not necessarily to go through a lot of detail. We should use this time for questions and answers. But as Peter said that we have released our results this morning and you have seen the numbers. But just to give you a little bit of more colour to those, starting with KenyaCo., I think our headline numbers, as you have noticed, service revenue grew by 4.6%, and adjusted with MTR, service revenue grew by 5%. EBITDA grew 3.4%. EBIT grew 0.8%and adjusted with MTR; net income actually grew by 1.2%. As you all are aware, we have taken a loan in Safaricom Kenya books to support Ethiopia funding and the interest of that we book in the

Kenya books. If we adjust that, the increase in the cost, the net income growth actually on a normalised basis improved to 3.5%.

From a revenue perspective, barring voice, messaging, and interconnect, we have seen growth in other lines. We have seen double digit growth in mobile data backed by significant increase in the usage and also improvement in ARPU. We continue to grow our 4G base in our customers, which has grown now to 12 million, which is a growth of 24% year over year. On fixed, we have grown 22%. We have seen a good improvement in customer intakes and also ARPU improvement resulting in the 22% growth that we have seen. We are about 462,000 homes passed, close to half a million that we are expecting by year end.

As Peter mentioned, M-PESA growth came below our expectations. In the past this has been growing over double digit. And this year, we have seen a growth of 8.7%. While I'm sure you will have a lot of questions around it, but I just wanted to confirm that we have seen continued growth in values and volumes which grew by 32%. We have seen chargeable transactions per customer per month growing 16%, which is now past 22.4. We have seen overall portfolio growth is more towards the new services that we have launched. While transfers and withdrawals grew by 6.7%, the revenue lines outside transfers and withdrawals actually grew by 13%.

We are also excited with the super app. We have now 6.3 million downloads for the consumer app and about 500,000 for the business app, and we see active customers on those apps. And you may have seen from our presentation almost 5% of M-PESA revenue came through our consumer super app, which is about KSh 3 billion. And what is more encouraging, the average number of transactions per customer in the super app is 39, which is much higher than the average of 22 that we have seen for the overall business.

We have seen headwinds in voice. As you've seen, the voice revenue declined by 3.8%. This is also a function of the macroeconomic factors resulting in inflationary pressure leading to consumer wallet shrinkage. And that's where we see the first impact of the macroeconomic factors. So, voice revenue decline was mostly coming from that. But also, as you know, the voice revenue in any case was flat to a lower single digit decline over a long period of time.

Messaging is still a declining. But I just want to highlight that what we have seen in the past of 15% to 20% decline, we are now seeing a decline, but it's still a high single digit than the high double digit that we have seen in the past. And interconnect revenue, of course, has declined coming from the MTR impact that we have seen in the first two months of the year. First half, we have seen an impact of about KSh 470 billion which is interconnect revenue.

Direct costs are up 4.7%, mostly coming through the M-PESA commission. We continue to see deposit volume growing even higher than the overall volume growth by 35%. And that's resulting in an increase in M-PESA commission reflected in the higher direct cost growth. Operating cost, the macroeconomic impact of the Russia Ukraine war is resulting in a lot of inflationary pressure that we're seeing, and a major element of that is our energy cost, which has gone up significantly in H1 of the year. We have also seen the impact of currency depreciation impacting our operating costs on H1. Capex we spent about KSh 18 billion, and we did additional borrowing of KSh 12 billion to take care of our working capital needs.

On Ethiopia, I think Peter mentioned about our launch, which happened on 6th of October 2022. I think we have shared some numbers. We are that we are quite encouraged with the with the progress that we see post launch with 740,000 signups so far up to October, and also, we are encouraged by the level of activity in those customers. Almost 60% of the active customers are data active, which is very positive. Ethiopia is reporting an EBIT loss of about KSh 7 billion, mostly driven by operating cost of KSh 6 billion and depreciation of about KSh 1 billion, which is what is reflected in the EBIT decline that you see in the group numbers.

In terms of capex, we spent about KSh 19.5 billion in H1 towards our rollout. In terms of coverage obligation, we are gearing towards meeting that by Q1 of next year, which I'm sure we will talk about that later. M-PESA licence, that's still to come. But we think we made very good progress. And I'm sure we have questions that we'll talk about that later. You may have seen a revision in guidance, although the overall group level guidance remains the same, both the EBIT and the capex.

Capex is actually unchanged for both Ethiopia and Kenya. But at an EBIT level for Kenya, there is downside of about KSh 8 billion compensated by upside in Ethiopia. The rationale for that is mostly coming from the signposting that we have done during our annual results, that our guidance was based on the existing current macroeconomic factors and also the regulatory environment. So, we have seen the impact coming through on MTR and also the impact in the top line coming from macroeconomic impact. So, let me then pause here and back to you Caroline for the Q&A. Thank you.

Caroline Wambugu
Thank you. Thank you very much, Peter. Thank you very much, Dilip. And once again, just to remind us, if you have any questions for our leaders, just put them on the Q&A tab and we'll be able to read this out on your behalf so that our leadership can respond to that. Having said that, I do see a number of questions. And the first one is from John Davies. John Davies of Bloomberg is asking, can you give us split for service revenue growth in Kenya between Q1 and Q2 please. Let me also read out the question by Rohit Modi of Citi. And this I will hand over to you, Dilip. Please, could you give more colour on lower EBIT expectation in Kenya? What proportion of downgrade came from lower revenue expectation and what proportion from higher opex cost inflation? Also, which are the specific cost items which you are seeing cost inflation? Is it possible to provide item-wise impact? That is from Rohit of Citi. And back to you, Dilip.

Dilip Pal
Thank you. Thank you, John, and Rohit. So, on service revenue breakdown, normally we don't provide a quarterly breakdown of our numbers. But in terms of giving you a colour, I can fairly say that the Q2 service revenue growth is lower than Q1. We actually started quite well, and then we got into Q2. There are several factors, I think macroeconomic being one. I think there is another factor which is election. Peter mentioned about the election impacting activities, business activities, which you have seen M-PESA coming down significantly during that period.

So, I think the way to look this, yes, the Q2 service revenue growth was lower than Q1. And on lower EBIT explanation, three things actually, without necessarily giving you an exact split of where is this KSh 8 billion coming from. I think one element is MTR. The full year impact of MTR this year just on a direct basis, which is the interconnect revenue drop, is around KSh 2 billion.

Then as you have seen, the revenue profile, we have seen significant pressure on customer wallet impacting our top line. And also, the cost lines, I think the main areas of cost increase that we have seen from macroeconomic factors, one is in the energy cost, which actually consists of a significant amount of our overall network cost. Almost 50% of the increase on the operating cost line items is coming from energy cost. So that's a substantial item. Then, we have seen impact of currency deprecation, which is another 20% to 25% that also came through in our increase. And of course, there are other small elements which are also impacting as the small businessmen are facing challenges. And we need to ensure that we are taking care of some of these in these difficult times.

