

Earnings Note

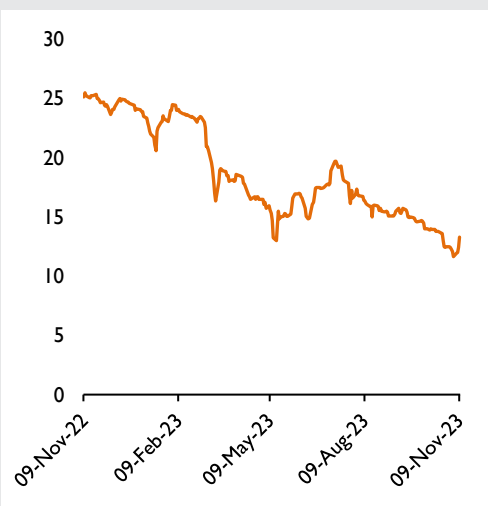


Company details

Bloomberg Ticker:	SAFCOM:KN
NSE CODE:	SCOM
Market Cap:	532.87Bn
Issued Shares:	40.065Bn
52-Week High:	KES 25.50
52-Week Low:	KES 11.65

As at 09th November 2023

Price chart



AIB-AXYS Research, NSE

Historical Price Performance

	1m	3m	6m	12m
Absolute	-5.00%	-18.65%	-16.61%	-47.12%

AIB-AXYS Research, NSE

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Safaricom PLC HY'24 Earnings Note

Recommendation:

BUY

Target Price: KES 23.71

Summary

- ◆ **Safaricom PLC HY'24 PAT declined 10.06% y/y to KES 27.19Bn** driven by a 21.89% increase in operating expenses and a 142.86% jump in finance costs resulting from the continued depreciation of the Kenyan shilling.
- ◆ **Revenues increased 7.29% y/y to KES 164.62Bn** which included KES 2.89Bn in revenue from Safaricom Ethiopia. M-Pesa revenue growth accelerated 750bps to 16.49% to KES 66.23Bn driven by increased usage and resumption of bank-to-wallet and wallet-to-bank charges. Voice revenue growth was relatively challenged, posting a 1.94% decline to KES 39.12Bn resulting, in part, from the downward revision of Mobile Termination Rates.
- ◆ **Earnings per Share (EPS) increased 12.50% to KES 0.90 from KES 0.80 in HY'23.** The board did not recommend an interim dividend for the period given the continuous capital injection to Safaricom Ethiopia.

Key Highlights

- ◆ EBIT declined by 19.12% y/y while Capital Expenditure increased 11.70% y/y resulting from expansion of operations in Ethiopia. The cumulative CapEx over HY'24 was KES 41.89Bn – with KES 17.40Bn being incurred in Ethiopia. There was an upward revision of FY'24 group guidance for EBIT to KES 87Bn – KES 93Bn and Capex to KES 85 – KES 93Bn.
- ◆ Voice revenue declined 1.94% as an effect of reduced Mobile Termination Rate. Additionally, persistent inflationary pressures have depressed consumer spending by diminishing consumer real incomes.

Management Commentary

- ◆ Management attributed the upward revision of EBIT guidance to anticipated business performance improvement despite the challenge of rising energy costs in the Kenyan operation while the upward revision of the Capex guidance is linked to the shillings' depreciation.
- ◆ Management noted the quick traction of M-Pesa in Ethiopia since its launch in August 2023 – to register over 1Mn customers within the first month.
- ◆ Management anticipate that losses in Ethiopia will peak in FY'24 as expansion of coverage continues.

Valuation

At the current market price of KES 13.30, the stock is trading at a reasonable valuation of 8.06x P/E compared to frontier peer average of 13.52x. Our preference for Safaricom remains strong given anticipated growth of M-Pesa and Mobile Data and the ongoing expansion in the Ethiopian market. We maintain a **BUY** recommendation with a target price of **KES 23.71** representing a **78.27%** upside.

Key Metrics

Particulars	HY 23
Operating Margin	25.18%
Return on Equity (ROE)	12.25%
Return on Assets (ROA)	4.36%
P/E	8.06
P/B	1.54

Source: Company; Estimates

- ◆ **Number of Active Customers Increases Moderately-** Active customers in the Kenyan business increased by 2.46% y/y to 33.27Mn while ARPU increased by 6.35% y/y to KES 785.76. Active voice users in the Kenyan business declined by 3.67% y/y to 25.73Mn owing to customers seeking alternative methods (over the top technologies) consequently leading to a decline in voice revenue. Active one-month messaging users in Kenya declined by 2.02% y/y to 20.82Mn.
- ◆ **M-Pesa Growth Soars-** Active one-month M-Pesa users in Kenya increased 3.08% y/y to 32.13Mn while ARPU increased 12.05% y/y to KES 344.05. The value transacted increased by 1.05% y/y to KES 18.28Trn while the volume transacted increased by 34.69% y/y to KES 12.93Bn attributable to the increased usage of mobile money. Mpesa revenue consequently increased by 16.49% to KES 66.24Bn driven by a 13.49% y/y increase in personal payments, 40.22% y/y increase in business payments and 9.86% y/y increase in global remittances. Notably, there was an 18.91% decrease in lending revenue driven by a decline in Fuliza revenue. We observed Fuliza repayment rate deteriorate to 95.60% from 96.50% in HY'22 while Mshwari repayment rate also reduced to 93.70% from 98.10% over a similar period.
- ◆ **Data Revenue Driven by 4G and 5G Expansion-** There was an increase in one-month active chargeable users in the Kenyan business by 16.61% to 21.34Mn while chargeable ARPU increased marginally by 0.78% to KES 231.94. Data usage per chargeable subscriber increased 11.70% to 3.75GB. Active 30-day mobile data users increased 3.53% to 26.09Mn while mobile data revenue increased by 17.70% y/y to KES 30.95Bn.

