

HY-2022 - Earning Updates

M-Pesa Revenues Contributions Overtake Voice Revenue Contributions on Regaining Momentum with Return of Mobile Transaction Charges

Safaricom reported a stellar performance for HY-22 with profit before tax (PBT) growing by 22.2% y-y to KES 54.68Bn from KES 44.75Bn seen in H1-21 buoyed improved service revenues +16.9%. Profit after tax improved to KES 37.06Bn, a 12.1% growth from 33.07Bn in H1-21. PAT was affected by a higher effective tax rate of 32.2% compared to 26.1% seen over the same period in 2021.

Earnings per share (EPS) was 0.98, 12.1% higher y-y from 0.83 seen in H1-21. The board did not recommend an interim dividend.

The communication service provider customer base increased to 41.92Mn, a 10% jump from 38.14Mn. The one-month active customers improved by 4.7% from 30.31Mn to 31.75Mn as the company continue to protect its market share which stood at 64.2% as at end of June 2021.

The Ethiopian subsidiary is projected to launch commercial operation in 2022. The company is expected to invest between USD 1.5Bn – USD 2.0Bn in a five-year plan with an EBITDA break even forecasted for year four. Funding sources for the subsidiary operation will include equity, DFIs, local borrowing and internal reserves.

Service Revenues:

Service revenues increase by 16.9% y-y to KES 138.43Bn compared to KES 118.41Bn in H1-20. The growth was attributed to recovery in M-Pesa revenues which contributed to 37.8% to total revenues compared to a contribution of 30.3% in H1-21.

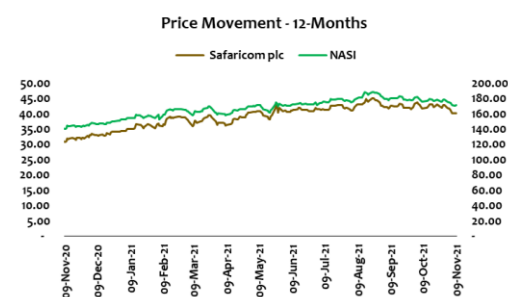
- Voice Revenues: Voice revenues increased by 3.2% to KES 41.5Bn from KES 40.2Bn through improve customer value management to enable the revenue line recover recovering from significant pressure seen in H1-21.
- M-Pesa revenues increased by 45.8% to KES 52.33Bn from KES 35.89Bn boosted by return on mobile transaction charges and improved business environment due to reopening of the economy.
- Mobile Data increased by 6.3% to KES 23.63Bn from 22.23Bn driven by increasing customer base as One month active mobile data customers grew to 24.05Mn, a 5.0% y-y growth from 22.91Mn while distinct bundle users performance surged by 8.1% 16.95Mn from 15.68Mn.
- Fixed service revenues increased by 21.1% to KES 5.50Bn from 4.54Bn.

Direct Cost: Direct cost increased by 30.4% to KES 4454Bn from KES 37.02Bn due to a 26.8% and 63.4% growth in direct cost on M-Pesa and handset cost. This pushed direct cost intensity up to 30.4% from 29.7% in H1-21.

Operating Expense: Operating expense increased to KES 232.41Bn, 10.3% to KES 21.23Bn caused by 14.2% increase I employee benefit expense. Operating expense intensity eased to 16.0% from 17.0% in better total revenue performance.

Bloomberg Ticker	SAFCOM
Value Statistics	
Current Price	40.10
3-Month Average	42.60
6-Month Average	41.93
12-Month Average	39.04
52 Week High/Low	44.95 - 30.75
No of Shares (Mn)	40,065
Market Cap (KES Bn)	1,607
Market Cap (USD Mn)	14.38
Free Float	25.00%
Forward PE	21.7
PB	9.0

Performance Return		
Period	Safcom	NASI
3- Month	-6.6%	-5.0%
6- Month	-1.8%	0.0%
y-t-d	17.1%	13.0%
y-y	30.4%	22.0%



