

# DYER & BLAIR INVESTMENT BANK

## EARNINGS UPDATE

Founder Member of the Nairobi Securities Exchange

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DYER & BLAIR  
INVESTMENT BANK

WE KNOW. YOU KNOW.

### SAFARICOM LIMITED: 1H21 EARNINGS UPDATE

Dear All,

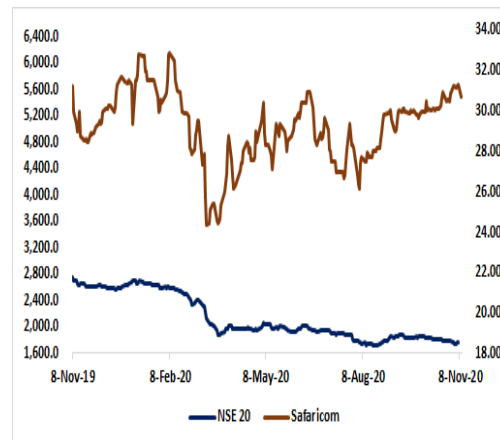
Safaricom PLC announced its 1H21 results recording a 6.0% y-o-y decline in profit after tax to KES 33.1 BN mainly on the back of a 4.1% y-o-y decline in total revenue to KES 124.4 BN following the impact of COVID-19 and its associated economic restrictions especially in 1Q21. That said, management's efforts saw material operational efficiencies leading to a decline of 10.6% y-o-y in operating expenses to KES 21.2 BN. EBITDA declined 4.7% y-o-y to KES 63.4 BN while EBIT declined 10.5% y-o-y to KES 44.9 BN.

Below please find key highlights:

**Service revenue declined 4.8% y-o-y to KES 118.4 BN** mainly on the back of a 14.5% y-o-y decline in Mpesa revenue to KES 35.9 BN and a 6.5% y-o-y decline in voice revenue to KES 40.2 BN. These declines were however mitigated by a 14.1% y-o-y rise in mobile data revenue to KES 22.2 BN. Management pointed to a rise in service revenue in 2Q21 to KES 61.6 BN from KES 56.8 BN in 1Q21 as a sign of the strong recovery that the company has seen post removal of economic restrictions that were put in 1Q21.

**Voice revenue declined 6.5% y-o-y to KES 40.2 BN** as the growth in customers and usage was offset by continued downward movement on the effective rate per minute. Voice outgoing minutes have grown 10.8% y-o-y driven by "Tunukiwa" the talk more campaign, aimed at customers with low usage enabling them to call at a lower rate. Messaging revenue declined 6.9% y-o-y to KES 7.2 BN in line with global industry trends. 30 day active voice customers rose 7.6% to 26.9 MN but 30 day active voice customer ARPU declined 12.0% y-o-y to KES 255.0. 30 day active messaging customers rose 2.3% y-o-y to 21.6 MN but the corresponding 30 day active messaging ARPU also declined 8.9% y-o-y to KES 55.95. Altogether, voice and messaging now account for 40.0% of service revenue down from 44.4% in FY20.

### SAFARICOM: 52 WEEK PRICE PERFORMANCE



(Source: NSE, DBIB Research)

PRICE	ABSOLUTE	EXCESS
RETURN	RETURN	RETURN
3 months(%)	11.8	11.8
6 months(%)	10.6	22.3
12 months(%)	2.5	37.6

#### KEY METRICS

Current Price (KES)	30.75
52 week Range (KES)	32.90-24.35
YTD Return (%)	(2.4)
Issued Shares (Mn)	40,065.4
Market Cap (USD Mn)	11,377.1
Enterprise Value (USD Mn)	11,533.7

Recommendation	HOLD
Trailing EPS (KES)	1.81
EV/EBITDA (x)	19.7
Trailing P/E (x)	17.0
Trailing P/FCF (x)	52.2
Div Yld (%)	-

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**Mpesa revenue declined 14.5% y-o-y to KES 35.9 BN** with notable declines of 32.1% y-o-y and 23.2% y-o-y in the transfer and payments segments due to the impact of free transactions on p2p transfers below KES 1,000 and transactions to and from banking wallets. That said, nascent segments such as IMT (international money transfers) and lending saw a 74.8% and 33.4% y-o-y growth respectively with the latter primarily driven by Fuliza, whose repayment rate improved to about 99.4%. We also observe that the withdrawals segment saw a decline of 3.3% y-o-y as customers pivoted to cashless transactions to prevent spread of coronavirus suggesting a key change in consumer behavior that may bode well for Mpesa over time.

