

Safaricom Plc – Earnings Update – H1 2024

Safaricom plc reported a 2.7% year-on-year(y-y) decline in profit before tax (PBT) of KES 46.94Bn for H1-2023 compared KES 48.25Bn of H1-2022. The performance was impacted by higher operating costs and elevated amortization and depreciation costs on the Safaricom Ethiopia establishment that offset the fast rise in revenues. Profit after tax went 10.1% down from KES 30.23Bn to KES 27.19Bn.

The Group's earnings per share (EPS) improved 7.1% from 0.84 of H1 2023 to 0.90 in H1-2024. The Board did not recommend an interim dividend for H1-2023.

We retain our recommendation for BUY with a long-term view as the company's fundamentals remains strong with the Ethiopian subsidiary coming up strong with break-even projections being retained for 2026. The counter's price however, remains impacted by low macro-economic performance including hiked interest rates that continue seeing many of its foreign investors exit to take advantage of better treasury rates.

Bloomberg Ticker	SAFCOM KN
Recommendation	BUY
Share Statistics	
Current Price (KES)	13.30
3-Months average	14.55
6-Month Average	15.61
12-Month Average	18.65
52 Week High - Low	11.65 - 25.50
Issued shares (Mn)	40,065.43
Market Cap (Kes Mn)	532,870.19
Market Cap (USD Mn)	3516.54
EPS (annualized)	1.80
P/E	7.39
BVPS	8.62
PB	1.54

Income Statement

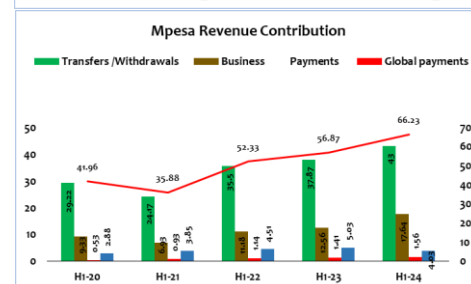
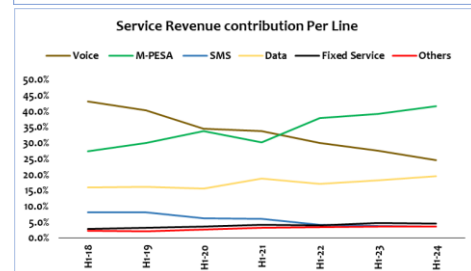
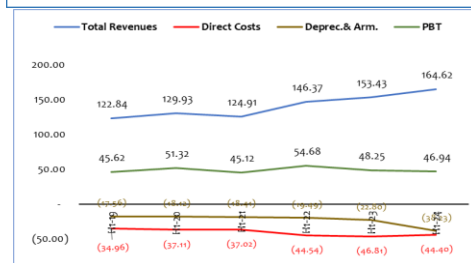
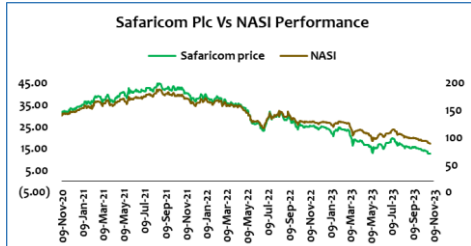
- Overall, Safaricom revenues went up 7.3% y-y from KES 153.43Bn in H1-2023 to KES 164.62Bn, being supported by strong growths in service and fixed service revenues.
- Safaricom Kenyan unit performed extremely well with total revenues growing by 12.2% from KES 143.08Bn to KES 160.59Bn majorly benefitting return of M-pesa charges, pushing service revenue 9.9% y-y up from KES 138.07Bn to KES 151.77Bn.
- Kenyan Unit PBT jumped 13.2% y-y up to KES 59.96Bn from KES 52.98Bn pushing PAT 13.7% y-y from KES 35.73Bn to KES 40.61Bn pushing, resulting to an 11.1% uptick on Safaricom Kenya's EPS to 1.0.
- Service revenue contribution to total revenue improved to 92.2% after stabilizing at 90% in H1-2021 and H1-2022. Service revenue from Kenya jumped 8.5% y-y from KES 144.82Bn to KES 157.18Bn.

