Conference Call Transcript

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HY24 2023 RESULTS

Caroline Wambugu Moderator

Good morning, good afternoon and good evening from wherever you're joining us from and welcome to the Safaricom PLC 2024 earnings investor call.

My name is Caroline Wambugu Moderator. I serve as the Head of Investor Relations and Financial Planning Analysis here at Safaricom, and I'll be moderating today's discussions.

On today's call we will have a short update from our CEO Peter Ndegwa, followed by some remarks on the finance performance overview by our CFO Dilip Pal, who will speak briefly about the results that we announced earlier today. Following this, we will give you a chance to field your questions which will be addressed by both Peter and Dilip, with the support of the rest of the leadership on this call.

But before we kick off our session, allow me to speak through a few house rules. Please ensure you've joined this session with your full names for ease of identification when you post your questions or comments. If you haven't, you can take this moment right now to just hover down your cursor over your name and click rename on the drop-down button.

Throughout this session any questions that you have should be shared via the Q&A link. At the end of your question kindly remember to include your organization's name.

In staying committed to our promise on diversity and inclusion, we have included a live transcript that has been made available for your comfort for anybody with hearing difficulties, so you can access this by clicking the view transcript tab at the bottom of your zoom application under more options. This will allow you to keep up with the conversations in a more comfortable manner.

Finally, in case you require any assistance from us that is more directly related to the discussion at hand, you can write to us via the chat platform and the Investor Relations team will be at hand to assist you from the backend.

Now it's my pleasure to welcome our CEO Peter Ndegwa to share his introductory remarks. Peter, over to you.

Peter Ndegwa

Yeah, thank you. Thank you, Caroline, and please confirm that you can hear me.

Caroline Wambugu Moderator

We can hear you, Peter. You may proceed.

Peter Ndegwa

Okay, yeah. So good morning, good afternoon, good evening, everyone, and thank you for joining us for this briefing. I'll just make a few comments, and then I'll ask Dilip to go into a bit of the detail of the results that we announced earlier this morning, Kenyan time.

So in summary, we are very pleased with the results that we have delivered for the half year that ended September 2023. We have had a strong performance in Kenya, very, very solid results out of the Kenyan business across the board, in M-PESA, in mobile data and in several other areas.

And we've also gone through quite a number of key milestones. Commercial milestones in Ethiopia, including the switch on of the M-PESA platform and we already seeing some good results in terms of cast customer acquisitions. We are also pleased with the data usage and of course we shall go into a lot of the details of in Ethiopia shortly.

But I just wanted to say we are pleased with the group results primarily driven by very strong Kenyan performance. Very good health of the overall business, particularly financial services, mobile data, and also fixed, and some recovery that we have seen in Q2 on voice. We are conscious that we are operating in a tough macroeconomic environment, both at a macro level affecting customers in terms of wallet. But also affecting our ability to control costs in particular, you will see that, and we'll go through that. Energy costs have been very, very significant in terms of inflation, and but we are happy to say that we've been able to mitigate quite a lot of these through a lot of the work that we've been doing.

So, Dilip will set out the summary of the results and go through just in 5 mins, and then we'll spend most of the time in Q&A which Caroline will facilitate. For the most part the questions will be answered by myself and Dilip together with Wim who our new CEO at a Safaricom Ethiopia is. But there may be questions that we may need to the extent necessary, involve some of the Ex-co members we invited. So, hand over back to you, Dilip to summarize the key financial metrics that we've delivered.

Dilip Pal

Thank you, Peter. Thank you, Caroline. Good morning, good afternoon, and good evening wherever you are. Thank you for joining us today.

We believe you may have joined our call this morning, and maybe you have already seen our presentation, so we will not waste time with updates. Rather we'll spend time on Q & A. But just before that I thought, I'll give you a very quick summary of what we spoke about this morning.

So, I'll start with Kenya. Macro environments continues to be tough. Inflation still at an elevated level. Currency depreciation continued with a 22% decline year by year.

GDP growth is coming back but is still not at the level it was before. You are aware of the MTR changes that happened last year from August 2022 bringing it from 99 cents to 58 cents. So, in the current financial, we have first 4 months of MTR at 58 cents compared to 99 cents last year.

And we also have returned to charging on wallet to bank, and bank to wallet, which was introduced from January 2023. So, as Peter said, very strong performance on Kenya side on the top line service grew at 8.5% adjusted 9.3% for MTR.

Within that is stellar performance from M-PESA with a 16.5% YoY growth. You will see many of those KPI's that we have provided. But, most importantly one KPI that we are very proud of is the chargeable transactions per customer per month, which has grown from 22 to 29, and you'd recall this number was about 8 to 10 pre-covid. So, we have actually tripled the chargeable transactions per customer per month in just 3 years' time.

All KPI's on M-PESA are tracking very well on the lending side except for Fuliza which has declined YoY but that was understandable given that we optimized pricing fully last year. Outside of Fuliza all lending revenue streams are growing nicely.

On mobile data, again, very strong growth, 12 and half percent growth, as you have seen driven by usage growth. We continue to grow the devices, the 4G devices in our ecosystem grew 18.8% YoY to 14.39Mn, very good performance. On fibre to home growth was 29%.

Messaging again, you saw from last year that we started growing on messaging. That trend continues. We reported 6% growth in messaging revenue. Voice declined 3% expectedly, as we always mentioned to you, voice is expected to decline in lower single digit, but quarter one was bit tough but quarter two I'm happy to report that we had a growth of 0.4%.

Now coming to the cost side, the direct cost we have seen a decline majorly driven by the decline in hand-set cost but even otherwise we have seen a very good efficiency driving our direct cost decline, especially reduction in M-PESA commission. After reintroduction of charging from M-PESA to bank and bank to M-PESA.

On Opex, Peter mentioned about our cost increase by about 8.7%, but majorly driven by energy cost. This is one of the biggest concerns for us which is majorly driven by the rate increase in energy cost, which has grown more than 50% year over year.

Other than that, I think we are tracking quite well. We are able to mitigate, the other increases to keep the overall operating cost below inflation.

You may have seen a significant increase in interest cost that's mainly driven by the interest rate increase due to the macroeconomic situations. As you have noticed, the interest rates have gone up significantly.

Our debt level has gone up a little bit, but the level is just about 9 billion.

And we have also recently taken a sustainability link loan about 15 billion in this period. And we also have repaid the 120 million US Dollar loan that we took to invest in Ethiopia.

Net debt/EBITDA ratio is at 0.4, very healthy cash flow. You may have seen very healthy growth in Kenya, both on operating free cash flow as well as free cash flow. And based on all of this, and the current momentum we have decided to revise the guidance by about 12 billion in EBIT and slightly higher in Capex.

In terms of Ethiopia, major milestones at the sites we have now rolled out 2,057 sites and are on track to achieve our full year number.

Customer growth is coming up nicely as you may have seen from our presentation. Most of our numbers in the customer KPI's are doubling from the level that we had as of March. Revenue growth, it's showing up now, we have about 2 billion service revenue which contributed 15% to incremental revenue growth in the overall group revenue, which is, which is very encouraging. As you would know, this is one of our key expansion as we have gone beyond Kenya, and then top line growth will be supported in the in future.