Outlook

- ◆ **Ethiopia** - One year after its successful launch, STE has added 7.00Mn customers as at the end of September 2023 – with 4.1Mn being 3 month active users. They have also scaled up network coverage to 22 cities serving 30.00% of the population. Following the roll-out of M-Pesa services in August 2023, 1.20Mn customers have been registered as at the end of September 2023. Operations in Ethiopia offer substantial growth prospects as services continue to be rolled-out to the country with its large population and relatively low mobile penetration rate. We anticipate increased revenue from STE as operations are expanded and efforts to boost mobile penetration persist. Capex in STE is expected to stabilize to levels comparable to Kenya once operations are fully set up. EBITDA is expected to remain negative in the short-term until achieving breakeven around the fourth-year of operation. We anticipate net losses to peak in FY'24 due to the ongoing expansion initiatives.
- ◆ **Mpesa to Continue Driving Revenue Growth** – We anticipate that M-Pesa's revenue growth will come from operations in Ethiopia, business payments and growth in global payments. The uptake of M-Pesa Consumer app and Business app will continue to drive revenue growth.
- ◆ **Voice Revenue growth to Remain Challenged-** We anticipate voice revenues to experience protracted slowdowns due to regulatory measures like reduced MTR and higher excise duty. We expect that prevailing macro factors will continue driving consumers to alternative communication channels further diminishing voice revenue.

Key Risks

Kenya Business

- Shilling depreciation** - The shilling has depreciated 22.94% so far in 2023 with anticipation of further decline resultant from rising dollar demand and accelerated dollar outflows. Finance costs are expected to be extrapolated by the sustained depreciation of the shilling.
- Stringent Regulatory Environment** - The reduction of Mobile Termination Rates by the CMA continues to be a threat to voice revenue. The increased excise duty rates on mobile-money transfer services are likely to weigh down mobile money revenue growth.
- Heavy Taxation** - Intensive taxation efforts by the government aimed at broadening the tax base are expected to adversely influence consumer behavior and spending habits.

Ethiopia Business

- Political unrest** – The state of emergency in Amhara is likely to have a negative effect on the economy and make it difficult to expand in that region hence affecting STE's operations.
- Increased competition-** The governments proposal to privatize Ethio telecom and the governments active efforts to open up the telco sector to new players will likely increase competition for STE.
- Macroeconomic challenges** - Inflation which remains in the upper 20% levels presents a challenging operating environment³. This is amplified by the depreciating trend of the Ethiopian Bir.

Financial Statement Summary

1. Statement of Profit and Loss

Particulars (KES Mn)	HY 23	HY 24	YoY (%)
Total revenue	153,430.30	164,616.80	▲ 7.3%
Service revenue	144,825.40	159,135.90	▲ 9.9%
Handsets and other revenue	7,273.60	3,839.00	▼ (47.2%)
Other income	1,331.30	1,641.90	▲ 23.3%
Direct costs	(46,812.20)	(44,398.70)	▼ (5.2%)
Expected credit losses on financial assets	(1,611.80)	(2,804.10)	▲ 74.0%
Operating expenses	(30,964.10)	(37,741.10)	▲ 21.9%
EBITDA	74,042.20	79,672.90	▲ 7.6%
Depreciation & Amortisation	(22,796.30)	(38,226.10)	▲ 67.7%
EBIT	51,245.90	41,446.80	▼ (19.1%)
Net finance cost	(2,932.30)	(7,121.30)	▲ 142.9%
Share of loss of Associates & Joint Venture	(62.60)	(412.50)	▲ 559.0%
Hyperinflationary monetary gain	-	13,027.40	
Profit before income tax	48,251.00	46,940.40	▼ (2.7%)
Tax Expense	(18,021.80)	(19,753.10)	▲ 9.6%
Profit After Tax	30,229.20	27,187.30	▼ (10.1%)
EPS*	0.80	0.90	▲ 12.5%
Margins (%)			
Operating Margin	33.40%	25.18%	▼ (24.6%)
Net Profit Margin	19.70%	16.52%	▼ (16.2%)
Tax rate	37.35%	42.08%	▲ 12.7%

*EPS Excludes Hyperinflationary Impact

2. Statement of Financial Position

Particulars (KES Mn)	HY 23	HY 24	% Change
Total Assets	509,207.00	624,128.90	▲ 22.6%
Non-Current Assets	436,771.50	547,686.70	▲ 25.4%
Current Assets	72,435.50	76,442.20	▲ 5.5%
Total Liabilities	245,841.10	278,578.10	▲ 13.3%
Non-Current Liabilities	105,463.90	130,966.70	▲ 24.2%
Current Liabilities	140,377.20	147,611.40	▲ 5.2%
Total Equity	263,365.90	345,550.80	▲ 31.2%

3. Statement Of Cash Flows

Particulars (KES Mn)	HY 23	HY 24	% Change
Net cash generated from operating activities	40,479.20	32,002.90	▼ (20.9%)
Net cash used in investing activities	(29,238.30)	(51,033.40)	▲ 74.5%
Net cash generated from/(used in) financing activities	(26,096.20)	12,416.40	▼ (147.6%)
Closing cash and cash equivalents	15,982.40	20,458.80	▲ 28.0%

Source: Company; Fillings AIB-AXYS Estimates



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