Lending Revenue	KES Bn	HY-21	HY-22
Fuliza	Value	149.40	242.60
	Revenue	2.10	2.80
KCB M-Pesa	Value	27.30	22.90
	Revenue	0.30	0.50
M-Shwari	Value	47.50	43.40
	Revenue	0.90	1.00

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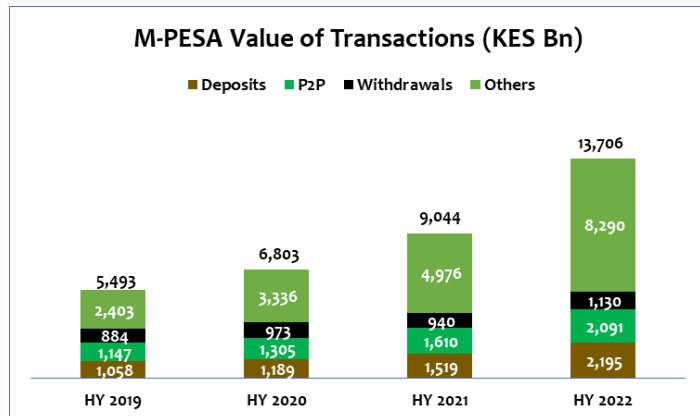
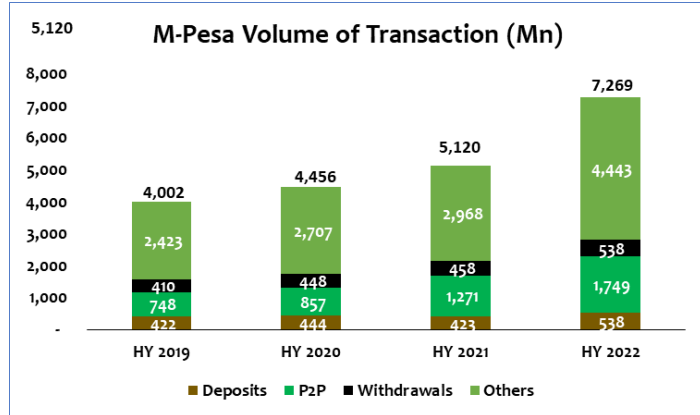
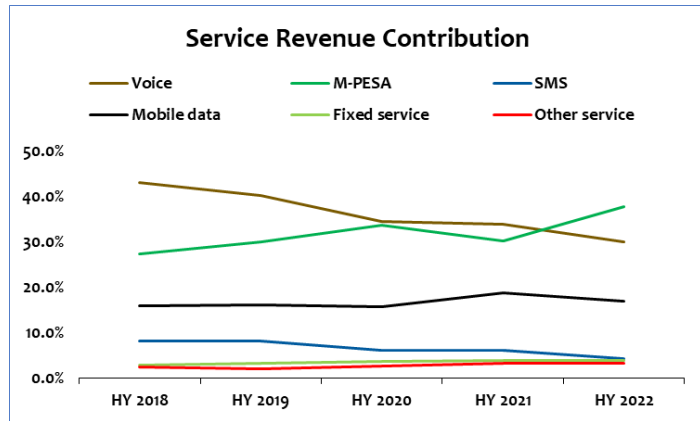
Capex: Capex utilization saw a marginal growth of 0.3% to remain flat at KES 22.8Bn. with a full year target of KES 40.0Bn - KES 43.0Bn which will push capex intensity up to 14% - 16% from 13.2% in FY-21.

M-Pesa: M-Pesa continues to grow in strides with total value of transactions growing by 51.5% y-y to KES 13,706Bn while total volume of transactions surging by 42.0% y-y to 7.269Bn.

The drive was due to the return on fees on P2P transactions below KShs 1,000. Transfers between M-PESA wallet - Bank and Bank - M-PESA wallet remain zero rated and makes up 18.1% of the total transaction. The return on the charges are set to improve revenue line performance.

