

Safaricom Plc FY'22 Earnings Expectations

Safaricom is expected to release the FY'22 results on 12th may 2022, where we foresee PAT and EPS growing 29.48% y/y to **KES 88.92Bn** and **KES 2.22**, respectively. Bottomline growth will be powered by uptick in service revenue (+15.29% y/y) on the back of a recovery in M-pesa revenues (+24.46% y/y to **KES 102.86Bn**) coupled with an expected slower growth in total operating costs (+12.81% y/y). However, we maintain our expectation of a continued pressure on voice ARPU (-2.00% to **KES 252.57**) and SMS ARPU (-11.54% y/y to **KES 46.66**) due to customers preferring other communication channels.

We upgrade our recommendation to **BUY** from **SELL**, as the current price has fallen below our target price of **KES 38.81**. We continue to view the counter as undervalued, with the current target price providing an upside potential of 20.53%. With an interim dividend of KES 0.64 already paid out, we expect a final dividend of **KES 0.86** taking the final payout for FY'22 to **KES 1.50**.

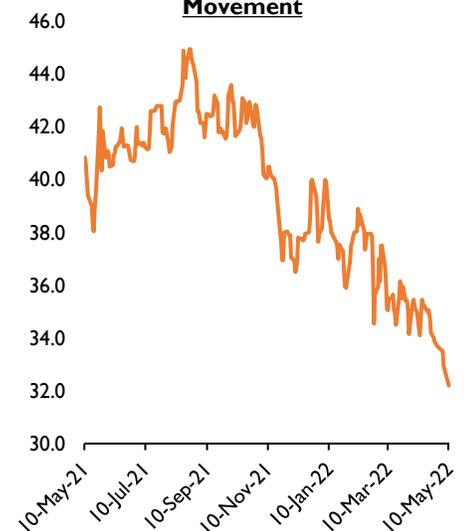
Recent Developments Shaping the Company's Growth:

- **Launch of Shariah compliant digital products:** Safaricom, in partnership with Gulf Africa bank launched the first mobile based shariah compliant digital product in Kenya, dubbed *Halal Pesa*. The product is based on commodity Murabaha with an additional profit rate of 5.00% which we feel is competitive relative to current digital products. We expect an excellent performance in market penetration and uptake given the success of other digital lending channels on the M-pesa platform.
- **Push to split telco and mobile money business:** Safaricom recently announced that the number of active M-pesa global users have crossed the 50.00Mn mark. Continued growth in the mobile money business has resulted in push from government sections for a split of the telco and mobile money businesses. We view the split as a good growth opportunity for the M-pesa business, we have observed slowed growth in the voice and SMS revenues as users embrace new communication channels. Money transfer and payment platforms in the African continent have recently attracted huge valuations and their growth potential is viewed highly.
- **Short term headwinds in the Ethiopian market:** Safaricom's long-awaited regional expansion into the Ethiopian market is nearing, with operations set to begin in mid-2022. Performance metrics for Ethio-Telecom's *Telebirr* (+17.00Mn customers in less than 12 months) point to an attractive opportunity for Safaricom to offer a competitive advantage by establishing affordable pricing, financial innovation and improved network quality. We assume Opex and CAPEX spend to result in an uptick in borrowings. We still hold the view that entry in to Ethiopia and M-pesa will continue being the key growth drivers of Safaricom in the foreseeable future.
- **Mobile interoperability and Central Bank Digital Currency (CBDC):** In the recently released Kenya National Payments Strategy 2022-'25 the CBK plans to unify both mobile money wallets and agents. The move will bring interoperability across mobile money wallet providers and channels. However, we believe Safaricom will be a key beneficiary as it still controls the largest market share. Even though consensus opinion has presented the CBDC as a downside risk to M-Pesa, we view it as another opportunity for growth as we believe there will be an integration with mobile wallets for faster P2P and B2B transfers.

