



Safaricom Plc: FY'22 Earnings Note

Safaricom Group Plc announced its FY'22 results, reporting a -1.72% decline in Profit After Tax to **KES 67.50Bn** from **KES 33.06Bn**, this was the second year running of reducing PAT. The decline, in bottom line, was mainly powered by a faster increase in Direct Costs (+14.31% y/y), Operating Expenses (+19.90% y/y) and Income Tax Expense (+39.10% y/y) compared to a slower growth in Total Revenue (+12.90% y/y). Additionally, the EPS fell below our expectations by recording a 1.75% growth to **KES 1.74** from **KES 1.71** (below our KES 2.22 expectation) driven by adjustments for Ethiopian operations.

Dividend payment of an extra **KES 0.75** (taking total dividend to KES 1.39 vs KES 1.37 in FY'21), was below our expectation, providing a dividend yield of **4.36%**. We foresee investors viewing the dividend declaration as underwhelming and is likely to not lead to a share price rally. The counter is currently trading at a PE of **18.30x** above the current market valuation PE of 8.30x.

Key Highlights

- **Recovery in Service Revenue:** Service revenues grew 12.28% y/y on the back of a recovery in both M-Pesa and fixed data revenue. M-pesa revenue crossed the KES 100Bn mark for the first time by increasing 30.30% y/y to **KES 107.69Bn**, above our **KES 102.86Bn** forecast. Fixed data revenue was up 18.25% y/y to **KES 11.24Bn**, below our KES 12.78Bn forecast. Voice revenue slightly fell below our KES 88.18Bn forecast by growing by a marginal 0.80% to **KES 83.21Bn**.
- **ARPU sluggish growth:** The average revenue per user (ARPU) for the 30 day active total customers increased by 5.11% to **KES 725.04** driven by 4.32% increase in 30-day active customers to 32.81Mn. We expect M-PESA ARPU(**KES 305.37** in FY'22) to continue growing as volume of transactions continue increasing. However, we maintain our expectation of a continued pressure on Voice ARPU (-3.42% y/y in FY'22) and SMS ARPU(-20.91% y/y in FY'22) due to customers preferring other communication channels.
- **Direct and Operating Costs above expectations:** Effects of spending on setting up Ethiopian operations was reflected in the operating costs increasing 19.88% to **KES 55.19Bn**, higher than our expectations. Direct costs also came in above our expectations by growing 13.30% to **KES 91.47Bn** on the back of a 15.39% growth in M-pesa commissions to **KES 32.55Bn**. Pressure on Voice and SMS segments was reflected in a 2.63% reduction in airtime commissions showing the increased usage of M-Pesa to load airtime and reduction in physical airtime purchases.

13th May 2022

Recommendation: **BUY**

Current price(12/05/2022): KES 31.85

Target price: KES 37.53

Upside: 17.83%

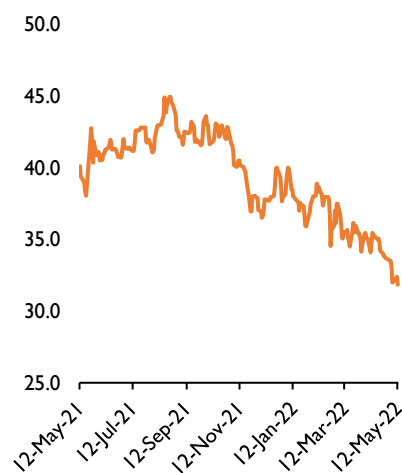
YTD Performance: -16.07%

LTM Performance: -21.55%

52 Week High: KES 44.95

52 Week Low: KES 31.85

Safaricom 1-year Share Price Movement



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- **M-pesa to continue driving top-line growth:** In FY'22, M-PESA one month active users ARPU grew 18.94% to **KES 305.74** (H1'22 at 300.71) leading to an 30.30% uptick in M-Pesa revenue to **KES 107.69Bn**. The growth past the KES 100Bn mark for the first time was driven by the resumption to charging of previously zero rated transactions beginning January 2021. Notably, the value of total transactions grew by 34.00% to **KES 29.55Tn** with the volume increasing by 34.90% y/y to KES 15.75Bn. Going forward, we expect revenue growth to be driven by increased usage of the platform and re-introduction of charges. We expect M-PESA revenue to recover from disruptions caused by the pandemic. The strong growth will be mainly on the back of P2P and lending revenue driven by increased in Fuliza uptake.

 - **Fixed data grows as uptake and coverage increases:** For the period under review, the fixed data revenue grew by 18.25% to **KES 11.24Bn**. The growth was driven by 20.81% increase in Fibre to the Home and 21.01% increase in Fibre to Business connections. The remote working and schooling from home policies also drove a 1.09% growth of fiber to the home (FTTH) ARPU to KES 2300. We expect Fixed data revenue growth to be driven by an increase in both the number of enterprise and home fixed connections and their ARPUs

 - **Mobile data revenue growth:** One month active mobile data customers grew 6.10% while Mobile data revenue grew faster at 8.14% y/y to **KES 48.44Bn** with the growth being weighed down by excise duty adjustments and price rationalization. Distinct data bundles customers grew 5.33% y/y to 17.60Mn, active 4G devices grew 29.41% y/y while customers using more than 1GB network grew 26.23% y/y to 7.7Mn. Going forward, mobile data usage will be driven by change in consumption behavior and improved connectivity. The continued roll out of 4G has improved data usage for users consuming more than 1 GB of data; which we expect will improve further as awaiting 5G spectrum allocation.

