

SAFARICOM | HY25 COMPANY UPDATE

Safaricom released its HY 2025 financial results posting a largely impressive set of results for the Kenya business. The overall group performance was however undermined by the Ethiopia business. Earnings per share declined to **KES 0.70** from KES 0.85 in the previous financial year.

Key Highlights

Profitability: PAT for the Group declined by 63.2% to KES 10.01Bn attributable to increase in operating expenses and subdued performance in Ethiopia.

Net income for Kenya, which includes the company performance and Kenyan based subsidiaries grew 14.1% y/y to KES 47.50Bn supported by robust performance across all service lines which was driven by sustained growth in customers and usage.

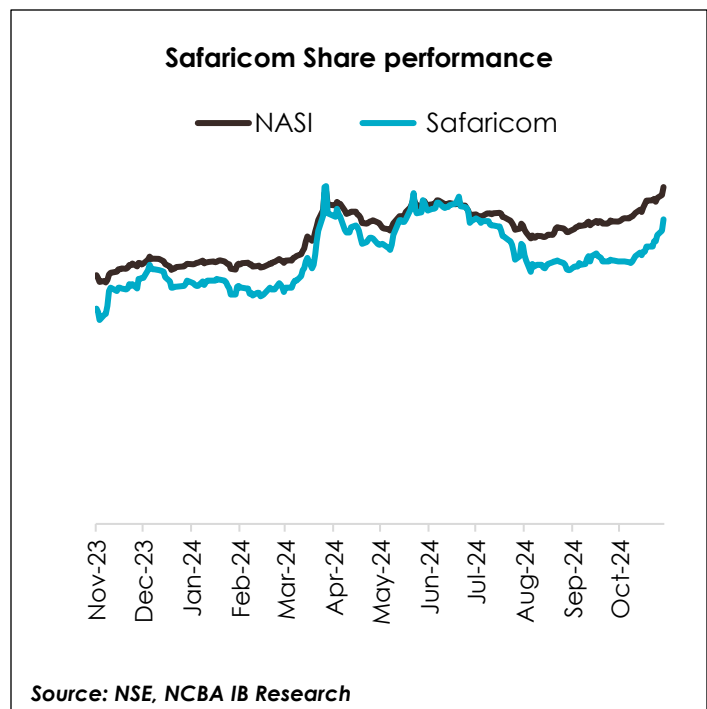
Revenue: Safaricom's total revenue grew by 15% to KES 189.4Bn in HY25 from KES 164.6Bn in HY24. This growth was largely driven by an increase in M-PESA revenue, which rose by 16.6% to KES 77.2Bn, making up a large portion of service revenue.

Group service revenue grew 13.1% y/y to KES 179.9Bn, mainly supported by M-PESA, mobile data and fixed data. Overall Group customers grew 7.8% y/y to 52.01Mn while one-month active customers grew by 10.8% y/y to 39.75Mn. Safaricom Kenya's overall market share stood at 65.4% as at June 2024.

Margins: EBITDA declined slightly from KES 79.7Bn in HY24 to KES 75.1Bn in HY25. Consequently, the EBITDA margin fell from 48.4% to 39.6%. Operating profit margin declined to 22.3% from 25.2%.

This decline might be due to an increase in direct costs, which rose to KES 49.5Bn, a jump from KES 44.4Bn in the previous year. This increase in costs aligns with Safaricom's expanding infrastructure and possibly increased operational costs related to network upgrades, such as the ongoing 5G rollout.

