

Recommendation:

BUY

Fair Value: **KES 26.80**

KES 23.25

Potential Upside/Downside:

15%



52-week Trading Range:

KES 33.50 to KES 21.75

EPS:

KES 1.38

P/E

17.07x

ROaE

47.8%

ROaA

30.1%

Dividend Yield:

4.73%

Market cap:

KES 941.54 Bn

Latest Full Year Results:

The full Year 2018

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SAFARICOM PLC

M-PESA & data to drive revenue growth.

Safaricom PLC is expected to release 1H19 results on 2nd November 2018. We expect a 10% growth in revenue mainly driven by M-Pesa and data. EBITDA margin is also expected to increase on the back improved efficiency.

1H19 Overview: This is likely to have been a relatively difficult period for the telco as it lost some of its market share to its competitors. In a bid to maintain its market share and increase traffic on its network, the mobile operator had a number of promotions and also reduced the price of mobile data. The latest statistics from the Communications Authority (CA) indicate that Safaricom's mobile subscriber market share decreased to 65% in June 2018 (from 73% and 67% in June 2017 and March 2018 respectively).

Service revenue: We expect a 10% increase in service revenue mainly driven by growth in MPesa and fixed data. M-Pesa's contribution to total revenue is expected to continue to increase as the contribution of voice revenues declines.

M-Pesa: During the period under review, mobile money interoperability (the seamless transfer of mobile money from one mobile money wallet to the other, across networks) was introduced. Despite the lower charges on Airtel and Telkom, interoperability is unlikely to have had an impact on Safaricom due to the stickiness of M-Pesa customers. The volume of transactions on the M-Pesa platform is expected to have increased but revenue growth will be lower as the high revenue earners, such as withdrawals, are expected to have decreased.

Voice revenue: Voice revenue is expected to remain flat in 1H2019 on the back of a decrease in ARPU (a trend which began in 2015) due to increased usage as other means of communication. To increase traffic in the network, Safaricom had a promotion where it offered inactive voice customers discounted rates on voice calls.

Mobile data: CA estimates that over 99% of internet subscribers access the internet via mobile phones and other mobile devices. Mobile data is likely to be a growth area for Safaricom as population and smartphone penetration increases. The heavy investment in infrastructure has led to superior quality thus despite its relatively high prices, Safaricom remains the preferred choice for most subscribers. Its market share marginally increased to 70% in June 2018 from 69% in March 2018. Mobile data margins are likely to decrease as increased competition from other service providers has forced Safaricom to reduce prices.

Fixed data: Safaricom has invested in its fixed data infrastructure and had a fixed footprint of 5,000 km as at the end of March. The uptake of this service has been encouraging and the opportunity of growth is high as the market is still underserved. Safaricom is currently the second largest provider with a market share of 21%.

Income Statement	2018	2019E	2020E	2021E	2022E	2023E
	Shs Mn	Sh Mn	Sh Mn	Sh Mn	Sh Mn	Sh Mn
Service revenue	224,535	257,687	294,538	336,738	384,940	440,068
Handsets and other revenues	8,980	9,048	9,410	9,786	10,178	10,585
Construction revenue	202	-	-	-	-	-
Total revenue	233,717	266,735	303,947	346,524	395,117	450,653
Other income	510	-	-	-	-	-
Direct costs	(70,555)	(80,020)	(88,753)	(98,413)	(109,052)	(120,775)
Construction costs	(202)	-	-	-	-	-
Other expenses	(50,636)	(56,281)	(64,133)	(73,117)	(83,370)	(95,088)
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	112,834	130,433	151,062	174,995	202,695	234,790
Depreciation of property, plant and equipment	(31,908)	(34,085)	(36,076)	(38,258)	(40,650)	(43,275)
Impairment of property, plant and equipment	-	(1,867)	(2,128)	(2,426)	(2,766)	(3,155)
Amortisation – Indefeasible Rights of Use (IRUs)	(301)	(340)	(317)	(294)	(344)	(320)
Amortisation and impairment – Intangible assets	(1,359)	(910)	(1,071)	(964)	(1,119)	(1,007)
Operating profit	79,266	93,230	111,471	133,053	157,816	187,033
Finance income	1,830	2,667	3,039	3,465	3,951	4,507
Finance costs	(1,197)	(3,099)	(3,256)	(3,326)	(3,357)	(3,371)
Fair value loss on investment property	-	-	-	-	-	-
Share of profit of associate	10	21	22	24	25	27
Asset Purchase Gain	-	-	-	-	-	-
Profit before income tax	79,909	92,819	111,277	133,216	158,435	188,195
Income tax expense	(24,620)	(27,846)	(33,383)	(39,965)	(47,531)	(56,459)
Profit for the year	55,289	64,973	77,894	93,251	110,905	131,737

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