Voice and Messaging Revenue

- Voice revenue declined 1.9% y-y from KES 39.88Bn in H1-2023 to KES 3912.11Bn on what we attribute to reduction in pricing and competition from online voice calling digital channels like WhatsApp, google meet messenger among others. As a result, voice revenue contribution declined from 26.0% to 23.8% in H1-2023.
- During the period, the rate per minute declined 14.6% y-y to KES 1.28 even as minutes per user went up 21.6% to 184.31 minutes.
- Message revenue went up 6.3% from KES 5.43Bn to KES 5.76Bn supported by a 10.5% rise in average revenue per user (ARPU).

M-pesa Revenues

- M-pesa revenue expanded 16.5% from KES 56.86Bn to KES 66.24Bn, gaining from return of m-pesa charges reviewed in Dec-2022. M-pesa contribution to total revenue remained steady rising to 40.2% in H1-204 from 37.1% in H1-2023 and 35.8% in H1-2022. M-pesa revenue accounts 42.1% of service revenue.



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- Return of m-pesa charges saw transfers and withdrawals revenue 13.5% up y-y to contribute KES 40.0Bn, representing 64.5% of the total m-pesa revenue. Trend from transfers and withdrawals revenue remains on a downtrend on what we view as stiff competition from the other payment channels with m-pesa business payments, global payments and Safaricom's financial services remained steady on an up-trend.
- M-pesa active users grew 3.1% to 32.13Mn users with lipa-na-M-pesa active merchants jumping 22.3% y-y to 658.35K on what theTelco attributed to the adoption of online cash collection.

Mobile Data Revenue

- Mobile data revenues grew 17.7% from KES 26.30Bn to KES 30.95Bn resulting to an 18.8% contribution to total revenue up from that of 17.1% and 16.1% recorded in H1-2023 and H1-2022 respectively. Smart phones on Safaricom's network rose 11.4%.
- Mobile data ARPU rose 0.8% from KES 230.15 to KES 231.94 as data usage per subscriber grew to 4.3GBs up from 3.36GBs in H1-2023.
- Fixed line and wholesale revenue grew 9.1% y-y to KES 7.37Bn as its fixed enterprise clientele grew by 0.4% to 54.74K

Operating Expenses

- The performance was heavily impacted by operating expenses that were 21.9% higher at KES 37.74Bn in relation to KES 30.96Bn of H1-2023. Network operating costs doubled at 137.4% y-y from KES 1.63Bn to KES 3.87Bn even as network infrastructure law came into effect in 2022.
- Depreciation, impairment, and amortization further added to the overall costs with a 67.7% upward acceleration from KES 37.80Bn to KES 38.23Bn on what we view as provision towards the new infrastructures of Ethiopia.

Balance Sheet

- Safaricom's balance sheet enlarged 22.6% from KES 509.21Bn to KES 624.13Bn supported by strong growths in its intangibles on its Ethiopian subsidiary.
- Shareholders' equity ballooned 31.2% y-y from KES 263.36Bn to KES 345.55Bn on a 26.3% spike in retained earnings.
- The Telco giant's return on assets fell from 5.9% to 4.4% as return on equity also dipped from 11.5% to 7.9% y-y respectively.
- The listed company's total borrowings grew 6.3% from KES 43.49Bn in H1-2023 to close its first H1-2024 at KES 46.24Bn.

Outlook

The company continues with its innovation goal partnering with the government in the launch of a local phones assembling plant with a shareholding of 25.0%.

On its FY-2024 capital projections, the Group revised its Kenyan Capital expenditure from a range of KES 42 - 45Bn to KES 45 - 48Bn resulting to a total capex of KES 85 - 93Bn for the period.

