

DYER & BLAIR INVESTMENT BANK

EARNINGS UPDATE

Founder Member of the Nairobi Securities Exchange

13TH MAY 2021



DYER & BLAIR
INVESTMENT BANK

WE KNOW. YOU KNOW.

SAFARICOM LIMITED: FY21 EARNINGS UPDATE

Dear All,

Safaricom PLC announced its FY21 results recording a 6.8% y-o-y decline in profit after tax to KES 68.7 BN mainly on the back of a 0.3% y-o-y decline in service revenue to KES 250.35 BN (this however points to improved performance in 2H21: 1H21 service revenue declined 4.8% y-o-y) coupled with a 7.1% y-o-y increase in direct costs to KES 80.0 BN. Operating costs declined 3.2% y-o-y to KES 46.0 BN. EBITDA declined 2.8% y-o-y to KES 134.1 BN while EBIT declined 5.3% y-o-y to KES 96.2 BN.

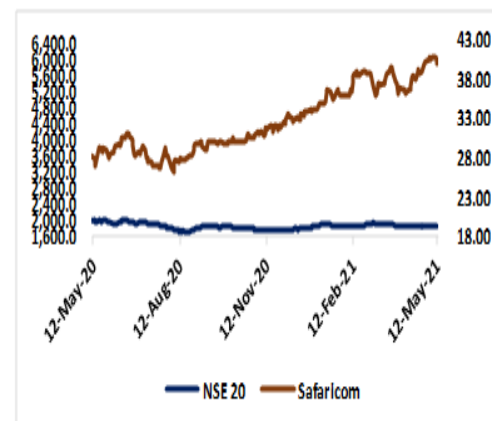
Below please find key highlights:

Service revenue declined by a marginal 0.3% y-o-y to KES 250.4 BN mainly buoyed by a 10.1% y-o-y growth in mobile data revenue to KES 44.8 BN. Voice revenue declined 2.6% y-o-y to KES 92.0 BN while Mpesa revenue was down 2.1% y-o-y to KES 82.6 BN. Voice revenue contribution to service revenue in turn declined to 36.8% compared to FY20's 37.6%. Mpesa revenue contribution to service revenue stood at 33.0% compared to FY20's 33.6%. Messaging revenue was down 20.9% y-o-y to stand at KES 13.6 BN. Voice and SMS jointly accounted for 42.2% of service revenue compared to FY20's 44.4%. Fixed data revenue was up 6.0% y-o-y to KES 9.5 BN.

Voice and SMS revenue jointly declined 5.4% y-o-y to KES 105.6 BN on the back of declining ARPUs. Growth in customers and usage was offset by continued decline in the effective rate per minute. Voice outgoing minutes per subscriber grew 19.1% y-o-y and incoming minutes grew 16.2% y-o-y. Voice ARPU however declined 10.3% y-o-y while SMS ARPU declined 13.2% y-o-y.

Mobile data revenue rose 10.1% y-o-y to KES 44.8 BN, continuing to be driven by sustained momentum in customer growth and usage. 30 day active mobile data customers grew 8.1% y-o-y to 23.8 MN while distinct data bundle customers grew 12.4% y-o-y to 16.7 MN which saw the 30 day active chargeable mobile data ARPU rise 3.7% y-o-y to KES 186.3 as steady growth in usage continued to mitigate the downward pressure on effective rate per megabyte. Rate per MB declined 21.9% y-o-y while average GB per chargeable user grew 32.7% y-o-y.