Without giving you a kind of breakdown of this. I think there are three impacts. One is on the MTR. Second is on the top line coming lower than expectation based on the macroeconomic factors that we have seen now having seen the H1 development. And then the third element is on the cost side, but mostly in energy and the currency side.

Caroline Wambugu
Thank you, Dilip. Four questions following on here from Tracy Kivunyu of SBG Securities. How do you see M-PESA usage performing in the second half of this year? The performance from second half of last year to the first half was quite slow. Do you expect a materially stronger second half particularly in the traditional remittance business lines? The second question, the rate of active user growth on the consumer super app seems to be slowing. What strategies are in place to improve this? Third question. With outgoing voice revenue so weak in the first half of this year, do you anticipate further deceleration in the second half? What is your pricing strategy for voice in the second half? And have you seen competitive pressure following the MTR drop? And lastly from Tracy, why did other opex and expected credit losses accelerate in this first half of the year? Dilip, over to you.

Dilip Pal
Okay. That's a lot of questions. Let me try and see. And Caroline, you remind me if I missed anything. As always, Tracy comes with many questions. Tracy, thank you for your questions. First on M-PESA. So, what I wanted to highlight here is underline health of M-PESA businesses very strong. And where do I get the confidence from? The confidence I'm getting is from the volumes and values of transactions that we have seen. While revenue grew 8.7%, the volumes and values grew 30%, which means that the ecosystem is growing, which is what makes us excited that we can leverage, we can monetise from the ecosystem.

Second thing, one key factor driving the volumes and values is the number of transactions as I mentioned in my opening remarks. 22.45 transactions per customer per month is 16% growth over last year. And when you're discussing about last year, the same questions came in. Do you still see opportunity to grow in your chargeable transactions per customer per month? We said that pre-COVID we were about 10, which took almost like 13 years to reach where we have reached in 15 years of M-Pesa history. But it took just two years to more than double and we see that growing faster. But what you need to keep in mind is the newest services that we are launching, the monetisation of that in terms of the revenue could be lower than the traditional one. So, as you see the proportion of new business transactions, they are higher than the traditional business, that means the volumes and values will grow, but the revenue will come slower.

But we are not concerned about that because we are adding more and more use cases for the customers to use more to enable us to grow the revenue. So, I'm less concerned about the underlying health of the M-PESA business. I think in every parameter, whether it is growing customers, you've seen a growth in customers, you've seen a growth in ARPU. And growing customers is something that always comes with questions. Do you see an opportunity? That question I think we have addressed by executing better in every single year. So, we are growing our customers.

Then to your questions related to M-PESA is on super app. I think on super app the strategy is around as we are building more and more mini apps, how do we use data analytics through big data to monetise more and to create more customer engagements so the customer stays within the app and they do the transaction. While the growth may be not to your expectation, but what we are excited about is seeing the number of transactions that customers do while in the app.

As I mentioned in my opening remarks, it's 39/or 40 transactions compared to an average of 22, which meant that there is more engagement that's happening. So, with our enablement of big data and CVM, and with mini apps coming through, I think we are very excited about that this will enable us to grow the revenue. I mentioned about 5% of M-PESA revenue coming through the app is not a small thing. It just about a year back that we have actually launched our consumer super app.

In terms of business app, I think it's more encouraging. You see the number of 500,000 downloads, 118,000 active customers, and more importantly, the level of engagements we see much better than the consumer app. And so, I think the strategy is to continue doing what we're doing, what we're good at, understanding data analytics to drive engagements with the customers. I think overall, still on M-PESA, we have quite a lot of new areas that are in pipeline in terms of approvals. So, at this point in time, I think we do have quite a few those that will be coming through M-PESA Junior, or M-PESA Go, as we are calling it, for 10 to 18 years old customers or actually students.

And then we have wealth management. We spoke about that in the past. So, we have the required approval for us to now launch it and you should be hearing from us soon about this launch. And we have also recently launched some other products that we spoke about, whether it is the M-PESA Global, the tie up with Visa, going beyond the traditional financial services, expanding the scope of this is what has been our main strategic ambition and we are going towards that. So, you will see us talking more about savings, wealth management, insurance. And insurance is still at a nascent stage, although you don't have the required approval to launch it. But that will also be coming through in future.

From a voice perspective, your question around deceleration in voice. Yes, deceleration in voice, we are not surprised, given the economic hardship that our customers are going through in terms of wallet shrinkage. And that we have seen through our many analyses that we have done when we segment our customers. We understand the impact they're going through, and there is a lot of optimisation that's happening. From our side, we are using our CVM powered by big data analytics to know exactly the vulnerable section of those customers who needs help and support at this point in time, what kind of offers will enable them to stick to us, and also which enables them to use more going forward. So, I think we are significant enabling our big data and CVM capabilities to ensure that the voice deceleration is lower than what he has seen in H1. But let's just accept that voice has been on a tough path. Voice has been challenging in terms of the growth that we have seen. I think it's been a flat to a low single digit growth based on the trends that we have seen elsewhere. So, this is something that we need to live with. But of course, combined with the economic challenges, we see further deceleration.

On expected credit loss, I don't know anything specific on other opex. Maybe my colleague can take that as an action item. For expected credit loss we have seen a few of our customers did not pay on time. And we needed to make sure that we provide adequately. And we understand the difficulties, but it's not because customers are not using our services. But because they didn't pay within the time, based on our policy, we needed to provide that. And also, on our credit product, especially on the airtime, the product what we call Okoa Jahazi, we have seen a bit of acceleration in the losses that we have in the first half of the year. But this is also probably a function of the economic difficulties that we have seen. But majorly we see this is more of a timing game rather than a continuation of a loss going forward. So, let me pause here. And Caroline, back to you.

Caroline Wambugu
Yes, thanks, Dilip. Thanks, Tracy, for those questions. So, I'll take another set of questions. One here from Modi of Citi asking please could you talk about news around splitting the mobile money business? What are the key challenges that you might see if it happens? Will that have an impact on opex and capex levels in future? And I'll combine that with a question from Madhi Singh of HSBC. Recently, there was some news around authorities pushing for a split of M-PESA from Safaricom. Can you please provide any comments? How advanced are those discussions and how you think that would be negative or positive? So, that is on their mobile money business split.

There's also another question here. This is to you, Dilip. The others can go to Peter. Can you please help understand the guidance? Why is EBIT loss expectations lower in Ethiopia? Is this because of deliberate, slower spend, or that the actual rollout is costing much lower than your initial expectations? That is also from Singh of HSBC? Let's start with the questions on mobile money business to you, Peter, and then Dilip who take the one on EBIT guidance. Thank you.