Mobile data is very, very encouraging. We are, technically a data led network. 69% of revenue actually came from mobile data. As Peter mentioned we had M-PESA switch on in just about a month and half back, and we have already registered about 1.2 million customers.

Funding side, Ethiopia is very well-funded. IFC came in. They came in as an equity partner of 7.25% share and contributed part of the equity contribution, and also, we are in a position to draw the 100 million debt that we have secured from IFC.

Full year guidance for Ethiopia remains unchanged. And medium-term outlook which is to break even in year 4 from the day of launch and also the Capex outlook for first 5 years between 1.5 to 2 billion dollar that remains completely unchanged. So, at this stage, let me pause here and hand over back to you Caroline for the Q&A session. Thank you very much.

Caroline Wambugu Moderator

Thank you very much, Peter. Thank you very much, Dilip.

And rightfully so we have questions coming in quick and fast, so we shall delve right into it.

And the first question and this is to you Dilip, is from Samuel Njihia of Renaissance Capital. So, Samuel is asking mobile data grew by, that's 12.5% yoy for Kenya. However, the operating metrics point to a slowdown. Customer output grew by only 0.8% yoy and one-month active customers grew by 3.5% year-on-year. But allow me to add here, for the benefit of Samuel and everyone else on the call, that the chargeable customers grew by 16.6% year-on-year. But the question from Samuel is, how can we reconcile the lower operating metrics and growth of 12.5%? And what really led to the growth in revenues. Is it the lower excise tax?

If this is the case, weren't those cuts passed to clients? Why the slower decline in the rate per MB? The lower cuts should also have led to lower usage growth. Should we expect more aggressive cuts to drive usage growth? Or are you comfortable, with a slower pace in cuts? And this almost sounds like a big load but, Dilip, I hope you got the question.

Back to you.

Dilip Pal

Yeah, thank you. Thank you, Caroline, and thanks Samuel for the question.

Yeah, I think if you're looking for a reconciliation, I'm sure Caroline and the team can help and support you. But as Caroline mentioned, chargeable customers grew by 16%, and most importantly, the usage per customer per month, as you have seen is now past 3.8 GB.

So, as I mentioned in the call that the growth was primarily driven by usage growth coming from the adoption of more and more 4G devices. You have seen the growth in 4G devices in our ecosystem. We have seen the customers who are using more than one GB per customer per month is also growing. So, it's mainly driven by the smartphone adoption. More and more smartphone adoption leading to a higher usage growth. And chargeable customers, as Caroline mentioned, actually grew by 16%.

Caroline Wambugu Moderator

Yes, thank you for that Dilip.

Peter Ndegwa

Caroline, can I also add to that?

Caroline Wambugu Moderator

Yes, please.

Peter Ndegwa

Yeah, I think the other element there was a reference to rate reduction, and so on, and so forth, and the element around excise. We did pass excise reduction to customers. But if you recall, we have been reducing rate for a while for the past 3 years, and when you look at the cumulative effect which we put into the results announcement this morning, it is about 65% in just over 3 years. And we had to do that for two reasons. One is to drive reduction in premium positioning of our business versus what is in the market, but also to get to a place where we believe that the rate was closer to drive affordability.

When you look at the rate in Kenya, and you compare it to the region we are now one of the lower rates in the region. Actually, we are in the potent quartile, I would say.

Therefore, we do not see a need to significantly reduce rates anymore. Of course, we need to continue to increase adoption, but also usage and that's why the smartphone penetration is very important and overlay that with what the customers do when they have smartphones. So, content has grown significantly, as you'll have seen in the results and the usage piece will continue to be driven by that.

And then the second thing is with us launching a locally assembled device, we will have devices at lower prices, and therefore we, we do see the opportunity to accelerate the increase in adoption of 4G devices. But from a rate perspective, we see that bottoming out because we already have fairly, low rates, and we've done most of the correction in the past 3 to 4 years.

Caroline Wambugu Moderator

Thanks Dilip and thanks Peter for that addition. So, I'll read a set of questions here from Maddy of HSBC.

So, Maddie has 6 questions and I'll just read as they appear as we assign the person to respond. So, the first one is what drove the lower EBITDA losses in Ethiopia half-and-half, year and year and are you growing less aggressive on rollouts or marketing, etc.? And so that's to you Dilip.

And second question, we see lower handset sales - what were the drivers? Has your handset manufacturing started? Did that not contribute to it yet?

So, I'll give that to you, Peter. Can you please give details on which transactions are still free on M-PESA? Is there a limit on how many times a day, a month or so the free transactions can be available by users, and are there steps in place to stop abuse of this? That's to Dilip.

And then the fourth question was to Dilip, how is charging for bank transfers again affecting user behaviors? Now that we've returned back to charging, are they not transferring out to banks now or doing less transfer in, or both are impacted. So that's just a question on the response, from a behavior perspective with the return to charging.

The fifth question, can you share which apps or services are now available on your super app? And what is the trend on your take rate there. That's to you, Dilip.

And lastly, to you, Peter. The sixth question from Maddy. Can we please discuss current Macro situation?

So Maddy of HSBC, 6 questions. Maybe Dilip to start us off then Peter can take the other two. So Dilip, over to you.

Dilip Pal

Yeah, thank you. Thank you, Maddy.

So, I don't know which period you are comparing. Basically, it's not like for like comparison of EBITDA losses. What we said, is that we are on track in terms of rollout with a target of you'd be rolling out over 3,000 base stations by full year and then we have already rolled out 2,057 base stations as at HY24. So, we are pretty much on track in terms of what we intended to deliver by this financial year.

So, we are not slowing down in terms of our rollout, and of course, now the revenue is showing up. As you have seen we have now reported about 1.9 billion Service Revenue about 1.9 for the first half and that will contribute to it. But you remember that we said FY24 would still be the highest loss year for Ethiopia, and then it slides down and FY26 we break even.

So, you have asked quite a few other questions in terms of M-PESA free transactions. Majorly deposits and M-PESA Kadogo i.e., P2P transactions up to Kes 100 are free and merchants' payments (Lipa Na M-PESA) up to Kes 200. We also have the non-financial transactions being free i.e., airtime purchase and balance enquiry. We spoke about this, and we believe this is something very important in building loyalty and stickiness, and also allowing customers the most marginal customers, to use our services without being impacted significantly.

Now on to return to charging or reintroduction of charging. So, what I mentioned in this morning's presentation was in the last 3 years our ecosystem in the bank to wallet and wallet to bank, that ecosystem has grown over 140%, and once we reintroduced charges and, as you know, we have repriced, at almost over 50% reduction in the pricing we have seen a decline of only 29%.

So, it was expected that when you come to return to charging, and there would always be customers making few choices and, this only signifies that most of the volumes remain, because at the reduced price, customers still find it very attractive.