SAFARICOM: 52 WEEK PRICE PERFORMANCE



(Source: NSE, DBIB Research)

PRICE	ABSOLUTE	EXCESS
RETURN	RETURN	RETURN
3 months(%)	4.6	6.1
6 months(%)	26.5	22.0
12 months(%)	43.2	51.9

KEY METRICS

Current Price (KES)	40.10
52 week Range (KES)	40.85-26.15
YTD Return (%)	17.1
Issued Shares (Mn)	40,065.4
Market Cap (USD Mn)	15,080.0
Enterprise Value (USD Mn)	14,967.7

EPS (KES)	1.81
EV/EBITDA (x)	11.9
P/E (x)	23.4
P/FCF (x)	24.9
Div Yld (%)	3.4

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Mpesa revenue declined 2.1% y-o-y to KES 82.6 BN as Mpesa transfers performance continued to be impacted by the zero rating of transactions below KES 1000 and transactions to and from banking wallets. This was however lifted from 1 January 2021. On resumption to charging, P2P transaction charges were reduced by up to 45% for low value transaction bands below KES 7,500 and the company retained unlimited M-PESA Kadogo (KES 100 and below) transactions. M-PESA wallet to Bank and Bank to M-PESA wallet (C2B and B2C) transactions continue to be zero-rated. Mpesa revenue notably recorded significant recovery in 2H21, growing 10.1% y-o-y supported by resumption to charging in January (1H21 Mpesa revenue declined 14.5% y-o-y).

Total M-PESA transaction value grew 58.2% y-o-y to KES 22.0 TN while volume of transactions grew 29.8% y-o-y to 11.68 BN. The incremental value comprised KES 1.4 TN of deposits, KES 1.0 TN of transfers, KES 3.1 TN of payments and KES 2.4 TN of non chargeable transactions. The business added 3.4 MN 30 day active customers y-o-y to 28.3 MN. The number of chargeable transactions per 30 day active customer declined 5.6% y-o-y to 12.00 which saw the 30 day active Mpesa ARPU decline 12.9% y-o-y to KES 256.7.

Fixed service revenue grew 6.0% y-o-y to KES 9.5 BN on the back of 31.5% y-o-y growth in FTTH customers to 137,390 and 8.5% y-o-y growth in segment ARPU to KES 2,126. FTTH revenue grew 49.1% y-o-y to KES 3.5 BN driven by working and schooling from home trends. Fixed Enterprise revenue recorded slowed growth of 0.7% affected by the impact of office closures and customer downgrades in FY21. Enterprise customers ARPU declined 31.9% y-o-y driven by migration of Enterprise customers to the Fixed LTE product which has a lower ARPU.

EBITDA margin declined 173 bps y-o-y to 50.9% on the back of 2.8% y-o-y drop in contribution to KES 180.2 BN that was mitigated by a 3.2% y-o-y decline in operating costs to KES 46.0 BN.

Safaricom, as part of a consortium, is bidding for a license to operate in Ethiopia. The Ethiopian government allowed telecommunication companies to launch mobile phone based services, thus paving way for Safaricom to introduce Mpesa once its bid is accepted.

FY22 guidance: Management guided an EBIT of KES 105.0-108.0 BN, a growth of 9.2-12.3%, with a capex spend of KES 40.0-43.0 BN.

Management proposed a final dividend of KES 0.92 per share, implying a total DPS of KES 1.37 and a payout ratio of 79.9%.

Safaricom is trading at a P/E multiple of 23.4x and a P/B multiple of 11.7x. Its ROE stands at 49.9% and ROA stands at 29.8%.

PROFIT AND LOSS SUMMARY (KES BN)

