



**Safaricom PLC
FY'24 Earnings
Note**





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May 20th, 2024

Ticker Information

NSE Code:	SCOM
Issued Shares (Bn):	40.065
52-week high:	KES 19.70
52-week low:	KES 11.65

Chart 1: Price Trend (Last 12 Months)



Source: NSE, AIB-AXYS Research

Historical Share Performance

Last	1M	3M	6M	12M
Change	3.9%	32.8%	29.6%	12.3%

Source: NSE, AIB-AXYS Research

Analysts

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Recommendation

BUY

Current Price

KES 17.40

Target Price

KES 23.75

Summary

- **Safaricom Group posted a resilient 1.2% growth in FY'24 shareholder net earnings to KES 62.99Bn prompted by better-than-expected operational results in Kenya.** Group revenues grew 12.4% y/y driven to KES 349.5Bn emerging largely from volume-driven double-digit growth in M-Pesa and Mobile data. Notably, Safaricom Kenya surpassed market expectations to cross the USD 1Bn operational profitability mark.
- **The Board of Directors recommend a final dividend of KES 0.65 per share.** In addition to the earlier issued interim dividend of KES 0.55, this raises the total FY'24 dividend to KES 1.20. This distribution fell within our total dividend estimate of KES 1.20 – KES 1.30. The dividend will be payable on or about 31st August 2024 to shareholders on register as of 31st July 2024.

Key Highlights

- **Stronger Kenya 'Cash Cow' supports Ethiopia 'Rising Star'.** Group earnings before interest and taxes declined 5.5% to 80.34Bn, as subdued operational results in Ethiopia more-than-offset the contribution of Safaricom Kenya's agile growth. Cumulatively, capital expenditures throughout FY'24 clocked at KES 93.5Bn (higher than the revised KES 85-93Bn guidance), with up to KES 46.2Bn spent in Ethiopia to bolster network expansion.
- **Cautious Optimism Amid Trials in Ethiopia Franchise.** Management maintains its expectation for a Ethiopian breakeven scenario in FY'26. The broad assumption is that the number of 90-day active mobile customers will accelerate from the current 4.4Mn to between 7Mn-10Mn customers. Yet, the break-even targets appear optimistic in our view, and we anticipate longer timelines given the competition with the state-backed incumbent oligopoly, Ethio Telecom.

Service Revenue

Service revenues in the Kenya franchise expanded modestly by 11.7% y/y to KES 329.8Bn primarily driven by the robust growth in M-Pesa, Mobile Data and Fixed Data revenues. Service revenues in Ethiopia increased to KES 5.4Bn fueled by a steeper rise in mobile data revenue.

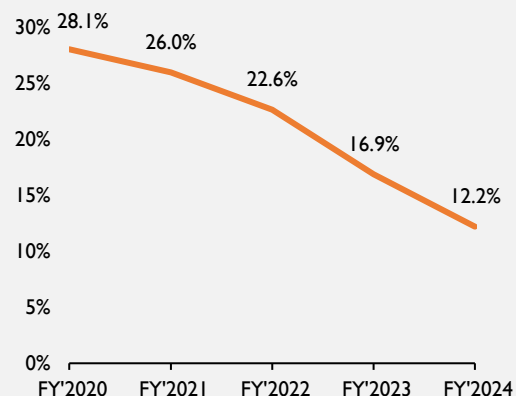
Voice and Messaging Revenue - Voice revenue decreased by 1.7% y/y to KES 79.5Bn in the Kenyan business despite the 8.0% y/y jump in active customers to 28.28Mn and the 1.0% rise in voice customer average revenue per user (ARPU) to KES 251. The decline in voice revenue was largely attributed to the legislation-backed reduction of Mobile Termination Rates. Voice revenue in the Ethiopian business grossed KES 0.8Bn with the average revenue per user increasing 92.4% to KES 41.04.

Messaging revenue increased 8.3% to KES 12.3Bn in the Kenyan franchise boosted largely by the 8.0% increase in ARPU to KES 47.33. The one-month messaging ARPU in Ethiopia soared markedly by 117.4% y/y to KES 4.00. We anticipate that ongoing price optimization strategies will support further growth voice and messaging revenues over the medium-term. We expect Ethiopia voice revenues to tread steadfastly, despite the reduction in mobile termination rates, on account of deepening digital penetration.

Data Revenue - Mobile data revenue ticked 18.0% y/y to KES 63.2Bn in the Kenyan franchise supported by the 5.8% lift in active customers to 27.59Mn. Additionally, the mobile data average revenue per user increased 1.5% to KES 242.71. Mobile data revenue in Ethiopia amounted to KES 4.17Bn prompted by a 95.1% jump in 90-day active customers to 2.79Mn. Notably, the usage-per-subscriber in the Kenyan business rose mildly to 3.79GB – albeit lower than the 4.32GB per subscriber in the Ethiopian business. On our view, this points to one of brighter unique spots in Ethiopia business. We anticipate sustained growth in mobile data revenues, propelled by value optimization efforts to enhance affordability and the continued 4G and 5G expansion.