Peter Ndegwa
Thank you. That's a great question. In terms of split, I know there had been quite a bit of coverage on Safaricom and the split between GSM and mobile money business. Our view is that we should keep the two businesses together. And that's what we've been guiding analysts and investors all along, and that has not changed. What we are going to do, and it is supported by the regulators, we are going to create a group structure that allows each individual business to be separate businesses within the same Plc, and therefore the listed of business is the same.

I think there's no question potentially that may give much better visibility to investors, much better understanding, and greater focus. But I should say that internally, those businesses all operate separately. So, the M-PESA business operates as a separate team. So, it is actually internal reorganisation that we need to do to ensure that we can fit it within a group structure but continue to collaborate in the same way that we collaborate today, but within more formalised structures, so that in future if there was an intention to raise money, co-invest with others, then it is easier to deal with that. But it is not about completely separating the mobile money business from the connectivity business. It is about creating a structure that allows each of the individual businesses to be seen separately.

I think there has been the misunderstanding about how we are regulated. Some of the parliamentarians said it will make it easier for the regulators to regulate Safaricom if the businesses were split. But today, the central bank regulates Safaricom's mobile money business, and the communication authority regulates the GSM business. So, there isn't any doubt as to who, because the licences are issued, spectrum is issued by the CA. The licences for mobile money are issued by the central bank. So, that doesn't prevent us from continuing to be regulated by different regulators.

So, that is where our position is, and we are currently undergoing that. There is clearly quite a lot of work to do in terms of tax and legal structures that would need to be overcome, in particular tax, because the current tax law almost treats internal reorganisation as if there was external disposals and so on and so forth. So, we do need approvals if we're going in that direction, so that we don't have to pay VAT or withholding tax or whatever in order for us to be able to reorganise the way we intend to. The board has not approved. They've given us directionally support for that process. But eventually, we would need all the support from the government in terms of tax reliefs and so on to be able to go that direction.

Dilip Pal
Let me take the EBIT guidance on Ethiopia. So, the reason for upside in Ethiopia EBIT is mainly coming from two reasons. One is a bit of slower pace on the rollout than we originally anticipated, the number of sites that we are planning to roll out. So that's coming slightly lower. And also, within that, the mix of our own sites versus the sites that we were planning to take from Ethiopia, that also came slightly more in favour of our own sites built. So, it's more of a timing issue and also, there are some costs that we originally planned that didn't come through. I won't consider that material, but it's mostly the cost that came through as lower because of the rollout mix as well as the number of sites. Back to you, Caroline.

Caroline Wambugu
Okay. Thank you, Peter. Thank you, Dilip. The next questions here is from Silha Rasugu from EFG. Silha thanks us for the call. And thank you also for your questions, Silha, because I see you've gone ahead and jotted down six questions, which I'll read now. I'll read the first three and then we'll tackle the next three. So, the first question goes to Dilip. In these consolidated numbers, the effective tax rate has increased to 37%. What are the drivers of this? And how should we think about corporate tax rate for the group going forward? Question number two. Any indicative timelines for the mobile financial services licence in Ethiopia? And the question number three, which he says is tied to question number two. Loss from associates and JVs has declined in the first half of this year. Could you give us some detail on performance for M-PESA Africa? What would be its role in Ethiopia? And would this move it closer to profitability? Over to you, Dilip.

Dilip Pal
Can you repeat the second question again?

Caroline Wambugu
The second question is on the timelines for the MFS licence in Ethiopia. Any indicative timelines?

Dilip Pal
All right. So, let me start with that first. On our timelines for M-PESA, what we are saying is there are steps towards getting a licence in place. And within those steps, I think one important step which is still pending is the parliamentary approval. Beyond that the committee has already looked through this to allow for an investor to come and invest as a foreign investor in the mobile financial services space. So, the work from the committee was done, so now this needs to be approved in the parliament. And that's what is waiting. But as you have already seen from the public announcement, we are expecting a licence soon based on the parliamentary approval process.

But I think the other part is also how we're allowing ourselves to prepare for the launch as soon as we have the licence. I think that's the work that we are currently doing to make sure that our ability to launch in time, we can do it pretty fast, that we are not waiting sequentially to create those capabilities to enable the creation of the products and services platform and technology we are currently driving. So, it's not necessarily a date that we can provide, but we believe the hurdles that were required to be concluded, I think we made very good progress on that. We are just at the last leg of that approval.

On your questions on effective tax rate, depending on how you're looking at the group numbers, it may be better to look at the Kenya profit before tax and the profit after tax and therefore the effective tax rate rather than a consolidated number, because the tax rate on the consolidated business from Ethiopia is not necessarily impacting. It would distort [unclear] your numbers because you have a profit before tax which is impacted by the Ethiopia number. But having said that, I just wanted to highlight that there are these allowable expenses that we consider while creating the effective tax rate. I think maybe my team can guide you separately what should that effective rate be considered on a steady state basis.

On the loss from JV questions, yes, we do report numbers from one JV and two associate companies. JV, which is MPA, M-PESA Africa, and two associate companies, one is Circle Gas and the other is a company called TEAMS. So, what you're seeing is compared to last year, the losses from those entities are going down, and including M-PESA Africa. So that's what is reflected in the numbers that we have reported. From a role of M-PESA Africa and Ethiopia, that role is no different than the role that they play in Kenya.

As all of you are aware of, M-PESA Africa's mandate is to develop products and platforms which can be rolled out across all markets. And as part of the Ethiopia’s capability that we are building while we are waiting for the licence to come in, there is a lot of work that's going on providing the creation of those products and services actually supported by M-PESA Africa. So that's how they operate and the M-PESA Africa will come in and make sure that a product which is launched in one market can be replicated across all the other markets that we operate M-PESA. Yeah, so the first three I think I have answered now. Caroline, the second lot?

Caroline Wambugu
Yes. The second lot reads as follows. So, question number four, could you please elaborate on the jump in receivables in this first half of the year? And then on expected credit losses, how much is due from Telkom Kenya, and how does Safaricom think around competitive dynamics in Kenya now that Telkom Kenya ownership

has reverted to the government? And the sixth and last question from Silha on M-PESA. What is the proportion of chargeable transactions to the total transaction volumes? I hope you've captured that, Dilip.

Dilip Pal

Yeah, I have captured that. Again, let me start with the receivables question. I think if you are referring to last year versus this year, actually this is coming from a prepayment. Last year we paid for our CA dues post September, and the amount is about KSh 7 billion. But this year we paid within September. That's basically a timing issue. But other than that, I think we have seen some increase coming through on our Lipa na M-PESA device receivables. But that's fair because we are also driving our growth in devices. As you have seen, we have brought in quite a significant number of 4G devices on our ecosystem and part of this is also driven by Lipa na M-PESA. So that receivable is also reflected.