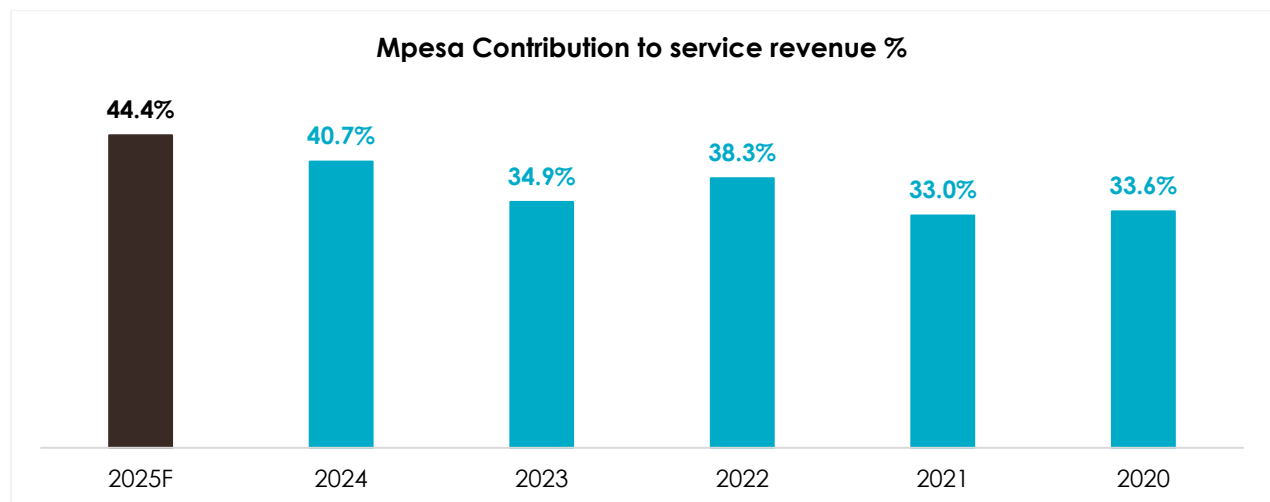
Share Data	Safaricom Group Plc
Ticker	SAFCOM KN
RECOMMENDATION	BUY
Current Price (KES)	16.35
Target Price (KES)	22.35
Upside	36.7%
52WK High (KES)	29.00
52WK Low (KES)	11.50
No. of shares issued (Bn)	40.07
Market Cap (KES Bn)	498.84
Free Float	40.0%
EPS (HY'25 Annualized)	KES 1.40
P/E	7.5x
P/B	2.5x
Current Price = VWAP on 6th November 2024	



M-PESA as the key driver of growth

M-PESA revenue recorded a strong growth of 16.6% y/y to KES 77.22Bn driven by 13.1% y/y growth in ARPU to KES 389.27. Chargeable transactions per one-month active customers increased by 25.6% y/y to 37.37 and the one-month active customers grew by 4.1% to 33.46Mn while M-PESA agents rose by 2.4% y/y to 266.07k.

This strong performance in M-PESA revenue reflects Safaricom's ongoing digital expansion and the heavy reliance on mobile financial services in Kenya. M-PESA now accounts for 43% of service revenue. We estimate M-pesa contribution at the end of FY25 will stand at ~44% of service revenue.



*2025F- Forecast

Source: Company financials, NCBAIB Research

M-PESA growth areas

- **Lipa Na M-Pesa:** Revenue generated rose by 5.2% y/y to **KES 3.7Bn**. Active tills reached 658,700 (up marginally from 658,400 in HY24) while the transaction volume grew by 23.4% to 1,458.6Mn. The total transaction value rose to KES 972.6Bn, marking a 10.5% rise.
- **Pochi La Biashara (targeting informal businesses):** The number of active tills more than doubled, reaching 869,000 from 405,200 in the previous year. Transaction volume surged to 557.6Mn, showing a growth rate above 100%. Transaction value also significantly increased to KES 78.5Bn, up over 100%. Revenue for this segment surged by over 100% to **KES 0.9Bn**. This high growth reflects Pochi La Biashara's appeal among small businesses, especially within informal sectors.
- **M-Pesa Visa Card:** Active users nearly doubled to 172,900 from 84,100. Total transaction volume grew 26.2% to 2.9Mn, although the transaction value declined by 35.2% to KES 4Bn. Revenue for the M-Pesa Visa card segment doubled, reaching **KES 0.2Bn**, highlighting its expanding user base and role in facilitating international payments.
- **Mali:** Active customers for Mali grew by 21.6%, reaching approximately 132,700 users and the Assets Under Management (AUM) saw impressive growth, increasing to **KES 3Bn**. Mali generated ~**KES 10Mn**, with an 86.4% increase from the prior period, underscoring its potential as a revenue source in the M-PESA ecosystem.

