

DYER & BLAIR INVESTMENT BANK

EARNINGS UPDATE

Founder Member of the Nairobi Securities Exchange

13TH MAY 2022



DYER & BLAIR
INVESTMENT BANK

WE KNOW. YOU KNOW.

SAFARICOM LIMITED: FY22 EARNINGS UPDATE

Dear All,

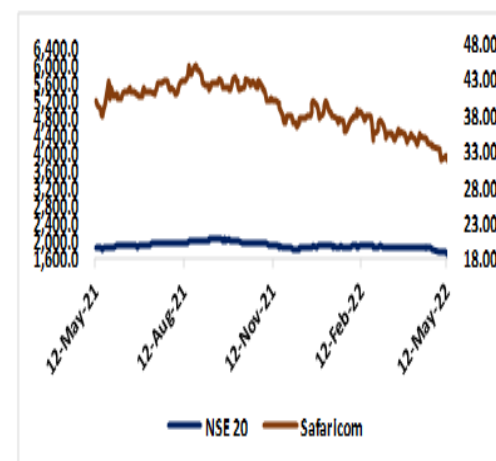
Safaricom PLC announced its FY22 results recording a 1.7% y-o-y decline in the Group's profit after tax to KES 67.5 BN largely impacted by a 218.4% y-o-y jump in net finance cost to KES 6.4 BN. This came on the back of a USD 400 MN loan facility taken up by the company to finance the payment of the telecommunication license fees in Ethiopia. EBIT was however up 13.5% y-o-y to KES 109.1 BN supported by a 12.3% y-o-y increase in service revenue to KES 281.1 BN. A final dividend of KES 0.75 per share was recommended, implying a total dividend of KES 1.39 per share.

Below please find key highlights:

Service revenue was up 12.3% y-o-y to KES 281.1 BN, in line with our expectation of 12.2% y-o-y growth, mainly supported by 30.3% y-o-y growth in M-PESA revenue to KES 107.7 BN. M-PESA performance was supported by the lifting of the waiver of charges on transactions below KES 1,000, and was further supported by economic recovery. Voice revenue grew by 1.1% y-o-y to KES 93.1 BN while SMS revenue was down 20.0% y-o-y to KES 10.9 BN. Mobile data revenue increased 8.1% y-o-y to stand at KES 48.4 BN. Voice revenue contribution to service revenue declined to 33.1% compared to FY21's 36.8%. M-PESA revenue contribution stood at 38.3% compared to FY21's 33.0% while mobile data revenue contribution stood at 17.2% compared to FY21's 17.9%.

Mobile data revenue growth came in below our expectation (8.1% actual growth vs 24.6% estimated growth) impacted by the segment's absorption of excise duty adjustments from August 2021 which slowed down industry momentum and price rationalization as highlighted by management. 30 day active mobile data customers grew 6.1% y-o-y to 25.2 MN while distinct data bundle customers grew 5.3% y-o-y to 17,600 which saw the 30 day active chargeable mobile data ARPU rise 10.4% y-o-y to KES 205.7. Average rate per MB declined 31.2% y-o-y while usage per chargeable data subscriber grew 60.5% y-o-y, implying stronger response to price decline than has been recorded in the past 3 years.

SAFARICOM: 52 WEEK PRICE PERFORMANCE



(Source: NSE, DBIB Research)

PRICE RETURN	ABSOLUTE RETURN	EXCESS RETURN
3 months(%)	-17.3	-8.7
6 months(%)	-20.8	-11.1
12 months(%)	-20.6	-13.7

KEY METRICS

Current Price (KES)	31.85
52 week Range (KES)	44.95-31.85
YTD Return (%)	-16.1
Issued Shares (Mn)	40,065.4
Market Cap (USD Mn)	11,009.8
Enterprise Value (USD Mn)	11,436.5

EPS (KES)	1.74
EV/EBITDA (x)	8.9
P/E (x)	18.3
P/FCF (x)	12.8
Div Yld (%)	4.3

Research Analyst

Lucy Awuor

lodhiambo@dyerandblair.com

+254 727 014866

M-PESA revenue growth (+30.3% y-o-y) outperformed our expectation of 25.9% y-o-y increase buoyed by 18.9% y-o-y uptick in M-PESA ARPU to KES 305.4 coupled with 7.8% y-o-y increase in one month active M-PESA customers to 30.5 MN. Notably, the segment recorded 16.6% y-o-y increase in the number of chargeable transactions per one month active customer to stand at 20.25 transactions (this includes zero-rated transactions i.e. C2B and B2C).