On your questions on expected credit loss, yes, we did book expected credit loss on account of Telkom Kenya as well, as there was delayed recovery of current dues. The total amount of receivables from Kenya is actually substantial. Telkom Kenya owes us over KSh 3 billion. And a large amount of that is past dues that we're dealing with separately, and then we're trying to make sure the current dues are up to date. Yes, we are in discussion with them and also with other stakeholders to see how we can fast track this recovery. But as you are aware, they are also suffering a lot on terms of their cash, their ability to pay us. But this is something on our radar and we are watching it very closely. So, in terms of proportion of chargeable transactions to the total transaction volumes, I think the numbers that we report, approximately 20% of our transactions are still free on account of that bank to wallet and wallet to bank that continues to be free. So, I hope that answers your questions.

Caroline Wambugu

Thank you very much, Dilip. So, thank you so much for your questions. Once again, I see questions here from Sam Griffiths of Vergent. So, we will take three sets of questions. So, question number one from Sam. Why was revenue growth of M-PESA so much slower than value and volume growth? Was there a product mix impact? And if so, which products? And then the second question once again from Sam, can you provide the growth number for the M-PESA float year on year? And thirdly, from Singh of HSBC. M-PESA transactions value as a percentage of GDP is tracking at what levels in the month of October? I remember it was about 200% during the second half of last year. So those questions are to you, Dilip.

Dilip Pal

Okay. I think on the first one, the revenue growth was slower compared to the volume growth. First of all, I think the first data point is that our Q2 revenue came much slower than the Q1 in M-PESA. And while over overall revenue in Q2 was slower than in Q1, I think for M-PESA it was even worse. And I think I mentioned about the impact that we have seen before elections, during elections and after elections, and over a long period of time. The level of business activities came down significantly. And that's why you see a slowdown, because in the past, I think in a normal situation, you've never seen a single digit growth in M-PESA. And it's purely during that period when business activities came down, we have seen a slower growth in M-PESA.

So, let's also accept that M-PESA actually reflects what consumers are spending in the market. So, the macroeconomic factors while the consumers are prioritising, you see that happening when they are going to a supermarket. The same amount of money they're spending, they're getting a lower basket. So, there is an optimisation happening from the consumer side as well. So, I cannot quantify that, but that impact is also factored in here.

To your question on why the growth in volume values is not reflected in the revenue growth, I think the answer will be in two parts. One is, remember, I spoke about the deposit growth, which is still 35% year over year. And if you go back to the pre-COVID period and where we are now, I think the deposits alone has probably grown by threefold. And remember, the deposits that come to our wallet, there is no monetisation. The monetisation comes later on. And there is one chunk of that monetisation that is missing today, which is the wallet to bank. And I mentioned about that almost 20% of our overall transactions are free, and that the monetisation is missing on that.

Beyond that, I think there is one more element that you need to keep in mind. As we are getting more and more into new growth areas within M-PESA, the rate of monetisation would be low. But they would still protect margin because cost of delivering those are lower. So, it's a scale that you need to operate. So, we're excited about the volume, because we know that allows us to gain that scale. So, it's not necessarily a mix issue. That's the business that we are pushing, where in these newer areas of growth, the transactions are actually growing faster than the traditional business, which is transfers and withdrawals. And I think we have even showed one chart where we see that the gap between that is now growing, which means that the newer business will contribute more to our growth going forward than before.

Now the other two questions. Float, Caroline, and the team, if you can take that as I don't exactly remember the numbers. I don't want to put a wrong number on this. And GDP contribution to M-PESA. The numbers that probably we have spoken about is around 50% to 60% of GDP that goes through the M-PESA ecosystem. So, I'm not sure about 200%. Maybe there is a way that you're calculating. But I'm happy to engage with you and. Caroline, you can take that also as an action item. Probably there was a way that was calculated differently than the way we calculate.

Caroline Wambugu

Thank you very much, Dilip Yes, we'll reach out to you, Sam, and Singh, on those two areas, so that we can engage further. Allow me to just quickly revisit a question I think we did not completely address from Silha. And this is to you, Peter. How does the Safaricom think around competitive dynamics in Kenya now that Telkom Kenya's ownership has reverted back to the government? Peter.

Peter Ndegwa

Okay. Good question. I think we are asking ourselves that question. But in our view, on a more serious note, nothing has changed because the assets that Telkom Kenya owns haven't changed. They still have a mobile business. They also have a strong fixed business and an enterprise business that primarily serves the public sector. There are assets that we've always been interested in, but given the size of Safaricom, we know that during the whole merger between Airtel and Telkom Kenya, there are some assets which we know would be attractive. So, if Telkom Kenya was selling assets, we'd be interested.

But given that they are a going concern, we need to wait to see how government wants to think about Telkom Kenya's future and how they want to run it into the future. But as far as the commercial aspects of the business are concerned, we haven't seen any change yet. I think it is whether the ownership of the Telkom Kenya will change, because we do not believe that the government intends to run a commercial telecommunication organisation. So, should that change, then we will see what the effect of that change in terms of whoever comes, whoever is the future owner of Telkom Kenya. But at this stage, we see them as status quo. We interconnect with them. We work in the same way we were working before, and we are waiting to see the direction that the government takes.

Caroline Wambugu
Thank you so much, Peter, for that. So, I'll read the next set of questions. These are from Linet of Absa Securities. And these questions will be to you, Dilip. So, I'll read the first two and then the next two in the next cycle. So guided by the full year capex estimate, Safaricom's first half spend is around 38%. What will be the catalyst for capex ramp-up in the second half? And then the second question, please give more details on capex funding options. Might we see the first half short-term debt refinanced by longer term options? And what is the targeted currency split? Dilip.

Dilip Pal
Yeah. I didn't necessarily get the question on currency split. Kindly write it down once again, so that I understand it better. The question on the capex, is a very good question, Linet. You are right, I think the first six months of the current financial year, we are about 40% of the full year capex guidance. I think on Kenya's side it's normal. If you go back to historically you will see typically some of the delays that happened. It gets ramped up in the second half. So, this is not necessarily a very different profile than what you've seen from the Kenyan side in terms of the numbers that we are projecting about. Of the KSh 40 billion to KSh 43 billion, we have spent about KSh 18 billion. So that's not necessarily a very bad outcome.

On the Ethiopia side probably, that's where you might see the spend on the first half is about KSh 19.5 billion, but then there is a lot that needs to come in the second half of the year. And this is actually driven by the pace at which we are now rolling out. Remember, we had quite a few headwinds that we were dealing with in the first half of the year in terms of just getting all our vendors, the suppliers, the major vendors to a run rate speed that they need to get into, which took time. So, the ramp up took time and some of the vendors did not necessarily get into that level as expected. So that took a while.

The second thing is on the speed at which the Ethiotel sites were coming. That was also not coming forth. And you recall that it took a while for us to conclude the agreement. And therefore, there is a timeline by which those sites come to us, knowing very well that there are upgrades still required in those sites. I think that is also linked with the one question that came in that our cost came slower than what we originally expected. So, our expectation now given that we do have coverage obligation to complete by first quarter of next year, we really need to get our rollout much faster than what we have done in the beginning of the year. We do see that happening as we speak. And that's what is factoring for Ethiopia. I think that's probably making that ratio a bit worse. But I think that's how we're thinking. But it is fair to say that probably we'll see how things land up, but it's unlikely that we'll be on the higher end of the guidance. So, that's just for your information.

