

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: 1H24 EARNINGS UPDATE

Dear All,

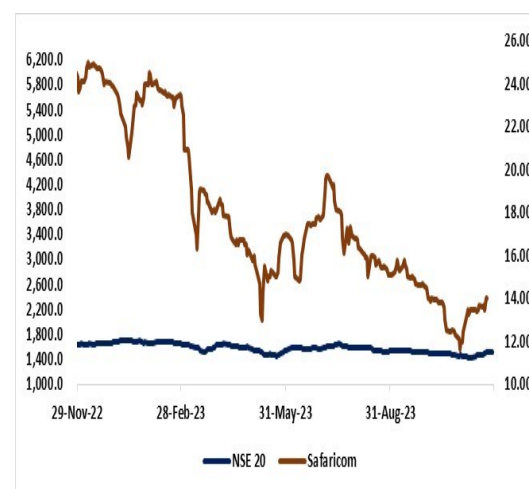
Safaricom PLC announced its 1H24 results recording a 10.1% y-o-y decline in the group's profit after tax to KES 27.2 BN (of which KES 34.2 BN was attributable to equity holders of the company, up 2.2% y-o-y). Performance was largely impacted by a 21.9% y-o-y increase in operating expenses to KES 37.7 BN on the back of a surge in energy costs in the country (as detailed by company management during the 1H24 investor call) and a 67.7% y-o-y rise in depreciation & amortization costs to KES 38.2 BN. EPS in turn stood at KES 0.9, up 2.1% y-o-y. Service revenue rose by 9.9% y-o-y to KES 159.1 BN, with Safaricom Ethiopia's contribution standing at KES 2.0 BN held by mobile data revenue (KES 1.4 BN). No interim dividend was recommended. Safaricom Ethiopia's 90-day active customers stood at 4.12 MN, with registered M-PESA customers standing at 1.2 MN following launch of mobile financial services in August 2023.

Below please find key highlights:

Service revenue improved by 9.9% y-o-y to KES 159.1 BN mainly supported by a 16.5% y-o-y growth in M-PESA revenue to KES 66.2 BN and a 17.7% y-o-y growth in mobile data revenue to KES 30.9 BN. M-PESA performance was supported by personal payments (+13.5% y-o-y to KES 43.0 BN) and business payments (+40.2% y-o-y to KES 17.6 BN) partly driven by the resumption of charging of B2C and C2B transactions that took effect in January 2023. Voice revenue eased by 1.9% y-o-y to KES 39.1 BN while SMS revenue continued to grow at 6.3% y-o-y to KES 5.8 BN. Voice and SMS revenue contribution to service revenue declined to 24.6% (1H23: 27.5%) and 3.6% (1H23: 3.7%) respectively. On the other hand, M-PESA and mobile data contribution to service revenue rose to 41.6% (1H23: 39.3%) and 19.4% (1H23: 18.2%) respectively.

Kenyan Business: One month active customer ARPU went up by 6.4% y-o-y to KES 785.76 supported by a 12.0% y-o-y rise in M-PESA ARPU to KES 344.05, with one month active M-PESA customers increasing by 3.1% y-o-y to 32.13 MN.

SAFARICOM: 52 WEEK PRICE PERFORMANCE



(Source: NSE, DBIB Research)

PRICE	ABSOLUTE	EXCESS
RETURN	RETURN	RETURN
3 months	(9.7%)	(8.1%)
6 months	(15.7%)	(13.2%)
12 months	(42.7%)	(34.4%)

KEY METRICS

Current Price (KES)	14.00
52 week Range (KES)	25.00-11.70
YTD Return (%)	(42.03)
Issued Shares (Mn)	40,065
Market Cap (USD Mn)	3,664.7
Enterprise Value (USD Mn)	3,833.1
EV KES BN	586.7

Trailing EPS (KES)	1.61
EV/EBITDA (x)	7.4
P/E (x)	8.7

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The number of chargeable transactions per one month active customer stood at 28.94, up 28.9% y-o-y compared to 22.45 transactions in 1H23. M-PESA transaction volumes grew by 34.7% y-o-y to 12.93 BN transactions compared to 9.60 BN transactions in 1H23 whereas value transacted remained relatively flat y-o-y at KES 18.28 TN.

Mobile data ARPU increased marginally by 0.8% y-o-y to KES 311.28, with mobile data revenue numbers being supported by 11.7% y-o-y growth in MBs per subscriber and a 16.6% y-o-y increase in the number of one month active chargeable mobile data subscribers. Management highlighted a 75.0% cut in mobile data prices in the period, and guided a less aggressive price reduction strategy going forward. This in turn implies an expectation of growing smartphone adoption to be the key growth driver of mobile data revenue growth in the medium term. Voice ARPU eased marginally by 0.1% y-o-y to KES 248.59 while SMS ARPU rose by 5.1% y-o-y to KES 43.82.

