

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: 1H23 EARNINGS UPDATE

Dear All,

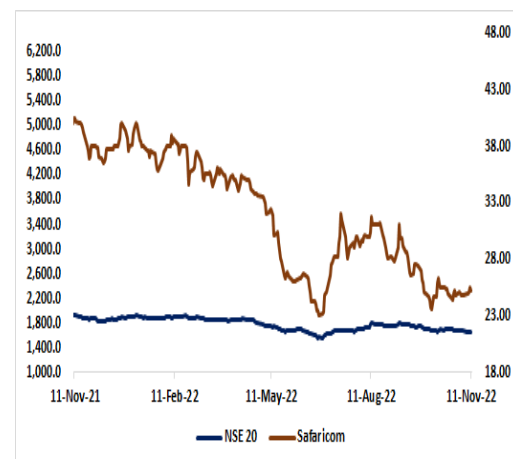
Safaricom PLC announced its 1H23 results recording an 18.3% y-o-y decline in profit after tax to KES 30.2 BN (KES 33.5 BN attributable to equity holders of the company, down 10.0% y-o-y). Performance was largely impacted by inflationary pressure on consumer spending, slowdown in business operations due to elections and Ethiopia start-up costs. EPS in turn stood at KES 0.84, down 10.0% y-o-y. Service revenue was up 4.6% y-o-y to KES 144.8 BN, out of which Safaricom Ethiopia contributed KES 9.1 MN generated in the first month of operations. Safaricom Ethiopia total revenue stood at KES 98.3 MN (including revenue from sim card sales), with 180,300 customers as at September 2022 (740,000 customers as at October 2022). EBIT was down 11.5% y-o-y to KES 51.2 BN. Net finance cost stood at KES 2.9 BN, down 1.7% y-o-y.

Below please find key highlights:

Service revenue was up 4.6% y-o-y to KES 144.8 BN on the back of 8.7% y-o-y growth in M-PESA revenue to KES 56.9 BN and 11.3% y-o-y increase in mobile data revenue to KES 26.3 BN. M-PESA revenue growth was mainly spurred by increase in number of customers (+6.4% y-o-y). Voice revenue on the other hand declined by 3.8% y-o-y to KES 39.9 BN while SMS revenue was down 7.7% y-o-y to KES 5.4 BN. Voice revenue contribution to service revenue declined to 27.5% compared to 1H22's 29.9%. M-PESA revenue contribution stood at 39.3% compared to 1H22's 37.8% while mobile data revenue contribution stood at 18.2% compared to 1H22's 17.1%.

Overall ARPU increased by 3.8% y-o-y to KES 738.82 mainly supported by 16.0% y-o-y growth in mobile data ARPU to KES 230.15, with one month active mobile data subscribers increasing by 4.8% y-o-y to 25.2 MN. M-PESA ARPU stood at KES 307.06, up 2.1% y-o-y. The number of chargeable transactions per one month active user stood at 22.45, up 19.3% y-o-y compared to 19.3 transactions in 1H22. Voice ARPU was down 2.5% y-o-y to KES 241.52 while SMS ARPU was down 7.3% y-o-y to KES 41.41.

SAFARICOM: 52 WEEK PRICE PERFORMANCE



(Source: NSE, DBIB Research)

PRICE	ABSOLUTE	EXCESS
RETURN	RETURN	RETURN
3 months(%)	(20.6)	(13.4)
6 months(%)	(22.1)	(17.1)
12 months(%)	(37.7)	(24.0)

KEY METRICS

Current Price (KES)	25.25
52 week Range (KES)	23.10-40.50
YTD Return (%)	(33.5)
Issued Shares (Mn)	40,065.4
Market Cap (USD Mn)	8,310.1
Enterprise Value (USD Mn)	8,496.4

Trailing EPS (KES)	1.66
EV/EBITDA (x)	14.0
P/E (x)	15.3
P/FCF (x)	132.3
Div Yld (%)	5.5

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MTR adjustment to KES 0.58 from KES 0.99 effective August 2022 notably led to a KES 0.5 BN impact on interconnect revenues which stood at KES 2.9 BN (-13.6% y-o-y), implying FY23 interconnect revenue impact of c. KES 4.0 BN arising from the MTR revision.