On funding, Ethiopia, the majority of the funding has gone through equity, followed by vendor financing. We will start seeing that in the liabilities that's also building up in the Ethiopia balance sheet. The third element is local currency funding which is also beginning to show up. In terms of local currency funding in Kenya Shillings terms, we do have end of September about KSh 6 billion equivalent in local funding that we have used. A combination of all these three is what has helped us in funding our Ethiopia operations.

Going forward, as we mentioned before, you will see probably more external debt coming through and the public announcement and other conversations that you've heard around IFC is geared towards that. So, you will see more and more debt coming in Ethiopia operations in future and less equity. I think it's only the gap that we were not able to put it through debt, and also keeping the debt to equity that is required for Ethiopia. But the focus is more on managing that, more external debt coming for Ethiopia operations. I think I will wait for your understanding of the other question, the split of currency. Other than that, Caroline, I answered the other two questions.

Caroline Wambugu
Yes, you did. Thanks, Dilip. So, the next two questions are once again from Linet. So, the third question here is Safaricom Ethiopia offered discounted rates in the first half of this year. I think she's referring to the welcome offer. So, the question is, how long will these rates be applicable for and by how much will the tariffs be increased after the offer expires? And then lastly, her question is on capex, again on Ethiopia. Management's targeted $1.5 to $2 billion spend in in Ethiopia remains unchanged. However, Ethiopia’s full year 2022 and this first half capex has fallen short of the targeted spend. So, should we assume that the annual capex over the next years, that is FY24 to FY26, will be higher than the currently estimated capex number of KSh 60 billion? Dilip, over to you.

Dilip Pal
Okay. Thank you, Linet. On the discounted offer, as you know, these are all promotional offers. A promotional offer is always for a limited period when you sign up a customer. And as part of our special launch offer, we have given certain minutes, certain megabits, and certain SMS. This basically lapses, so they need to use it within one month. There is a commercial that we are running, a commercial proposition for our customers in which they are buying those bundles when they finish either the time or finish using their promotional offer. So, it goes hand in hand. And of course, given the launch and special promotion that we need to do, we continue doing that. But it's for a limited period for customers to use, and then move into the commercial bundles and other services quickly.

On capex, no, Linet, it doesn't change. First of all, that KSh 60 billion capex that I think you're talking about referencing FY23, we did mention about this before. That's why we give a broad number. So, any catch up stored in one year will be definitely made up in subsequent years. So, we don't expect that $1.5 billion to $2 billion number to change. But within that could change. Year over year it could change. And of course, for FY24 when we guide, we'll also talk about it means in FY24. But that's for a later date and not today.

Caroline Wambugu
Okay.

Peter Ndegwa

Caroline, can I add just a couple of comments to what Dilip has said, especially on the Ethiopia welcome offer? I think it's important to understand given that we are now the second player in the market, customers are starting to learn to have dual SIMs and to have an alternative provider. So, one of the reasons why we give that welcome offer is so that customers can experience our network, customers can start to understand what it means to do cross network calls, rather than just purely within the same network, which we'll need to educate customers, because the tariffs will be different depending on what the interconnect is. So, our intention is making sure that we track that customers are recharging, so that they are coming back after they exhaust their welcome offer, especially on voice, which is very important.

On data it's less of an issue because we have 4G everywhere. The penetration of data is pretty strong. And we knew that there is a lot of latent demand that was not being fulfilled, because of the quality of network and also some of the propositions that were in the market. From a pricing perspective, our pricing strategy is generally to be either in line or just slightly at a premium, but not to go for any price competition. I know when we announced results today, there was a journalist who asked us. I think it was a journalist from Ethiopia, who felt that customers were expecting that we would discount quite significantly against the Ethiotel pricing. But we clarified that the intention is actually generally to be closer to what the main operator is offering, especially on voice. So, I think the key is we will learn as we go. And by the end of the year, I think we'll have enough learning to give a lot more texture to investors on how the customers are receiving both the propositions but also the experience.

Caroline Wambugu
Thank you very much, Peter, for that addition. And thanks, Dilip, as well. Peter, a question for you here from Solomon Kariuki of AIB. With bank to M-PESA transactions growing three times, do you feel the need to pursue the regulator for reversal in the earlier guidelines that removed bank to M-PESA fees, Peter?

Peter Ndegwa
So, the bank to wallet and the wallet to bank free transactions was never expected to be permanent. And that has always been the understanding with the regulator. We dealt with a with a bigger matter, which was the P2P, which went back to charging at a much lower cost. So, we expect that in time, we will have wallet to bank and bank to wallet being charged. But we believe that it will be at a much lower cost. And we're already having conversations with the industry and the central bank to see how that evolves. So clearly, you can't have a franchise that's free, because that is important that we continue to maintain that franchise.

Secondly, we are now the biggest ecosystem, a collection ecosystem for the country and for banks. And we pay commissions to agents for deposits, which is what eventually flows through in terms of wallet to bank. So, it is important that in the end, you still have a future-proof charging system that allows us to make sure that the economics of the ecosystem are right. So, we do expect at some point we will go back to charging because it was most expected to be permanent.

Caroline Wambugu
Thank you, Peter. Dilip, I have three questions for you that were posted on the chat. One is from Solomon Kariuki once again of AIB, and it reads as follows. What informed the jump in short-term borrowings, while finance costs remained flat? Are these borrowings working capital related, and how much of it is in foreign

currency? And then another question from Danesh. Is the decline in voice revenue more linked to cannibalisation from data versus elections? And lastly, the question from Samuel Njihia of Renaissance Capital. Safaricom recently lowered rates on Fuliza. How our transaction values/volumes trending, and do you expect growth in transaction values to overcome the lower take rates on Fuliza? Dilip, over to you.

Dilip Pal
All right. So, Solomon, on your question around the jump in borrowings, these are short term borrowings, and I can confirm to you they are also in local currency. So, there is no hard currency borrowing that we have taken in this first half of the year. Then your question on cannibalisation and whether it is linked with more than other things. No. So, cannibalisation is not new. I think that's been going on. I think in our previous engagements we've always highlighted that as a global trend, voice will be under pressure, but we are trying to still defend our share to make sure that an important service like voice he pace of decline is lower.

We said that voice is expected to decline and what we have seen in first half of the year is the rate of deceleration is much higher. Our assessment based on our analysis, what we have seen of actual customer behaviour, is coming more from the macroeconomic factors rather than anything else. And also, the disruption or slowdown in activities that we've seen during the election period. So, there is a natural cannibalisation that's happening, but the 3.8% decline is not coming from that. The question on Fuliza, is a very good and important question to reflect as we are reflecting on our price changes or price optimisation we have done from January 2021 when we brought back the P2P charging. And you will recall this conversation around that time when we were releasing our H1 results. We had a similar conversation that when the prices are restored, what will happen?