Ethiopian Business: One month active customers stood at 2.58 MN. One month active customer ARPU settled at KES 154.01, with voice ARPU at KES 37.91, mobile data ARPU at KES 180.35 and messaging ARPU at KES 4.60. 90-day active customers for voice stood at 3.71 MN, mobile data at 2.31 MN and SMS at 1.96 MN. Registered M-PESA customer numbers stood at 1.16 MN.

EBITDA margin improved by 58 bps y-o-y to stand at 48.9% owing to a 5.2% y-o-y decline in direct costs to KES 44.4 BN. Operating costs on the other hand edged up by 21.9% y-o-y to KES 37.7 BN on account of inflationary pressures, currency depreciation as well as Ethiopia start-up costs. EBIT margin in turn shed 822 bps y-o-y to 25.2% further accelerated by a 67.7% y-o-y rise in depreciation & amortization costs to KES 38.2 BN. The group's net finance cost stood at KES 7.1 BN, up 142.9% y-o-y due to a higher interest rate environment. Owing to the hyperinflationary environment in Ethiopia, the group realized a KES 13.0 BN monetary gain.

CAPEX: Capital expenditure in 1H24 (excluding the hyperinflationary impact) stood at KES 41.9 BN, translating to a CAPEX intensity of 15.1% -- Kenyan unit CAPEX spend stood at KES 24.4 BN, Ethiopian unit CAPEX spend stood at KES 17.4 BN.

	Kenya	Ethiopia
Radio access	37.5	60.3
Core network	6.6	18.0
Transmission	11.5	9.0
Operations	1.6	0.2
Fixed network	10.3	0.2
IT	23.6	6.7
Others	8.9	5.7

Fixed service revenue grew 9.1% y-o-y to KES 7.4 BN on the back of 28.8% y-o-y growth in FTTH customers to 223,191 and a marginal 0.4% y-o-y increase in fixed enterprise customers to 54,745. FTTH ARPU declined by 3.1% y-o-y to KES 2,248 while activity rate jumped to 61.4% compared to 1H23's 54.8%.

The Kenyan government notably launched the smartphone assembly plant in Kenya in November 2023 (the East Africa Device Assembly Kenya Limited, of which Safaricom owns 25.0% shareholding). The company indicated an investment of USD 1.0 MN in the plant.

Management's FY24 EBIT guidance (including Safaricom Ethiopia) has been adjusted upwards to KES 87.0 BN - KES 93.0 BN, while CAPEX guidance (including Safaricom Ethiopia) stands at KES 85.0 BN – KES 93.0 BN. This implies CAPEX guidance of KES 43.1 - 51.1 BN in 2H24, faster than 1H24 CAPEX spend.

Safaricom is currently trading at a P/E multiple of 8.7x and a P/B multiple of 2.5x. Its ROE stands at 28.4% and ROA stands at 10.1%.

PROFIT AND LOSS SUMMARY (KES BN)

Year End: March	1H24	FY23	1H23	2H23	y-y* % ch	h-h* % ch
Voice revenue	39.11	89.16	39.88	49.28	(1.9)	(20.6)
Messaging revenue	5.76	11.38	5.42	5.95	6.3	(3.2)
Mobile Data revenue	30.95	53.95	26.30	27.66	17.7	11.9
Fixed Data revenue	7.37	13.46	6.76	6.70	9.1	10.0
M-PESA revenue	66.24	117.19	56.86	60.33	16.5	9.8
Other service revenue	9.70	10.55	9.61	0.95	1.0	926.0
Service revenue	159.14	295.69	144.83	150.87	9.9	5.5
Handset and other revenue	3.84	11.45	8.44	3.01	(54.5)	27.6
Total Revenue	162.97	307.14	153.27	153.88	6.3	5.9
Other income	1.64	3.76	0.16	3.60	895.7	(54.4)
Direct costs	(44.40)	(92.23)	(46.81)	(45.42)	(5.2)	(2.2)
Provisions for ECLs on receivables	(2.80)	(4.73)	(1.61)	(3.11)	74.0	(9.9)
Contribution	117.41	213.95	105.01	108.94	11.8	7.8
Operating Costs	(37.74)	(74.09)	(30.96)	(43.12)	21.9	(12.5)
EBITDA	79.67	139.86	74.04	65.82	7.6	21.0
Depreciation & amortization	(38.23)	(54.87)	(22.80)	(32.07)	67.7	19.2
Net financing costs	(7.12)	(7.09)	(2.93)	(4.15)	142.9	71.4
Associate share of (loss)/profits	12.61	(0.04)	(0.06)	0.02	(20,251.6)	51,600.4
PBT	46.94	88.35	48.25	40.09	(2.7)	17.1
Taxation	(19.75)	(35.86)	(18.02)	(17.84)	9.6	10.7
Net Income	27.19	52.48	30.23	22.25	(10.1)	22.2
EPS	0.90	1.55	0.84	0.71	7.1	26.0

(Source: Company, DBIB Research)

BALANCE SHEET SUMMARY (KES BN)