Total M-PESA transaction value grew 32.0% y-o-y to KES 18.1 TN while volume of transactions increased by the same percentage points to 9.6 BN transactions. M-PESA revenue growth (+8.7% y-o-y) was supported by growth in personal payments (accounted for 4.5% of the growth), i.e., transfers increased by 10.1% y-o-y and withdrawals increased by 3.1% y-o-y, pointing to continued increase in velocity of money within the M-PESA wallet. Business payments accounted for 2.6% of M-PESA revenue growth as B2C and C2B transactions remain zero-rated, with the company indicating a return to charging on banking transactions as one of the 2H23 growth opportunities.

Fixed service revenue grew 23.0% y-o-y to KES 6.7 BN on the back of 13.0% y-o-y growth in FTTH customers to 173,239 and 16.6% y-o-y increase in fixed enterprise customers to 52,349. FTTH ARPU remained relatively unchanged y-o-y at KES 2,320 while activity rate jumped to 76.6% compared to 1H22's 66.5%.

EBITDA margin deteriorated by 460 bps y-o-y to stand at 48.3% following a 420 bps increase in operating costs as a percentage of total revenue to 20.2% (Operating costs were up 32.2% y-o-y to KES 30.9 BN). Operating costs increase was largely spurred by a 26.3% y-o-y increase in network operating costs to KES 8.5 BN (Safaricom Ethiopia recorded network operating costs of KES 1.6 BN preceding official launch in October 2022). EBIT margin worsened by 620 bps y-o-y to 33.4%. The company registered net finance costs of KES 2.9 BN, marginally down by 1.7% y-o-y as long-term borrowings declined in a similar manner (-1.7% y-o-y) to stand at KES 44.2 BN.

CAPEX stood at KES 37.5 BN, up 64.3% y-o-y, with KES 19.5 BN attributed to Safaricom Ethiopia investment. This implies CAPEX guidance of KES 62.5 - 70.5 BN in 2H23, faster than 1H23 CAPEX spend. The company currently has 561 active 2G/3G/4G sites in Ethiopia, with 931 sites under construction.

Management's FY23 EBIT guidance including Safaricom Ethiopia stands at KES 87-93 BN, maintained compared to the guidance given at release of FY22 results. **CAPEX guidance including Safaricom Ethiopia stands at KES 100 - 108 BN**, also maintained. **Safaricom Kenya EBIT guidance was notably revised downwards to KES 112 - 115 BN from the previously guided KES 120 - 123 BN**. Management maintained its guidance on EBITDA break-even at year 4 of operations, with the company yet to receive its mobile money license.

Safaricom is currently trading at a P/E multiple of 15.3x and a P/B multiple of 7.0x. Its ROE stands at 45.9% and ROA stands at 17.4%.

PROFIT AND LOSS SUMMARY (KES BN)