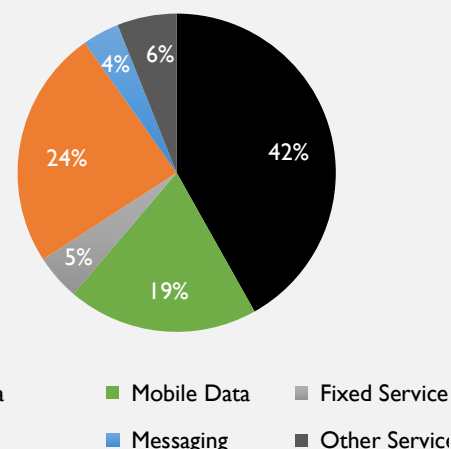
M-Pesa Revenue – M-Pesa revenues increased 19.4% in the Kenyan business to KES 139.9Bn prompted by the 33.9% y/y increase in the number of chargeable transactions per subscriber. Active users increased marginally by 0.9% to 32.41Mn in Kenya and 4.51Mn in Ethiopia. The revenue surge was largely supported by resumption of bank-to-wallet and wallet-to-bank charges. The total value of transactions conducted on M-Pesa increased by 9.6% y/y to KES 40.24Tn while transaction volume surged by 35.1% to 31.63Bn.

Chart 2: Net Profit Margin on the Decline



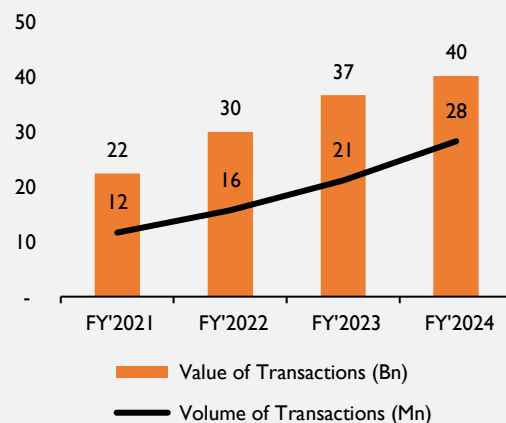
Source: Company filings, AIB-AXYS Research.

Chart 3: Service Revenue Skewed to M-Pesa Revenue



Source: Company filings, AIB-AXYS Research.

Chart 4: M-Pesa Transactions on a Momentous Rise



Source: Company filings, AIB-AXYS Research.

Consumer payments remained the primary revenue driver, contributing 64.6% to the overall M-Pesa revenue stream while the share of business payments accelerated to 27.3%.

Financial services revenues declined 9.2% y/y to KES 7.89Bn attributable to the significant 28.4% y/y demand-waning decline in Fuliza lending revenues. However, other lending services such as KCB M-Pesa and M-Shwari demonstrated modest revenue growth rates of 15.4% and 12.4% respectively. M-Pesa global, exhibited commendable growth with revenue increasing 13.8% y/y on ubiquitous cross-country money transfer usage.

We anticipate sustained expansion of M-Pesa across both Kenya and Ethiopia will bolster the Group's revenue growth, supported by the steady rise in business payments, global money transfer transactions, coupled with dynamic pricing strategies.

Capital Expenditure (CAPEX)

Safaricom Group's capital expenditures declined 2.7% y/y to a cumulative KES 93.5Bn from KES 96.1Bn the year prior – yet surpassing the revised guidance of KES 83-93Bn. Kenya's capex share of KES 47.3Bn reflected a 17.2% y/y increase, whereas Ethiopia's Capex share of KES 46.2Bn represented a 17.1% y/y decline. Notably, the 5-year Capex guidance for Ethiopia was revised downwards to USD 1.0-1.3Bn from the initial USD 1.5-2.0Bn. The downward revision reflects Safaricom's strategy of rationalizing coverage and scaling its business in Ethiopia by acquiring towers instead of establishing new sites.

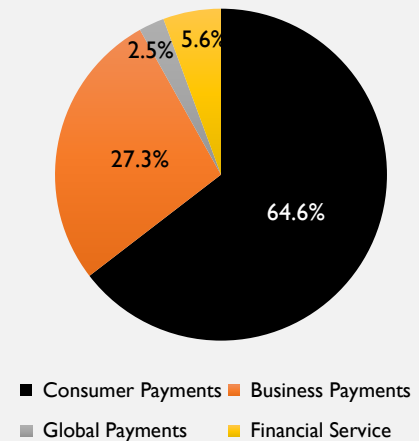
Outlook

We expect Safaricom Group to extend its commercial traction in the region driven by agile double-digit growth in M-Pesa and Mobile Data propositions. We expect price optimization strategies including differentiated customer pricing to support further resilience in legacy revenue lines such as voice and messaging. Yet, the rapidly evolving regulatory landscape across both markets may necessitate downward pricing strategies to avoid lower customer usage. We anticipate the ongoing upscaling of network coverage across Ethiopia will bolster the telco's long-term revenue growth. We remain cautiously optimistic on Ethiopia breakeven projections, which while boastful of a young and progressive population, is tempered by competition from the state-backed incumbent competitor, Ethio Telecom.

