

WHERE WILL WE
GO NEXT?

CFO's Review



Sateesh Kamath Chief Finance Officer



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A Year of Strong Financial Performance

We continued to deliver strong financial results this year, with growth posted in all the main business segments.

This was attributed to our targeted investment in our network, our systems and our customer focused and innovative business model. We remained attuned to the needs of our customers and we believe this played a big role in boosting our performance.

Business performance

Our service revenue grew at 14.8% year-on-year (YoY) in the financial year 2017, compared to the 13.8% posted in the financial year 2016.

In the first half of the year, we had a one-off adjustment resulting in a Shs3.4 billion upside to our profit. Excluding this one-off adjustment, underlying Earnings Before Interest and Taxes (EBIT) was Shs67 billion, a growth of 21.6% from the previous year.

Thanks to the strong trading performance, underlying net income improved by 18.3% YoY while free cash flow recorded a 43.3% YoY growth.

Our voice revenue defied global trends and continued to grow despite the growth achieved in mobile data.

Five years ago, outgoing voice and SMS both constituted 73% of our revenues. Today, these two businesses represent 54% of revenue. Our revenue is now well diversified with our data and M-PESA businesses acting as key drivers of growth.

In line with global trends, the average rate per minute for voice fell by 8% in the financial year, following a 14.6% reduction in the 2016 financial year.

Mobile data contributed to just under one-third of the overall service revenue growth, where an increase in both the number of data subscribers as well as data usage more than offset the reduction in the rate per Mega Byte (MB).

The average rate per MB for data reduced by 22% in the year, following a 33% reduction in the previous financial year. These price drops

are supported by a corresponding growth in the amount of data used by the customer. Mobile money continues to power the economy and drives financial inclusivity with Shs6,869 billion of value transacted on M-PESA, an increase of 29.7% compared to the previous year.

Over the past five years, the values transacted in the M-PESA system have enjoyed a compounded annual growth rate of 27%.

This is part of the reason why M-PESA is our largest revenue growth driver today, contributing just over half of our total service revenue growth.

During the year, we introduced M-PESA "Kadogo", where transactions under Shs100 do not attract a service fee. This has further strengthened our position as pioneers in entrenching financial inclusion in Kenya.

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spectrum and the record rollout of more than 500 new sites.

A fifth of our capital expenditure was invested in building IT systems and customer analytic tools that we believe enhance our ability to understand and respond better to our customers.

Analytics have enabled us to tailor our products and promotions, providing customers with an opportunity to enjoy a more personalised portfolio of products.

Our business was funded by cash from operations and debt that stood at Shs16.5 billion as of the end of the year.

We paid Shs30.5 billion in normal dividends during the year and the strength of our balance sheet enabled us to also pay a special dividend of Shs27.2 billion.

It's worth noting that 35% of the dividends are paid to the government of Kenya which holds 35% shareholding. This is in addition to taxes and fees that amounted to Shs84.3 billion in the past financial year.

Outlook

Like any other business, the country's macro economic issues may impact on our operations. The impact of the drought, reduced credit growth, the elections and the rising inflation experienced towards the end of the financial year may affect our operations in the short term.

Despite this, we feel we are well placed to continue to deliver sustainable growth this year thanks to our strong operational core, continuous investment in our network, our systems and our people and the expansion of our capabilities through innovation. Data and M-PESA continue to be our main growth drivers, and we see immense opportunities in these areas as Kenya continues to embrace the digital economy.



M-PESA is currently our largest revenue growth driver, contributing to just over half of our total service revenue growth.



Shs38bn
Amount of money we invested to improve the coverage, capacity and quality of our network.

Sateesh Kamath
Chief finance officer