Ethiopian subsidiary remains very promising with a low mobile penetration and over 63Mn people or 53% of its population being young.

Lending Revenue Performance		H1-2022	H1-2023	H1-2024
Fuliza	Disbursement	242.6	315.6	419.2
	Revenue	2.8	3.4	2.0
KCB M-pesa	Disbursement	22.9	21.7	23.1
	Revenue	0.3	0.3	0.4
M-shwari	Disbursement	43.4	43.4	52.3
	Revenue	0.9	1.0	1.2

Half Year Profit and Loss (KES Bn)	H1-19	H1-20	H1-21	H1-22	H1-23	H1-24
Voice revenue	47.53	42.98	40.19	41.46	39.88	39.11
M-PESA revenue	35.52	41.97	35.89	52.33	56.86	66.24
SMS revenue	9.67	7.72	7.19	5.87	5.42	(5.76)
Mobile data revenue	19.01	19.49	22.23	23.63	26.30	30.95
Mobile incoming revenues	-	4.19	4.60	4.97	4.42	4.08
Fixed service revenue	3.84	2.95	2.90	3.48	6.76	7.37
Other service revenue	2.49	3.43	3.78	4.68	5.18	5.63
Service Revenue	118.06	124.32	118.78	138.43	144.83	159.14
Service Revenue Growth %	7.6%	5.3%	-4.5%	16.5%	4.6%	9.9%
Total Revenue	122.84	129.93	124.91	146.37	153.43	164.62
Revenue Growth %	7.1%	5.8%	-3.9%	17.2%	4.8%	7.3%
Direct costs	(34.96)	(37.11)	(37.02)	(44.54)	(46.81)	(44.40)
Contribution margin	87.58	92.10	84.98	100.82	105.01	117.41
Direct Cost Intensity %	-28.5%	-28.6%	-29.6%	-30.4%	-30.5%	-27.0%
Direct Cost Growth %	-1.3%	6.2%	-0.2%	20.3%	5.1%	11.8%
Operating costs	(25.82)	(23.73)	(21.23)	(23.41)	(30.96)	(37.74)
Opex Intensity %	-21.0%	-18.3%	-17.0%	-16.0%	-20.2%	-22.9%
Opex Growth %	4.3%	-8.1%	-10.6%	10.3%	32.2%	21.9%
EBITDA	61.76	68.37	63.76	77.40	74.04	79.67
EBITDA Margin %	50.3%	52.6%	51.0%	52.9%	48.3%	48.4%
Depreciation, impairment & amortization	(17.56)	(18.12)	(18.41)	(19.49)	(22.80)	(38.23)
EBIT	44.20	50.25	45.34	57.91	51.25	41.45
EBIT Margin %	36.0%	38.7%	36.3%	39.6%	33.4%	25.2%
Earnings Before taxation	45.62	51.32	45.12	54.68	48.25	46.94
EBT Margin %	37.1%	39.5%	36.1%	37.4%	31.4%	28.5%
EBT Growth %	19.1%	12.5%	-12.1%	21.2%	-11.8%	-2.7%
Taxation	(14.46)	(16.13)	(11.68)	(17.63)	(18.02)	(19.75)
Net Income	31.16	35.20	33.45	37.06	30.23	27.19
Net Income %	25.4%	27.1%	26.8%	25.3%	19.7%	16.5%
Profit Growth	18.9%	13.0%	-5.0%	10.8%	-18.4%	-10.1%
Earnings per share (KES)	0.78	0.88	0.83	0.92	0.84	0.90

Balance Sheet	H1-2023	H1-2024
Non-Current Assets	464.27	28.38
Current Assets	72.44	0.00
Total Assets	509.21	624.13
Non-Current Liabilities	105.46	130.97
Current Liabilities	140.38	147.61
Total Liability	245.84	278.58
Shareholders' Equity	263.37	345.55

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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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