

### Economic Update

Kenya's economic outlook remains resilient with the newly revised estimates pointing to a 5.4% gross domestic product (GDP) growth in 2024 down from a growth of 5.6% recorded in 2023. This is mainly supported by:

- Low inflation levels which have hit below the government mid-point, below 5.0% signaling to continued interest rates cuts in the next coming monetary reviews before the year ends.
- Stable forex rate - The local currency has already stabilized down to an average below KES 130 against the US dollar which we forecast to remain upon low forex demand. This follows the Eurobond payment that lifted high forex demand by way of a new Eurobond issuance.
- Low current account deficit that is anticipated for stabilize at 4.0% in 2024 expected rises in agricultural exports, remittances, foreign direct investments and recovery on imports following a stable exchange rate.

### Safaricom Plc

Safaricom Kenya unit remains the most profitable company, posting a 16.1% jump in profits before tax (PBT) from KES 110.36Bn in FY-2023 to KES 128.15Bn in FY-2024 heavily supported by M-pesa revenues. Safaricom Kenya's PAT for FY-2024 accelerated 15.6% up from KES 74.50Bn in FY-2023 to KES 86.12Bn. The local unit performance defied earlier predictions of the Kenyan unit almost hitting the optimum point of single digit growths.

The company's return on investment is projected to flourish better once the Ethiopia subsidiary breaks even, which is forecasted for March 2026.

The overall performance is however likely to be impacted by Ethiopia's high currency devaluation coupled with elevated inflation levels.

Trading at KES 14.65 per share, the telco's price has lost 19.4% from KES 18.30 on 16<sup>th</sup> June-2024 to the current price of KES 14.75 per share, having been heavily impacted by the anti-government protests witnessed in the period. Its lowest and highest price stands at KES 13.00 and KES 19.30 in the last one year.

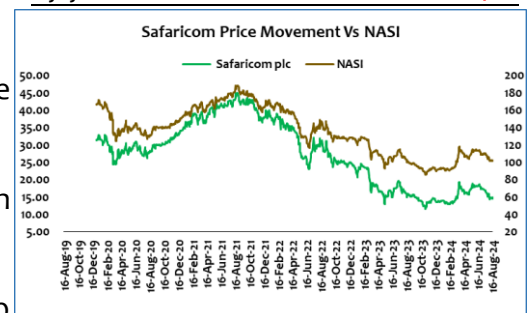
Kenya's sovereign rating further impacted the giant telco's price after the Moody's and Fitch downgrading from B3 to Caa1 and from B- to B on what the two international credit rating agencies termed as inability to raise enough revenue following total withdrawal of the 2024 finance bill.

Foreigners command over 60% of trading activities at NSE for Safaricom which we anticipate improving especially after calm restored following the formation of an inclusive government.

Bloomberg Ticker Recommendation	SAFCOM KN BUY
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Share Statistics	
<b>Current Price</b>	<b>14.95</b>
Target Price	24.70
<b>upside</b>	<b>65.2%</b>
3-Month Average	16.99
6-Month Average	16.36
12-Month Average	15.20
52 Week High/Low	19.30 - 11.65
No of Shares (Mn)	40,065.43
Market Cap (KES Bn)	594,971.61
Market Cap (USD Mn)	4,607.03
Free Float	25.0%
EPS	1.57
PE	9.46
BVPS	5.65
PB	2.63
Dividend	1.20
Dividend Yield	8.1%
Dividend Payout	76.4%

Performance Return		
Period	Safaricom	NASI
Month-to-date	-3.3%	-1.6%
3- Months	-13.9%	-6.2%
6- Month	13.4%	12.5%
y-t-d	8.0%	11.4%
y-y	-6.6%	2.4%



### Safaricom Plc Price Movement

Year	High	Low
2020	34.25	24.35
2021	44.95	34.25
2022	40.00	23.10
2023	24.50	11.65
2024	19.30	13.00

We therefore issue a **LONG-TERM BUY** recommendation on the counter's share with an implied price of KES 24.70 per share, a 65.2% upside from the current price of KES 14.95 as of 19<sup>th</sup> August 2024.

### Ethiopia Economic Update

Ethiopia remains among the fastest growing economies in Africa with 2024 economic growth projections standing at 6.2% GDP growth from that of 6.5% in 2023.

However, the country continues experiencing inflationary and currency devaluation pressures which makes the outlook uncertain.

Ethiopia's inflation declined to 18.6% in July 2024 from 19.9% in June 2024 still lower compared to 29.4% of January 2024 and 28.8% of July 2023.

In July 2024, Ethiopia relaxed restrictions on its currency to a free exchange rate system, a move supported by the International Monetary Fund (IMF) to secure a USD 10.7Bn facility to support its foreign currency shortages.