- **Insurance:** Safaricom's venture into insurance services launched in **August 2024**, with early traction through device insurance. By the end of HY25, 117,000 policies were issued under the LMM (Lipa Mdogo Mdogo) program for device protection. Gross premiums written for device insurance amounted to **KES 22Mn**, while the total sum assured reached KES 975Mn, reflecting the program's scope and customer demand for embedded insurance solutions.
- **Fuliza Overdraft Facility:** Fuliza generated **KES 1.9Bn** in revenue, a slight decrease of 3.9%. Despite maintaining a stable customer base of 7.5Mn active users, the average ticket size declined by 9.4% to KES 236.2. Total disbursements rose by 7.3% y/y to KES 450Bn. Repayments rose to KES 453.8Bn, achieving a repayment-to-disbursement rate of 100.9%, up from 95.6% in the prior period.
- **KCB M-Pesa:** Revenue rose by 21.3% to **KES 0.4Bn**. Active users also grew by 34.2%, reaching 4.6Mn, indicating successful customer acquisition and engagement. Disbursements increased by 17.6% to KES 27.2Bn, while the repayment rate improved to 97.4% from 93.7%. The average loan size increased significantly by 26.7% to KES 6,948, suggesting a trend toward higher-value loans.
- **M-Shwari:** Revenue declined by 7.4% to **KES 1.1Bn**. Active customers grew by 10.6% to 6.7Mn, demonstrating moderate but steady expansion in user base. The average loan size saw a 5.0% rise to KES 10,170. Despite a slight decline in disbursements to KES 48.9Bn, the repayment rate strengthened significantly to 98.2%, showing improved borrower reliability.

Voice and Messaging Revenue

Overall, Voice and Messaging services accounted for about 26.4% of Safaricom's total service revenue, down from 28.3% in the previous period.

- **Voice revenue:** increased by 4.5% y/y to KES 40.87Bn. This growth, though modest, was driven by increased usage rates among customers. The average minutes of use per subscriber grew by 7.6% to 198.31 minutes monthly, indicating solid engagement.

The active voice customer base rose by 10.6% to 28.46Mn, benefiting from customer acquisition efforts and engagement initiatives. The rate per minute for voice services decreased by 9.9% y/y to KES 1.15, likely to reflect pricing adjustments aimed at maintaining market share.

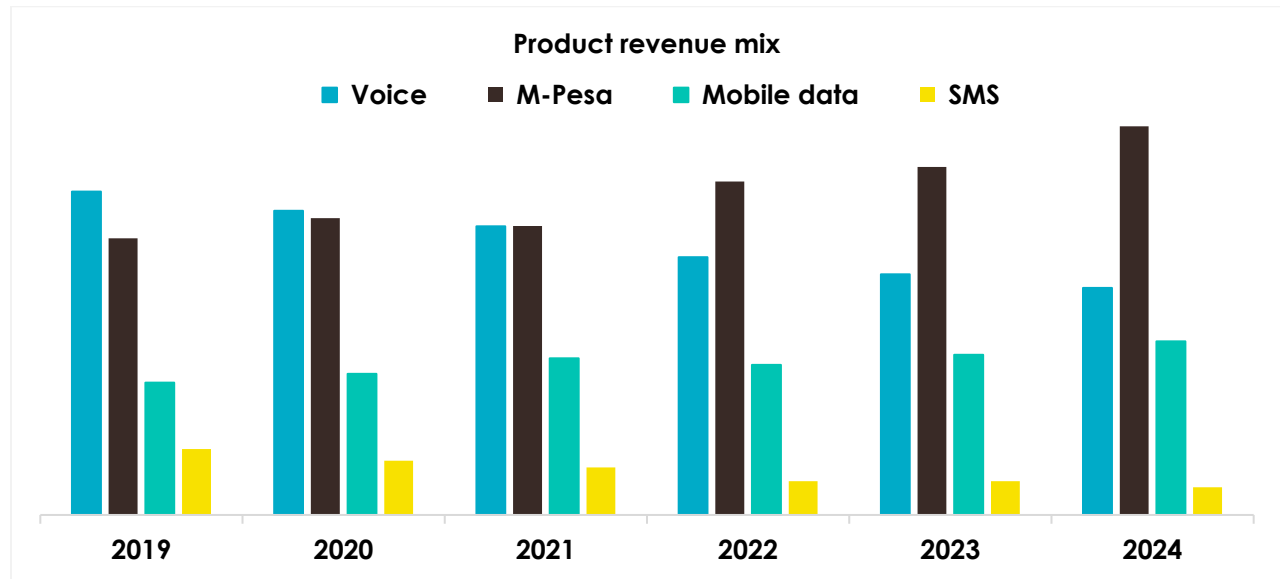
- **Messaging revenue:** increased by 8.0% y/y to KES 6.23Bn. This growth was supported by campaigns such as "Chat Ibambe," which aimed to boost SMS usage despite the broader industry trend of declining SMS revenues due to the prevalence of internet-based messaging.

