

Safaricom Earnings Drop on Ethiopia Launch

Safaricom plc reported a 11.8% year-on-year(y-y) drop in profits before tax (PBT) to KES 48.24Bn for H1-23 compared to KES 54.68Bn reported same time in H1-22 depressed by a 32.2% uptick in operating costs, emanating from its Safaricom Ethiopia subsidiary that fully started operations in October 2022. The Telecom giant, Safaricom, recorded KES 30.23Bn in profits after tax (PAT), an 18.4% decline from KES 37.06Bn on a further effect of a higher effective tax rate of 37.4% compared to that of 32.2% for H1-22.

The counter's Earnings per Shares (EPS) receded to 0.84 in H1-23 from 0.92 in H1-22. The board did not recommend an interim dividend for the period owing to the ongoing capital injection to Safaricom Ethiopia.

We recommend BUY on the counter with a valuation price of KES 32.29, a 27.9% upside from the current price of KES 25.25. We view the current price as highly discounted, eroded by heavy foreign outflows from the counter on appetizing returns in developed economies following the recent/ongoing interest rate hikes by major central banks globally.

Safaricom Ethiopia commenced operations providing national and international voice, data and internet services across the region. The subsidiary contributed KES 9.1Mn in revenue on its first month of operation in the new market. Customer registration continue gathering momentum with October 2022 witnessing 560,000 new subscriptions.

The telecommunication giant's customer base grew 2.9% y-y to 43.17Mn compared to that of 41.95Mn customers in Sept-2021 and 1.5% above that of June 2022 of 42.53Mn. This signals of improvements in the ongoing compliance exercise in which Safaricom was compliant at 93.0% as of 15th October 2022.

Revenues

Service revenues were 4.6% up y-y from KES 138.43Bn to KES 144.83Bn attributed to growths in m-pesa and data revenues, whose contribution to total revenue moved from 35.8% and 16.1% to 37.1% and 17.1% of KES 26.30Bn and 56.86Bn respectively. service revenue was partly impacted by revised Mobile Termination Rates from 0.99 to 0.55 effected in August 2022.

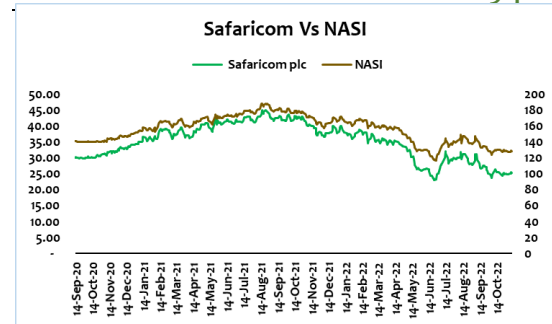
M-pesa revenue upticks from KES 52.33Bn to 56.86Bn y-y was elevated by increased customer transactions which jumped 16.3% y-y per customer. M-pesa average revenue per user (ARPU) was up 2.1% y-y to KES 307.06. Value transacted via m-pesa climbed 32.0% y-y to KES 18.09Trillion of which 20.6% were free m-pesa wallet to bank and bank to m-pesa wallet transactions.

M-pesa accounted for 39.3% of all service revenue up from 37.8% same time last year.

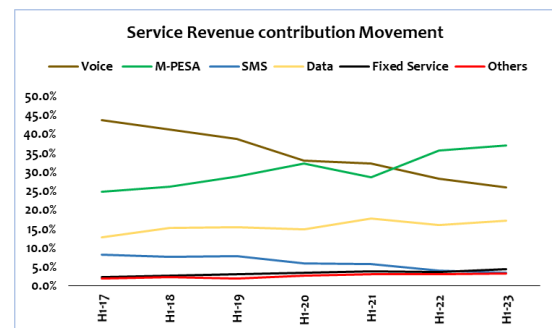
On individual m-pesa revenue lines:

- M-pesa transfers/withdrawals remained steady, adding KES 2.37Bn or a 6.7% growth to KES 37.87Bn, contributing 66.7% of the total M-pesa revenue. Business payments (C2B, B2C, B2B, LNM) contributed 22.1% or KES 12.56Bn, representing a 12.3% y-y growth.

