

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: FY24 EARNINGS UPDATE

Dear All,

Safaricom PLC announced its FY24 results recording **18.7% y-o-y decline in the Group's profit after tax to KES 42.7 BN** largely impacted by a 12.4% y-o-y increase in operating expenses to KES 83.3 BN and a 51.2% y-o-y rise in depreciation & amortization costs to KES 82.9 BN as a result of the Ethiopia subsidiary consolidation. Service revenue, however, grew by 13.4% y-o-y to KES 335.3 BN. The board has recommended a final dividend per share of KES 0.65, placing the total dividend per share for the period at KES 1.20 (FY22: KES 1.20), having already paid an interim dividend per share of KES 0.55. Safaricom Ethiopia's 90-day active customers stood at 4.35 MN, with registered M-PESA customers standing at 4.51 MN following launch of mobile financial services in August 2023.

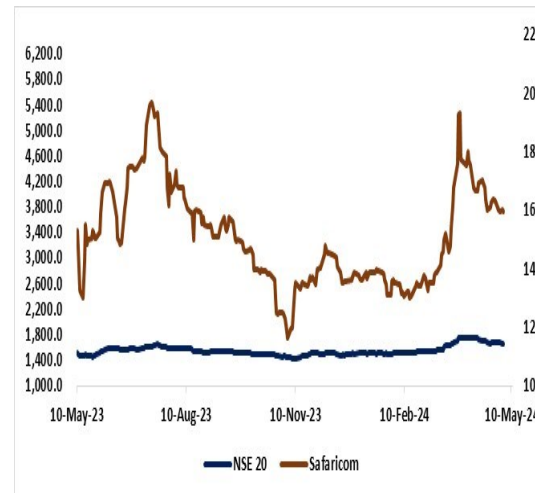
Below please find key highlights:

Service revenue increased by 13.4% y-o-y to KES 335.3 BN (Ethiopia: KES 5.7 BN) mainly supported by a 19.5% y-o-y growth in M-Pesa revenue to KES 140.0 BN and a 24.9% y-o-y increase in mobile data revenue to KES 67.4 BN. M-Pesa performance was principally supported by personal payments (+15.4% y-o-y to KES 90.3 BN) and business payments (+39.8% y-o-y to KES 38.2 BN). The contribution of business payments to M-Pesa revenue stood at 27.3%, while that of personal payments stood at 64.6%.

Voice revenue eased marginally by 0.1% y-o-y to KES 89.1 BN while **SMS revenue encountered a growth of 8.3% y-o-y to KES 12.3 BN**. **Mobile data revenue increased by 24.9% y-o-y to stand at KES 67.4 BN**, supporting total revenue performance. Voice and SMS revenue joint contribution to service revenue declined to 30.2% compared to 34.0% registered in FY23. On the other hand, M-Pesa and mobile data contribution to service revenue rose to 41.7% (FY23: 39.6%) and 20.1% (FY23: 18.2%) respectively.

Kenyan Business: One month active customer ARPU went up by 8.6% y-o-y to KES 814.79 mainly supported by a 16.1% y-o-y rise in M-Pesa ARPU to KES 361.32, with one month active M-Pesa customers increasing marginally by 0.9% y-o-y to 32.41 MN.

SAFARICOM: 52 WEEK PRICE PERFORMANCE



(Source: NSE, DBIB Research)

PRICE	ABSOLUTE	EXCESS
RETURN	RETURN	RETURN
3 months	25.00%	16.25%
6 months	24.06%	6.85%
12 months	7.84%	(2.3%)

KEY METRICS

Current Price (KES)	16.50
52 week Range (KES)	11.65-19.70
YTD Return (%)	18.71
Issued Shares (Mn)	40,065
Market Cap (USD Mn)	5,036.8
Enterprise Value (USD Mn)	4,868.4
EV KES BN	639.0

Trailing EPS (KES)	1.57
EV/EBITDA (x)	3.9
P/E (x)	10.5

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The number of chargeable transactions per one month active customer jumped by 33.9% y-o-y to stand at 31.51 compared to 23.54 transactions in FY23, in turn driving M-Pesa ARPU growth. The period recorded **9 months of the return to charging of bank-to-M-Pesa and M-Pesa-to-bank transactions** (effective January 2023), partly driving M-Pesa revenue numbers. M-Pesa tariff however recorded c.61.0% reduction in P2P, P2B and banking transaction charges, leaving M-Pesa usage as the growth driver for ARPU growth (contributed 27.4% of ARPU growth).

One month active mobile data customers increased by 13.9% y-o-y to stand at 22.31 MN while **mobile data ARPU increased by 1.5% y-o-y KES 242.71**. Data usage stood at 3.79 GBs per subscriber, up 6.4% y-o-y, the impact of this partly eroded by declining data prices. **The rate per MB declined by 4.6% y-o-y, in line with Management's 1H24 guidance of less aggressive mobile data price cuts going forward.** Growing mobile data subscribers will therefore remain a key driver of revenue growth. Voice ARPU increased marginally by 1.0% y-o-y to KES 251.00 while SMS ARPU rose by 8.0% y-o-y to KES 47.33.