**Total M-Pesa transaction value grew by 32.9% y-o-y to KES 9.04 TN up from KES 6.8 TN in 1H20.** The incremental value comprised KES 0.3 TN of deposits, KES 0.3 TN of transfers, KES 0.9 TN of payments and KES 0.7 TN of non chargeable transactions including B2B non-chargeable and airtime. The volume of M-Pesa transactions grew by 14.9% y-o-y to 5.1 BN. The business added 3.2 MN 30 day active customers y-o-y to 26.79 MN but the impact of free transactions saw the number of chargeable transactions per 30 day active customer decline 27.6% y-o-y to 9.41 which saw the 30 day active Mpesa ARPU decline 23.5% y-o-y to KES 229.11.

**Mobile data revenue rose 14.1% y-o-y to KES 22.2 BN** driven by sustained momentum in customer growth and usage. 30 day active mobile data customers grew 11.6% y-o-y to 22.9 MN while distinct data bundle customers grew 22.7% y-o-y to 15.7 MN which saw the 30 day active chargeable mobile data ARPU rise 3.5% y-o-y to KES 183.80 as steady growth in usage continued to mitigate the downward pressure on effective rate per megabyte. With overall 30 day active customers at 30.3 MN there remains significant potential for mobile data usage growth which management hopes to accelerate through the 4G device finance programme which in the period saw active 4G devices grow 56.0% y-o-y while 4G devices using more than 1GB in their network grew 60.6% y-o-y.

**Fixed service revenue remained fairly flat at KES 4.5 BN** but the underlying numbers continued to grow. FTTH (fiber to the home) revenue rose 47.2% y-o-y to KES 1.6 BN on the back of a 56.8% y-o-y rise in the fiber to the home customers to 119,061 while fixed enterprise revenue declined 1.7% y-o-y to KES 2.9 BN despite a 57.7% y-o-y increase in the number of fixed enterprise customers to 32,449. In part because of promotions to support work from home initiatives, FTTH ARPU declined 4.7% to KES 2,301.0 while fixed enterprise ARPU declined 33.8% y-o-y to KES 14,792.0

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## MANAGEMENT'S FOCUS: TECH

### A. Strengthen the core

- Defend voice
- Democratize data
- Expand enterprise portfolio (IoT, FTTH, FTTB)
- Expand geographically by entering Ethiopia
- Create a fintech anchored platform of choice for MSMEs

### B. Win in select digital ecosystems

- Scale Digifarm
- Digital healthcare services
- Online learning

### C. Be a financial services provider

- Universal payment network
- Smart lifestyle channel
- Wealth management
- Savings
- Insurance
- Integrated business solution

### D. Achieve cost leadership

- Smart procurement
- Digitization

**EBITDA margin declined 25 bps y-o-y to 51.0%** on the back of an 8.1% y-o-y drop in contribution to KES 84.6 BN that was mitigated by an 8.1% y-o-y decline in operating costs to KES 22.2 BN.

**Potential entry into Ethiopia:** Safaricom sees Ethiopia as a long term play. They intend to submit a bid for a telco license through a consortium once Ethiopia's authorities complete the ITT (invitation to tender). Safaricom hopes that a mobile money license would follow shortly after the issuance of a telco license. Ethiopia has significant growth potential given its population of about 100.0 million and a mobile penetration rate of about 44.0%.

**FY21 guidance:** Management expects an EBIT of KES 91.0-94.0 BN down from KES 101.5 BN in FY20 and a Capex of KES 35.0-38.0 BN relative to KES 36.1 BN in FY20.

**On a trailing basis,** Safaricom is trading at a P/E of 17.0x, and P/FCF of 52.2x. We maintain our **HOLD** recommendation.