The number of one-month active messaging customers saw a slight increase to approximately 20.92 Mn, with an average revenue per user (ARPU) increase of 5.7% to KES 48.46. This confirms Safaricom's ability to maintain engagement with SMS users despite external pressures.

The telco continues to leverage on Customer Value Management (CVM) initiatives to provide better segmented customer propositions.

Mobile data share of revenue increases

Mobile data and Mpesa contribution to service revenue rose to 19% and 43% from 18% and 39%, respectively. Mobile data recorded double digit growth fueled by enhanced monetization and value propositions.



Source: Company financials, NCBAIB Research

Mobile data revenue grew by 21.5% y/y, to KES 37.60Bn driven by higher data usage, a larger customer base, and enhancements in 4G network availability and smartphone penetration.

One-month active mobile data customers grew by 10.5% to 28.83Mn, supported by campaigns and personalized data offers through Customer Value Management (CVM) initiatives. The average data consumption per chargeable subscriber rose by 9.8% to 4.12 GB per month, which reflects a growing reliance on data for daily connectivity.

Data ARPU rose by 13.5% to KES 263.25, demonstrating both higher spending on data services and effective engagement strategies like bundled offers that encourage frequent data usage.

The number of smartphones on the network increased by 15.7%, reaching 24.72Mn, helping to sustain data revenue by making high-speed internet access more accessible. The number of 4G devices grew by 33.5% y/y to 19.22Mn.

The telco expanded 4G access points and encouraged upgrades to 4G-enabled devices by financing affordable 4G phones. The financing option for 4G enabled devices is done through their affordable Lipa Mdogo Mdogo (LMM).

5G-enabled devices increased by 64.1% increase. The adoption, however, remains limited to around 836,550 devices. The continued focus on 5G expansion aims to meet future demand for higher-speed connections and premium data services.

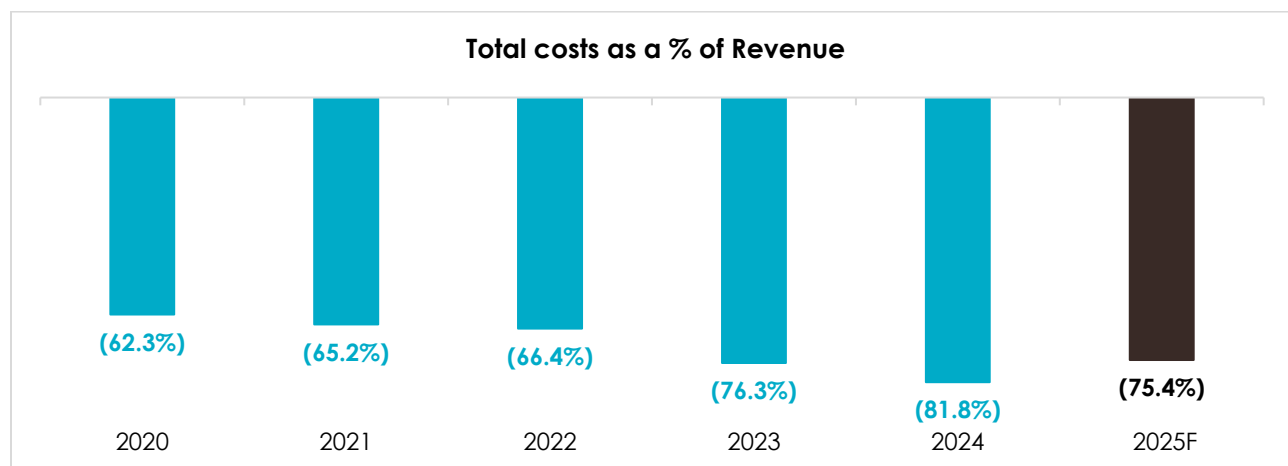
Surging Costs- Navigating a challenging operating environment

Direct costs grew by 11.5% to KES 49.5Bn driven by license fees, customer acquisition and retention, and handset costs. This increase aligns with Safaricom's strategy of expanding its infrastructure.