Ethiopian Business: One month active customer ARPU settled at KES 183.12 compared to KES 78.02 recorded in FY23, with voice ARPU at KES 41.04, mobile data ARPU at KES 215.20 and messaging ARPU at KES 4.00. 90-day active customers for voice stood at 3.5 MN, mobile data at 2.8 MN and SMS at 1.8 MN. M-Pesa customers stood at 4.51 MN. Mobile data usage stood at 4.32 GBs per subscriber, surpassing Kenyan unit's usage per subscriber (3.79 GBs).

EBITDA margin improved by 167 bps y-o-y to stand at 47.2% in spite of a 12.4% y-o-y increase in operating costs to KES 83.3 BN. KES 23.8 BN of the operating costs were related to the Ethiopia unit. **EBIT margin on the other hand shed 435 bps y-o-y to 23.0% due to a 51.2% y-o-y surge in depreciation & amortization costs to KES 82.9 BN.** The group's net finance cost stood at KES 16.6 BN, up 134.8% y-o-y. Owing to the hyperinflationary environment in Ethiopia, the group realized a KES 22.4 BN monetary gain.

CAPEX: Capital expenditure in FY24 stood at KES 93.5 BN: Kenyan unit CAPEX spend stood at KES 47.3 BN, Ethiopian unit CAPEX spend stood at KES 46.2 BN. The CAPEX intensity stood at 26.8% compared to FY23's 30.9%.

Capex Split	Kenya	Ethiopia
Radio access	37.2	68.7
Core network	4.9	10.2
Transmission	10.9	8.8
Operations	3.0	-
Fixed network	10.9	-
IT	23.7	7.8
Others	9.5	4.5

Fixed service revenue grew 11.2% y-o-y to KES 15.0 BN on the back of 27.0% y-o-y growth in FTTH customers to 248,574 and a 13.1% y-o-y increase in fixed enterprise customers to 59,461. FTTH ARPU increased by 1.9% y-o-y to KES 2,381 while activity rate declined to 66.8% compared to FY23's 71.0%.

Management's FY25 EBIT guidance (including Safaricom Ethiopia) stands at KES 87.0 BN - KES 93.0 BN, while CAPEX guidance (including Safaricom Ethiopia) stands at KES 85.0 BN – KES 93.0 BN.

Safaricom is currently trading at a P/E multiple of 10.5x and a P/B multiple of 2.9x. Its ROE stands at 27.8% and ROA stands at 9.8%.

PROFIT AND LOSS SUMMARY (KES BN)

Year End: March	FY24	FY23	y-y % ch	2H24	1H24	h-h % ch
Voice revenue	89.11	89.16	(0.1)	50.00	39.11	27.8
Messaging revenue	12.32	11.38	8.3	6.55	5.76	13.7
Mobile Data revenue	67.40	53.95	24.9	36.45	30.95	17.8
Fixed Data revenue	14.96	13.46	11.2	7.59	7.37	3.0
M-PESA revenue	140.01	117.19	19.5	73.77	66.24	11.4
Other service revenue	11.55	10.55	9.5	1.85	9.70	(80.9)
Service revenue	335.35	295.69	13.4	176.22	159.14	10.7
Handset and other revenue	10.54	11.45	(7.9)	6.70	3.84	74.6
Total Revenue	345.89	307.14	12.6	182.92	162.97	12.2
Other income	3.55	3.76	(5.6)	1.91	1.64	-
Direct costs	(97.05)	(92.23)	5.2	(52.65)	(44.40)	18.6
Provision for ECLs on receivables	(5.81)	(4.73)	22.9	(3.00)	(2.80)	7.1
Contribution	246.59	213.95	15.3	129.18	117.41	10.0
Operating Costs	(83.30)	(74.09)	12.4	(45.56)	(37.74)	20.7
EBITDA	163.29	139.86	16.8	83.62	79.67	5.0
Depreciation & amortisation	(82.95)	(54.87)	51.2	(44.72)	(38.23)	17.0
Net financing income/ (costs)	(16.64)	(7.09)	134.8	(9.52)	(7.12)	33.7
Associate & JV share of (loss)/profits	(1.38)	(0.04)	3,510.2	(13.99)	12.61	(210.9)
Hyperinflationary monetary gain	22.36	10.38	-	22.36	-	-
PBT	84.69	88.35	(4.1)	37.75	46.94	(19.6)
Taxation	(42.03)	(35.86)	17.2	(22.28)	(19.75)	12.8
Net Income	42.66	52.48	(18.7)	15.47	27.19	(43.1)
EPS	1.57	1.55	1.0	0.67	0.90	(25.6)

(Source: Company, DBIB Research)

BALANCE SHEET SUMMARY (KES BN)