Bloomberg Ticker	SAFCOM KN
Recommendation	BUY
Share Statistics	
Valuation	32.29
Current Price (kes)	25.25
Upside/Downside	27.9%
Six Month Average	27.18
12 Month Average	31.96
52 Week High - Low	40.00 - 23.10
Issued shares (Mn)	40,065.43
Market Cap (Kes Mn)	1,011,652.06
Market Cap (USD Mn)	8307.05
EPS (annualized)	1.68
P/E	15.03
BVPS	4.66
PB	5.42



Performance Return		
Period	Safcom	NASI
3- Month	-20.6%	-13.9%
6- Month	-22.1%	-11.8%
y-t-d	-33.8%	-23.3%
y-y	-37.7%	-25.7%



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KINGDOM SECURITIES

- Contribution from lending services remained relatively stable at 8.8% of m-pesa revenue at KES 5.03Bn in H1-23 compared to KES 4.51Bn of H1-22, an 11.5% y-y growth.
- Fuliza revenue leaped 19.2% y-y up to KES 3.4Bn from a disbursement of KES 315.6Bn in H1-23 compared to that of KES 242.6Bn disbursed in H1-22. M-shwari and KCB m-pesa followed with returns of KES 1.0Bn and KES 0.3Bn from shrunk disbursements of KES 43.4Bn and 21.7Bn respectively, being affected their data clean-up exercises.

Voice revenue dipped 3.8% to KES 39.88n representing a 26.0% contribution to total revenue in comparison to a contribution of 28.6% or KES 41.46Bn in H1-22. This was amid the company's propositions and personalized offers being rolled out.

During the period, one-month voice customer ARPU dipped 2.5% y-y from KES 247.60 in H1-22 to KES 241.52 in H1-23 associated with a 6.0% decline in active voice customers from 28.4Mn to 26.7Mn. We perceive this to be connected to a reduced economic activity in the country during the general election period.

According to the Communications Authority's June 2022 statistics, Safaricom retains the largest voice market share at 80.2% followed by Airtel and Telkom Kenya at 14.9% and 4.7% respectively.

Mobile data revenue was third with contributions of 17.1% of total income at KES 26.30Bn, an 11.3% y-y rise from that of KES 23.63Bn in H1-22 resulting from the growing demand for internet. Monthly active mobile data customers went up 4.8% y-y to 25.20Mn subscribers in the period.

Mobile data ARPU enlarged by 16.0% to KES 230.15 rallied by its Customer Value Management (CVM), that has seen average rate per MB sink 31.7% to 6.85 cents.

Fixed and wholesale transit revenue jumped 23.0% y-y to KES 6.76Bn fueled by growths. Enterprise revenue surged 26.8% to 4.42Bn while individual fixed consumer was up 16.2% to 2.34Bn.

Total operating costs in the period expanded by 32.2% from KES 23.41Bn to KES 30.96Bn largely on employee costs, network operational costs and other operational expenses. Employee costs ballooned by 34.1% from KES 10.14Bn to KES 13.60Bn on what appears to be the new Safaricom Ethiopia operation while network operating expenses by an additional KES 1.78Bn or 26.3% to KES 8.51Bn.

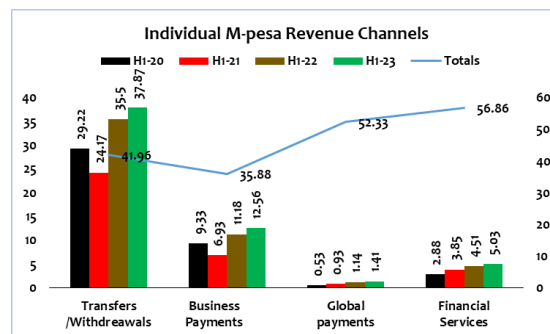
Capex: Capital spending jumped 64.3% y-y from KES 22.82Bn in H1-22 to KES 37.5Bn in H1-23 comprising of KES 18.00Bn local spending and KES 19.5Bn spent on Safaricom Ethiopia.

Outlook

Scaling business in Ethiopia remains a key priority targeting 25.0% coverage by end of the financial year, March 2023.