Year End: March	FY21	FY20	y-y % ch	2H21	2H20	h-h % ch
Voice revenue	92.02	94.45	(2.6)	51.83	51.47	0.7
Messaging revenue	13.60	17.19	(20.9)	6.42	9.47	(32.3)
Mobile Data revenue	44.79	40.67	10.1	22.56	21.18	6.5
Fixed Data revenue	9.51	8.97	6.0	4.97	4.42	12.4
M-PESA revenue	82.65	84.44	(2.1)	46.76	42.47	10.1
Other service revenue	7.78	5.50	41.4	(0.59)	(2.12)	(72.0)
Service revenue	250.35	251.22	(0.3)	131.95	126.89	4.0
Handset and other revenue	12.32	10.48	17.5	6.87	5.32	29.2
Construction revenue	0.84	0.58	44.4	0.34	0.23	-
Total Revenue	263.51	262.28	0.5	139.15	132.45	5.1
Other income	0.52	0.28	85.9	0.34	0.18	84.3
Direct costs	-80.02	-74.70	7.1	(42.99)	(37.59)	14.4
Construction costs	-0.84	-0.58	44.4	(0.34)	(0.23)	43.1
Provision for ECLs on receivables	-3.01	-1.67	80.2	(0.61)	(1.30)	(53.6)
Contribution	180.16	185.61	(2.9)	95.56	93.51	2.2
Operating Costs	-46.03	-47.56	(3.2)	(24.81)	(23.83)	4.1
Forex gain/(loss) on trading activities	-	-	-	-	-	-
EBITDA	134.13	138.05	(2.8)	70.75	71.55	(1.1)
Depreciation & amortisation	-37.96	-36.55	3.9	(19.55)	(19.88)	(1.6)
Net financing income/ (costs)	-2.02	0.92	(319.3)	(1.79)	(0.93)	92.5
Associate & JV share of (loss)/profits	-0.51	3.36	(115.1)	(0.52)	3.31	0.0
PBT	93.64	105.78	(11.5)	48.89	54.05	(9.6)
Taxation	-24.96	-32.12	(22.3)	(13.28)	(16.05)	(17.2)
Net Income	68.68	73.67	(6.8)	35.61	38.01	(6.3)
EPS	1.71	1.84	(6.8)	0.89	0.95	(6.3)

(Source: Company, DBIB Research)

CASHFLOW SUMMARY (KES BN)

Year End: March	FY21	1H21	FY20	y-y % ch	h-h % ch
EBITDA	134.13	63.38	138.05	(2.8)	111.6
Working Capital Movement	-2.50	1.89	1.25	(299.8)	(232.3)
Capital Additions	-34.96	-22.68	-36.10	(3.2)	54.2
Movement in contract liabilities	0.00	-1.92	0.00	-	-
Operating free cash flow	93.02	40.68	99.80	(6.8)	128.7
Interest received/(paid)	0.41	0.38	2.59	(84.1)	7.9
Taxation paid	-28.92	-17.45	-32.11	(9.9)	65.7
Free cash flow	64.52	23.60	70.27	(8.2)	173.3

(Source: Company, DBIB Research)

BALANCE SHEET SUMMARY (KES BN)

Year End: March	FY21	1H21	FY20	y-y % ch	h-h % ch
Equity and non-controlling interest	137.64	120.06	143.08	(3.8)	14.6
Borrowings	-	-	-	-	-
Capital employed	137.64	120.06	143.08	(3.8)	14.6
Non-current assets	174.72	178.04	164.40	6.3	(1.9)
Contract assets	3.04	2.79	2.56	-	-
Inventories	2.49	3.93	1.86	33.7	(36.7)
Receivables and prepayments	22.35	23.28	18.36	21.7	(4.0)
Cash and cash equivalents	26.74	15.78	26.76	(0.1)	69.4
Current assets	54.94	49.54	49.87	10.2	10.9
Contract liabilities	11.03	9.37	9.41	17.3	17.8
Provisions	2.56	5.28	4.46	(42.6)	(51.5)
Dividend payable	8.68	1.27	1.05	-	-
Payables and accrued expenses	34.02	40.78	29.92	13.7	(16.6)
Borrowings	14.77	32.74	8.00	84.7	(54.9)
Current income tax	0.26	0.01	0.11	136.6	2,069.2
Current liabilities	71.33	92.91	52.95	34.7	(23.2)
Net current liabilities	-16.39	-43.37	-3.08	432.1	(62.2)
Net assets	158.33	134.67	161.32	(1.9)	17.6

(Source: Company, DBIB Research)