But also, people who have moved out of the bank to wallet and wallet to bank freely, we see them moving to P2P leg which basically means that they are also trying to optimize their pricing, whether it's more beneficial for them to do through P2P. So, I think the bigger changes in the ecosystem which has got developed, and we saw substantial volume remaining within us.

Your questions on super apps. We have about 78 Mini apps under super apps and we monitored their performance on a regular basis.

So, I think I did provide some statistics in terms of how do we see engagements? The customers who use super app along with the mini apps. We see the number of transactions of a customer is over 90 compared to what I mentioned of about 29 transactions per customer per month in the overall M-PESA ecosystem, which means that customers are more engaged. They use more days of usage, and mini apps are integrated in a way that customers can use them as they remain in the super app.

But we are building the platform in a way that becomes a supermarket for customers to be able to do pretty much everything within that. And also using our AI and machine learning algorithm to provide customers more offers and do cross-selling, upselling through that.

From a revenue perspective, of course, because of more engagements, and because of the payments being done through M-PESA. We will see an upside, as you have seen from the results 8% of M-PESA revenue came through Super App, and part of this, of course, driven by the mini apps as well as they end up paying by M-PESA. But more than that, we do have a revenue model wherein these numbers are still small, wherein we get a small share of the volumes which get transacted to the mini apps integrated in the super App.

Yeah. I think on the take rate we are not measuring the take rate yet on the super app per say. But I think you may have seen overall M-PESA take rate which has improved from 0.31 to 0.36 in first half of the year.

Peter to you in case you want to add something on this or also for 2 of your questions.

Peter Ndegwa

Yeah, no problem, Dilip. I think you've answered the questions. Well, nothing to add to the questions that you answered.

In terms of the 2 questions that, Maddy, is it, Maddy? asked. The first one on handsets, handset sale. Yes, there was a significant reduction in handset sales and the main reason is, as you know, in the previous year there was an increase in tax excise duty and the overall tax rate increased by, I think, 20 ppt, and that led to a higher price of handsets coming into the country. So, therefore, we saw a reduction in the number of handsets we were able to sell because we only sell 4G plus devices. We also saw an increase in what we call parallel handset sales. So, handsets that don't pay tax and get into the country. Of course, we cannot be able to verify those, but certainly there was a lot more sales of handsets in the open market. That was clear from a price point perspective that they probably weren't paid for the full tax. So that's a pure reason why there was a reduction in number of handsets sold.

That said we've now opened the device assembly plant which came into operation from the beginning of October, and it is a joint venture between the MNOs in this country, but also tele one who had been a major supplier of neon devices up to now. So, they are now able to produce the equivalent devices that we've been selling and that have been imported and the price point is about 25 to 30%, depending on the device, they are cheaper than the imported equivalent. So, we believe that in addition to lower cost of devices, and if we overlay the financing on devices from January, then we should be able to see acceleration from Quarter 4 of device sales as result actually partly from quarter two depending on the stock that we have, and certainly from quarter for all the device sales, because they'll be more affordable. And actually, we have much more control over them. So that's on the question of devices.

Your other question was on macroeconomic environment. The macroeconomic environment has been quite tough both in Kenya and Ethiopia. GDP has been stable growing 5.4% in Q2 2023, primarily supported agricultural activities, that grew by 7.7% during the quarter from a contraction of 2.4% same quarter of 2022.

Inflation has stabilized. But we know that there are certain areas of inflation that are very significant. Fuel is one of them but also food prices. Luckily, from a country perspective, we've seen increase in agricultural output given the rains that came through. The worry is that the rains might affect harvesting. But certainly, there is better output this year from a food perspective. So, the likelihood of a major food shortage is low.

However, if we have excessive rains that could affect ability of farmers to either harvest or plant, but also subsequently we may have a drought spell that may come through but now I think focus on food availability is relatively good. I think the other element on macro is the currency depreciation of 23% which, of course, that brings in imported inflation, but also affects our ability to deliver on the Capex, because a lot of our equipment is imported. But also imported inflation, on some of our direct and indirect costs.

So that's all I wanted to say with respect to Kenya and on Ethiopia there, on the Security side, Tigray is now more stable, but Amhara is under a state of emergency.

So clearly, we have to reject our ability to roll out network and also recruit customers. But we keep adjusting our plans and Dilip has said that we are likely on track in terms of delivery of the rollout.

But you'll have seen that it will affect our ability to recruit customers, especially because we've already built some network in Amhara, and there's a state of emergency at the moment. But the biggest element from a macro perspective is a pressure on customer wallet and for us, because we are in a sector where we cannot pass pricing cost to additional pricing. Our objective has been to offer more value, to offer more personalized offerings, but also to mitigate any cost increase on the P&L side, that we don't have to be under pressure to pass those in a consumer prices.

So, I'll leave it at that Dilip, please feel free to add more.

Dilip Pal

No, thank you, Peter. You have covered it well.

Caroline Wambugu Moderator

Okay, thank you. Thank you, Peter. Thank you, Dilip, and Peter, staying on that conversation around the assembly plant follow-up question here from Baiju Shah of Apollo Asset Management. So Baiju we've answered the question around the rates and the taxes. But I'll address your second and third question, and this is what I'm posing to, Peter. So, do you expect to see higher revenue from the locally assembled phones compared to imported phones? Or is it a fact that there is a higher margin on selling imported device or locally assembled. And then the second part is with respect to what is the potential impact on employment that this manufacturing plant has in the area, and I must add that Baiju started with a compliment. He says that he managed to use the device that we are assembling locally, and he says it's quite a good phone.

He must have that. Yes, so it's quite a good phone. So that's a compliment. Thank you for that Baiju.

Peter Ndegwa

Thank you Baiju, and thank you for using the phone and testing it, which is fantastic, and you'll be glad to know part of the way we've used the phone, one of the first customers is the Ministry of Health because they are rolling out a community health program where they'll have a hundred and ten thousand community health practitioners who will be attached to 10 million households.

So, in terms of the forecasts, or how we look at devices. Our objective with local Assembly is to hit price points that allow customers to afford those phones rather than start to make lots of money from a business of assembling phones. Yeah. So, our objective is to minimize the amount of money we make on devices and actually package those in value to customers.

Of course, we won't be making losses, but package devices add financing and insurance and add propositions that allow customers to consume our GSM and financial services product in a much easier way and much more seamless way. But most important pass on that 25 to 30% reduction in price, and therefore increase the level of penetration of 4G devices as a result of that. So, our expectation is not to make significant amounts of money on the actual device assembly, but really to benefit customers downstream, and therefore increase our ability to monetize that through our existing business.

Sorry, Caroline. I think I lost your second question, or I forgot.

Caroline Wambugu Moderator

Yes, yes. So, the second question is with respect to potential impact on employment that this manufacturing plant has.

Peter Ndegwa

Yes, so at the moment we have an initial plant that has been set up for capacity of about 3 million devices per year. We believe on one shift is about 350 employees, and you could double that to about -700 hundred. And clearly, we believe we need much more than 3 million devices and to the extent necessary, we believe we can add more capacity.

And then the second aspect is the device assembly can also be used to export into the region because we are in the East African region, and we believe that is a very significant opportunity.