M-PESA revenue comprised KES 72.4 BN (+30.3% y-o-y) generated from personal payments (transfers and withdrawals). This contributed 20.4% of the 30.3% M-PESA revenue growth. Revenue from business payments stood at KES 23.3 BN (+37.2% y-o-y), accounting for 7.6% of the M-PESA revenue growth while revenue from financial services stood at KES 9.5 BN (+17.7% y-o-y).

Total M-PESA transaction value grew 34.0% y-o-y to KES 29.5 TN while volume of transactions grew commensurately by 34.9% y-o-y to 15.7 BN. Value growth was largely driven by 44.5% y-o-y increase in the value of business payments to KES 18.2 BN. The value of P2P transfers stood at KES 4.3 TN (+19.8% y-o-y) while the value of withdrawals stood at KES 2.3 TN (+11.5% y-o-y), implying increasing money velocity within the M-PESA eco-system.

M-PESA wallet to Bank and Bank to M-PESA wallet transactions are still zero rated and make up 18.9% of the total M-PESA transactions. Management during the FY22 investor briefing highlighted that considerations are underway for resumption of charging of these transactions. We opine that the resumption of charges will have significant impact on M-PESA revenue numbers given the proportion of transactions.

Fixed service revenue grew by 18.3% y-o-y to KES 11.2 BN supported by 20.8% y-o-y growth in FTTH customers to 165,981 and 24.1% y-o-y growth in fixed enterprise customers to 48,306 (on account of reopening of offices post COVID). FTTH ARPU on the other hand remained relatively flat y-o-y at KES 2,300. Enterprise customers ARPU continued to decline (-19.3% y-o-y) driven by migration of Enterprise customers to the Fixed LTE product which has a lower ARPU.

Voice and SMS revenue jointly declined by a marginal 1.6% y-o-y to KES 103.9 BN held by the 1.1% voice revenue growth. The joint contribution to service revenue stood at 37.0% compared to 42.2% in FY21. Voice ARPU decline slowed down to 3.4% y-o-y to KES 248.9 while SMS ARPU declined 20.9% y-o-y to KES 41.71.

EBITDA margin deteriorated 100 bps y-o-y to stand at 50.0% following a 19.9% y-o-y increase in operating costs to KES 55.2 BN. Operating expenses related to the Ethiopian unit stood at KES 5.1 BN. EBIT margin improved 19 bps y-o-y to 36.6%. The company's net finance cost stood at KES 6.4 BN, up 218.4% y-o-y following an increase in non-current liabilities from KES 17.5 BN in FY21 to KES 68.9 BN in FY22 on account of the Ethiopia license fee loan facility. Safaricom Ethiopia's financing costs stood at KES 4.6 BN, of which forex and hedge costs comprised KES 2.4 BN.

EPS including Ethiopia stood at KES 1.74 (+1.7% y-o-y) while excluding Ethiopia, EPS stood at KES 1.92, in line with our estimate. **Management proposed a final dividend of KES 0.75 per share**, implying a total DPS of KES 1.39 and a payout ratio of 79.9%.

Management's FY23 EBIT guidance including Safaricom Ethiopia stands at KES 87-93 BN, while CAPEX guidance including Safaricom Ethiopia stands at KES 100-108 BN. The company expects to launch Ethiopia operations in 2022. Excluding Ethiopia, EBIT guidance stands at KES 120-123 BN, **implying c.30-36 BN loss before interest and tax arising from the Ethiopian investment in FY23.**

Safaricom is currently trading at a P/E multiple of 18.3x and a P/B multiple of 9.1x. Its ROE stands at 49.9% and ROA stands at 20.1%.