The move, though good for long-term economic stability, has resulted to a 36.5% dip in the Ethiopian birr against the US dollar from ETB 76.97 to ETB 105.09 per US dollar as of Monday, 19 August 2024.

We view this to lengthen Safaricom Ethiopia's break-even period on elevated capital expenditure and higher cost of refinancing its loan facilities. Safaricom entered Ethiopia when the exchange was stronger at about ETB 50 per US dollar, but this has now weakened by over half.

Earlier, the break-even was forecasted to take four years, from 2022 to 2026, but we fathom this to be revised upward by about one financial year.

Further, Ethiopia's fragile political status remains a key determinant on the path of Safaricom's success as we approach next general election schedule for year 2026.

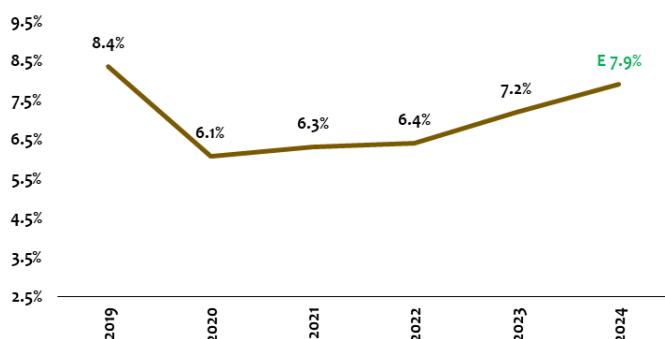
### Safaricom Plc Profits (KES Bn)

	FY2023	FY2024
<u>Safaricom Kenya</u>		
PBT	110.36	128.15
PAT	74.501	86.12
<u>Safaricom Ethiopia</u>		
PBT	(21.61)	(42.08)
PAT	(21.61)	(42.08)

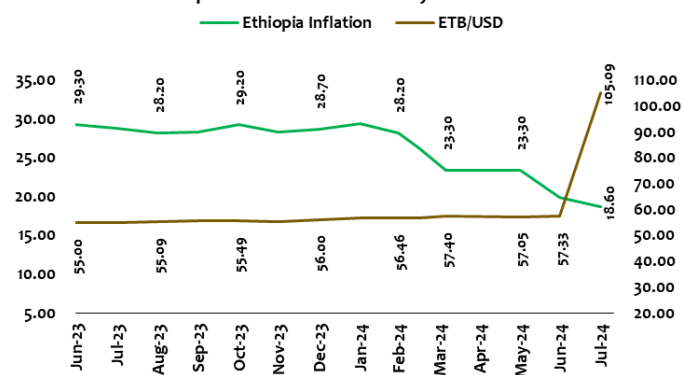
### Safaricom Ethiopia Revenue Performance

Revenue (KES MN)	Q1 FY24	Q1 FY25
Voice Revenue	152.1	273.4
Messaging Revenue	2.6	16.6
Mobile Data Revenue	361.3	1599.8
M-PESA Revenue**	0	8.6
Mobile Incoming	60.1	97.3
Other Service Rev.	1.4	38.8
<b>Mob. Service Revenue</b>	<b>577.6</b>	<b>2034.5</b>
Fixed & Wholesale Rev	0	11.9
<b>Service Revenue</b>	<b>577.6</b>	<b>2046.4</b>
Handset other revenue	397.1	278.8
Other Income	0	2.5
<b>Total Revenue</b>	<b>974.7</b>	<b>2327.7</b>

Ethiopia Economic Growth Rates



Ethiopia's Inflation Vs Currency Performance



### Safaricom Ethiopia Financial Performance

Safaricom Ethiopia continue expanding its coverage with June 2024 figures indicating a coverage of 44% of the total population. Total sites covered stands at 2,912 against a target of 3,500 sites for FY-2025 guidance.

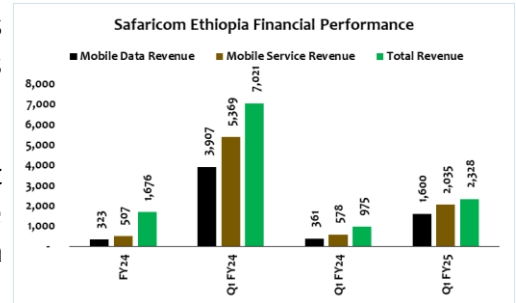
Total customer subscriptions rose 5.1% from 4.35Mn to 4.57Mn in the first quarter of its financial year, between 1<sup>st</sup> April to 30<sup>th</sup> June 2024. The slow rise is attributed to halts in network roll-out in Ethiopia's war-torn areas which have so far turned peaceful.

Revenue growth for Q1-FY2025 accelerated 138.8% up from KES 0.97Bn in Q1(FY-2024) to KES 2.33Bn in Q1-FY2025 supported by fast growths in both data and service revenues.