Year End: March	FY23	1H24	FY23	y-y % ch	h-h % ch
Equity and non-controlling interest	335.75	345.55	263.37	27.5	(2.8)
Borrowings	63.09	59.20	42.05	50.0	-
Capital employed	398.84	404.75	305.42	30.6	(1.5)
Non-current assets	558.62	547.69	436.77	27.9	2.0
Contract assets	5.20	2.38	4.40	-	-
Inventories	4.53	3.59	3.66	23.8	26.2
Receivables and prepayments	48.12	44.65	40.79	18.0	7.8
Cash and cash equivalents	22.87	20.46	22.10	3.5	11.8
Current assets	82.54	76.44	72.44	13.9	8.0
Contract liabilities	11.39	10.88	10.13	12.5	4.7
Provisions	2.94	4.52	4.52	(35.0)	(35.0)
Dividend payable	6.65	1.56	1.78	-	-
Payables and accrued expenses	94.92	77.39	72.69	30.6	22.7
Borrowings	45.05	46.24	43.49	3.6	(2.6)
Current income tax	0.19	0.00	2.41	(92.0)	-
Current liabilities	167.82	147.61	140.37	19.6	13.7
Net current liabilities	(85.28)	(71.17)	(67.93)	25.5	19.8
Net assets	473.34	476.52	368.84	28.3	(0.7)

(Source: Company, DBIB Research)

SUBSCRIBER STATISTICS (KENYA)

x	FY23	1H24	FY23	y-y % ch	h-h % ch
Total Customers (MN)	44.67	44.12	43.75	2.1	1.2
30 day active Customers (MN)	34.64	33.27	33.11	4.6	4.1
30 day active Voice Customers (MN)	28.28	20.82	26.19	8.0	35.8
30 day active SMS Customers (MN)	21.51	20.82	21.17	1.6	3.3
30 day active MPESA Customers (MN)	32.41	32.13	32.11	0.9	0.9
30 day active mobile data Customers (MN)	27.59	26.09	26.07	5.8	5.7

(Source: Company)

x	FY24	1H24	FY23	y-y % ch	h-h % ch
Voice ARPU**	166.24	147.74	169.84	(2.1)	12.5
30 day active Voice ARPU**	262.58	313.08	283.71	(7.4)	(16.1)
SMS ARPU**	22.98	21.78	21.67	6.1	5.5
30 day active SMS ARPU**	47.73	46.15	44.78	6.6	3.4
30 day active MPESA ARPU**	359.99	343.60	304.14	18.4	4.8
30 day active Data ARPU**	203.59	197.71	172.46	18.1	3.0
Service ARPU**	625.61	601.15	563.22	11.1	4.1
30 day active Service ARPU**	806.76	797.19	744.22	8.4	1.2

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

(Source: DBIB Research)

OPERATING PERFORMANCE

X	FY24	1H24	FY23	y-y bps ch	h-h bps ch
Contribution margin (%)	70.6	71.3	68.8	175	(76)
EBITDA margin (%)	47.2	48.9	45.5	167	(168)
EBIT margin (%)	23.0	25.2	27.3	(435)	(219)
Pretax margin (%)	24.2	28.5	28.4	(418)	(15.0)
PAT margin (%)	12.2	16.5	16.9	(27.7)	(26.1)
Asset Turnover (x)	0.6	0.3	0.7	(12.1)	108.1
Inventory Turnover (x)	77.2	45.9	85.0	(9.2)	68.2
Receivables Turnover (x)	7.3	3.7	7.6	(4.7)	97.0
Payables Turnover (x)	3.7	2.1	4.3	(13.9)	73.1
Working capital turnover (x)	1.4	0.7	1.5	(4.5)	90.0

(Source: DBIB Research)

INVESTMENT RETURNS

X	FY24	1H24	FY23	y-y ch	h-h ch
RoA	6.7	8.7	10.3	(35.4)	(23.6)
RoE	12.7	15.7	19.9	(36.2)	(19.3)
RoIC	10.7	13.4	17.2	(37.8)	(20.4)

*Annualized

(Source: DBIB Research)

FINANCIAL STABILITY

X	FY24	1H24	FY23	y-y ch	h-h ch
Net debt/(cash) (KES MN)	(22,098.1)	25,783.6	(22,098.1)	-	(185.7)
Net debt (cash)/equity (%)	(6.6)	7.5	(8.4)	(21.6)	(188.2)
Net debt (cash)/EV (%)	(3.8)	4.4	(3.8)	-	(185.7)
EV/EBIT (x)	7.3	14.2	6.9	5.8	(48.4)
EV/EBITDA (x)	3.6	7.4	4.2	(14.3)	(51.2)
EV/Subscriber (x)	13,134.1	13,297.8	13,410.3	(2.1)	(1.2)
Current ratio (x)	0.5	0.5	0.5	(4.7)	(5.0)
Interest cover (x)	(9.8)	(11.2)	(19.7)	(50.3)	(12.3)
Adj cash int cover (x)	(9.8)	(11.2)	(19.7)	(50.3)	(12.3)
Net debt (cash)/share (KES)	(0.55)	0.6	(0.6)	-	(185.7)
Book value/share (KES)	8.38	8.6	6.6	27.5	(2.8)

(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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