Operating costs jumped by 59.6% to KES 60.25Bn driven by net foreign exchange losses costs of KES 22.56Bn arising from 106% depreciation of the Ethiopian Birr. As of 30 September 2024, the Birr's value against the US Dollar was 118.99, from 57.69 in June 2024.

Finance costs also shot up by 53.3% to KES 10.91Bn. Long-term borrowings rose by 9.1% to KES 68.83Bn. Consequently, provision for expected credit loss (ECL) also grew by 63.7% to KES 4.9Bn.

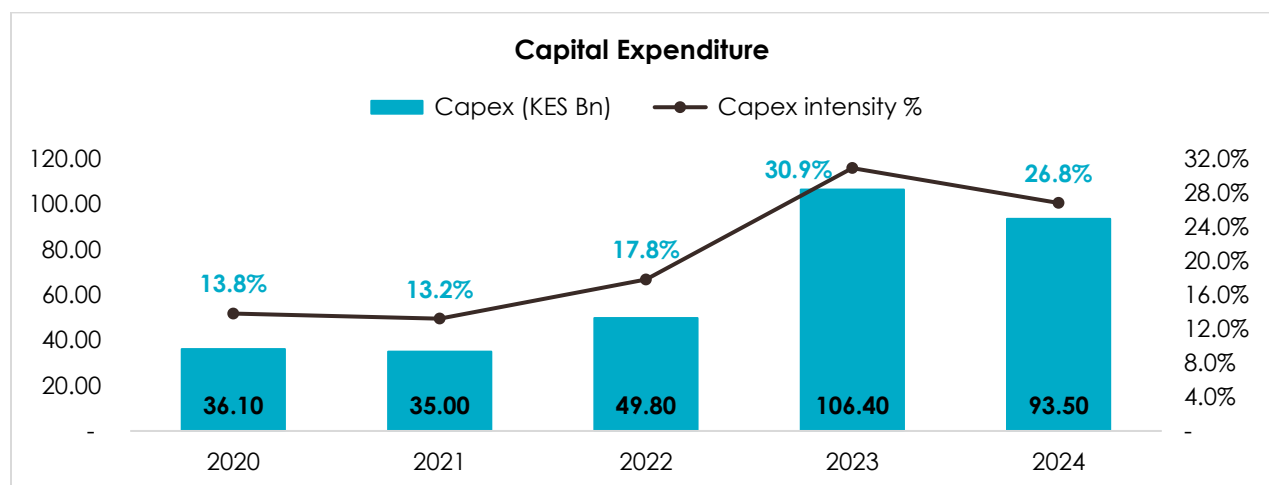
Safaricom's exposure to interest rate risk is influenced by the increased debt and foreign exchange risk from the Ethiopia business.



*Total costs= Direct costs+ Depreciation and Amortization+ Finance costs Source: Company financials, NCBAIB Research

Capital expenditure - weighs down on business

Capex saw a 25.9% y/y increase to KES 30.77Bn driven by accelerated spending on investment in Ethiopia. Capex in Ethiopia was undertaken to support site, infrastructure costs to increase coverage in the growing market.