And then, finally, beyond producing 4G enabled devices, we can also start to assemble other devices, the CPU's that are used at home and a variety of other devices, so this could be quite versatile in the future, and we just need to lay out some of the needs that we have, and we believe that it will allow us to really be able to deal with a lot of the needs that our customers have.

Caroline Wambugu Moderator

Thank you. Thank you, Peter, for that.

I'll take a question here from, sorry, it's just dropped on my screen. Give me a minute.

Yes, from Jaynesh. So, Jaynesh of Mazi Asset Management. He congratulates us for the solid results. Thank you, Jaynesh. And the question is, could you comment on the competitive environment in Kenya? Is the competition being more rational on pricing. So that's to you, Peter.

And then Dilip you'll take a question from Rohit Modi of Citi who is asking, please, could you share a funding plan for future Capex in Ethiopia. Will there be more equity infusions?

So, we'll start with you, Peter on competition.

Peter Ndegwa

Yes, so it's a great question on competition. If we look at Kenya to begin with on mobile data, and I have said earlier that we have reduced pricing to a level where we believe we are about 10 percentage points above or equivalent to the nearest competitor. So, we are very close to the competition. We believe that the price points are low enough, and we have not seen any appetite for the competition to go lower than where we are.

On voice, though voice has always been a loss leader for a lot of our competitors. So, they do have very low prices and whilst we continue to reduce price on voice our focus there is more affordability from our customers to make sure that we keep those at the right level, and of course to follow where the MTRs are gravitating to. With respect to financial services, we reduce price in the past 2-3 years by up to 60% for the most part on average. And we've seen that broaden the ability of the base to afford including all those free transactions which Dilip referred to.

So, from a rationality perspective, we see more rationality on the data side, probably less so on the voice side and then from our financial services side a lot of our competitors offer their financial services, especially transfers for free, at the at least within the network.

From an Ethiopia perspective we have seen that the elite player has continued to reduce price and our intention is not to undercut, but basically to make sure that we are not significantly different from the lead player in Ethiopia which is, Ethiotel will set the price points that the market will follow given their scale in the same way that we do here in Kenya.

Dilip, please feel to add anything more but I think that responds to the question that was asked.

Dilip Pal

Good, thanks Peter.

Yeah. So, on your question on funding plan. So, as I mentioned we concluded the agreement with IFC for equity contribution with 7.25% shareholding and 100 million debt.

Our expectation is that the next level of funding that the business will need will come from external sources and mostly from borrowing from the foreign DFI's and we're in discussion. So, to your question whether there will be more requirement of equity? The answer is the consortium members are committed to make up any shortfall that comes in, but it's most likely that the rest of the funding will be met through the debt funding, and also which will allow us to have the leverage debt to equity as per the NB requirement. So that's what so unlikely there will be more equity requirement, but should there be any shortfall that comes through all, the consortium members will fill it up.

Thank you.

Caroline Wambugu Moderator

Thank you, Peter. Thank you, Dilip.

So, question here to Dilip from Jake. Jake works with Ashmore group. He thanks us for the presentation. Thank you for that, Jake, and the question is, can you please unpack the updated guidance for us, as it appears that Kenya EBIT guidance implies a slowdown in H2.

And then for Ethiopia, it implies a significant improvement in the EBIT loss in H2. Can we get some more detail on your assumptions here? Dilip over to you.

Dilip Pal

So, thank you. Thank you for the compliment and thank you for the question. Yes, I can see where you are coming from. From the first half of the year in Kenya we had about 67 billion. So, guidance is just like close to the double the first half. But remember what we mentioned about the cost increase, especially on the energy side. We see the rate increase pretty much every alternate month, so business price goes up, the grid power rate goes up and that has an impact. So, it's mostly coming from the increased cost level, increased cost driven by the energy cost. That's what is driving maybe slower the expectation of your EBIT guidance that we have given. But of course, this is still a significant uplift from the level that we were at of 10% uplifting the guidance that we have given for Kenya.

Now to flip it for Ethiopia. What we said on Ethiopia is FY24 is the peak losses and within that we still would like to remain within our guidance which implies that the second half of the year would be better than the first half.

So, this will be driven from the fact that by the time the trajectory of break even in FY26, you need to start reducing the losses. We are scaling up revenue and we have just launched M-PESA. And it's going to also add to the contribution in terms of the top line growth. So, it's the combination of top line, growth, customer acquisition, revenue growth and introduction of M-PESA that will help us to achieve what we're trying to achieve.

Thank you.

Caroline Wambugu Moderator

Thank you, thank you, Dilip.

Peter Ndegwa

Sorry Caroline, just one minor addition to the Ethiopia conversation. As we have also looked at the market economics of that market, we've also now started to look at the cost profile a lot more now that that business is stabilizing, and there are certain areas of cost that we will manage better. Not that we are not managed before, but they were set up in a slightly different way, things like managed services, the mix of experts versus local that will start to move in the right direction and will help us be able to have a better cost profile as we go ahead in Ethiopia.

Caroline Wambugu Moderator

Thank you. Thank you, Dilip, and thank you, Peter, for that addition.

I'll move on to a question here from Francis. Francis of Kestrel Capital has a two-part question, and I'll give the first question to you, Peter and the second one to you, Dilip.

So, the first question to Peter for Kenya, you have indicated that there will be, continued price optimization for voice. What is the current premium level? And what is your ideal medium-term target?

Question number 2 to you Dilip. Ethiopia's voice and data started by slow but have shown strong improvement. Over the long-term, what are the expected voice and data up to levels relative to Kenya.

We can start with you, Peter.

Peter Ndegwa

Yeah. Francis, that is a very, that's very difficult question what the targeted price premium is going to be. I think, I mean, I remember telling the team that for data, we've gone to about 10%. I don't think voice will go that far but certainly, I said that the way we look at voice unlike data is that it is not necessarily the price premium that we have. It is whether how far we push so that we get good affordability because we are still growing minutes as a result of reducing the price that we have. And also, because our current competitors use voice as the price leader, the price premium is not a rational measure that you use to be able to say, well, this is the target that we need.

Of course, the reference point is also MTRs, and how that give us a bit more freedom compared to data, but certainly in terms of reduction we are not going to go in the same direction that we have on mobile data, because most of the competitors use voice as a loss leader.

But we have reduced the price premium, which was well above 150%. Now it is roughly anywhere between 50 and about 60%, but also the other element that we also use because of CVM and depending on the segment of the customers that we are targeting, we can be able to give additional value. That means the premium is not as significant as your headline premium, and actually the affordability can be secured because we have some flexibility given where MTR is. But it's difficult to guide on the premium of voice, because the rationality in the market is not as good as on the data side.

Dilip Pal

Okay, so Francis, your question on ARPU. So, the business that we have now, and what you have reported up to September 2023, basically for segments of revenue versus mobile data messaging and M-PESA.

Now you would appreciate that M-PESA revenue is still not showing up, because it's just the early days. and we haven't gone even above the line in terms of our promotion or advertisements. So, I will not talk about that. But if you look at the other 3 elements, the one which is tracking very well and from a Kenya comparison perspective is mobile data.