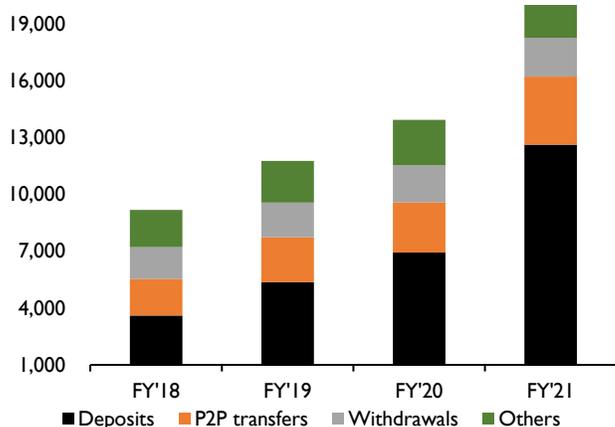
Key Indicators

Recommendation	BUY
NSE Ticker	SCOM
Bloomberg Ticker	SCOM.KN
Reuters Ticker	SCOM.NR
Current Price (09/05/2022)	KES 32.20
Target Price	KES 38.81
Upside	20.53%
Trailing 12M P/E	18.83x
52 Week High	KES 44.95
52 Week Low	KES 32.20
YTD Performance	-15.15%
LTM Performance	20.49%
EPS (FY22e)	KES 2.22
Final DPS (FY22e)	KES 0.86
Total DPS (FY22e)	KES 1.50

Safaricom 1-Year Share Price Movement

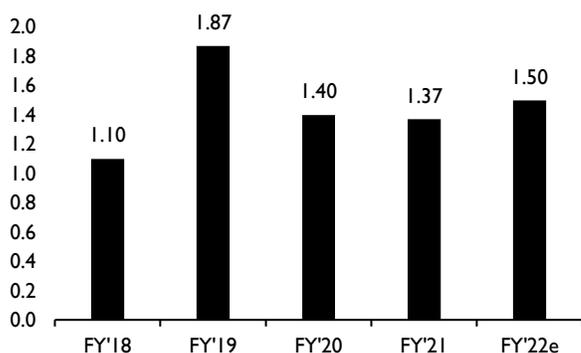


Graph 1: M-PESA Value of Transactions (KES Bn)

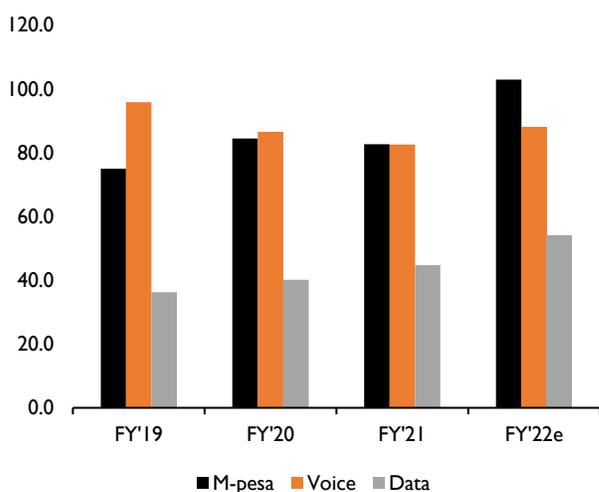


Source: Safaricom Annual Reports

Graph 2: Historical Total Dividends



Graph 3: Historical Revenue Break-down



➤ **Strong M-pesa Print:** Mobile money will remain the company's main area of growth with an expectation of a 24.46% growth to **KES 102.86Bn** (+10.00% ARPU growth). The growth will be driven by increase in chargeable one-month active users as higher P2P and withdrawal fees is also likely to drive transaction revenue growth. We foresee M-pesa achieving new levels with the number of M-pesa agents hitting the **300,000** mark as active one-month customers cross the **30.00Mn**. 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 even as transactions between banks and M-pesa continue to be zero rated. M-pesa contribution to service revenue is also expected to cross the 40.00% mark.

➤ **Voice and SMS revenue to remain under pressure:** Safaricom's Voice revenue has been declining as subscribers opt for Over-the-top (OTT) media services. Therefore, we foresee the voice revenue growing slower at 6.82% to **KES 88.18 Bn** on the back of adjusted personalized offers during the year. Safaricom's voice share traffic as at 31st December 2021 was at 70.39% as per Communications Authority industry statistics report. As the economy recovers and business activity resumes, we anticipate that both outgoing and incoming minutes per subscriber have grown, during the year. Continued cannibalization of SMS services by alternative messaging platforms is expected to have continued in 2H22 leading to SMS revenues declining further (**-9.73% y/y to KES 12.28Bn**).

➤ **Improved Mobile Data Growth:** We forecast a 20.99% y/y growth in data revenue to **KES 54.20Bn**. The strong growth will be driven by customer usage of mobile data as the growth of the digital economy takes shape. During the year, we saw the implementation of the excise duty adjustment, effective August 2021, that we suspect had a negative effect on data usage. Going forward, mobile data usage will be driven by change in consumption behavior especially with the new working and schooling from home trends. 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 spectrum allocation and payment for 5G has already happened, awaiting implementation.