## PROFIT AND LOSS SUMMARY (KES BN)

Year End: March	1H21	FY20	1H20	2H20	y-y % ch	h-h % ch
Voice revenue	40.19	94.45	42.98	51.47	(6.5)	(21.9)
Messaging revenue	7.19	17.19	7.72	9.47	(6.9)	(24.1)
Mobile Data revenue	22.23	40.67	19.49	21.18	14.1	5.0
Fixed Data revenue	4.54	8.97	4.55	4.42	(0.3)	2.7
M-PESA revenue	35.89	84.44	41.97	42.47	(14.5)	(15.5)
Other service revenue	8.37	5.50	7.62	(2.12)	9.9	(494.7)
Service revenue	118.41	251.22	124.33	126.89	(4.8)	(6.7)
Handset and other revenue	5.44	10.48	5.16	5.32	5.5	2.3
Construction revenue	0.50	0.58	0.35	0.23	45.3	114.6
Total Revenue	124.35	262.28	129.83	132.45	(4.2)	(6.1)
Other income	0.18	0.28	0.10	0.18	89.0	0.3
Direct costs	(37.02)	(74.70)	(37.11)	(37.59)	(0.2)	(1.5)
Construction costs	(0.50)	(0.58)	(0.35)	(0.23)	45.3	114.6
Provisions for ECLs on receivables	(2.40)	(1.67)	(0.37)	(1.30)		
Contribution	84.61	185.61	92.10	93.51	(8.1)	(9.5)
Operating Costs	(21.23)	(50.97)	(23.73)	(27.24)	(10.6)	(22.1)
Forex gain/(loss) on trading activities	-	-	-	-	-	-
EBITDA	63.38	134.64	68.37	66.27	(7.3)	(4.4)
Depreciation & amortization	(18.41)	(33.62)	(18.12)	(15.50)	1.6	18.8
Net financing income/ (costs)	(0.24)	2.56	1.03	1.53	(122.9)	(115.5)
Associate share of (loss)/profits	0.02	3.36	0.05	3.31	(65.3)	(99.5)
PBT	44.75	106.94	51.33	55.61	(12.8)	(19.5)
Taxation	(11.68)	(32.23)	(16.13)	(16.10)	(27.6)	(27.5)
Net Income	33.07	74.71	35.20	39.51	(6.0)	(16.3)
EPS	0.83	1.86	0.88	0.98	(6.2)	(15.8)

(Source: Company, DBIB Research)

## CASHFLOW SUMMARY (KES BN)

Year End: March	1H21	FY20	1H20	y-y % ch	h-h % ch
EBITDA	63.38	134.63	66.50	(4.69)	(52.9)
Working Capital Movement	1.89	1.25	2.94	(35.81)	51.0
Capital Additions	(22.68)	(36.10)	(18.11)	25.21	(37.2)
Movement in contract liabilities	(1.92)	0.00	(0.01)	N_A	-
Operating free cash flow	40.68	99.80	51.32	(20.74)	(59.2)
Interest received/(paid)	0.38	2.59	2.12	(81.98)	(85.3)
Taxation paid	(17.45)	(32.11)	(15.77)	10.68	(45.6)
Free cash flow	23.60	70.27	37.35	(36.80)	(66.4)

(Source: Company, DBIB Research)

## BALANCE SHEET SUMMARY (KES BN)

Year End: March	1H21	FY20	1H20	y-y % ch	h-h % ch
Equity and non-controlling interest	120.06	143.08	105.07	14.27	(16.1)
Borrowings	-	-	-	-	-
Capital employed	120.06	143.08	105.07	14.27	(16.1)
Non-current assets	178.04	164.40	144.01	23.63	8.3
Contract assets	2.79	2.56	2.36	18.01	8.8
Inventories	3.93	1.86	1.98	98.43	111.2
Receivables and prepayments	23.28	18.36	20.30	14.66	26.8
Cash and cash equivalents	15.78	26.76	23.28	(32.22)	(41.0)
Current assets	49.54	49.87	67.17	(26.24)	(0.7)
Contract liabilities	9.37	9.41	9.89	(5.26)	(0.4)
Provisions	5.28	4.46	3.72	41.91	18.4
Dividend payable	1.27	1.05	56.14	(97.73)	21.4
Payables and accrued expenses	40.78	29.92	33.79	20.67	36.3
Borrowings	32.74	8.00	-	-	309.2
Current income tax	0.01	0.11	0.81	(98.52)	(89.1)
Current liabilities	92.91	52.95	104.35	(10.96)	75.5
Net current liabilities	(43.37)	(3.08)	(37.18)	16.64	1,308.0
Net assets	134.67	161.32	106.83	26.06	(16.5)

(Source: Company, DBIB Research)

## SUBSCRIBER STATISTICS

	1H21	FY20	1H20	y-y % ch	h-h % ch
Total Customers (MN)	38.14	35.61	34.57	10.33	7.1
30 day active Customers (MN)	30.31	28.63	27.45	10.42	5.9
30 day active Voice Customers (MN)	26.90	25.75	24.90	8.03	4.5
30 day active SMS Customers (MN)	21.51	21.40	18.36	17.16	0.5
30 day active MPESA Customers (MN)	26.79	24.91	23.61	13.47	7.5
30 day active mobile data Customers (MN)	22.91	21.99	20.19	13.47	4.2

(Source: Company)