PROFIT AND LOSS SUMMARY (KES BN)

Year End: March	FY22	FY21	y-y % ch	2H22	1H22	h-h % ch
Voice revenue	93.06	92.02	1.1	51.60	41.46	24.5
Messaging revenue	10.88	13.60	(20.0)	5.00	5.87	(14.8)
Mobile Data revenue	48.44	44.79	8.1	24.81	23.63	5.0
Fixed Data revenue	11.24	9.51	18.3	5.75	5.50	4.6
M-PESA revenue	107.69	82.65	30.3	55.36	52.33	5.8
Other service revenue	9.80	7.78	25.9	0.15	9.65	(98.5)
Service revenue	281.11	250.35	12.3	142.67	138.43	3.1
Handset and other revenue	16.53	12.32	34.2	8.69	7.84	10.8
Total Revenue	297.63	263.51	13.0	151.36	146.28	3.5
Other income	0.44	0.52	(14.8)	0.35	0.09	-
Direct costs	-91.47	-80.02	14.3	(46.93)	(44.54)	5.4
Construction costs	-	-0.84	(100.0)	-	-	-
Provision for ECLs on receivables	-2.36	-3.01	(21.5)	(1.35)	(1.01)	33.1
Contribution	204.25	180.16	13.4	103.43	100.82	2.6
Operating Costs	-55.19	-46.03	19.9	(31.77)	(23.41)	35.7
EBITDA	149.06	134.13	11.1	71.66	77.40	(7.4)
Depreciation & amortization	-39.93	-37.96	5.2	(20.44)	(19.49)	4.9
Net financing income/ (costs)	-6.44	-2.02	218.4	(3.46)	(2.98)	15.9
Associate & JV share of (loss)/profits	-0.48	-0.51	(6.1)	(0.23)	(0.24)	(5.6)
PBT	102.21	93.64	9.2	47.53	54.68	(13.1)
Taxation	-34.72	-24.96	39.1	(17.09)	(17.63)	(3.1)
Net Income	67.50	68.68	(1.7)	30.44	37.06	(17.9)
EPS	1.74	1.71	1.5	0.82	0.92	(11.9)

(Source: Company, DBIB Research)

CASHFLOW SUMMARY (KES BN)

Year End: March	FY22	1H22	FY21	y-y % ch	h-h % ch
EBITDA	149.06	77.40	134.13	11.1	92.6
Working Capital Movement	5.44	0.16	-2.50	(317.8)	3,409.2
Capital Additions	-49.78	-22.82	-34.96	42.4	118.2
Operating free cash flow	99.75	52.43	93.02	7.2	90.3
Interest received/(paid)	-1.95	-1.29	0.41	(572.7)	50.7
Taxation paid	-34.13	-16.72	-28.92	18.0	104.2
Free cash flow	63.67	34.42	64.52	(1.3)	85.0

(Source: Company, DBIB Research)

BALANCE SHEET SUMMARY (KES BN)

Year End: March	FY22	1H22	FY21	y-y % ch	h-h % ch
Equity and non-controlling interest	179.70	178.80	137.64	30.6	0.5
Borrowings	68.95	17.53	17.54	293.0	293.3
Capital employed	248.65	196.33	155.18	60.2	26.7
Non-current assets	281.55	275.16	174.72	61.1	2.3
Contract assets	2.95	3.18	3.04	(3.0)	(7.2)
Inventories	4.31	4.07	2.49	73.2	5.9
Receivables and prepayments	25.92	23.40	22.35	16.0	10.8
Cash and cash equivalents	30.78	26.45	26.74	15.1	16.4
Current assets	65.25	58.39	55.91	16.7	11.7
Contract liabilities	10.21	10.43	11.03	(7.5)	(2.1)
Provisions	3.37	2.67	2.56	31.7	26.4
Dividend payable	12.05	1.37	8.68	38.8	781.7
Payables and accrued expenses	41.31	37.20	34.02	21.4	11.1
Borrowings	20.40	77.00	14.77	38.1	(73.5)
Current income tax	5.29	3.87	0.26	1,932.7	36.6
Current liabilities	98.15	137.23	75.45	30.1	(28.5)
Net current liabilities	-32.90	-78.84	-19.54	68.4	(58.3)
Net assets	248.65	196.33	155.18	60.2	26.7

