

Introducing Safaricom Telecommunications Ethiopia (STE) Plc

Safaricom Plc reported KES 102.21Bn in FY-2022 profits before tax (PBT), a 9.2% y-y growth from KES 93.64Bn in FY-21. The performance was supported by a 12.9% growth in total revenues with service revenue growing by 12.3%. Profits before tax shrunk by 1.7% y-y to KES 67.50Bn from KES 68.68Bn in FY-21 heavily affected tax expense which increased by 39.1% pushing effective tax rate (ETR) up to 34.0% from 26.7% in FY-21.

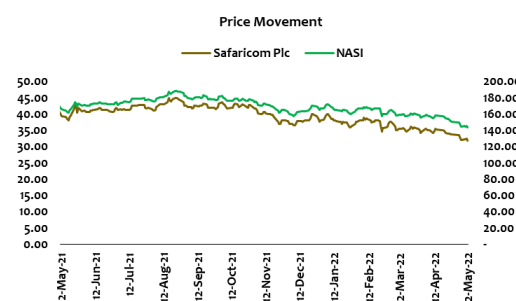
The board of director recommended a final dividend of KES 0.75 in addition to the interim dividend of KES 0.64 per share for a total dividend of KES 1.39. This was a dividend growth of 1.5%. The telecom kept its payout levels at 79.9% on an EPS of 1.74.

We recommend a LONG TERM BUY on the counter as despite its strong fundamental analysis and growth projections on entry into Ethiopia, it currently trading 19.1% below a 12-month average.

- The telecom consumers increased by 6.4% to 42.44Mn while 30-day active consumes increased by 4.3% to 32.81Mn.
- The giant reported KES 281.11Bn in service revenues, a 12.3% y-y growth from KES 250.35Bn in FY-21. The growth was supported by a 30.0% y-y jump in M-Pesa revenues to KES 107.69Bn due to resumption on charges of earlier zero-rated transaction beginning of January 2021. According to the management, product innovation continues to see an increase in velocity driven by businesses and financial services solutions.
- Mobile data revenues increased by 10.0% y-y on strong H2-22. Despite average rate per MB declining by 31.2% y-y to 8.88cents, usage per chargeable data subscriber increased by 60.5% y-y to 2.3GB as average revenue per user (ARPU) increased by 10.4%. Campaign to increase the 4G devices seem to pay off as with usage rising by 29.3% y-y with 51.3% using more than 1GB. This is also reflected in the 34.2% rise in handset and other revenues.
- A 15.4% increase in M-Pesa commissions, 13.0% y-y jump in interconnection and roaming cost and a 43.7% y-y rise in handset cost led to 14.3% y-y rise in direct cost to KES 91.47Bn from KES 80.12Bn in support revenue growth. Direct cost intensity was flat at 30.7% compared to 30.3% in FY-21.
- Operating cost were up 19.9% y-y to KES 55.19Bn from KES 46.03Bn as intensity increased to 18.5% from 17.4% in FY-21. The rise was delivered by a 24.0%, 7.3% and 7.0% year on year surge in staff costs, sales cost and network operating expense.
- Operating profits increase by 13.5% y-y to KES 109.13Bn from KES 96.16Bn in FY-21. This saw operating margins improving to 36.6% from 36.4% in FY-21.
- Capital expenses for the year grew by 42.4% to KES 49.78Bn with KES 10.4Bn spent on setting up network in Ethiopia in readiness for operation within 2022.

Bloomberg Ticker	SAFCOM
Value Statistics	
Current Price	31.85
3-Month Average	35.90
6-Month Average	37.49
12-Month Average	39.36
52 Week High/Low	44.95 - 31.85
No of Shares (Mn)	40,065
Market Cap (KES Bn)	1,276.08
Market Cap (USD Mn)	10.99
Free Float	25.00%
EPS	1.74
PE	18.30
BVPS	4.49
PB	7.10
Dividend	1.39
Dividend Yield	4.4%
Dividend Payout	79.9%

Return Performance		
Period	Safaricom Plc	NASI
3-Months	-16.2%	-13.4%
6-Months	-23.9%	-18.5%
y-t-d	-16.5%	-14.1%
y-y	-20.6%	-14.2%