Year End: March	1H23	FY22	1H22	2H22	y-y* % ch	h-h* % ch
Voice revenue	39.88	93.06	41.46	51.60	(3.8)	(22.7)
Messaging revenue	5.42	10.88	5.87	5.00	(7.7)	8.4
Mobile Data revenue	26.30	48.44	23.63	24.81	11.3	6.0
Fixed Data revenue	6.76	11.24	5.50	5.75	23.0	17.6
M-PESA revenue	56.86	107.69	52.33	55.36	8.7	2.7
Other service revenue	9.61	9.80	9.65	0.15	(0.5)	6,501.5
Service revenue	144.83	281.11	138.43	142.67	4.6	1.5
Handset and other revenue	8.44	16.53	7.84	8.69	7.6	(2.8)
Total Revenue	153.27	297.63	146.28	151.36	4.8	1.3
Other income	0.16	0.44	0.09	0.35	76.9	(52.9)
Direct costs	(46.81)	(91.47)	(44.54)	(46.93)	5.1	(0.3)
Provisions for ECLs on receivables	(1.61)	(2.36)	(1.01)	(1.35)	59.1	19.5
Contribution	105.01	204.25	100.82	103.43	4.2	1.5
Operating Costs	(30.96)	(55.19)	(23.41)	(31.77)	32.2	(2.5)
EBITDA	74.04	149.06	77.40	71.66	(4.3)	3.3
Depreciation & amortization	(22.80)	(39.93)	(19.49)	(20.44)	16.9	11.5
Net financing costs	(2.93)	(6.44)	(2.98)	(3.46)	(1.7)	(15.2)
Associate share of (loss)/profits	(0.06)	(0.48)	(0.24)	(0.23)	(74.4)	(72.9)
PBT	48.25	102.21	54.68	47.53	(11.8)	1.5
Taxation	(18.02)	(34.72)	(17.63)	(17.09)	2.2	5.5
Net Income	30.23	67.50	37.06	30.44	(18.4)	(0.7)
EPS	0.84	1.74	0.92	0.82	(9.2)	3.1

(Source: Company, DBIB Research)

CASHFLOW SUMMARY (KES BN)

Year End: March	1H23	FY22	1H22	y-y % ch	h-h % ch
EBITDA	74.04	134.13	77.40	(4.34)	(44.8)
Working Capital Movement	5.75	(2.50)	0.16	3,610.65	(330.3)
Capital Additions	(37.46)	(34.96)	(22.82)	64.17	7.1
Movement in contract liabilities	(5.06)	-	(2.32)	118.41	-
Operating free cash flow	37.28	93.02	52.43	(28.90)	(59.9)
Interest received/(paid)	(2.43)	0.41	(1.29)	87.94	(689.4)
Taxation paid	(27.20)	(28.92)	(16.72)	62.73	(5.9)
Free cash flow	7.65	64.52	34.42	(77.78)	(88.1)

(Source: Company, DBIB Research)

BALANCE SHEET SUMMARY (KES BN)

Year End: March	1H23	FY22	1H22	y-y % ch	h-h % ch
Equity and non-controlling interest	186.79	137.64	178.80	4.47	35.7
Borrowings	44.16	44.91	44.91	(1.67)	(1.7)
Capital employed	230.95	182.55	223.71	3.24	26.5
Non-current assets	311.33	174.72	275.16	13.14	78.2
Contract assets	3.70	3.04	3.18	16.47	21.7
Inventories	7.28	2.49	4.07	78.97	192.7
Receivables and prepayments	35.98	22.35	23.40	53.80	61.0
Cash and cash equivalents	15.97	26.74	26.45	(39.63)	(40.3)
Current assets	68.10	54.94	58.39	16.63	23.9
Contract liabilities	10.65	11.03	10.43	2.13	(3.5)
Provisions	3.36	2.56	2.67	25.77	31.1
Dividend payable	1.41	8.68	1.37	3.50	(83.7)
Payables and accrued expenses	52.11	34.02	37.20	40.09	53.2
Borrowings	39.01	14.77	77.00	(49.34)	164.0
Current income tax	0.58	0.26	3.87	(85.00)	123.2
Current liabilities	112.23	71.33	137.23	(18.22)	57.3
Net current liabilities	(44.12)	(16.39)	(78.84)	(44.03)	169.2
Net assets	267.21	158.33	196.33	36.10	68.8

(Source: Company, DBIB Research)