 - **Ethiopia entry to proceed as scheduled:** The management has indicated that the Ethiopian operations will begin in calendar year 2022 with commercial conversations on mobile money licensing is ongoing. Currently, the company has recruited 30 dealers, shop outlets, over 300 staff members and outsourced a call center. The company is targeting to provide telco, mobile money and digital services targeting 800-1,000 towers with the management expecting that the operations will break even in year 4.

 - **Capital Expenditure (CAPEX) guidance:** FY'22 saw capital investment increase 12.29% y/y (excluding Ethiopia) to **KES 39.30Bn** below our expectations of KES 43.29Bn. Including Ethiopia the capital expenditure increased to KES 49.80Bn, an extra KES 10.40Bn split between network and IT spending. The management has given a forward 5-year guidance of USD 1.5-2.0Bn (KES 174-232Bn) CAPEX in Ethiopia. We expect the group CAPEX to increase with Safaricom scaling up its operations by introducing 5G network and transforming into a digital IT network.

Potential Risk Factors

Despite the expected growth both locally and regionally, we expect the company to come under pressure from:

- **Regulatory Risk** – As reflected in the reduction of M-Pesa revenue with zero rating of transactions below KES 1,000 regulatory decrees by the government could potentially have negative effects on the company's revenue. Additionally, the CBK guidelines on suspending CRB listings saw the decline of KCB M-Pesa (-9.39% y/y) and Mshwari loan (-8.89% y/y) disbursements.
- **Geo-political Risk** – Political stability in Ethiopia still plays a key role in the speed of commencing operations, even though the current tensions have eased further escalation could revive previous concerns. Locally, the upcoming elections are expected to generally slow down economic activity.

Outlook

The performance was commendable with the topline being driven by M-pesa revenue supported by data revenue. The onset of the pandemic has contributed to the increase in M-pesa transaction volumes where we expect most users to continue using mobile payment post-pandemic. The adoption of the M-pesa App will continue to drive uptake for both businesses and individuals. Continued investment in improved network coverage is expected to drive data adoption and keep the company competitive. We continue to monitor the outcome of the MTR tribunal hearing which is expected to have a major impact on voice revenue. Therefore, we upgrade our recommendation to **BUY** from **SELL** with a conviction that the counter is undervalued and presents attractive entry opportunity.

Table I : Financial Statement Summary

	FY'19A	FY'20A	FY'21A	FY'22A	y/y Change	FY'23F	FY'24F	FY'25F
Revenue								
Voice	95,798.00	86,529.90	82,552.00	83,211.80	0.80%	82,654.91	88,292.23	89,014.36
M-Pesa	74,990.00	84,438.00	82,647.40	107,691.80	30.30%	130,049.28	158,869.08	193,955.32
Mobile Data	36,265.00	40,157.50	44,793.20	48,441.00	8.14%	49,565.32	55,355.81	59,304.24
Fixed Data	8,101.00	8,966.90	9,507.20	11,242.50	18.25%	14,350.39	20,770.16	29,959.42
SMS	19,612.00	15,403.50	13,602.40	10,876.70	-20.04%	8,601.96	6,802.95	5,380.19
Total Revenue	250,282.00	262,555.70	264,026.50	298,077.90	12.90%	325,497.37	374,393.30	426,346.89
Direct Cost	72,398.80	75,284.90	80,852.80	91,467.80	13.13%	99,881.70	122,373.71	147,882.13
Operating Expenses	53,590.00	47,559.70	46,034.80	55,187.00	19.88%	46,034.80	46,034.80	46,034.80
Depreciation	35,331.70	36,547.70	37,964.30	39,933.30	5.19%	49,791.59	57,059.60	64,505.46
EBIT	88,972.20	101,493.80	96,164.90	109,128.60	13.48%	127,924.90	149,614.39	170,719.37
PAT	62,490.70	73,657.90	68,676.20	67,496.10	-1.72%	88,004.89	98,701.58	107,996.46
EPS	1.56	1.84	1.71	1.74	1.51%	2.20	2.46	2.70
DPS	1.87	1.40	1.37	1.39	1.46%	1.54	1.72	2.16

	FY'19A	FY'20A	FY'21A	FY'22A	y/y Change	FY'23F	FY'24F	FY'25F
Non-Current Assets	142,516.80	164,402.70	174,719.90	281,548.60	61.14%	259,800.56	298,192.71	330,500.54
Current Assets	49,958.60	48,822.20	55,909.40	65,250.00	16.71%	53,326.52	57,844.01	63,869.16
Total Assets	192,475.40	213,224.90	230,629.30	346,798.60	50.37%	313,127.08	356,036.72	394,369.70
Total Equity	144,344.61	143,080.11	137,635.30	179,700.90	30.56%	193,239.94	225,437.64	249,416.59
Non-Current Liabilities	1,870.50	13,644.10	17,541.70	68,947.10	293.05%	17,541.70	17,541.70	17,541.70
Current Liabilities	46,260.30	56,500.70	75,452.30	98,150.60	30.08%	102,345.45	113,057.39	127,411.42
Total Equity & Liabilities	192,475.41	213,224.91	230,629.30	346,798.60	50.37%	313,127.08	356,036.72	394,369.70

Source: Company filings, AIB-AXYS



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