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- Balance sheet has seen assets increase by 50.4% to KES 364.80Bn from KES 230.63Bn on expansion to Ethiopia.
- Demand for entry to Ethiopia pushed for borrowing which closed at KES 65.31Bn. this was used to pay for the license fees in Ethiopia. Short term borrowing was up 38.1% to KES 20.40Bn while long term borrowing was KES 44.91Bn.
- The company has retained strong cash position with a net cash balance of KES 30.38Bn. this leaves a net debt position of KES 34.53Bn. Debt to equity ratio increased to 36.3% from 10.7% while debt to capital was 26.7% from 9.7% in FY-21.

Lending value and revenue trends

- Digital lending saw value Fuliza lend KES 502.60Bn, a 43.1% y-y jump generating KES 5.94Bn in revenues. KCB M-Pesa and M-Shwari saw value issued contract by 9.4% and 8.9% to KES 46.30Bn and KES 86.10Bn with revenues shrinking by 12.5% and 13.6% to KES 0.7Bn and KES 1.90Bn respectively.

Safaricom Telecommunications Ethiopia (STE) Plc

- The company continue to make progress in Ethiopia entering partnership with Ethio Telecom on key terms for interconnection, transmission capacity and tower sharing in readiness for commercial launch later in 2022.
- The management has also signed 5-year lease infrastructure agreement with Ethiopian Electric Power (EEP) and Ethiopian Electric Utilities (EEU) on infrastructure sharing.
- On manpower, they have constituted Board of Directors and the Executive team and recruited over 305 staff.

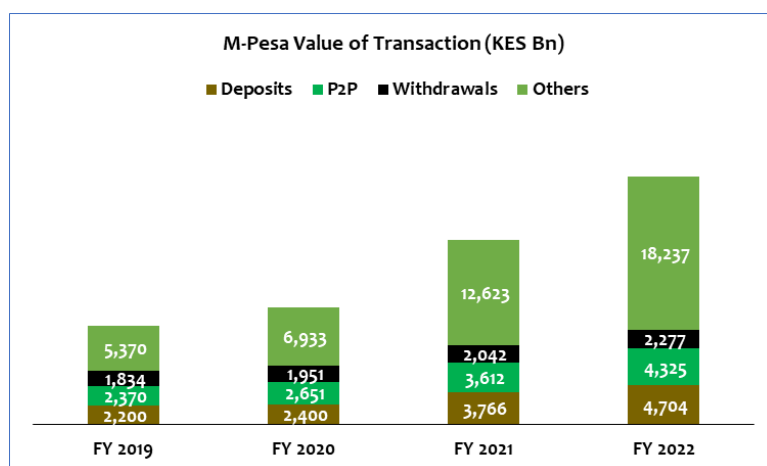
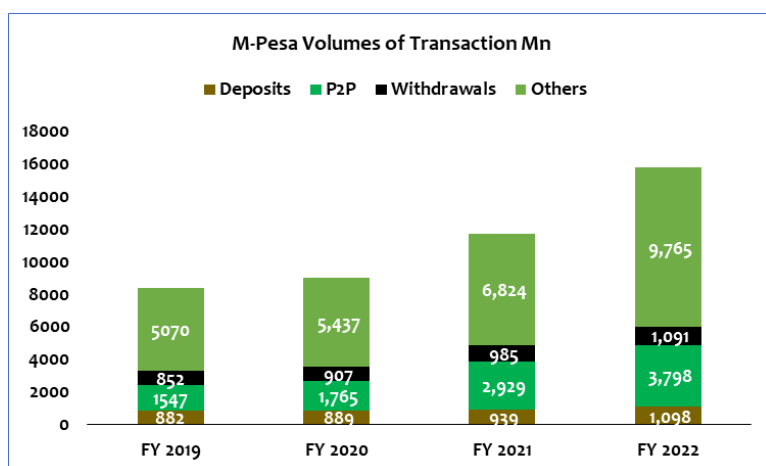
Outlook

- Safaricom projects an FY-23 EBIT of KES 87-93Bn and a Capex of 100-108Bn. Excluding Ethiopia, EBIT will range 120-123Bn and capex of KES 40.43Bn.
- We expect an additional growth in data revenues with introduction with the firm pushing for 100% 4G coverage while the introduction of 5G will benefit corporate entities.
- M-Pesa revenues are set to continue with an upward trajectory after interoperability of merchant and further product innovation for financial inclusivity.