Just from a revenue contribution, Kenya is about 19% mobile data contributes about 19% of service revenue and Ethiopia we are a data network and it's contributing 69% of service revenue. Now is this how it will continue to be like that? No, the proportion will come down, because you'll also see that the voice minutes and messaging users are quite low compared to Kenya. It's not that people are not interested in using voice or message. It's just that a telecom operation, Green field telecom operation, as it expands the network effect of a voice has not yet kicked in.

So, as the customers come in as we shall scale up our business and as we roll out most sites, the voice minutes will show up. So, without giving you a number, you could expect the voice output to go up, potentially messaging output to go up and mobile data that I think Peter mentioned about in this morning's call. The data exit usage for Ethiopia, in just one year, and at end of September surpassed Kenya and Kenya is a 10-year operation, since we launched mobile data which is very encouraging.

And, as you have seen, mobile data one-month active chargeable data ARPU of 180.35 is also very encouraging. With Ethiopia being a greenfield telecom operation, this contribution is expected to decline as network effect of voice kicks in with the growth of customers as we scale our business operation and roll out more sites countrywide. With the growth of customer numbers, the voice minutes of use will grow thus resulting in increased revenue and ARPU.

But for that you need to have more customers and more acquisition to be able to affect that network impact that I spoke about. So, it's very difficult for me to give you a number and by when, but directionally, yes, we see good traction in mobile data. Voice, we haven't yet, you know, seen the scale usage that you normally see once you have a scaled network.

Back to you, Caroline.

Caroline Wambugu Moderator

Thank you. Thank you, Dilip. Thank you for that. Thank you, Peter, as well. The next question we shall take from Jonty Fish, and this is to you. DiIip.

Jonty Fish is with Alan Gray. He says you also mentioned that you revised your Ethiopia customer targets down from 10 million to 7 million. But you're still on track to meet your other targets. Is there a reason that your customer targets have changed? But your EBITDA breakeven hasn't?

Dilip.

Dilip Pal

Okay, I think, Peter, you mentioned about the momentum that we have seen, and which continues. First, we acknowledge the site rollout leading to the growth in customers. The acquisition that you have seen, we have acquired more than 7 million customers already. But from an active customer base, what we have done and readjusted in terms of our outlook for the full year is basically based on the disturbances or the issues that we are facing in Amhara which definitely allows us to rethink. You know, in terms of outlook will you be able to get it's almost like a 20% of our base. But are we able to get the customer traction that we are getting.

So as much as we are trying to make it up in other areas but it's fair to say that there will be a shortfall coming, mostly coming from the reason that our assumption is that this is not going to get resolved soon, so our current assumption is that it continues to the end of the year.

Should there be an improvement in the situation going forward? Of course, we are not going to stay at 7 million, we are going to improve it even further. But at the same time, you're also seeing opportunities in more relatively safer areas like Tigray which was disturbed at some point in time. So, we are re-adjusting our rollout, and also our customer acquisition strategy to ensure that we don't lose out the momentum. Yes, but you have to be practical in terms of revising our active customer forecast for the year.

Now you know, we have a certain target that we aim, for. We are not compromising on our sites roll out and we want to add customers who are more quality, which means that we are also seeing opportunities in other areas, and we are re-adjusting our customer acquisition strategy to ensure that we don't lose momentum. I mean, there is likelihood of more loyalty and stickiness for those customers who are coming along with M-PESA usage. With that we still believe that the EBIT guidance for the year, which remains unchanged is achievable.

Thank you.

Caroline Wambugu Moderator

Thank you. Thank you very much, Dilip.

So, a set of questions here from Tracy. So, Tracy, I see, you've got about 6 or so questions and 2 have been answered from a previous conversation. So, one of them on the handset costs, and the future of that through the EADAK facility. So that has been addressed.

The other one, we shall take it offline. You are asking for a breakdown of revenue by contribution in C2B: Paybill vs M-Pesa to Bank, so I acknowledge that piece and we shall address that for you. But the question to you Dilip from Tracy of SBG is, why are we seeing a decline in transaction values in payments and in deposits? Do you anticipate a recovery?

So that's the first question. Then let me read the other 2. So, the second one is, why was there a take-rate increase in lipa na M-PESA, were tariffs increased?

And last, thirdly, but lastly, why is data consumption in Kenya not growing as fast as Ethiopia? Will slowing growth pace of data price cuts compromise the level of usage growth in Kenya?

So, Dilip over to you.

Dilip Pal

Alright. Caroline, can you repeat the second question? I didn't get that one.

Caroline Wambugu Moderator

The second question is, why was there a take rate increase in lipa na M-PESA? Were tariffs increased?

Dilip Pal

Okay, excellent. Thank you.

Tracy less than 6 questions from you is not a standard. But I'm happy that you already got answers for 2, so I'm only left with four to address. So, on reason for decline in value and deposit, I think, I articulated that very well. This is coming from when we reintroduced charging for wallet to bank and bank to wallet. We have seen a decline in the volume by 29%.

And remember, this is the leg which was free and therefore there was a significant increase in customer usage you know, instead of going to a banks, customers were depositing money to banks through our agents.. So, this became a deposit channel for the customers.

So, we reduced prices but still the volume decreased. I also mentioned that this decline in 29% was acceptable given that we have seen 140% growth in this segment over the years. So, it's quite normal, and that decline that you have seen is driven by that. The bank wallet and wallet to bank transactions.

On lipa na M-PESA I think one of the upsides that we have also gotten is from the zero rating of the pay bill, which basically means that we were not getting any revenue previously. Now, with the return to charging coming in, we also have seen that showing up. So, we haven't increased prices. It's just that the return to charging rate also had something to do with merchants and that allowed us to get higher revenue or better take rate.

On data uses, I think you have quite a few areas that you wanted me to clarify. So, I'll try and answer one of one by one. The fundamental to data growth is devices, because we have covered 100% of the country.

The second is devices which is work in progress and the third is content. I would say, work in progress since there is still a lot to be done. So, it is the device that needs to come in much faster than what we have seen, which will enable the group that you have seen, because if you go back and you check, year over year the 4G attachment level we are growing. We are growing nicely, but we are not growing as fast as we would have loved to. So, unless we have affordable 4G devices in the hands of the customer the usage will not come in. So, we still have dropped in prices by 9.8. Yeah, it is the slowest growth, but it's still a drop right. So, no matter how much you do, unless customers have devices in their hands, the ecosystem will not grow and we will not see a lot coming in. And that's why you haven't seen probably 40-50% growth that you have seen in the previous years.

Peter did mention about device sales in volume that has declined because of increased taxes last year. That's the reason why the Local Assembly device is so important where you have a capacity to do a lot, and at an affordable price, which can then bundle it up with our products, and make sure that customers can use it more.

So, we have a very high ambition in this space for future. So yes, there is a slowdown, but it's likely to get compensated in the coming months and years, as the smartphone penetration grows faster.

