

Safaricom: FY2020 Earnings Note

Safaricom announced their FY19 results, reporting a **19.5%** increase in profit after tax from **KES 62.49Bn** to **KES 74.70 Bn**. The completion of the acquisition of the M-Pesa brand led to a one-off exceptional gain worth KES 3.3 billion. Excluding this one-off gain, HEPS (Headline Earnings per Share excludes the accounting one-off gain from the acquisition of the M-Pesa brand) was up **14%** which was in line with our earnings expectations.

Key highlights

➤ **Reduced service revenue growth:** Service revenues grew by **4.8%** slightly lower than the **5.3%** growth recognized last year. The slowdown in growth was underpinned by the contraction of the betting industry during the year and adjusted for the depressed industry revenues grew **5.9%**.

➤ **M-Pesa drives service revenue growth.** M-Pesa revenues were up **12.6%** to **KES 84.4Bn**. Transfers and withdrawals increased by **14.6%** and **5.4%** respectively. The lion's share of growth (43.4% YoY), however, came from the New business stream which was driven by growth of Savings and lending.

➤ **Rebound in mobile data revenue growth.** Over the year, mobile data revenue grew **12.1%** supported by the rollout of non-expiry data bundles. Non-expiration data was well received by the market and it now accounts for 40% of mobile data revenues.

➤ **EBIT growths on the back of increased operating efficiencies:** Earnings Before Interest and Tax (EBIT) rose to KES 101Bn from KES 89Bn, representing a 13.5% increment. The growth in EBIT has been credited to a solid commercial performance and aided by a stronger focus on digitization and improvement in operating efficiencies as operating expenditures declined 4.9%.

April 29, 2020

Recommendation: BUY

Target Price: 32.8

Current Price: 27.55

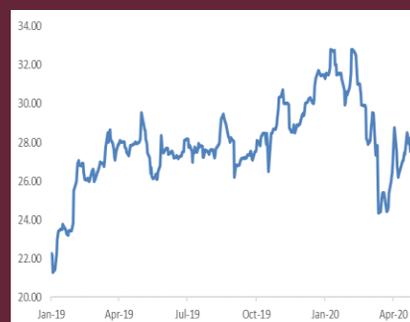
Upside/Downside: 16%

52 week range:

KES 24.35 to KES 32.80

Earnings Per Share: KES 1.86

Latest Results: FY2020, 74.7Bn



Analysts

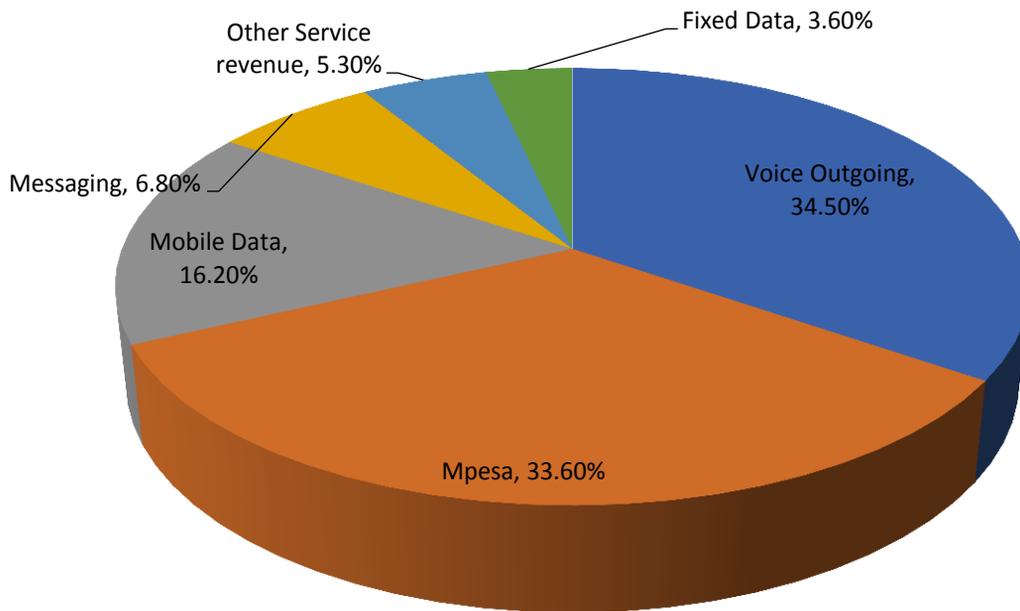
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- **Increased connections drives fixed data revenue growth:** Safaricom's Fiber to the home (FTTH) grew 42.7% as homes connected increased by 31.9%. The segment presents an opportunity for growth, especially in the current environment where majority of Kenyans are working from home.
- **Capital investment leans towards expenditure in digital networks.** Safaricom continues to invest in digital infrastructure with digital CAPEX increasing 4.4%. Capex for the firm over the period reduced to KES 36.1Bn as CAPEX intensity declining to 13.8% reflecting an increased efficiency in the firm's investments.

Service Revenue Profile



Statement of Profit or Loss(KES Billions)	31-Mar-20	31-Mar-19	% Change
Service Revenue	251	240	4.78%
Handsets and Other revenue	10	9	10.90%
Construction revenue	0.58	0.60	-3.33%
Other Income	0.28	0.46	-39.13%
Total Revenue	263	250	4.91%
Direct costs	(74.70)	(71.80)	4.04%
Provision for expected credit loss on receivables.	(1.67)	0.01	>100%
Construction costs	(0.58)	(0.60)	-3.33%
Other Expenses	(50.97)	(53.59)	-4.89%
EBITDA	135	124	8.32%
Depreciation and amortization.	(34)	(35)	-4.84%
EBITDA	101	89	13.54%
Net Finance Income	3	2	14.29%
Share of profit of associate	0.06	0.01	>100%
Share of profit of joint venture	3.3	0	>100%
Profit before Income Tax	107	91	17.23%
Income tax expense	(32)	(29)	12.18%
Profit After Tax.	75	62	19.56%
Profit and total comprehensive for the year.	75	62	19.56%
Basic and Diluted EPS	1.86	1.56	19.23%
Dividend Per share	1.40	1.25	12.00%

Balance sheet	31-Dec-18	31-Dec-19	% Change
Non Current Assets	14,867	15,386	3.49%
Current Assets	166,737	175,329	5.15%
Current Liabilities	6,724	10,152	50.98%
Total Assets	288,522	315,290	9.28%
Shareholder Funds	5647	8005	41.76%
Non Current Liabilities	213,139	229,736	7.79%
Total Equity and Non-Current Liabilities	18,861	16,687	-11.53%

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