I think what we have seen is that the elasticity on usage and the volumes of transactions are always higher. And I really cannot comment on this, since it's just about one month now, for me to give you any colour to what we see. But our expectation is that the customers see more value. If you've seen the optimisation, the price, many customers if they're repaying within three days, they're just paying the upfront fee and not paying any charges, because the first three days are free up to a certain value of the transaction. So, our expectation is that it always allows customers expansion of more users, more fully the customers coming through, and therefore increasing the volumes and values. But you have to wait and see how the second half of the year the impact coming through that pans out. And we'll of course brief you when we release our full year results. I don't know whether, Peter, you want to add any more colour on the Fuliza conversation.

Peter Ndegwa
Yeah, I think beyond answering the question, one of the key elements that we've been considering is, from a sustainability perspective, the perception of the product having been seen as expensive in the past was not good in terms of seeing this product as sustainable. So, we believe that we've now gotten to a good place where two things were achieved. And that's one of the things that was not happening before. One is Fuliza starts being used for the purpose it was created, which was emergency credit, not a term loan, whether that term loan is for seven or 14 days. We realised the duration in which most people were having Fuliza was between 10 and 15 days, which is too long for an emergency credit.

And therefore, that's why we said let's put the front end, especially for small amounts below $10. The front end is free for the first three days so that people use it properly as emergency credit, and therefore it's more sustainable for that use case. And if customers want term loans, we will as part of merchant credit in future be able to provide a proposition that meets the needs of customers who want term loans that are beyond seven days. So, the sustainability of the product for us is the most important, rather than necessarily whether the revenue considerations in the near term affect the profile of that product. But we believe, as Dilip has said, the need is there. We will wait and see, but we believe that the elasticity is strong enough to bring customers in if it is used for the right purpose.

Caroline Wambugu

Okay. Thank you very much, Peter and Dilip. Let me take the next set of three questions. One is from Francis Mwangi. Please share more details on how you see funding for Ethiopia's opex, and capex spend over the next five years. Francis, maybe just to let you know, this information is part of what was shared this morning through the earnings release. So, you'll find the capex guidance for Ethiopia for the next five years in the presentation. It's $1.5 billion to $2 billion in the next five years. And we don't give guidance on opex. So, allow us to just close at that on that one. There is a question from Lucy Odhiambo. Lucy is asking kindly to provide a guidance on Safaricom Ethiopia's full year network operating costs considering the significant impact on group network operating costs since launch. Lucy is with Dyer & Blair. Let me give you this one as well from Mike Steere. Please, may you provide guidance on the capital intensity of the core telco business versus M-PESA. Dilip, if you could kindly take those two questions.

Dilip Pal

Okay. Caroline, I think you answered the first question, when you said that you don't give guidance on opex. I think the way to look at this, if you look at FY23 guidance for Ethiopia, we have revised our EBIT guidance from a previous loss of KSh 30 to KSh 33 billion to now KSh 22 billion to KSh 25 billion. And that actually represents all the costs that we are incurring in Ethiopia, including network operating cost. And you have to actually assume that network operating cost will be an important cost element in Ethiopia, given that the rollouts are happening, and other costs are picking up. So, I think that is where I will leave it here because we know we don't necessarily give separate guidance on opex.

On capex intensity, I hear you. So, I take this as an input that in future there is an opportunity for us to now give intensity by business. We haven't done that before and we haven't considered that also as part of our guidance, but I get what you're trying to achieve. But it's fair to say that telco intensity would be higher than M-PESA. But we just don't calculate it that way. We don't guide that way to the market. So, we haven't done that. But I take that as an input. Let's see whether we can provide it in future.

Caroline Wambugu

Thank you. Thank you, Dilip. The next set of questions. I have a question here from Ali. Ali is with FIM Partners. And Ali thanks for the call, but also has a general question. And he does ask, in the case there is a split of GSM and M-PESA in the next few years, how does management think about preserving shareholder value to ensure the split does not create a cash flow or a valuation drag, particularly on M-PESA? I know this has been addressed partially before when we talked about the split of M-PESA. But maybe I'll just request Peter maybe if you could just share a few thoughts on that. How does management think about preserving shareholder value to ensure that the split does not create a cash flow for a valuation drag, particularly on M-PESA, in case there is a split?

Peter Ndegwa
I think this is a CFO type question. I think the way we look at the question about how we are organised is to create better visibility of each of the individual business, whether that is M-PESA, a tower company, the GSM business and any other subsidiary including the Ethiopia business are separate subsidiaries within the same Plc. Of course, the actual relationship between the subsidiaries or rather between the businesses will be housed within Safaricom and the synergy benefits will continue to accrue to those businesses. Only now that they will be more formalised. I'm not sure about the cash flow piece because we are not splitting and separating the businesses in terms of external hive-offs or anything like that.

And that's also one of the reasons why we are saying that there are some tax considerations to be overcome. So that is an internal reorganisation rather than a permanent hive-out of businesses. So, if there is any issue with respect to how it affects shareholder value, we would only make the decisions in the best interest of both shareholders but also how customers and regulatory constraints allow us to do. So, Dilip. If you have any other comments on that, please do.

Dilip Pal
Thank you, Peter. I think you covered it well. So, the intention is not to do anything which dilutes the shareholders' value. The intention will be always to protect shareholder value. Thank you.

Caroline Wambugu
Thank you. Thank you very much, Peter and Dilip. Thanks for that response. The next set of questions, one from Farouk. Farouk is with All Africa Partners. He asks: Which segment, voice, or data, or mobile money, do you think is most exposed to slower growth if inflation continues to grow and macros remain weak? And how is inflation impacting salaries at Safaricom and pricing strategies? That is to you, Dilip. But take that together with this other question from Sam. Sam Griffith asks, have you opened up the M-PESA app to third party developers yet? If not, when do you expect to? Dilip.

Dilip Pal
So, good questions, Farouk. Our view is that inflation and therefore consumer pressure impact pretty much all segments. So, I can't say that one is protected. But if you have to do a kind of a waterfall, which gets impacted first, then I would say voice probably is the one which gets impacted first. Remember, we do have a lot of voice only customers. And in the segments which are greatly impacted, the first thing they will try and optimise their spend, the voice gets the first hit. And then probably followed by mobile money and data.

I think that users of data probably in terms of inflation they have the ability to withstand that, I'm not saying they have that fully, but it's probably higher than the only voice users. Mobile money, yes, it does impact. Remember that when you have less money to spend, that's where our whole ecosystem touches. Money is flowing across the ecosystem and if there is less money to spend, it does impact mobile money as well. So, I have to say that all business segments, data, voice, mobile money, it does impact. But in terms of most impacted I think probably starting with the voice.