We expect Ethiopia's average revenue per user (ARPU) to touch KES 200, having gone up by 87.6% in the first quarter of its financial year 2025 (FY2025).

Going by this, we anticipate the FY-2025 revenue to rise by over 32% from KES 7.02Bn in FY-2024 to above KES 9.3Bn. We expect this to rise even faster considering that the m-pesa operations began in about 9-months ago.

We expect Safaricom Ethiopia's Mobile data revenue to rise faster on what appears to be fast affirmation to its fast and stable network. We expect mobile data ARPU to hit above KES 240 from that of KES 215.20 recorded in FY-2024.



	Q1 FY24	Q1 FY25
Data Revenue	361.30	1,599.80
Service Revenue	577.60	2,046.40
Total Revenue	974.70	2,327.70

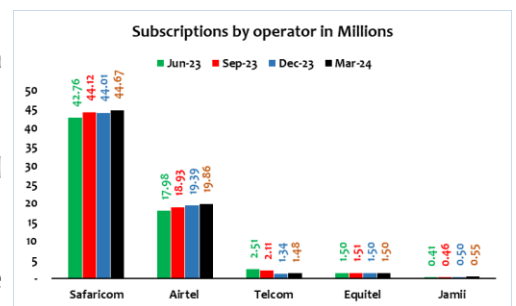
### Market Share Positions

Safaricom continue domination in the telecommunications industry with a market share of 65.6% as of end of March 2024.

The counter controls a mobile subscription of 65.6% and a mobile broadband of 63.7%.

The Communications Authority latest statistics indicate a 94.9% market share for the counter's mobile money.

The counter's further controls 65.5% the total voice traffic and 89.4% of total short messages services (SMS).



### Mobile Money Market Share

M-pesa Airtel money T-Kash



### Revenue Performance

The listed telco's financial performance is set be purely supported by

Safaricom Kenya which we expect to continue performing better compared to its Ethiopia subsidiary.

The local performance is pegged on a stable macro-economic situation with an exception of the losses following the anti-government protests which businesses closed down. This is even as Ethiopia's hyper inflationary pressure persists however, at a slower pace on the reduced inflation.

We expect the telco's revenue to be driven by majorly two revenue line for FY-2025, Mpesa and mobile data revenues.

Safaricom Plc Financial projections	FY2020	FY2021	FY2022	FY2023	FY2024	2025F
M-PESA revenue	84.44	82.65	107.69	117.19	140.01	149.68
Mobile service revenue	242.25	240.84	269.86	282.23	320.39	337.90
Total revenue	262.56	264.03	298.08	310.90	349.45	369.43
Contribution margin	185.60	180.16	204.25	213.95	246.59	260.86
Earnings before interest and tax (EBIT)	101.49	96.16	109.13	85.00	80.34	77.63
Profit before income tax	105.77	93.64	102.21	88.35	84.69	82.47
Profit after tax	73.66	68.68	67.50	52.48	42.66	45.36
Earnings per share (KShs)	1.84	1.71	1.74	1.55	1.57	1.67

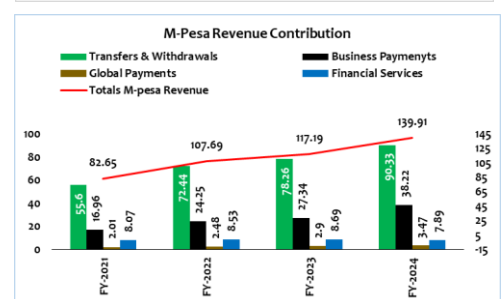
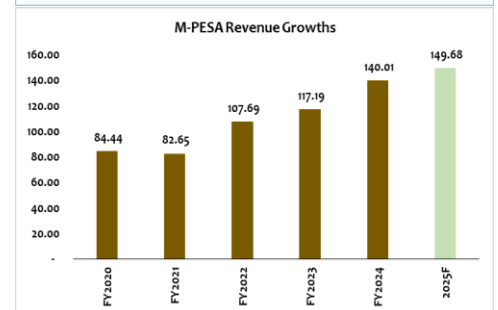
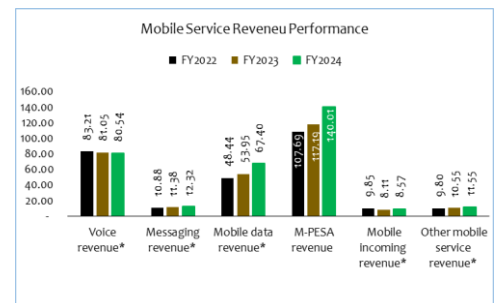
### a) M-pesa Revenue

As per our earlier forecast on the earnings report for FY-2024, we forecast m-pesa revenue growth for FY-2025 to slow down to a 6.9% growth from KES 67.40Bn to KES 76.57Bn. This follows full reinstatement of M-pesa fees instituted back in 2023 which we do not expect to recur.