Key Performance Indicators		FY 2020	FY 2021	FY 2022	Δ% FY 2021	Δ% FY 2022
Total Client	One Month Active Customers (Mn)	28.63	31.45	32.81	9.8%	4.3%
	One Month RPU	758.7	689.82	725.04	-9.1%	5.1%
Voice	One Month Active Customers (Mn)	25.7	27.5	28.38	7.0%	3.2%
	One Month RPU	287.16	257.72	248.91	-10.3%	-3.4%

M-Pesa	One Month Active Customers (Mn)	24.91	28.31	30.53	13.6%	7.8%
	One Month RPU	294.68	256.74	305.37	-12.9%	18.9%
Mobile Data	One Month Active Customers (Mn)	21.99	23.77	25.22	8.1%	6.1%
	One Month RPU	179.7	186.28	205.73	3.7%	10.4%
Messaging	One Month Active Customers (Mn)	21.4	21.79	22.27	1.8%	2.2%
	One Month RPU	60.77	52.74	41.71	-13.2%	-20.9%

Revenue Stream	KES BN	FY 2020	FY 2021	FY 2022	Δ% FY 2021	Δ% FY 2022
Fuliza	Value	244.6	351.20	502.60	43.6%	43.1%
	Revenue	2.8	4.54	5.94	62.1%	30.8%
KCB M-Pesa	Value	116.6	51.10	46.30	-56.2%	-9.4%
	Revenue	1.2	0.80	0.70	-33.3%	-12.5%
M-Shwari	Value	129.6	94.50	86.10	-27.1%	-8.9%
	Revenue	1.7	2.20	1.90	29.4%	-13.6%



SMS revenue	13,602.4	10,876.7	-20.0%
Mobile data revenue	44,796.2	47,441.0	5.9%
M-Pesa Revenues	85,647.4	107,691.8	25.7%
Mobile Incoming Revenues	9,470.4	9,848.2	4.0%
Other service revenue	7,779.2	9,795.3	25.9%

Δ% y-y

0.8%

KINGDOM SECURITIES

Safaricom Plc

Earnings Update – FY-2022

Mobile Service Revenue	243,847.6	268,864.8	10.3%
Service Revenue	250,351.8	281,107.3	12.3%
Total Revenues	264,026.5	298,077.9	12.9%
Direct Cost	(80,015.1)	(91,467.8)	14.3%
Operating Expense	(46,034.8)	(55,187.0)	19.9%
EBITDA	134,129.2	149,061.9	11.1%
Depr and Amor	(37,964.3)	(39,933.3)	5.2%
EBIT	96,164.9	109,128.6	13.5%
Net Finance Cost	(2,022.4)	(6,439.2)	218.4%
PBT	93,635.5	102,213.4	9.2%
PAT	68,676.2	67,496.1	-1.7%
EPS	1.71	1.74	1.8%

Balance Sheet	FY-2021	FY-2022	Δ% y-y
Non-Current Assets	174,719.9	281,548.6	61.1%
Current Assets	55,909.4	65,250.0	16.7%
Total Assets	230,629.3	346,798.6	50.4%
Non-Current Liabilities	17,541.7	68,947.1	293.0%
Current Liabilities	75,452.3	98,150.6	30.1%
Total Liability	92,994.0	167,097.7	79.7%
Shareholders' Equity	137,635.3	179,700.9	30.6%
Liability and Shareholders' Equity	230,629.3	346,798.6	50.4%

Key Margins	FY-2021	FY-2022
EBITDA Margin	50.8%	50.0%
Operating Margin	36.4%	36.6%
PBT Margin	35.5%	34.3%
Net Margin	26.0%	22.6%
ROA	29.8%	19.5%
ROE	49.9%	37.6%
Current Ratio	74.1%	66.5%
Debt to Equity	10.7%	36.3%
Debt to Capital	9.7%	26.7%

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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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