On salaries, I don't know what exactly the question was. Yes, we do pay salaries to employees. We do have an annual review that we go through a proper benchmarking process. And the organisation is going into agile. And therefore, there are ways that we assess our employees based on their crafts and based on their contribution. And based on that appropriate compensation is given. And I understand maybe your reference to whether inflation does impact the salaries. Yes, it does. It's also part of the benchmarking and the considerations that we go through when we do annual reviews of employees' compensation.

On the pricing strategy, unfortunately, probably that's where the telcos are more constrained in terms of an inflationary pressure. We see that other industries are able to increase the price. But I think the expectation from telcos is that they will not be able to increase their price mostly in the frontier and emerging markets where the impact of inflation is much more in the consumers' wallet. You probably hear that a bit in European markets. Some of the European operators have increased their prices. But that has not necessarily happened here, and I don't see that happening just because inflation has gone up. But the way you structure your offerings, and the way you give your customers offers, there is a lot that goes into understanding who are the most vulnerable customers, and who are not so vulnerable, so that you can customise your offers and promotions accordingly. That's what you do.

On Sam's question on third party, we do have our 3,000 developers. They build solutions in our platform. And to your question on whether the super app will be added to that, I think the way the super app is coming in is the mini apps are coming. Mini apps are for example the mini app of one of the supermarkets or a ride share will come in. This is an opportunity for the developers to develop those in that context rather than developing it here. But maybe this is something for our team to look into it, whether there is an opportunity for third party developers to come and develop in our super app. But right now, it's not there. But they come in and develop lots of solutions for businesses. As I said, more than 3,000 developers are actually working in our platform as we speak today.

Peter Ndegwa
Caroline, can I just add a couple of points? I think on the question of the businesses being impacted, one of the ways we look at impact is also to do some studies and to interview customers, to get research agencies to interview customers and say, how are they reprioritising their spend depending on the categories that they actually buy? And we've been doing that for a while, so that we first of all keep in touch because communication is still very important for customers. But if you think about one of the dimensions we think about, which is the most mature product that a customer can't do without, and voice is one.

Data, there's still a lot of headroom to grow the amount of data that people use. And in fact, one of the constraints is the type of handset they have. So as long as you have the right handset, you can always use more. And we've seen close to 70% increase in usage of data. And that also has allowed us to reduce price by about 30%. So, the economics of data still have a lot of headroom, as long as consumers continue to use more. And we have corrected. Remember that our business given it's been premium priced; we have corrected versus competition quite significantly. Especially on the data side, we are closer to where the rest of the competitors are. But on voice we still have a premium. So, therefore, when you think about trade-offs between us and competition, the voice will tend to be more affected than data where we are closer to where the rest of the market the market is.

So, I think those are important considerations. On the M-PESA side it is more the traditional services like withdrawals and P2P. And that's why increasing the way the franchise is used, so the wallet to bank increasing and so on, is very important. And actually, growing the use cases that customers are using on M-PESA allows them to trade off against various components. They're seeing it as one holistic offering, rather than specific services that they're receiving from our business.

And then on the cost of employees, which is the other comment I wanted to make, given that we are a technology and fintech business, traditionally, our churn rate in terms of employees leaving the organisation is very low. However, we have seen a lot of attention being placed by various players in the market on great talent on the FinTech side, and therefore, we've had to significantly increase salaries for those types of skills. So yes, we have seen significant inflation on those types of skills, more to protect, but also to ensure that we keep and maintain those people within the organisation. And that clearly has an inflationary impact. But generally overall employee base, we do a benchmark and ensure our employees are hitting the benchmarks that we want.

Caroline Wambugu
Thank you. Thank you very much, Peter and Dilip, for those responses. Let me take another set of three. And just to let us know, I can see we are two minutes to the appointed time in terms of what we had allocated for this session. But we shall request that you indulge us. Maybe we can go another max 10 minutes just to be able us to address the remaining questions that are here with us, so that we give you full value for the discussions we are having this evening. So, two questions from Ali. Can you remind us if the Ethiopian MFS licence is embedded in the licence you already paid for, or will that require another payment? And the other question from Ali is how will rising interest rates change your payback period expectations for Ethiopia, if at all? And then lastly, here is another question from Sammy. And these three questions I'm assigning to you, Dilip. Kindly comment on the share price and dividend policy. That is from Sammy Kibet.

Dilip Pal
All right. Ali, the first question on whether the MFS licence was embedded in the licence that was awarded to us by Ethiopia, the answer is no. The bid was for a GSM licence. And it was very clear that there will be a separate process for an MFS licence. And that's what I think we were discussing earlier, and also giving you an update. The process for issuing that licence has progressed very well. But there are one or two steps that are still to be concluded, including if there is a price to be paid for that licence fee and the terms and conditions of the licence. We have not concluded that. So, it was not embedded as part of the GSM licence that was issued.

Interest rates: Yeah, we do simulations on interest rate and the impact on payback period. At this point in time, there is nothing that we need to alert you that it is changing. It is still within the range that we were expecting. But this is one area we need to watch very carefully how this pans out over a long period of time. Is this something that is going to be sustained for a long term or is this going to cool down in some time to come. Share price and dividends; We mentioned before there is no change in dividend policy, including a consideration of an interim dividend that we normally discuss during January/February once we have a visibility of our full year's net income. That will happen, but this is a board matter and will be discussed and agreed, and we will inform you appropriately. As far as the policy is concerned, it has not changed. It's still 80% of the consolidated net income excluding minority interest. That will be part of the consideration for the dividend pay-out. On share price, if your question is on the share price decline, I don't know. Caroline, is the question around the share price decline? Or what is that I am supposed to comment on share price?

Caroline Wambugu
It's not very specific, Dilip, so maybe I'll ask Sam to get directly in touch with us through our investor relations address. We'll be able to address that for you. But at least the dividend policy, please, I'm sure you've benefited from the response. So, Dilip, now that I still have you, let me give you the next three questions. I have three questions here from Lisa Kimathi. Lisa is with SIB. What was the source of revenue in Ethiopia, especially since there was a free welcome package? Then the next question is what led to the increase in handset costs? Is Safaricom Ethiopia selling handsets in Ethiopia? If so, how profitable has it been? And by your estimates, is each of your customers buying a handset? I think I'll allow you to take those two. And then this third one I'll give to you, Peter. The new government in Kenya has come in with new targets, some likely to impact Safaricom, for instance, expanding fibre optic reach, affordable credit, affordable data calls, local manufacturing of phones, etc. To what extent does Safaricom intend to take advantage of the opportunities or shield itself from potential risks? I'll request Peter to answer that after Dilip has taken the other questions from Lisa. Dilip over to you.

