

# DYER & BLAIR INVESTMENT BANK

## EARNINGS UPDATE

Founder Member of the Nairobi Securities Exchange

10<sup>TH</sup> NOVEMBER 2021



DYER & BLAIR  
INVESTMENT BANK

WE KNOW. YOU KNOW.

### SAFARICOM LIMITED: 1H22 EARNINGS UPDATE

Dear All,

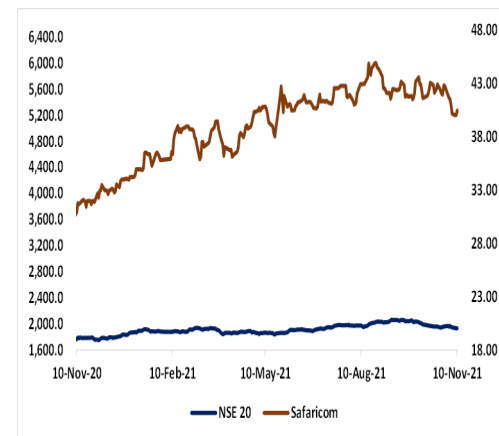
Safaricom PLC announced its 1H22 results recording a **12.1% y-o-y increase in profit after tax to KES 37.0 BN** anchored by a 45.8% y-o-y growth in M-Pesa revenue to KES 52.3 BN. M-Pesa performance came on the back of the lifting of the waiver of charges on transactions below KES 1,000 in January 2021, and was further supported by the economic recovery. EBIT was up 28.8% y-o-y to KES 57.9 BN. Net finance cost notably jumped 12.6x to stand at KES 3.0 BN on account of new debt to fund the Ethiopia investment, impacting PBT growth. EPS stood at KES 0.92 (+12.0% y-o-y), below our estimate of KES 0.95.

Below please find key highlights:

**Service revenue was up 16.9% y-o-y to KES 138.4 BN** mainly supported by the 45.8% y-o-y growth in M-Pesa revenue to KES 52.3 BN. Voice revenue grew by 3.2% y-o-y to KES 41.5 BN held by subscriber growth (+0.9% y-o-y to 27.1 MN) while SMS revenue was down 18.3% y-o-y to KES 5.9 BN on the back of declining ARPU and reduction in one month active SMS customers. Mobile data revenue increased 6.3% y-o-y to stand at KES 23.6 BN. Voice revenue contribution to service revenue declined to 29.9% compared to 1H21's 33.9%, fast-tracking the downward trend of the segment's revenue contribution on account of faster growth in M-Pesa and mobile data revenues. M-Pesa revenue contribution stood at 37.8% compared to 1H21's 30.3% while mobile data revenue contribution stood at 17.1% compared to 1H21's 18.8% (unchanged h-h).

**Overall ARPU increased by 7.0% y-o-y to KES 711.67** mainly supported by a 31.3% y-o-y growth in M-Pesa ARPU to KES 300.71. The number of chargeable transactions per one month active user stood at 18.06, up 91.9% y-o-y compared to 9.41 transactions in 1H21 (boosted by the resumption of charging of transactions below KES 1,000). Mobile data ARPU was up 7.9% y-o-y to KES 198.32, with one month active mobile data subscribers increasing by 5.0% y-o-y to 24.05 MN. Average mobile data usage per subscriber stood at 2.0 GB, up 47.8% y-o-y on the back of 27.0% decline in average price per MB. Voice ARPU was down 2.9% y-o-y to KES 247.60 while SMS ARPU declined 20.1% y-o-y to KES 44.68.