The 6.9% growth will be mainly driven by growths in business payments supported by Safaricom's integrated payment options which have been embraced nearly by all business entities.

Further, this will be supported by an expected marginal growth in new subscriptions. In the first quarter of FY-2025, Safaricom's new subscribers grew by 5.0% from 42.54Mn to 44.66Mn. Quarter on quarter however, the subscriptions rose by 1.5% which we expect to almost mirror the annual growth rate.

The faster rise subscriptions for FY-2023 followed the sim card deactivations that had happened in 2023, necessitating new registrations.

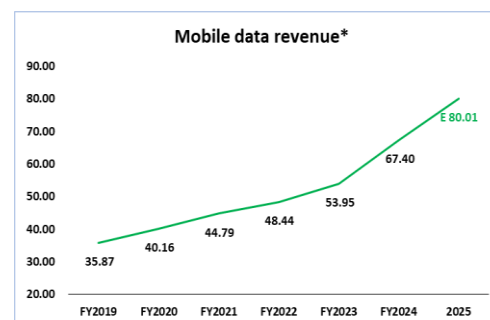


### b) Mobile Data Revenue

We expect mobile data revenue to rise at a faster rate of 18.7% in FY-2025 from KES 67.40Bn to KES 80.01Bn largely on the growing adoption of mobile data services. The growth will however be lower in relation to that of FY2024

We expect mobile data revenue to be driven by:

- Increased usage and adoption of business payments supported by Safaricom's integrated payment options which have been embraced nearly by all business entities.
- Increased uptake and usage of smart phones especially by a youthful generation is directly expected to push the mobile data consumption and thereby push the counter's data revenue higher.
- This is further supported by Safaricom's stable and portable network and the rollout of the 5G network.



### Price Valuation Summary

Valuation Method	Weighting	Fair Value Price	Weighted Value
Free Cash Flow to the Firm	25.0%	30.09	7.52
Free Cash Flow to Equity	25.0%	27.82	6.96
EBITDA Multiple	25.0%	15.96	3.99
Dividend Discount Model	25.0%	24.94	6.23
<b>Implied Value</b>			<b>24.70</b>

Price Valuations as of 16th August 2024:

Free Cash Flow to the Firm (FCFF)	31/03/2020	31/03/2021	31/03/2022	31/03/2023	31/03/2024	31/03/2025
EBIT	101.4939	96.1649	109.1286	84.9974	80.34	100.07
Taxes	(32.12)	(24.96)	(34.72)	(35.86)	(42.03)	(46.16)
<b>Net EBIT</b>	<b>69.38</b>	<b>71.21</b>	<b>74.41</b>	<b>49.14</b>	<b>38.32</b>	<b>53.92</b>
Add: Depreciation & Amortisation	(36.55)	(37.96)	(39.93)	(54.87)	(82.95)	(72.99)
Less: Capex	36.10	34.96	49.78	96.13	93.54	76.00
FCFF	68.93	68.20	84.26	90.40	48.91	56.92
Time Period					(0.38)	0.62
Discount factor					0.93	1.00
Terminal Value					912.23	
PV of Terminal Value					708.54	
Discounted Values					45.62	
Sum of discounted values					1,205.72	
No. of outstanding shares					40.07	
<b>Fair Value Estimate (KES)</b>					<b>30.09</b>	

Free Cash Flow to Equity (FCFE)	31/03/2020	31/03/2021	31/03/2022	31/03/2023	31/03/2024
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# KINGDOM SECURITIES

Safaricom Plc Update  
August 2024

FCFF	68.93	68.20	84.26	90.40	48.91
Net borrowing	3.97	6.77	5.63	(15.05)	1.06
FCFE	72.90	74.97	89.88	75.36	49.96
Time Period					(0.38)
Discount factor					0.93
Terminal Value					1,295.16
PV Terminal Value					554.46
Discounted Values					46.62
Sum of discounted values					1,114.51
No. of outstanding shares					40.07
Fair Value Estimate (KES)					27.82

EBITDA Multiple	31/03/2020	31/03/2021	31/03/2022	31/03/2023	31/03/2024
EBITDA	138.04	134.13	149.06	139.86	163.29
Market Capitalization					592.97
Debt					69.50
Cash					22.87
Enterprise Value:					639.60
EV/EBITDA (x)					3.92
No. of outstanding shares					40.07
<b>Fair Value Estimate (KES)</b>					<b>15.96</b>

Dividend Discount Model	31/03/2020	31/03/2021	31/03/2022	31/03/2023	31/03/2024
Annual Dividends	1.40	1.37	1.39	1.20	1.20
Time Period					(0.39)
Discount factor					0.93
Terminal Value					16.60
PV Terminal Value					17.82
Discounted Values					1.12
Fair Value Estimate (KES)					24.94

End

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- **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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