	1H21	FY20	1H20	y-y % ch	h-h % ch
Voice ARPU**	87.81	221.03	112.98	(22.3)	(60.3)
30 day active Voice ARPU**	124.50	305.66	156.86	(20.6)	(59.3)
SMS ARPU**	15.70	40.23	20.73	(24.3)	(61.0)
30 day active SMS ARPU**	27.84	66.94	39.03	(28.7)	(58.4)
M-PESA ARPU**	-	-	-	-	-
30 day active MPESA ARPU**	111.63	282.48	148.14	(24.6)	(60.5)
30 day active Data ARPU**	80.87	154.12	81.64	(0.9)	(47.5)
Fixed Data ARPU**	-	-	-	-	-
30 day active Fixed ARPU**	-	-	-	-	-
Service ARPU**	258.71	587.90	299.68	(13.7)	(56.0)
30 day active Service ARPU**	325.54	731.23	377.41	(13.7)	(55.5)

\*\*In-house Calculations may differ from Safaricom's figures

(Source: DBIB Research)

## OPERATING PERFORMANCE

	1H21	FY20	1H20	y-y % ch	h-h % ch
Contribution margin (%)	67.9	70.7	70.9	(294)	(275)
EBITDA margin (%)	51.0	51.3	51.2	(25)	(37)
EBIT margin (%)	36.1	38.5	38.4	(225)	(237)
Pretax margin (%)	35.9	40.7	39.8	(389)	(11.8)
PAT margin (%)	26.6	28.5	27.5	(3.3)	(6.7)
Asset Turnover (x)	0.7	1.8	0.9	(22.5)	(60.3)
Inventory Turnover (x)	31.7	141.2	65.6	(51.7)	(77.5)
Receivables Turnover (x)	5.4	14.3	6.4	(16.4)	(62.6)
Payables Turnover (x)	3.1	8.8	3.8	(20.6)	(65.2)
Working capital turnover (x)	0.9	2.6	0.8	15.4	(65.8)

(Source: DBIB Research)

## INVESTMENT RETURNS

	1H21	FY20	1H20	y-y % ch	h-h % ch
RoA*	29.1	32.9	31.7	(8.2)	(11.8)
RoE*	55.1	43.9	56.6	(2.6)	25.4
RoIC*	55.1	43.9	56.6	(2.6)	25.4

\*Annualized

(Source: DBIB Research)

## FINANCIAL STABILITY

	1H21	FY20	1H20	v-y % ch	h-h % ch
Net debt/(cash) (KES MN)	16,958.7	(18,760.0)	(23,280.0)	(172.8)	(190.4)
Net debt (cash)/equity (%)	14.1	(13.0)	(22.2)	(163.8)	(208.7)
Net debt (cash)/EV (%)	1.4	(1.5)	(1.9)	(172.8)	(190.4)
EV/EBIT (x)	27.8	12.4	11.9	133.4	124.6
EV/EBITDA (x)	19.7	9.3	9.0	119.0	112.4
EV/Subscriber (x)	32,747.0	35,073.6	36,128.7	(9.4)	(6.6)
Current ratio (x)	0.5	0.9	0.6	(17.2)	(43.4)
Interest cover (x)	(268.2)	52.6	35.9	(846.2)	(610.0)
Adj cash int cover (x)	(268.2)	52.6	35.9	(846.2)	(610.0)
Debt/cash flow (x)	0.9	0.1	-	-	654.0
Debt/CFO (x)	1.4	0.1	-	-	1,630.3
Net debt (cash)/share (KES)	0.42	(0.5)	(0.6)	(172.8)	(190.4)
Book value/share (KES)	3.00	3.6	2.6	14.3	(16.7)

(Source: DBIB Research)

## APPENDIX

### COMPANY INVESTMENT RATINGS

**Buy:** Share price may generate more than 15.0% upside over the next 12 months

**Overweight:** Share price may generate between 5.0% and 15.0% upside over the next 12 months

**Hold:** Share price may fall within the range of <+5.0/ -10.0% over the next 12 months

**Take Profit:** Target price has been attained. Look to accumulate at lower levels. Company fundamentals however remain strong

**Underweight:** Share price may generate between 10.0% and 15.0% downside over the next 12 months

**Sell:** Share price may generate more than 15.0% downside over the next 12 months, significant business and/or financial risks present, industry concerns

**Not Rated:** Counter is not within regular research coverage

### SECTOR INVESTMENT RATINGS

**Overweight:** Industry performance better than that of the whole market

**Equal weight:** Industry performance about the same as that of the whole market

**Underweight:** Industry performance worse than that of the whole market

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