➤ **Strong Fixed Data Revenue Growth:** The shift to working and schooling from home has been a key contributor to the uptake and growth of the fixed data segment. Consequently, investment in fibre outreach has helped Safaricom gain market share in this segment. We expect Fixed data revenue to grow by 34.33% y/y to **KES 12.78Bn** driven by an increase in both the number of enterprise and home fixed connections and their ARPU.

➤ **Ethiopian Entry to Intensify CAPEX going forward:** Ethiopia provides an attractive market due to the high telco growth opportunity and low financial services penetration. Management guidance provides break-even at year 4(FY'25) with the 5-year CAPEX investment plan at **USD 1.50-2.00Bn**. We expect the funding to come from retained earnings, Development Finance Institutions, Syndicated debt and additional equity from the partners. Thus, we foresee the FY'22 CAPEX coming within management guidance of **KES 43.29Bn**, excluding Ethiopia. However, with spectrum allocation and license payment already done we expect future Ethiopian CAPEX to focus on network roll out.

Table 1: Historical and Expected Income Statement (KES '000 Mn)

Income Statement	2019A	2020A	2021A	2022e	2023F	2024F	2025F
Total Revenue	250,283.10	262,555.70	264,026.50	304,395.28	342,927.36	390,743.21	453,112.93
y/y Growth	6.85%	4.90%	0.56%	15.29%	12.66%	13.94%	15.96%
M-Pesa Revenue	74,990.00	84,438.00	82,647.40	102,863.48	120,272.91	146,926.20	179,374.85
M-Pesa/Total Revenue	29.96%	32.16%	31.30%	33.79%	35.07%	37.60%	39.59%
Direct Costs	72,398.80	75,284.90	80,852.80	91,211.37	102,556.88	124,191.57	152,078.73
EBITDA	124,303.90	134,129.20	134,129.20	166,358.41	193,544.99	219,726.14	254,208.70
Profit After Tax	62,490.70	73,657.90	68,676.20	88,923.70	97,263.83	105,027.41	118,970.91
y/y Growth	13.03%	17.87%	-6.76%	29.48%	9.38%	7.98%	13.28%
CAPEX (Ex Ethiopia)	36,428.25	36,400.00	36,100.00	43,294.45	46,757.69	50,773.81	58,008.55

Table 2: Historical and Expected Statement of Financial Position (KES '000 Mn)

Financial Position	2019A	2020A	2021A	2022e	2023F	2024F	2025F
Non-Current Assets	142,516.80	164,402.70	174,719.90	217,724.48	249,058.68	283,324.56	311,561.42
Current Assets	49,958.60	48,822.20	55,909.40	58,731.51	61,174.17	67,934.50	76,423.97
Total Assets	192,475.40	213,224.90	230,629.30	276,455.99	310,232.86	351,259.06	387,985.39
Shareholders Equity	144,344.61	143,080.11	137,635.31	164,312.42	193,491.57	224,999.79	248,793.97
Current Liabilities	46,260.30	56,500.70	75,452.30	94,601.88	99,199.60	108,717.58	121,649.73
Total Equity and Liability	192,475.40	213,224.90	230,629.30	276,455.99	310,232.86	351,259.06	387,985.39

Source: Safaricom Annual Reports, AIB-AXYS Analyst Estimates

CONTACTS:

Research Desk

Solomon Kariuki

Research Analyst

Email: research@aib-axysafrica.com

Equities Dealing

Bernard Kung'u

Benard Gichuru

Brian Tanui

Samuel Githinji

Sheema Shah

Samuel Wachira

Email: trading@aib-axysafrica.com

Bond Dealing

Crispus Otieno

Titus Marenye

Email: trading@aib-axysafrica.com

Disclaimer

AIB-AXYS Africa and its parent company AXYS Group seek to do business with companies covered in their research reports. Consequently, a conflict of interest may arise that could affect the objectivity of this report. This document should only be considered a single factor used by investors in making their investment decisions. The reader should independently evaluate the investment risks and is solely responsible for their investment decisions. The opinions and information portrayed in this report may change without prior notice to investors.

This publication may not be distributed to the public media or quoted or used by the public media without prior and express written consent of AIB-AXYS Africa or AXYS Group. This document does not constitute an offer, or the solicitation of an offer, for the sale or purchase of any security. Whilst every care has been taken in preparing this document, no representation, warranty or undertaking (express or implied) is given and no responsibility or liability is accepted by AIB-AXYS Africa or any of its employees as to the accuracy of the information contained and opinions expressed in this report.