Source: Company financials, NCBAIB Research

HY25 Financial performance summary

Safaricom PLC	Key Metrics Y/Y
Service Revenue	Up 13.1% to KES 179.92Bn
Mpesa Revenue	Up 16.6% to KES 77.24Bn
Voice revenue	Up 4.5% to KES 40.87Bn
Mobile data revenue	Up 21.5% to KES 37.60Bn
Fixed Service and wholesale transit revenue	Up 13.1% to KES 8.33Bn
Messaging Revenue	Up 8.0% to KES 6.23Bn
Capital Expenditure	Up 40.1% to KES 58.7Bn
PBT	Down 27.9% to KES 33.9Bn
PAT	Down 63.2% to KES 10.01Bn
EPS	Down 17.6% to KES 0.70

Safaricom PLC	Key Ratios Y/Y
EBITDA Margin	Up to 55.1% from 55.9%
EBIT Margin	Up to 42.4% from 41.5%
Net debt to EBITDA	Down to 0.28 from 0.14
ROCE	Up to 56.4% from 56.1%
ROE	Down to 23.7% from 30.5%

Source: Company financials, NCBA IB Research

Share price performance

Safaricom's share price has risen in line with the positive investor sentiment, driven by declining interest rates and supported by improving macroeconomic conditions.

6 th November 2024	Year to Date (%)
SAFCOM	18.9%
NASI	26.7%
NSE-20	26.4%

Source: NSE, NCBA IB Research

Outlook

Safaricom operations in Ethiopia could help achieve revenue expansion above consensus and entrench the company's presence in the region. This has been evidenced by the fact that the Ethiopia business accounted for 10% of Group revenues in 1H2025. We, however, maintain a cautiously optimistic stance on this diversification venture.

We expect increased revenue from M-pesa, and mobile data revenue streams boosted by:

1. **Revenue Diversification:** We expect increased revenue from Safaricom Ethiopia, M-Pesa, and mobile data revenue streams. The telco's digital transformations and building technological capacities in the areas of AI, Big data, Analytics and giving expanded access to 4G Devices along with scaling of Ethiopia operations.
2. **Scale Ethiopia Operations:** The telco launched its Ethiopia network last year, betting that the populous nation will power growth within five years of investment. The business is expected to breakeven in 2027. Aggressive network expansion and infrastructure costs are expected to be high in the interim.
3. **Public Sector Digitization:** The telco works closely with the public sector and relevant industry stakeholders to provide connectivity, infrastructure development such as cloud, fiber, and financial technology.
 - a. In agriculture, digitization of the fertilizer subsidy program to over 3.3Mn farmers in 41 counties across the country.
 - b. Under the Financial Inclusion programs, over 22Mn Kenyans have benefited from the Hustler and Women Enterprise Fund through which the telco facilitates access to affordable credit.
 - c. In Health, it is partnering with the National Government to support county governments in strengthening Community Health Services through the Afya Bora Mashinani program.
4. **New Growth Areas Acceleration:** In partnership with TeleOne and Jamii Telkom, the telco has launched a smartphone device assembly in Kenya, through the East Africa Device Assembly Kenya to accelerate the access & penetration of affordable 4G devices. The telco has also set foot in Fiber, OT, ICT, Insurance and wealth management which will deliver strategy.

Management Guidance:

Safaricom Ethiopia	FY25 Estimates
EBIT	(KES 61Bn) – (KES 58Bn)
Capex	KES 28Bn – KES 31Bn
Mobile Customers	7Mn – 10Mn
Mpesa customers	1Mn
Target network sites	3,300

Safaricom Group PLC	FY25 Estimates
EBIT	KES 90Bn - KES 100Bn
Capex	KES 80Bn – KES 86Bn

Source: Company financials, NCBA IB Research

Valuation

Following the HY2025 earnings release and considering material information provided on Safaricom Ethiopia business since our last publication, we have reviewed our forecasts and valuation of the stock.

From our estimates and assumptions, we see a significant upside potential and maintain a **BUY** recommendation with a target price of **KES 22.35**. The target price implies an upside of 37% to the current trading price of KES 16.35 as of 6th November 2024.

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

Valuation Methodology	Implied Price	Weighting	Weighted Value
DCF Approach	26.77	40%	10.71
EV/ EBITDA Approach	20.11	40%	8.05
P/B Approach	19.20	10%	1.92
P/E Approach	16.76	10%	1.68
Fair Value		100%	22.35
Current Price (6th November 2024)			16.35
Upside/(Downside)			36.7%

Source; Company financials, NCBA IB Research

Investment recommendation

We expect Safaricom Plc to deliver long-term profitability based on its focus on digital transformation and strong customer base. At the current market price, the stock presents a good entry position for long-term investors to earn capital gains and an attractive dividend yield.

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