SUBSCRIBER STATISTICS

	1H23	FY22	1H22	y-y % ch	h-h % ch
Total Customers (MN)	43.17	42.44	41.95	2.91	1.7
30 day active Customers (MN)	32.47	32.81	31.75	2.27	(1.0)
30 day active Voice Customers (MN)	26.71	28.38	27.14	(1.58)	(5.9)
30 day active SMS Customers (MN)	21.25	22.27	20.81	2.11	(4.6)
30 day active MPESA Customers (MN)	31.17	30.53	28.69	8.64	2.1
30 day active mobile data Customers (MN)	25.20	25.22	24.05	4.78	(0.1)

(Source: Company)

	1H23	FY22	1H22	y-y % ch	h-h % ch
Voice ARPU**	153.97	182.73	164.72	(6.5)	(15.7)
30 day active Voice ARPU**	248.85	273.25	254.61	(2.3)	(8.9)
SMS ARPU**	20.93	21.36	23.33	(10.3)	(2.0)
30 day active SMS ARPU**	42.53	40.70	47.04	(9.6)	4.5
30 day active MPESA ARPU**	304.05	293.95	303.98	0.0	3.4
30 day active Data ARPU**	173.92	160.06	163.74	6.2	8.7
Service ARPU**	559.13	551.97	549.99	1.7	1.3
30 day active Service ARPU**	743.38	713.98	726.69	2.3	4.1

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

(Source: DBIB Research)

OPERATING PERFORMANCE

	1H23	FY22	1H22	y-y % ch	h-h % ch
Contribution margin (%)	68.4	68.5	68.9	(44)	(8.3)
EBITDA margin (%)	48.3	50.1	52.9	(461)	(177.2)
EBIT margin (%)	33.4	36.6	39.6	(617)	(321.0)
Pretax margin (%)	31.4	34.3	37.4	(591)	(8.3)
PAT margin (%)	19.7	22.6	25.3	(22.2)	(13.0)
Asset Turnover (x)	0.5	1.7	0.5	(7.4)	(71.1)
Inventory Turnover (x)	21.1	119.9	36.0	(41.4)	(82.4)
Receivables Turnover (x)	4.3	13.3	6.3	(31.8)	(68.0)
Payables Turnover (x)	2.9	8.8	3.9	(25.2)	(66.4)
Working capital turnover (x)	0.9	2.4	0.7	13.7	(64.0)

(Source: DBIB Research)

INVESTMENT RETURNS

	1H23	FY22	1H22	y-y % ch	h-h % ch
RoA	15.9	29.4	22.2	(28.3)	(45.8)
RoE	32.4	49.0	41.4	(21.9)	(34.0)
RoIC	26.2	37.0	33.1	(21.0)	(29.2)

*Annualized

(Source: DBIB Research)

FINANCIAL STABILITY

	1H23	FY22	1H22	y-y % ch	h-h % ch
Net debt/(cash) (KES MN)	23,037.1	(11,964.1)	50,547.5	(54.4)	(292.6)
Net debt (cash)/equity (%)	12.3	(8.7)	28.3	(56.4)	(241.9)
Net debt (cash)/EV (%)	1.4	(0.7)	3.0	(54.4)	(292.6)
EV/EBIT (x)	32.7	15.3	28.9	13.0	112.9
EV/EBITDA (x)	22.6	11.2	21.6	4.5	101.3
EV/Subscriber (x)	38,758.3	39,425.0	39,885.5	(2.8)	(1.7)
Current ratio (x)	0.6	0.8	0.4	42.6	(21.2)
Interest cover (x)	(25.3)	(23.1)	(26.0)	(2.7)	9.1
Adj cash int cover (x)	(25.3)	(23.1)	(26.0)	(2.7)	9.1
Debt/cash flow (x)	0.9	0.2	1.8	(50.8)	294.6
Debt/CFO (x)	5.1	0.2	2.2	-	3,111.9
Net debt (cash)/share (KES)	0.57	(0.3)	1.3	(54.4)	(292.6)
Book value/share (KES)	4.66	3.4	4.5	4.5	35.7

(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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