In the wake inflationary pressure that continue straining spending customer spending, the management view the Group's earnings before interests and taxes (EBIT) are expected to range KES 87-93Bn for a capex of KES 91-97Bn. EBIT is expected to range KES 112-115Bn and a capex of KES 37-40Bn, while that of Ethiopia separate at KES 22-25Bn for a KES 54-57Bn capex.

Safaricom Plc Earnings Update - H1-23



Lending Revenue Performance (KES Bn)

		Sep-22	Sep-23
Fuliza	Disbursement	242.6	315.6
	Revenue	2.8	3.4
KCB M-pesa	Disbursement	22.9	21.7
	Revenue	0.3	0.3
M-shwari	Disbursement	43.4	43.4
	Revenue	0.9	1

Market Share

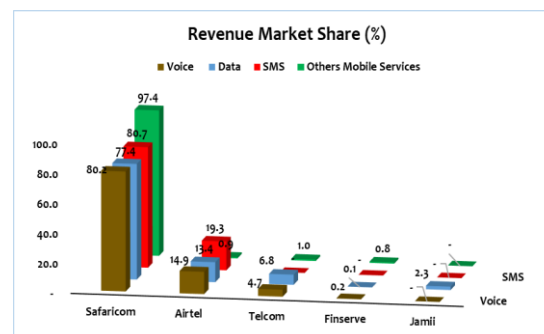
65.8% market shares

66.1% Voice traffic

903% SMS share

34.3% Fixed Data Shares

77.4% Data Revenue share



Borrowings (KES Bn)

	H1-2022	H1-2023
Short-Term	20.40	39.01
Long-Term	44.91	44.16

The Group plans to launch wealth product management upon approval by relevant authorities.

Half Year Profit and Loss (KES Bn)	H1-19	H1-20	H1-21	H1-22	H1-23
Voice revenue	47.53	42.98	40.19	41.46	39.88
M-PESA revenue	35.52	41.97	35.89	52.33	56.86
SMS revenue	9.67	7.72	7.19	5.87	5.42
Mobile data revenue	19.01	19.49	22.23	23.63	26.30
Mobile incoming revenues	-	4.19	4.60	4.97	4.42
Fixed service revenue	3.84	2.95	2.90	3.48	6.76
Other service revenue	2.49	3.43	3.78	4.68	5.18
Service Revenue	118.06	124.32	118.78	138.43	144.83
Service Revenue Growth %	7.6%	5.3%	-4.5%	16.5%	4.6%
Total Revenue	122.84	129.93	124.91	146.37	153.43
Revenue Growth %	7.1%	5.8%	-3.9%	17.2%	4.8%
Direct costs	(34.96)	(37.11)	(37.02)	(44.54)	(46.81)
Contribution margin	87.58	92.10	84.98	100.82	105.01
Direct Cost Intensity %	-28.5%	-28.6%	-29.6%	-30.4%	-30.5%
Direct Cost Growth %	-1.3%	6.2%	-0.2%	20.3%	5.1%
Operating costs	(25.82)	(23.73)	(21.23)	(23.41)	(30.96)
Opex Intensity %	-21.0%	-18.3%	-17.0%	-16.0%	-20.2%
Opex Growth %	4.3%	-8.1%	-10.6%	10.3%	32.2%
EBITDA	61.76	68.37	63.76	77.40	74.04
EBITDA Margin %	50.3%	52.6%	51.0%	52.9%	48.3%
Depreciation, impairment & amortization	(17.56)	(18.12)	(18.41)	(19.49)	(22.80)
EBIT	44.20	50.25	45.34	57.91	51.25
EBIT Margin %	36.0%	38.7%	36.3%	39.6%	33.4%
Earnings Before taxation	45.62	51.32	45.12	54.68	48.25
EBT Margin %	37.1%	39.5%	36.1%	37.4%	31.4%
EBT Growth %	19.1%	12.5%	-12.1%	21.2%	-11.8%
Taxation	(14.46)	(16.13)	(11.68)	(17.63)	(18.02)
Net Income	31.16	35.20	33.45	37.06	30.23
Net Income %	25.4%	27.1%	26.8%	25.3%	19.7%
Profit Growth	18.9%	13.0%	-5.0%	10.8%	-18.4%
Earnings per share (KES)	0.78	0.88	0.83	0.92	0.84

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Analysts' stock ratings are defined as follows:

- **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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