M-Pesa Lending and savings saw disbursement on Fuliza grow by 62.4% to KES 242.6Bn from KES 149.6Bn. Revenues were up 32.2% to KES 2.8Bn from 2.1Bn. Daily active Fuliza customers grew by 63.8% to 1.7Mn from 1.0Mn seen in H1-21.

Data clean up by KCB M-Pesa and M-Shari saw amounts disbursed decline by 15.9% and 8.6% forcing revenues downwards by 30.7% and 10.4% respectively.



Half Year Profit and Loss (KES Bn)	HY 2018	HY 2019	HY 2020	HY 2021	HY 2022
Voice revenue	47.35	47.53	42.9804	40.19	41.46
M-PESA revenue	30.05	35.52	41.97	35.89	52.33
SMS revenue	8.92	9.67	7.72	7.19	5.87
Mobile data revenue	17.55	19.01	19.49	22.23	23.63
Mobile incoming revenues			4.19	4.60	4.97
Fixed service revenue	3.23	3.84	4.55	4.54	5.50
Other service revenue	2.63	2.49	3.43	3.78	4.68
Service Revenue	109.73	118.06	124.32	118.41	138.43
Service Revenue Growth %	12.0%	7.6%	5.3%	-4.8%	16.9%
Total Revenue	114.74	122.84	129.93	124.54	146.37
Revenue Growth %	9.9%	7.1%	5.8%	-4.1%	17.5%
Direct costs	(35.43)	(34.96)	(37.11)	(37.02)	(44.54)
Contribution margin	79.11	87.58	92.10	84.61	100.82
Direct Cost Intensity %	-30.9%	-28.5%	-28.6%	-29.7%	-30.4%
Direct Cost Growth %	9.0%	-1.3%	6.2%	-0.2%	20.3%
Operating costs	(24.76)	(25.82)	(23.73)	(21.23)	(23.41)
Opex Intensity %	-21.6%	-21.0%	-18.3%	-17.0%	-16.0%
Opex Growth %	17.9%	4.3%	-8.1%	-10.6%	10.3%
EBITDA	54.27	61.79	68.37	63.38	77.40
EBITDA Margin %	47.3%	50.3%	52.6%	50.9%	52.9%
Depreciation, impairment & amortization	(16.74)	(17.56)	(18.12)	(18.41)	(19.49)
EBIT	37.53	44.23	50.25	44.97	57.91
EBIT Margin %	32.7%	36.0%	38.7%	36.1%	39.6%
Earnings Before taxation	37.82	45.63	51.32	44.75	54.68
EBT Margin %	33%	37%	40%	35.9%	37.4%
EBT Growth %	9.7%	20.7%	12.5%	-12.8%	22.2%
Taxation	-11.61	-14.46	-16.1289	-11.68	-17.63
Net Income	26.21	31.17	35.19	33.07	37.06
Net Income %	22.8%	25.4%	27.1%	26.6%	25.3%
Profit Growth	9.5%	18.9%	12.9%	-6.0%	12.1%
Earnings per share (KES)	0.65	0.79	0.88	0.83	0.92

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- **Buy** – A buy rating reflects 1) An analyst has a bullish conviction on a stock 2) A 30% or greater expected return.
- **Accumulate** – An accumulate rating reflects 1) An analyst has a lesser bullish conviction on a stock 2) Expected return falls between 10% and 30%.
- **Hold** – A hold rating reflects 1) An analyst has a neutral conviction (lack of bullish or bearish conviction) on a stock 2) Expected return falls within the range of 5% to 10%.
- **Speculative Buy** – A speculative buy rating reflects 1) An analyst has a bullish conviction accompanied by a substantially higher than normal risk 2) Expected return falls above 10%.
- **Sell** – A sell rating reflects 1) An analyst has a bearish conviction on a stock 2) Expected return falls below 5%.

*Expected Return (ER) represents the sum total of both capital appreciation and the dividend yield.

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