And I think I'm combining all your questions in terms slowing pace of data price cuts compromise the level of usage growth in Kenya. It's not because we have. you know, our rate of decrease in rates is lower, and that's what's contributing to that, and our chargeable customers are growing. Our chargeable transactions per customer are growing, 4G users are using more and more. We see very good ARPU as they move from either from 2G to 4G or 3G to 4G. But we have to fast track this. We need to do much more than what we are doing today, and that will enable us to grow much faster, on the usage side. And that is what will drive revenue and ARPU.

Caroline Wambugu Moderator

Thank you very much, Dilip, for that. We have a question here from Baiju and Baiju we acknowledge your question on the venture capital strategy, and information to be provided on that. So, we acknowledge we'll provide that information in in our next presentation. So, we've taken note of that.

Samuel Njihia of Renaissance. Your three-part question, I think we answered the first and the last, the one on voice and elasticity of it, and the M-PESA deposits in terms of the decline there. So that has been addressed.

But let's ask your question number 2 to Dilip. So, Dilip the question from Samuel is on Fuliza. Given the target revisions on Fuliza I expected usage levels on the product to be much higher. Both in disbursements, is close to where it was before the tariff revisions, that is, 32% yoy in half one versus 30% yoy in half one of 23. Was there a deliberate move by the partners to cut lending?

Maybe to mitigate against an increase in NPL's? Or did the partners, that's NCBA and KCB. change the credit limits?

Dilip over to you.

Dilip Pal

Yeah, so on Fuliza. I think the whole objective of at making credit affordable is what drove us to reduce a significant price optimization that we have done in the last year. What are we expecting out of it? The first, of course, make it affordable. Make our customers have access to-, affordable credit. We want to expand the customer base and then, secondly, see that loan disbursement growth continues.

So, I think we have achieved all the key objectives. We met the objective on the affordability side. We met the objective on disbursement, which is growing nicely. Could we grow more? Yes, we could grow more, but also customers, which is also growing. Now, could we grow more in terms of customers? I think the answer is, yes, our full customer's numbers will grow as we go along.

So I think, Fuliza, we have to look at it from that perspective and the disbursements and as you grow them, remember there are other products that also available in the market, which are also bringing in more options to the customers, including, I'm not saying that that has contributed to this, but the customers are also finding, for example, Hustler Fund, which has also has gained significant momentum during this period. I mean, Hustler Fund has been a huge success. So, you can't just see one part in isolation. You have to see all lending products in terms of money disbursed and how the ecosystem is growing.

I think to our objective of making credit affordable, expand the base, and make sure that customers are able to use it in the most convenient and affordable way until all those objectives have been achieved.

Caroline Wambugu Moderator

Thank you, thank you, Dilip, so I'll allow Dilip to sip a glass of water and direct questions to Peter, the next 2 sets of questions to you, Peter? These are questions from Eric. Eric Mokaya asks, are plans to expand to other markets beyond Ethiopia? That's the first one and the second one, what's your assessment on the capex intensity in Ethiopia going forward?

Over to you, Peter.

Peter Ndegwa

So, thank you. Thank you, Eric. Great questions. So, in terms of expanding to other markets. I think the view we take internally, as you can see, there is still significant opportunity to grow in Kenya. So, whether that's expanding, fixed, expanding financial services going into the tech space, supporting digital Kenya, and so on. And you can see growth is showing up.

But also, really make sure we double down on making Ethiopia work because we've just made the investment. There's still a lot of heavy lifting to do. We need to double that network in the next couple of years to be able to ensure that we can accelerate recruitment of customers.

There is still a lot of work, and we are glad that Wim, who is a very experienced CEO, has joined us. And we do want to focus on making Ethiopia work, but also expanding participation in Kenya. So, at this stage, we are not intending that we should focus on a new geography.

Certainly, from an FS perspective in international money transfer and e-commerce will continue to be a major idea of play. But for the moment, we want to make sure that Ethiopia works.

And you ask you asked about Capex intensity. I think at steady state it will probably be where Kenya is, but at the moment is just about we've signaled the amount of Capex we want to invest over the next 5 years, which is one and a half to two billion dollars. Then the number of sites we need to have achieved by that stage.

We have fairly good funding mechanism, especially from vendors but certainly from a capex perspective our intention is to accelerate the rollout network initially, but a steady state which you still get back to where Kenya is.

Caroline Wambugu Moderator

Thank you. Thank you for that, Peter.

So, questions here from Sruti. So, Sruti of EFG thank you for your question, and thanks for the compliment on a strong set of numbers which is evidence of our resilience and sustainable growth in Kenya, we appreciate that.

So, question to you, Dilip. When you look at this set of results, which aspects are you most proud of? E.g., what was an identified challenge that management proactively worked on to overcome? So, let me repeat that when we look at this set of results, which aspect are you most proud of? For example, what was an identified challenge that management proactively worked on to overcome.

The second question, Sruti, I take note of it, is to the IR team with respect to investor day in Addis in February. We will share that information with you in the coming days.

Dilip Pal

All right, Sruti, as always, your questions are very, very different. So, I think, starting with what we're proud of. I think we're proud of the overall commercial execution and the shape of P&L trajectory we got to see for the first half of the year in Kenya.

We are proud of the milestones, which are very important milestones that we are achieving in Ethiopia. So, I don't want to point out one particular area. I think overall commercial execution is what we are very proud of, and this doesn't come, I know you just can't work on the last 3 months or 2 months, one month, and then produce these results. This has been a long, you know, long sweat and whatever efforts, as you can say.

You know some of the areas that you have seen the content for example, you can't double your content revenue in one year unless you prepare for it. So, the repression for content, which is not a big amount of revenue, but we believe that has worked. So, in every aspect of the commercial execution, I think something that we are proud of now.

The identified challenges were two for us. One is the big item, energy. And second, one is the currency. And especially energy for Kenya from a rate perspective. Not so much for Ethiopia, from a rate perspective, but more from the way of transmission. So, the availability is there. But how do you make sure that site gets the rate power that it needs? But I think the one significant progression that was required is for us to able to see, how do we make our energy sustainable? Yeah, we see a growth of 50%. But the actions that we have taken which you have not taken would have seen probably a growth of 70% because of our solarization effort that we are putting in. And we're also preparing for the next phase of a sustainable energy solution for us, which means that modernization of our energy infrastructure, solar sites and potentially other opportunities.

On the forex side. I think it was not easy. Given that we still have imported components in our capex and Opex. But from our side, what we try to do is minimize that foreign currency dominated loan, which, as you know, we had a loan for Ethiopia investment, and we managed to repay those even within one year, even before the full 5-year term completed.

There are several other initiatives that we have taken to make sure that that we pay. We localize most of our procurement. We pay in local currency, matching the flow. With that, I think there are several initiatives that we have taken that has helped us in mitigating probably a much bigger exposure or impact in the income statement and in the balance sheet.

The one which has been tricky was the interest rates as the third element. Interest rates have been on an increase. You may have seen 30% increase in average interest rates given the liquidity issues and other challenges. Macroeconomic challenges that we have seen. Are we able to manage it? I think, to a large extent. no, but we're still trying to see how we can rebalance.