Dilip Pal
Thank you, Lisa. On source of revenue in Ethiopia, in case you have seen our presentation, we have reported total revenue of KSh 98.3 million as of September 2022, out of which KSh 9.1 million is what we call data service revenue. And the difference between the total service revenue is mostly the device revenue handsets that we sell and book as revenue. That's where it is total revenue. And service revenue is voice and data. I think in the presentation, you will see that almost 50% to 60% of our customers who are using voice are also signing for data. So that's very positive. We don't have the split yet, but in future of course, we'll also split it between voice and data for Ethiopia.

Now, to your second question on handset cost, that cost is mainly on account of the handsets that we're selling. I think we have reported that number as well, the number of handsets that we have sold. This is a key part of our strategy of driving a digital ecosystem in Ethiopia to allow affordable handsets in the hands of customers. So, we are seeing actually very good traction. We reported a number as at end of October. Actually, we had sold close to 70,000 handsets. So, the numbers are smaller. I think half of that would have come in by September, what you've seen in the handset cost that we have booked. And I can confirm to you that we are not subsidising on the devices. There is a demand for devices in the market and that we are fulfilling. And we are not subsidising it. Peter, if you can take the third one.

Peter Ndegwa
So, the question from Lisa, it's a critical one, the one on the new government. And we see it in a very positive way because we see a lot of the areas. So, the new government has made ICT and fintech as central to how they want to achieve their social and economic agenda from a manifesto perspective, but also start to ensure that the country recovers from some of the challenges that it's facing economically given what's going on. And when you think about our strategy of being a purpose-led technology company, we have been flagging that these are core areas. So, Lisa, you have spoken about expanding fibre optic. We have already said there's about a million

more homes and offices we can reach. We are only at around 200,000. So, we can partner with government to accelerate fibre expansion. But one thing that is quite clear if you accelerate fibre expansion, you need handsets. And we've been talking about handsets as a big enabler. We only have a third penetration of 4G handsets. So, we will want to be involved in all the key programmes that the government wants to undertake to really revamp and make handsets more affordable, more accessible, and actually expand the financing of handsets. And you can bring in banks and others to finance handsets.

And then on the FinTech side, in terms of credit, we've been talking about merchant credit as a very big opportunity. The government is talking about those cohorts of customers that they call hustlers, you know, boda-boda riders, mama mboga i.e. the vegetable seller. All those are within what we have felt is a huge opportunity for accelerating new growth areas. So, we want to position ourselves as the preferred ICT and fintech partner of choice for government. Of course, we have to partner with everyone else, because this will be an industry solution that benefits the country. But we are very excited about them. And if we do this in a very significant way, it will also continue to show government not just the importance of our franchise, but also our sector, in terms of the country. And this goes to the heart of purpose. So, on the downside, we need to make sure that this is done in a way that benefits our business, but also ultimately benefits customers in the long term.

Caroline Wambugu

Thank you. Thank you very much, Dilip and Peter. So, I'll just take the last two questions that we have here. And then we'll bring the session to a close post getting closing remarks from our CEO. So, there's two last questions. I'll address them to you, Dilip. One is from Samuel of Renaissance Capital. And Samuel is asking, you've recently launched 5G. What are your plans in terms of 5G pricing on mobile? Do you plan on a differentiated pricing on 5G on mobile devices? And you also mentioned that 5G devices are still expensive. So, how are you tackling this challenge? That is from Samuel of Renaissance Capital. And lastly, from Linet Muriungi of Absa Securities, kindly advise on depreciation and amortisation treatment for Ethiopia. Is it safe to assume approximately 25% depreciation charge on network infrastructure? And also guide on licence treatment. Dilip, over to you.

Dilip Pal

Thank you. I think I'll go for the last one first. So, the licence amortisation is straightforward. It is over the licence period. On depreciation, Caroline, can you take an action just to check the percentages that we can confirm back to her? On Samuel's question, a very good question on how we see our 5G pricing evolving. Our view is the use case that we have launched in the market is the home device, the fixed device on 5G spectrum that customers can use and get better speed and also higher volume of data allowance. For mobile only, given the penetration of the devices enabled to 5G capability is very small, and remember we are not talking about largescale launch yet. We are currently available in 35 sites going up to 200 by the end of the year (FY23). So, right now we are prioritising the home, the devices that we will be using, which is the fixed solution, which as you know, that's been the most discussed and used use cases across other telcos where they have launched 5G. And that's what we are currently offering to our customers.

And from a device point of view, the device which goes at the CPE, the customer premise equipment currently is expensive. You're right. But you don't see this one any differently than what we have seen in the early days of mobile evolution. As you would recall, the cost of device was very high. But that has been going down. And you have seen on 5G also some of the markets are really aggressive in bringing down the cost of devices. I know some markets like India, I think they are talking about 5G devices anything between $75 to $100. So, I think over a period of time, this will also go down and you will see traction coming in. This will go through the similar way that we have seen the early days of telecom. But I think we are in this journey. And we will learn from what customers really like about this, because this is new in this market. And of course, we'll foster it as we go along. Peter, anything you want to add on this.

Peter Ndegwa
Probably just to say that we are also open, depending on the appetite, especially for home where we do the fixed wireless, we are also open to fund on a pay as you go so that devices are more accessible, either in packages that are longer dated, or the actual devices instead of upfront payment by customers, just to drive the penetration.

Caroline Wambugu
All right. Thank you so much, Peter. Thank you so much, Dilip. This brings us to the end of the Q&A session. And so, without much further ado, allow me to bring back our CEO, Peter Ndegwa, for his closing remarks before we close the session. Peter.

Peter Ndegwa
Yeah. So, mine is just to thank everyone for the engaging call, the great questions. And it's quite clear that Ethiopia is a big area of interest. So therefore, our teams will endeavour to provide as much information for you as a community to understand the Ethiopia business and its impact, its profile, the future, but also the impact on our group results. It is fair to say that we are navigating through a tough economic environment. But the H2 piece looks a lot clearer than the H1, because at least we are over the election period, which was another uncertain period. And therefore, it's not that the economic situation will change, but at least it is clear.

So, one of the big elements where we are planning over the next three to four weeks, we will have a lot of investor engagements in Kenya, online with our European investors, but also face to face in South Africa, and also the US. So, we will have enough opportunity over the next three to four weeks to continue to engage all of you and give you as much information as you need to be able to understand our results, but also the balance of the year. Thank you to everyone and thank you to the team for today. And have a great evening and great afternoon.

Caroline Wambugu
Thank you. And that brings us to the end of our call today. Thank you so much, Peter. Thank you so much, Dilip. Thank you, everyone. Thanks for the engaging session. And as Peter has mentioned, we shall be engaging some more in the roadshows in the coming weeks. Otherwise, also, feel free to reach out to us on our Investor relations email address, and we shall keep engaging on this discussion. Otherwise, good day to all. Thank you.

END OF TRANSCRIPT