(Source: Company, DBIB Research)

SUBSCRIBER STATISTICS

	FY22	1H22	FY21	y-y % ch	h-h % ch
Total Customers (MN)	42.44	41.95	39.90	6.4	1.2
30 day active Customers (MN)	32.81	31.75	31.45	4.3	3.3
30 day active Voice Customers (MN)	28.38	27.14	27.52	3.1	4.6
30 day active SMS Customers (MN)	22.27	20.81	21.79	2.2	7.0
30 day active MPESA Customers (MN)	30.53	28.69	28.31	7.8	6.4
30 day active mobile data Customers (MN)	25.22	24.05	23.77	6.1	4.9
Fixed Customers ('000)	214.27	198.26	176.29	21.6	8.1

(Source: Company)

	FY22	1H22	FY21	y-y % ch	h-h % ch
Voice ARPUs**	182.73	112.98	192.19	(4.9)	61.7
30 day active Voice ARPU**	273.25	156.86	278.65	(1.9)	74.2
SMS ARPUs**	21.36	23.33	28.41	(24.8)	(8.5)
30 day active SMS ARPU**	40.70	47.04	52.02	(21.8)	(13.5)
30 day active MPESA ARPU**	293.95	303.98	243.28	20.8	(3.3)
30 day active Data ARPU**	160.06	163.74	157.04	1.9	(2.2)
Service ARPU**	551.97	549.99	522.87	5.6	0.4
30 day active Service ARPU**	713.98	726.69	663.36	7.6	(1.7)

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

(Source: DBIB Research)

OPERATING PERFORMANCE

	FY22	1H22	FY21	y-y bps ch	h-h bps ch
Contribution margin (%)	68.5	68.9	68.2	28	(36)
EBITDA margin (%)	50.1	52.9	50.9	(82)	(284)
EBIT margin (%)	36.6	39.6	36.4	19	(296)
Pretax margin (%)	34.3	37.4	35.5	(117)	(8.2)
PAT margin (%)	22.6	25.3	26.0	(12.9)	(10.6)
Asset Turnover (x)	1.1	0.5	1.5	(29.9)	99.0
Inventory Turnover (x)	69.2	36.0	106.2	(34.8)	92.3
Receivables Turnover (x)	11.5	6.3	11.8	(2.7)	83.8
Payables Turnover (x)	7.2	3.9	7.8	(7.0)	83.4
Working capital turnover (x)	1.8	0.7	2.0	(9.2)	143.8

(Source: DBIB Research)

INVESTMENT RETURNS

	FY22	1H22	FY21	y-y bps ch	h-h bps ch
RoA	19.5	22.2	29.8	(34.6)	(12.4)
RoE	37.6	41.4	49.9	(24.7)	(9.4)
RoIC	27.1	41.4	44.3	(38.7)	(34.5)

(Source: DBIB Research)

FINANCIAL STABILITY

	FY22	1H22	FY21	y-y ch	h-h ch
Net debt/(cash) (KES MN)	58,567.5	50,547.5	(11,964.1)	(589.5)	15.9
Net debt (cash)/equity (%)	32.6	28.3	(8.7)	(474.9)	15.3
Net debt (cash)/EV (%)	3.5	3.0	(0.7)	(589.5)	15.9
EV/EBIT (x)	15.3	28.9	17.4	(11.9)	(46.9)
EV/EBITDA (x)	11.2	21.6	12.5	(10.0)	(48.1)
EV/Subscriber (x)	39,425.0	39,885.5	41,934.8	(6.0)	(1.2)
Current ratio (x)	0.7	0.4	0.7	(10.3)	56.2
Interest cover (x)	(23.1)	(26.0)	(66.3)	(65.1)	(10.8)
Adj cash int cover (x)	(23.1)	(26.0)	(66.3)	(65.1)	(10.8)
Debt/cash flow (x)	1.4	1.8	0.2	512.9	(23.5)
Debt/CFO (x)	0.9	2.2	0.2	464.1	(60.0)
Net debt (cash)/share (KES)	1.46	1.3	(0.3)	(589.5)	15.9
Book value/share (KES)	4.49	4.5	3.4	30.6	0.5

(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.