

## SAFARICOM PLC | FY'2023 EARNINGS UPDATE

Safaricom announced their FY23 financial results. The telecommunication giant saw a fall in profits by 22.2% to KES 52.48Bn. The board of directors proposed a final dividend of **KES 0.62** per share. Earlier, an interim dividend of KES 0.58 was paid bringing the total dividend to **KES 1.20**. This translates to a total dividend yield of 8.0%.

### FY 2023 Financial Highlights (% = y/y performance)

**Service Revenue:** Service revenue grew by 5.2% to KES 295.69Bn backed by M-pesa, mobile data and fixed data growth which was driven by a strong overall subscriber market share of 65.6% in FY23.

**M-PESA was the Key driver of growth:** Mpesa revenue grew by 8.8% to KES 117.19Bn supported by increased usage and growth of chargeable transactions per one-month active customers. M-pesa remains the biggest revenue contributor currently accounting for approximately 40% of service revenue. Mpesa saw an increase in momentum in the second half of 2023 driven by the re-introduction of wallet to wallet and bank fees. The customer base rose by 5.2% to 32.2Mn one-month active M-pesa customers. Introduction of Mpesa global virtual visa card drove increase in global revenues to 14.6% to KES 2.8Bn. Overall business payments through M-pesa business saw an increase by 17.3% to 27.3Bn. Additionally, the total M-pesa transaction volumes increased by 33.5% to KES 21Bn while the total transaction value increased by 21.4% to KES 35.9Tn.

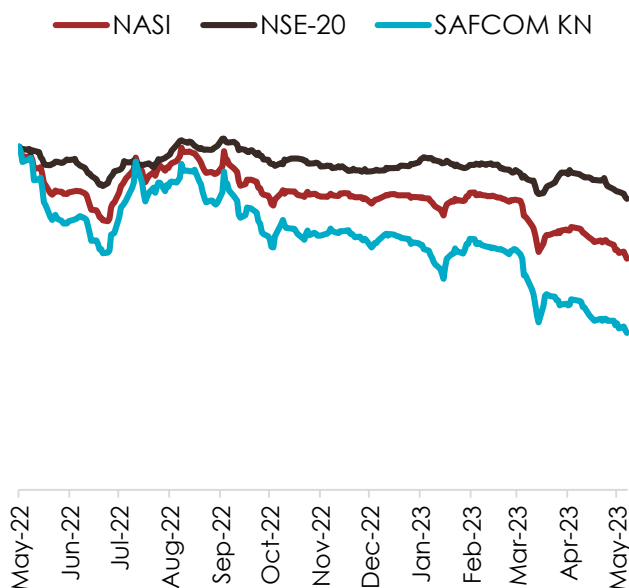
**Financial Service revenue** saw an increase of 0.8% to KES 8.6Bn. Fuliza saw a dip by (8.3%) to KES 5.4Bn driven by a reduction in fees. M-Shwari, saw an increase to KES 2.1Bn by 11.6%.

**Mobile data revenue** grew 10.6% YoY to KES 53.60Bn supported by Customer Value Management initiatives which have continued to unlock latent potential in usage and growth. Mobile data now accounts for 18.2% of Service Revenue. A giant heap of opportunities lie in this line of revenue as the giant has launched the 5G.

Share Data	Safaricom PLC
<b>Ticker</b>	<b>SAFCOM KN</b>
<b>RECOMMENDATION</b>	<b>BUY</b>
<b>Current Price (KES)</b>	<b>14.50</b>
<b>Target Price (KES)</b>	<b>26.65</b>
<b>Upside</b>	<b>83.8%</b>
<b>52WK High (KES)</b>	<b>34.00</b>
<b>52WK Low (KES)</b>	<b>14.90</b>
<b>Market Cap (KES Bn)</b>	<b>602.98</b>
<b>Free Float</b>	<b>25.06%</b>
<b>EPS (FY'23)</b>	<b>KES 1.55</b>
<b>DPS (FY'23)</b>	<b>KES 1.20</b>
<b>Dividend yield (FY'23)</b>	<b>8.28%</b>
<b>Current Price = as of 11<sup>th</sup> May 2023</b>	

Source: Bloomberg, Company financials, NCBA IB Research

### Safaricom PLC Share Performance



Source: NSE, NCBA IB Research

**Fixed service and wholesale transit revenue** recorded a strong growth of 20.1% to KES13.50Bn supported by increased usage and connections. This was attributable to growth in enterprise revenue by 21.4% to KES 8.55Bn as well as growth in consumer revenue by 17.9% to KES 4.94Bn. This space has a lot of untapped opportunities as the governments strive to ensure internet connectivity in rural spaces. Fiber to the Home (FTTH) customers grew 17.9% to 195.74k. FTTH penetration currently stands at 59.2%.

**Capital expenditure weighs down on the business:** Capex saw an increase to 93.1% to KES 96.1Bn driven by accelerated spending on investment in the new growth region of Ethiopia. Capex in Ethiopia was undertaken to support site, infrastructure costs to increase coverage in the growing market.

**Profitability:** Profit saw a decline by 22.2% to KES 52.48Bn, as the rollout costs of the Ethiopia network continue to take a toll. The company which is in its third year of 5-year strategy saw the bottom line was affected by a KES 21.61Bn loss in Safaricom Ethiopia business and an increase in the effective tax rate to 40.6% from 34.0% in the previous financial year. Earnings Before Interest, Tax, Depreciation and Amortization(EBITDA) declined by 6.2% to KES 139.8Bn.