I mentioned about sustainability loan which goes with our ESG agenda and our ESG ambition. In any case, we are driving those targets. And this loan actually helps us to reduce interest cost, because if we hit those targets, our interest rate will be lower.

So, I would say, these are some of the areas. And of course, for Ethiopia. Well, you can't plan for some of the exigencies that we have seen, for example, the crisis that you've seen in Amhara. You can't plan for that. What you can plan is when such thing happens, what do you do about it? And which is what Peter and I spoke about, that you really adjust your plan and make sure that you've been more opportunistic in the areas where you have not planned it before. But try and now make sure that you leverage your systems to get the maximum benefit out of it.

So, these were very loaded question. And, Peter, I don't know whether you want to add anything on top of that, if I have missed out anything from management perspective.

Peter Ndegwa

Yeah, no Dilip you've it done very well. Probably just 2 elements that I would add which has probably been much more talked about. l know you spoke about it, but it is a very important one, which is, we identified that to our price in this market is premium priced, and we've corrected price over time. And we could have been tempted to bank it as additional revenue or additional income. But we, we actually felt that we needed to do that to create a more sustainable business.

And then the other one, which is linked to what Dilip has said, in starting the productivity journey a lot earlier so that we can give ourselves a space both to fund the pricing but also to anticipate that situations like we have had this year, if we hadn't done a lot of the productivity elements, our business would have been unable to absorb the costs inflation that we saw, and therefore would have been forced to pass some these costs to customers in pricing and affected revenue. So those would be the two that I would add to what Dilip has said.

Caroline Wambugu Moderator

Okay, thank you very much Dilip and Peter.

Peter a question here from Danesh of Franklin. Can you talk us through the FX liquidity access in Kenya?

Peter Ndegwa

The thing is, we know that in Kenya there has been challenge from a liquidity perspective on currency and many people, probably on this call will have faced those challenges from a dividend repatriation perspective. We used to see anywhere between 4 to 6 months backlog in terms of dividend repatriation or share sales repatriation. And that has actually now been addressed. The new government identified it as an issue. It needed to depreciate the currency further for at least the market to work and the liquidity has improved on this basis.

So, we believe that the liquidity has improved on the basis that the market works better at the moment, and there's a lot more coherence in the way that the Regulators look after the markets and allow the banks to do to do their job.

We play an important role because we flow in a lot of currency through IMT business and that does support what happens in the market in terms of FX availability. But from a liquidity perspective, if we use the proxy that we were using before, in terms of whether investors can be able to take money out. We believe we're in a much better place than we were about 12 months, and of course I'm waiting for your feedback. But that's our sense of where things are.

Caroline Wambugu Moderator

Thank you. Thank you, Peter. You did very well on that one.

So, one question from Linet of Absa Bank Kenya.

The first question from Linet is on Terek BeGursha is that campaign still ongoing? At least I can confirm that it actually ended in August. But the second question and this is to you Dilip, data consumption in the metropolitan area has been very impressive. What is the data consumption gap between the Metropolitan Subscribers and Rural per band subscribers? Dilip.

Dilip Pal

Thanks, Linet. Thank you for that question. So, I don't know where you picked up the metropolitan usage. But it is, I think, directionally, is fair to say that metropolitan customers will have the latest devices, the most you know, technically, most sound devices and potentially more to use based on their just their economic conditions. Right? So, it is fair to say that metropolitan users will have higher usage. So directionally, yes. But if you're asking me to compare exactly, we have to define what's the rural areas within that? What are we using? I think what we have noticed is the customers who are using 4G they use a lot more data than the customers who are not using 4G. And in rural areas, the 2G base that we have now was still not upgraded to 3G or 4G device. They are mostly in rural areas, so I don't have a number to compare between Metropolitan and the rural, but it is fair to say that the rural average consumption will be much lower than the Metropolitan.

Caroline Wambugu Moderator

Thank you, Dilip. A question once again for you, Dilip from Justina on hyperinflation. And the question is, what's the rationale behind reporting the hyperinflationary monetary gain in the income statement as opposed to other comprehensive income?

Dilip Pal

Yeah. So, why we are doing hyperinflation accounting is just following the international accounting standard 29. So, what goes into income statement, what goes into other comprehensive income is very clearly defined. You have seen these are separate items, which is also going into other comprehensive income. So, what goes into other comprehensive income is very, very well defined.

So what we're doing is just complying to is IAS29 requirement, and the numbers we're reporting is absolutely complying to IAS29.

Caroline Wambugu Moderator

Thank you for that Dilip.

Yes, so I think a question here from Baiju, but Baiju this question was answered earlier with respect to Ethiopia's data usage compared to Kenya. So, unless you have a follow-up question, happy to take that.

So, a question from Maddy of HSBC to you, Dilip, can you please remind us how much did Safaricom contribute to the Government's budget in FY23, or any recent period, by way of dividends and taxes? Has it fallen in absolute or percentage terms, and should we expect more taxes or ease in taxation in Kenya.

I think the second one is more of an opinion, but the first one is our contribution to the national kitty.

Dilip Pal

You're on chat. You are not on video so I'm very tempted to ask questions to you, but I will do it for next time when we meet in person. So yes, we do track it very, very closely. And I think we provide a kind of a cumulative amount. How much we have paid is also in our press release and booklet, Maddy. I think Caroline can guide you to that, but very specific to last year. Yeah. We, Peter and I just recently went to receive our eighteenth edition of highest taxpayer award. So, it's very, very, very fresh in our mind. So, the way they do it they go by their accounting year is slightly different July to June and based on that this is the eighteenth time that we have received it.

And for an amount, if I broadly, if I remember correctly this amount that overall, we have 2 roles to play. We do our own contribution by paying taxes on the income that we earn and then we are also withholding tax agent for the taxes that we recover, for the government, for the revenue authorities, from our suppliers or other sources.

So last financial year we have contributed about 130 billion Kenya shilling which roughly contributes to about 6% of the Government revenue and Safaricom's' alone contribution for the profit that we have earned actual payout was 39 billion. And you know, as you are turning into profitability, the growth in profitability so we are contributing more towards that. And I think this is also likely to grow more in the form of, although the corporate tax rate remains unchanged but, as you know, the individual tax rates and some of the other tax series have gone up. Which means that we'll be collecting more, and that will also grow. So, we are generating more profit, which means that you will pay more and be collecting more because some of the taxation has gone up, including the salary employee tax.

Now, directionally, yes, I mean, the tax is a very debated and sensitive area given that the Government has to balance their books, and the revenue collection has fallen behind target. So, there are always ways the tax authorities would look at to get more taxes. And I cannot say that, you know, you know, Telcom, the big companies, the Telcom companies, has always been under that pressure.

So, nothing has changed. And you have seen some relief in the last financial year, but also some extra tax that has come in. So, watch out for that and there has already been what they call is medium MTRS (medium term revenue strategy), which the Kenya revenue authority has rolled out for more medium time outlook to be able to see what are the sound areas the taxpayers like us can give us feedback and give them feedback and offer from others as well.