SUBSCRIBER STATISTICS

	FY21	1H21	FY20	y-y % ch	h-h % ch
Total Customers (MN)	39.90	38.14	35.61	12.0	4.6
30 day active Customers (MN)	31.45	30.31	28.63	9.8	3.8
30 day active Voice Customers (MN)	27.52	26.90	25.75	6.9	2.3
30 day active SMS Customers (MN)	21.79	21.51	21.40	1.8	1.3
30 day active MPESA Customers (MN)	28.31	26.79	24.91	13.6	5.7
30 day active mobile data Customers (MN)	23.77	22.91	21.99	8.1	3.8

(Source: Company)

	FY21	1H20	FY19	y-y % ch	h-h % ch
Voice ARPUs**	192.19	112.98	251.02	(23.4)	70.1
30 day active Voice ARPU**	278.65	156.86	329.83	(15.5)	77.6
SMS ARPUs**	28.41	15.70	40.23	(29.4)	80.9
30 day active SMS ARPU**	52.02	27.84	66.94	(22.3)	86.8
30 day active MPESA ARPU**	243.28	111.63	282.48	(13.9)	117.9
30 day active Data ARPU**	157.04	80.87	154.12	1.9	94.2
Service ARPU**	522.87	258.71	587.90	(11.1)	102.1
30 day active Service ARPU**	663.36	325.54	731.23	(9.3)	103.8

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

(Source: DBIB Research)

OPERATING PERFORMANCE

	FY21	1H21	FY20	y-y bps	h-h bps
Contribution margin (%)	68.2	67.9	70.7	(246)	30
EBITDA margin (%)	50.9	51.0	52.6	(173)	(7)
EBIT margin (%)	36.4	36.1	38.7	(224)	31
Pretax margin (%)	35.5	35.9	40.3	(483)	(1.3)
PAT margin (%)	26.0	26.6	28.1	(7.3)	(2.0)
Asset Turnover (x)	1.5	0.7	1.8	(14.1)	116.0
Inventory Turnover (x)	106.2	31.7	141.2	(24.8)	234.9
Receivables Turnover (x)	11.8	5.4	14.3	(17.4)	120.8
Payables Turnover (x)	7.8	3.1	8.8	(11.6)	154.1
Working capital turnover (x)	2.1	0.9	2.6	(18.1)	139.2
Working capital turnover (x)	0.9	2.6	0.8	15.4	(65.8)

(Source: DBIB Research)

INVESTMENT RETURNS

	FY21	1H21	FY20	y-y bps	h-h bps
RoA	29.9	29.1	37.0	(19.2)	2.9
RoE	49.9	55.1	51.1	(2.4)	(9.4)
RoIC	49.9	55.1	51.1	(2.4)	(9.4)

*Annualized

(Source: DBIB Research)

FINANCIAL STABILITY

	FY21	1H21	FY20	y-y ch	h-h ch
Net debt/(cash) (KES MN)	(11,964.1)	16,958.7	(18,760.0)	(36.2)	(170.5)
Net debt (cash)/equity (%)	(8.7)	14.1	(13.0)	(33.1)	(161.5)
Net debt (cash)/EV (%)	(0.8)	1.1	(1.2)	(36.2)	(170.5)
EV/EBIT (x)	16.6	35.5	15.7	5.6	(53.2)
EV/EBITDA (x)	11.9	25.2	11.6	2.9	(52.7)
EV/Subscriber (x)	39,966.4	41,810.7	44,781.2	(10.8)	(4.4)
Current ratio (x)	0.8	0.5	0.9	(18.2)	44.4
Interest cover (x)	(66.3)	(268.2)	149.7	(144.3)	(75.3)
Adj cash int cover (x)	(66.3)	(268.2)	149.7	(144.3)	(75.3)
Debt/cash flow (x)	0.2	0.9	0.1	101.1	(73.3)
Debt/CFO (x)	0.2	1.4	0.1	98.1	(88.6)
Net debt (cash)/share (KES)	(0.3)	0.4	(0.5)	(36.2)	(170.5)
Book value/share (KES)	3.44	3.0	3.6	(4.5)	14.6

(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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