### SAFARICOM: 52 WEEK PRICE PERFORMANCE



(Source: NSE, DBIB Research)

PRICE	ABSOLUTE	EXCESS
RETURN	RETURN	RETURN
3 months(%)	-5.7	-3.6
6 months(%)	-0.9	-4.4
12 months(%)	30.9	21.6

#### KEY METRICS

Current Price (KES)	40.10
52 week Range (KES)	30.75-44.95
YTD Return (%)	17.1
Issued Shares (Mn)	40,065.4
Market Cap (USD Mn)	14,526.9
Enterprise Value (USD Mn)	14,419.7

Trailing EPS (KES)	1.82
EV/EBITDA (x)	21.6
P/E (x)	22.1
P/FCF (x)	47.1
Div Yld (%)	3.4

#### Research Analyst

Lucy Awuor

[lodhiambo@dyerandblair.com](mailto:lodhiambo@dyerandblair.com)

+254 727 014866

---

**Effective 1st July 2021, excise duty on airtime and telephone services was adjusted to 20.0% from 15.0%** and this led to Safaricom adjusting its out-of-bundle voice calls, data and SMS charges. Voice charges increased 8.7-13.3%, SMS charges increased 9.1% while mobile data charges increased 13.3%. However, increased use of bundled services cushioned mobile data ARPU (which grew 7.9% y-o-y), while voice and SMS ARPUs sustained a downward trajectory in line with declining usage.

**Total M-PESA transaction value grew 51.5% y-o-y to KES 13.7 TN** while volume of transactions increased 42.0% y-o-y to 7.3 BN. The M-Pesa value comprised KES 2.1 TN of transfers (+31.3% y-o-y), KES 4.3 TN of payments (+72.0% y-o-y) and KES 1.1 TN of withdrawals (+22.2% y-o-y). Notably, withdrawals value remained relatively unchanged h-o-h, pointing to increased velocity of money within M-Pesa wallets. The segment added 1.9 MN 30 day active customers y-o-y to 28.7 MN. C2B and B2C transactions (c.18 % of total transactions) continue to be zero-rated, with no management indication of when this is likely to be lifted.

**Fixed service revenue grew 21.1% y-o-y to KES 5.5 BN** on the back of 17.2% y-o-y growth in FTTH customers to 153,371 and 4.5% y-o-y growth in segment ARPU to KES 2,211. FTTH revenue increased 22.9% y-o-y to KES 2.0 BN driven by working and schooling from home trends. Fixed Enterprise revenue grew 20.1% y-o-y to KES 3.5 BN, rebounding following the recovery of the economy.

**EBITDA margin improved 180 bps y-o-y to stand at 52.9%** following a 110 bps decline in operating costs as a percentage of total revenue to 16.0% (Operating costs were up 10.3% y-o-y to KES 23.4 BN). Management pointed out that KES 300 MN of operating costs related to Ethiopia were consolidated in the cost numbers. EBIT margin improved 330 bps y-o-y to 39.6%. The company registered net finance cost of KES 3.0 BN compared to KES 236.3 MN in 1H21 following an increase in borrowings from KES 14.8 BN in FY21 to KES 77.0 BN in 1H22. Out of the KES 77.0 BN borrowings, KES 43.0 BN was attributed to Ethiopia investment roll-out. During the results call, management indicated that this loan is currently in the process of being converted to a long term facility. Ethiopia investment CAPEX was guided at USD 1.5-2.0 BN for the Consortium over the next 5 years, with year 1 funding (including license payment) to stand at USD 600 MN.

**Management's EBIT guidance including Safaricom Ethiopia stood at KES 97-100 BN**, while CAPEX guidance including Safaricom Ethiopia stood at KES 70-73 BN. Management further guided EBITDA break-even at year 4 of operations, with mobile money license yet to be awarded. The company expects to launch Ethiopia operations mid 2022.

**Safaricom is currently trading at a P/E multiple of 22.1x and a P/B multiple of 11.8x.** Its ROE stands at 53.3% and ROA stands at 21.8%.