I mean, the revenue authorities have to expand the tax base and not necessarily tax people who are already paying taxes, the highest taxpayers.. Yeah, we don't know where that will lead to. But we're actively participating in our way in providing our feedback on to that.

Caroline Wambugu Moderator

Thank you. Thank you, Dilip and Maddie, just to compliment what Dilip said earlier in the taxes. So, you'll find that information on our press release for those in the Kenyan environment that will also be in your newspapers tomorrow. But the information is also on your website.

But specific to the 6 months. For this first half we've remitted 69.14 billion in taxes, duties and license fees. And this brings the total of what we have paid to the Government since inception to Kenya shillings 1.24 trillion. So, I hope that gives you a good view of that. So, it's information available on our press release document.

So, a question here from Wesley Manambo. Wesley is with Standard Investment Bank. Could you give us a sense of your spectrum allocations in Kenya? More so in the E-band and the 700-to-900-MGHz range. Also has the regulator discontinued any allocations? So, this one I'll give to you Dilip.

Dilip Pal

Yeah. okay, alright. So, we don't have anything on 700 band, but we do have spectrum in 800 - 900 band. So, we have 10 Megahertz in 800 band and we have 17.5 in 900 band. So, 700 band has not yet been allocated to us. And as we speak, I think we have sufficient spectrum for us to carry out our operations. We have sufficient spectrum in all categories, whether it is for using for our 2G voice, or 3G voice, or 4G data, 3G data or and the 5G, and you know we have very rich spectrum in 5G as well. Both in 2,600 and 3,500.

And of- course in future we would be also looking for opportunities to acquire more spectrum, especially in the millimeter wave and 700 Megahertz as and when it comes in. But right now, we are quite comfortable with the spectrum allocation that we have.

Caroline Wambugu Moderator

Okay. Thank you. Thank you, Dilip. Let me address this question to you, Peter. So, this is a question from Sam Griffiths. So, what drove the year-on-year drop on M-PESA agents? The decrease in M-PESA agents declined marginally by 1.2%. But the question is, do you think your agent base has reached saturation. The M-PESA agent base, has it reached saturation?

Peter.

Peter Ndegwa

Yeah, I think it's a great question. But I think let's put that in context. So just before the start of covid, we had approximately 150,000 agents. So, the agent's number has doubled in 3 years., You can see there has been a material increase in a number of agents, footprint of agents, and so on and so forth.

So therefore, a 1% drop is not material. It is on the kind of rounding, and I would say what we want to make sure, and we talk about 300,000 agents is about an agent for every 200 people. So, it is actually, very good coverage.

The thing that we normally do, or the channel team normally does, led by Nick and his team, is to find places where the actual density may not be good so, or rather there may be opportunities to increase the number of agents, because there, there are areas where agents may be too many. So, it is just to rebalance to make sure that we continue to ensure that we are close to where customers want us to be and that will continue to be to be optimized over time.

I think the second aspect is as people do more digital things, do-it-yourself, you expect that physical distribution will complement digital self-serve. So, we do not have a target number for agents. All we normally do is respond to the need either of individuals who want to be agents or actually places that don't have enough agents. But I would say we shouldn't read anything on the on the 1%.

Caroline Wambugu Moderator

Thank you. Thank you, Peter. I see we are running out of time. But I'll take one last question from Danesh. And this is to you, Dilip as we close. If you can talk through mobile data growth drivers via CVM and smartphone penetration. And the question from Danesh is also giving a comparative to other markets on the effective price per GB.

Dilip Pal

Thank you, Danesh, I know you have a very keen interest in the mobile data. You've never, I've never seen you, not asking that questions. I was hoping that will come through. And finally, it came through. So, on comparison, I don't have it in handy, but I can tell you with all the price optimizations that we have done, I think Kenya would be one of the countries with quite a lower-level rates compared to other countries. So, we are not at the highest level we are kind of at a lower level in terms of the other benchmarks comparison.

Now, from a group of drivers. I think Danesh we have provided quite a bit of information in terms of the smartphone growth which is now touched over 21 million. Then we spoke about within that 4G devices which is also grown and now touched 14 million 4G devices and then within that now small number, but still 500,000 devices which are using 5G services. Right? So, our focus is on smartphone. Our focus is on 4G devices within that. And our focus is that also the one which is coming 5G network. Are they attached to our network? Even whether we are selling those devices? Or you know, open markets are selling the devices.

So, I think I was responding to some other question, where we said that the pace of growth in terms of the 4G and the other smartphone penetration has slowed down. You know it has not grown as much as we have grown in the past. That's purely driven by the affordability shown, the price increase that we have seen. You know, the price of smartphone has gone up by 60/70% because of the taxes.

So, we continue to look for opportunities where you can subsidize, you continue to look for opportunities where we you know we have our lipa Mdogo Mdogo proposition, which crossed a million, and we also use the open market other device financing partners.

But the key is the price of device which has to go down. And that's why I spoke about, and Peter spoke about the importance of the local device assembly which enables us now to have more devices, affordable devices and more ranges and potentially other devices which also consumes data.

So, it has been a bit of a slowdown in the first half, but we expect this to accelerate in the second half of the year as we are planning, you know, in the beginning of the year we had, and very airy ambition to double our base, you know. Base of 4G devices, from about 12 million to about 20 million. So, we're not there yet. The second half. The task for the second half is huge to enable this to happen. These are a hairy ambition, as we mentioned, but with the device assembly plant coming into play, we believe we'll be able to make up some of the slowdown that you have seen the first step.

So, it's devices, and affordable devices which will actually play a significant role in enabling the growth. But otherwise, we have still seen a nice growth in the usage, and you have seen also, the price decline is probably one of the slowest, and we did mention about how we reduced premium. We don't expect price dropped to be as high as what we have seen in the past, and that's what is contributing to the growth of 12.5%.

Caroline Wambugu Moderator

Thank you. Thank you very much Dilip. Let me invite back our CEO Peter to give his closing remarks as we bring this particular call to a close, Peter.

Peter Ndegwa

Yeah, so thank you, Caroline, and thank you, Dilip for the engagement, and thank you everyone on the call, wherever you are.

I hope that you found the call useful. And we are happy to continue having such conversations over the next couple of weeks. As you digest the results, we are pleased with the results. We are pleased with the momentum in Kenya and some of the milestones in Ethiopia.

There's still more to do on enterprise, on fixed and also the move to tech in Kenya, and there's still a lot to be done in Ethiopia.

The other element is we are looking forward to hosting everyone who is able to make Ethiopia sometime until in February. We will also be taking our board at around the same time, or sometime during Q3 for them to also see Ethiopia. They have been there once or twice, but this is the first time they'll be going there just to review how we are doing especially with the business having launched M-PESA, and so on.

So, thank you and have a have a great evening and also happy for the IR team to reach out if you have any further questions. Thank you very much, asanteni sana.

Caroline Wambugu Moderator

Thank you. Thank you, Peter. Thank you, Dilip. We shall endeavor to address the questions that remain unanswered. Otherwise from us, asante. Have a good evening, good day, wherever you are. Thank you. Thank you.

The End.