## Financial Summary

Safaricom PLC	Key Metrics Y/Y
Service Revenue	Up 5.2% to KES 295.7Bn
<b>Mpesa Revenue</b>	<b>Up 8.8% to KES 117.2Bn</b>
Financial Service revenue	Up 10.6% to KES 53.06Bn
<b>Mobile data revenue</b>	Up 0.8% to KES 8.6Bn
Fixed Service and wholesale transit revenue	Up 20.1% to KES 13.50Bn
<b>Capital Expenditure</b>	<b>Up 93.1% to KES 96.1Bn</b>
PBT	Down 13.6% to KES 88.35Bn
<b>PAT</b>	<b>Down 22.2% to KES 52.48Bn</b>
EPS	Down 10.9% to KES 1.55
<b>DPS</b>	<b>Down 13.7% to KES 1.20</b>

Safaricom PLC	Key Ratios Y/Y
EBITDA Margin	Up to 51.9% from 50.0%
EBIT Margin	Up to 37.6% from 36.6%
<b>Net debt to EBITDA</b>	<b>Up to 0.35 from 0.24</b>
ROCE	<b>Down to 50.7% from 65.2%</b>
<b>ROE</b>	Down to 23.7% from 30.5%
Current Market Price	KES 15.05
P/E	9.4x
P/B	2.2x
<b>Dividend payout</b>	<b>43.9%</b>
<b>Dividend Yield</b>	<b>8.0%</b>

Source: Company financials, NCBA IB Research

## Valuation

Following the FY2023 earnings release, and given some of the key business announcements by the company since our last publication, we reviewed our forecasts and subsequently our valuation of the stock.

From our estimates and assumptions, we see a significant upside potential and maintain our **BUY** recommendation with a target price of **KES 26.65**.

The target price implies an upside of 83% to the current trading price of KES 14.50 as of 11<sup>th</sup> May 2023.

We have used four valuation methodologies to arrive at our fair value estimate:

1. Discounted Cash flow
2. EV/EBITDA
3. Price to Book Valuation
4. Price to earnings Valuation

Equal weighting (25%) was given to each of the four valuation methods to arrive at our fair value.

Valuation Methodology	Implied Price	Weighting	Weighted Value
DCF Approach	29.78	25%	7.44
EV/ EBITDA Approach	26.48	25%	6.62
P/B Approach	21.13	25%	5.28
P/E Approach	29.20	25%	7.30
<b>Fair Value</b>		<b>100%</b>	<b>26.65</b>
<b>Current Price (at 11.05.2023)</b>			<b>14.50</b>
Upside/(Downside)			83.8%

Source: Company financials, NCBA IB Research

## Investment recommendation:

At the current market price, the stock presents a good entry position. Safaricom is a well-positioned mobile operator in Kenya and we see opportunities in the current environment. From our estimates and assumptions, we believe the stock is undervalued and maintain our **BUY** recommendation with a target price of **KES 26.65**. The target price implies an upside of 83.8% to the current trading price of KES 14.50 as of 11<sup>th</sup> May 2023.

## Outlook

We expect increased revenue from Safaricom Ethiopia, M-pesa, and mobile data revenue streams. Safaricom operations in Ethiopia could help achieve revenue expansion above consensus and entrench the company's presence in the region. However, we maintain a cautiously optimistic stance on this diversification venture.

We believe Safaricom will record steady growth supported by:

- 1. Revenue Diversification:** Revenue streams from new spaces such as Insurance, Cloud and ICT will see Safaricom grow as the streams will provide double digit figures. Mpesa launch Ethiopia set to increase revenue. County driven spending to accelerate digitization will boost fixed services provision. On data, mobile data and fixed data will drive growth. Fibre to home (FTTH) under the current environment presents more scope whereas on mobile data, Safaricom still wins on this supported by; i) the flexibility it offers and ii) the strong network quality over other providers.
- 2. Operating costs:** The Telco giant launched its Ethiopia network last year, betting that the populous nation will power growth after about five years of investment. The business is set to breakeven in 4-years. Aggressive network expansion, infrastructure costs will see operation costs tick upwards. Moreover, the launch of Mpesa in Ethiopia will come along with infrastructure and rolling out costs.
- 3. Capital Expenditure:** Safaricom is set to see a rise in capital expenditure driven by the costs of launching in Ethiopia, an economy that is under hyperinflation. The market is set to see a spending of 40-45Bn.

Safaricom PLC	FY24 Estimates
EBITDA	KES 140Bn - KES 150Bn
<b>EBIT</b>	<b>KES 75Bn – KES 81Bn</b>
<b>Capex</b>	<b>KES 82Bn – KES 90Bn</b>
EBITDA Margin	50% - 55%
EBIT Margin	35% -40%

Source: Company financials, NCBA IB Research

## About NCBA Investment Bank

NCBA Investment Bank is a subsidiary of NCBA Group. The services offered by the brokerage department include equities trading for listed securities, fixed income trading for both corporate and government bonds, Over the Counter (OTC) equity transactions as well as execution of equities transactions across the East African countries. Additionally, NCBA Investment Bank backs these activities with solid advice from the research team to enable investors meet their return objectives. NCBA Investment Bank deploys simple and convenient client driven technologies, robust risk management, highly competent and experienced staff and has the backing of robust research capabilities to differentiate itself from other players in the market.

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## Certification

The following analyst(s) who prepared this research report: Victoria Mututu hereby certifies(y) that: (i) all of the views and opinions expressed in this research report accurately reflect the research analyst's(s') personal views about the subject investment(s) and companies (y) and (ii) no part of the analyst's(s') compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed by the analyst(s) in this research report.

## Rating Definitions

**BUY** – Total expected 12-month return (incl. dividends) greater than 20%  
**ACCUMULATE** - Total expected 12-month return (incl. dividends) between 10% - 20%  
**HOLD** – Total expected 12-month return (incl. dividends) between 0% -10%  
**SELL** – Total expected 12-month return (incl. dividends) less than 0%

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