## PROFIT AND LOSS SUMMARY (KES BN)

Year End: March	1H22	FY21	1H21	2H21	y-y* % ch	h-h* % ch
Voice revenue	41.46	92.02	40.19	51.83	3.2	(20.0)
Messaging revenue	5.87	13.60	7.19	6.42	(18.3)	(8.4)
Mobile Data revenue	23.63	44.79	22.23	22.56	6.3	4.7
Fixed Data revenue	5.50	9.51	4.54	4.97	21.1	10.6
M-PESA revenue	52.33	82.65	35.89	46.76	45.8	11.9
Other service revenue	9.65	7.78	8.37	(0.59)	15.3	(1,727.3)
Service revenue	138.43	250.35	118.41	131.95	16.9	4.9
Handset and other revenue	7.84	12.32	5.44	6.87	44.1	14.1
Construction revenue	-	0.84	0.50	0.34	(100.0)	(100.0)
Total Revenue	146.28	263.51	124.35	139.15	17.6	5.1
Other income	0.09	0.52	0.18	0.34	(49.2)	(72.3)
Direct costs	(44.54)	(80.02)	(37.02)	(42.99)	20.3	3.6
Construction costs	-	(0.84)	(0.50)	(0.34)	(100.0)	(100.0)
Provisions for ECLs on receivables	(1.01)	(3.01)	(2.40)	(0.61)		
Contribution	100.82	180.16	84.61	95.56	19.2	5.5
Operating Costs	(23.41)	(46.03)	(21.23)	(24.81)	10.3	(5.6)
Forex gain/(loss) on trading activities	-	-	-	-	-	-
EBITDA	77.40	134.13	63.38	70.75	22.1	9.4
Depreciation & amortization	(19.49)	(37.96)	(18.41)	(19.55)	5.9	(0.3)
Net financing costs	(2.98)	(2.02)	(0.24)	(1.79)	1,162.3	67.0
Associate share of (loss)/profits	(0.24)	(0.51)	0.02	(0.52)	(1,611.7)	(53.2)
PBT	54.68	93.64	44.75	48.89	22.2	11.9
Taxation	(17.63)	(24.96)	(11.68)	(13.28)	51.0	32.7
Net Income	37.06	68.68	33.07	35.61	12.1	4.1
EPS	0.92	1.71	0.83	0.89	12.1	4.1

(Source: Company, DBIB Research)

## CASHFLOW SUMMARY (KES BN)

Year End: March	1H22	FY21	1H21	y-y % ch	h-h % ch
EBITDA	77.40	134.13	63.38	22.13	(42.3)
Working Capital Movement	0.16	-2.50	1.89	(91.79)	(106.2)
Capital Additions	(22.82)	-34.96	-22.68	0.62	(34.7)
Movement in contract liabilities	(2.32)	0.00	-1.92	20.82	-
Operating free cash flow	52.43	93.02	40.68	28.89	(43.6)
Interest received/(paid)	(1.29)	0.41	0.38	(438.32)	(413.6)
Taxation paid	(16.72)	-28.92	-17.45	(4.23)	(42.2)
Free cash flow	34.42	64.52	23.60	45.82	(46.6)

(Source: Company, DBIB Research)

## BALANCE SHEET SUMMARY (KES BN)

Year End: March	1H22	FY21	1H21	y-y % ch	h-h % ch
Equity and non-controlling interest	178.80	137.64	120.06	48.92	29.9
Borrowings	-	-	-	-	-
Capital employed	178.80	137.64	120.06	48.92	29.9
Non-current assets	275.16	174.72	178.04	54.55	57.5
Contract assets	3.18	3.04	2.79	14.21	4.5
Inventories	4.07	2.49	3.93	3.51	63.5
Receivables and prepayments	23.40	22.35	23.28	0.52	4.7
Cash and cash equivalents	26.45	26.74	15.78	67.63	(1.1)
Current assets	58.39	54.94	49.54	17.85	6.3
Contract liabilities	10.43	11.03	9.37	11.29	(5.5)
Provisions	2.67	2.56	5.28	(49.42)	4.2
Dividend payable	1.37	8.68	1.27	7.23	(84.3)
Payables and accrued expenses	37.20	34.02	40.78	(8.78)	9.3
Borrowings	77.00	14.77	32.74	135.19	421.2
Current income tax	3.87	0.26	0.01	32,172.50	1,387.8
Current liabilities	137.23	71.33	92.91	47.70	92.4
Net current liabilities	(78.84)	(16.39)	(43.37)	81.79	381.0
Net assets	158.33	134.67	161.32	(1.9)	17.6