Recommendation

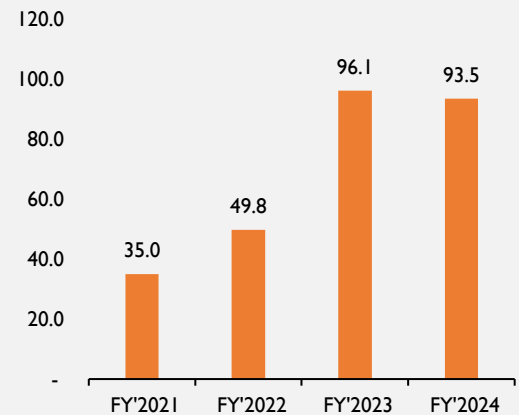
- We maintain our BUY recommendation on Safaricom on account of its promising growth prospects. At the current market price, the stock is trading at P/E ratio of 11.1x and a P/B ratio of 3.1x. Our one-year target price for Safaricom currently stands at KES 23.75 - representing a c. 36.5% upside potential from current levels.

Chart 5: M-Pesa Revenue Contribution



Source: Company filings, AIB-AXYS Research.

Chart 6: Capital Expenditure Trend



Source: Company filings, AIB-AXYS Research.

Income Statement	FY'2020	FY'2021	FY'2022	FY'2023	FY'2024	y/y change
Revenue	262,555.7	264,026.5	298,078.0	310,904.8	349,447.2	▲ 12.4%
Direct costs	(75,284.9)	(80,852.8)	(91,467.8)	(92,232.1)	(97,046.9)	▲ 5.2%
Gross Profit	187,270.8	183,173.7	206,610.2	218,672.7	252,400.3	▲ 15.4%
EBITDA	138,041.5	134,129.2	149,062.0	139,862.4	163,292.6	▲ 16.8%
Earnings Before Interest and Taxes	101,493.8	96,164.9	109,128.7	84,997.4	80,344.8	▼ (5.5%)
Profit Before Income Tax	105,773.0	93,635.5	102,213.5	88,345.2	84,687.4	▼ (4.1%)
Profit After Tax to Shareholders	73,657.9	68,676.2	69,648.1	62,268.9	62,991.7	▲ 1.2%

Balance Sheet	FY'2020	FY'2021	FY'2022	FY'2023	FY'2024	y/y change
Total Non-current Assets	164,402.7	174,719.9	281,548.6	436,771.5	558,622.4	▲ 27.9%
Total Current Assets	48,822.2	55,909.4	65,250.0	72,435.5	82,541.9	▲ 14.0%
Total Assets	213,224.9	230,629.3	346,798.6	509,207.0	641,164.3	▲ 25.9%
Total Shareholders' Equity	143,080.1	137,635.3	139,468.6	187,555.9	226,349.1	▲ 20.7%
Total non-current liabilities	13,644.1	17,541.7	68,947.1	105,463.9	137,594.3	▲ 30.5%
Total Current Liabilities	56,500.7	75,452.3	98,150.6	140,377.2	167,822.1	▲ 19.6%
Total Liabilities	70,144.8	92,994.0	167,097.7	245,841.1	305,416.4	▲ 24.2%

Ratio Analysis	FY'2020	FY'2021	FY'2022	FY'2023	FY'2024	y/y Change
Profit Ratios						
Net Profit Margin	28.1%	26.0%	23.4%	20.0%	18.0%	▼ (2.0%)
Total Asset Turnover	0.8	0.9	1.2	1.6	1.8	▲ 12.0%
Return on Equity	51.5%	49.9%	49.9%	33.2%	27.8%	▼ (5.4%)
Return on Assets	34.5%	29.8%	20.1%	12.2%	9.8%	▼ (2.4%)
EBITDA Margin	52.6%	50.8%	50.0%	45.0%	46.7%	▲ 1.7%

Liquidity Ratios	FY'2020	FY'2021	FY'2022	FY'2023	FY'2024	y/y Change
Current Ratio	0.9	0.7	0.7	0.5	0.5	▼ (4.7%)
Quick Ratio	0.4	0.4	0.4	0.4	0.4	▼ (0.8%)

DuPont Identity	FY'2020	FY'2021	FY'2022	FY'2023	FY'2024	y/y Change
ROE	51.5%	49.9%	49.9%	33.2%	27.8%	▼ (5.4%)
Net Income/Revenue	28.1%	26.0%	23.4%	20.0%	18.0%	▼ (2.0%)
Revenue/Total Assets	123.1%	114.5%	86.0%	61.1%	54.5%	▼ (6.6%)
Total Assets/Total Equity	149.0%	167.6%	248.7%	271.5%	283.3%	▲ 11.8%



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