Year End: March	1H24	FY23	1H23	y-y % ch	h-h % ch
Equity and non-controlling interest	345.55	263.37	186.79	85.00	31.2
Borrowings	59.20	42.05	44.16	34.06	40.8
Capital employed	404.75	305.42	230.95	75.26	32.5
Non-current assets	547.69	436.77	311.33	75.92	25.4
Contract assets	2.38	4.40	3.70	(35.70)	(45.8)
Inventories	3.59	3.66	7.28	(50.72)	(1.9)
Receivables and prepayments	44.65	40.79	35.98	24.09	9.5
Cash and cash equivalents	20.46	22.10	15.97	28.12	(7.4)
Current assets	76.44	72.44	68.10	12.25	5.5
Contract liabilities	10.88	10.13	10.65	2.20	7.5
Provisions	4.52	4.52	3.36	34.72	(0.0)
Dividend payable	1.56	1.78	1.41	10.47	(12.3)
Payables and accrued expenses	77.39	72.69	52.11	48.51	6.5
Borrowings	46.24	43.49	39.01	18.56	6.3
Current income tax	-	2.41	0.58	(100.00)	(100.0)
Current liabilities	147.61	140.37	112.23	31.53	5.2
Net current liabilities	(71.17)	(67.93)	(44.12)	61.30	4.8
Net assets	476.52	368.84	267.21	78.33	29.2

(Source: Company, DBIB Research)

SUBSCRIBER STATISTICS

	1H24	FY23	1H23	y-y % ch	h-h % ch
Total Customers (MN)	44.12	43.75	43.17	2.20	0.8
30 day active Customers (MN)	33.27	33.11	32.47	2.46	0.5
30 day active Voice Customers (MN)	20.82	26.19	26.71	(22.05)	(20.5)
30 day active SMS Customers (MN)	20.82	21.17	21.25	(2.02)	(1.7)
30 day active MPESA Customers (MN)	32.13	32.11	31.17	3.08	0.1
30 day active mobile data Customers (MN)	26.09	26.07	25.20	3.53	0.1

(Source: Company)

	1H24	FY23	1H23	y-y % ch	h-h % ch
Voice ARPU**	147.74	169.84	153.97	(4.0)	(13.0)
30 day active Voice ARPU**	313.08	283.71	248.85	25.8	10.4
SMS ARPU**	21.78	21.67	20.93	4.0	0.5
30 day active SMS ARPU**	46.15	44.78	42.53	8.5	3.1
30 day active MPESA ARPU**	343.60	304.14	304.05	13.0	13.0
30 day active Data ARPU**	197.71	172.46	173.92	13.7	14.6
Service ARPU**	601.15	563.22	559.13	7.5	6.7
30 day active Service ARPU**	797.19	744.22	743.38	7.2	7.1

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

(Source: DBIB Research)

OPERATING PERFORMANCE

	1H24	FY23	1H23	y-y % ch	h-h % ch
Contribution margin (%)	71.3	68.8	68.4	289	251.1
EBITDA margin (%)	48.9	45.5	48.3	58	335.0
EBIT margin (%)	25.2	27.3	33.4	(822)	(216.1)
Pretax margin (%)	28.5	28.4	31.4	(293)	0.3
PAT margin (%)	16.5	16.9	19.7	(16.2)	(2.2)
Asset Turnover (x)	0.3	0.7	0.5	(39.0)	(57.8)
Inventory Turnover (x)	45.9	85.0	21.1	117.7	(46.0)
Receivables Turnover (x)	3.7	7.6	4.3	(13.5)	(51.6)
Payables Turnover (x)	2.1	4.3	2.9	(27.8)	(50.3)
Working capital turnover (x)	0.7	1.5	0.9	(13.6)	(49.7)

(Source: DBIB Research)

INVESTMENT RETURNS

	1H24	FY23	1H23	y-y % ch	h-h % ch
RoA	8.7	10.3	15.9	(45.3)	(15.5)
RoE	15.7	19.9	32.4	(51.4)	(21.0)
RoIC	13.4	17.2	26.2	(48.7)	(21.8)

*Annualized

(Source: DBIB Research)

FINANCIAL STABILITY

	1H24	FY23	1H23	y-y % ch	h-h % ch
Net debt/(cash) (KES MN)	25,783.6	(22,098.1)	23,037.1	11.9	(216.7)
Net debt (cash)/equity (%)	7.5	(8.4)	12.3	(39.5)	(188.9)
Net debt (cash)/EV (%)	4.4	(3.7)	3.9	11.9	(216.7)
EV/EBIT (x)	14.3	7.0	11.5	23.6	105.1
EV/EBITDA (x)	7.4	4.2	8.0	(7.1)	75.5
EV/Subscriber (x)	13,393.1	13,506.4	13,687.8	(2.2)	(0.8)
Current ratio (x)	0.5	0.5	0.6	(14.7)	0.3
Interest cover (x)	(11.2)	(19.7)	(25.3)	(55.7)	(43.3)
Adj cash int cover (x)	(11.2)	(19.7)	(25.3)	(55.7)	(43.3)
Net debt (cash)/share (KES)	0.64	(0.6)	0.6	11.9	(216.7)
Book value/share (KES)	8.62	6.6	4.7	85.0	31.2

(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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