(Source: Company, DBIB Research)

## SUBSCRIBER STATISTICS

	1H22	FY21	1H21	y-y % ch	h-h % ch
Total Customers (MN)	41.95	39.90	38.14	9.99	5.1
30 day active Customers (MN)	31.75	31.45	30.31	4.75	1.0
30 day active Voice Customers (MN)	27.14	27.52	26.90	0.89	(1.4)
30 day active SMS Customers (MN)	20.81	21.79	21.51	(3.25)	(4.5)
30 day active MPESA Customers (MN)	28.69	28.31	26.79	7.09	1.3
30 day active mobile data Customers (MN)	24.05	23.77	22.91	4.98	1.2

(Source: Company)

	1H22	FY21	1H21	y-y % ch	h-h % ch
Voice ARPUs**	164.72	192.19	175.62	(6.2)	(14.3)
30 day active Voice ARPU**	254.61	278.65	249.00	2.3	(8.6)
SMS ARPUs**	23.33	28.41	31.41	(25.7)	(17.9)
30 day active SMS ARPU**	47.04	52.02	55.69	(15.5)	(9.6)
30 day active MPESA ARPU**	303.98	243.28	223.27	36.1	25.0
30 day active Data ARPU**	163.74	157.04	161.74	1.2	4.3
Service ARPU**	549.99	522.87	517.42	6.3	5.2
30 day active Service ARPU**	726.69	663.36	651.09	11.6	9.5

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

(Source: DBIB Research)

## OPERATING PERFORMANCE

	1H22	FY21	1H21	y-y % ch	h-h % ch
Contribution margin (%)	68.9	68.2	67.9	94	64
EBITDA margin (%)	52.9	50.9	51.0	195	202
EBIT margin (%)	39.6	36.4	36.1	346	314
Pretax margin (%)	37.4	35.5	35.9	143	5.3
PAT margin (%)	25.3	26.0	26.6	(4.7)	(2.7)
Asset Turnover (x)	0.5	1.5	0.7	(24.0)	(64.8)
Inventory Turnover (x)	36.0	106.2	31.7	13.5	(66.1)
Receivables Turnover (x)	6.3	11.8	5.4	16.9	(47.0)
Payables Turnover (x)	3.9	7.8	3.1	28.8	(49.3)
Working capital turnover (x)	0.7	2.1	0.9	(14.4)	(64.2)

(Source: DBIB Research)

## INVESTMENT RETURNS

X	1H22	FY21	1H21	y-y % ch	h-h % ch
RoA	22.2	29.9	29.1	(23.5)	(25.7)
RoE	41.4	49.9	55.1	(24.8)	(16.9)
RoIC	41.4	49.9	55.1	(24.8)	(16.9)

\*Annualized

(Source: DBIB Research)

## FINANCIAL STABILITY

	<b>FY21</b>	<b>1H21</b>	<b>FY20</b>	<b>y-y ch</b>	<b>h-h ch</b>
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

## DISCLAIMER

*While every care has been taken in preparing this report and it has been prepared from sources believed to be reliable, no representation, warranty, or undertaking (express or implied) is given and no responsibility is accepted by Dyer and Blair Investment Bank Limited, its related companies, subsidiaries, affiliates, its employees and agents, as to the accuracy and completeness of the information contained herein or in respect of any reliance on or use thereof. This report is solely intended for distribution to clients of Dyer and Blair Investment Bank Limited. Any information may be changed after distribution at any time without any notice.*