

Safaricom Earnings Update

Safaricom released their FY19 results reporting a 14.7% increase in EPS. This growth was supported by a 7% rise in service revenue. Service revenue growth was buoyed by a 19.2% growth in M-Pesa revenue and a 6% rise in mobile data revenue. M-Pesa's contribution to total revenue increased while a decline in SMS and Voice ARPU's reduced the segments' revenue growth.

We expect M-Pesa to continue to be Safaricom's revenue driver as voice and SMS decline while mobile data's growth is likely to be negatively affected by increased competition.

- **Slower 2H19 for voice, SMS and mobile data:** Mobile data recorded a dismal 2.3% growth in 2H19, while SMS and voice revenues contracted during the period (-1.3% and -0.3% growth respectively). We attribute this to increased competition which led to loss of customers and forced Safaricom to lower prices.
- **M-Pesa revenue contribution increases to 31% of service revenue:** The growth was driven by a 26.9% growth in new business and 23.3% increase in P2P. There was an impressive 79% growth in international money transfers
- **Fuliza could be the next growth frontier for M-Pesa:** Fuliza has been well received in the market. KES 45 billion was transacted through Fuliza in the first 4 months of operation. We expect consumers to increase their usage of the product.
- **ARPU growth to be depressed by declining voice and SMS ARPU:** In FY2019, ARPU growth of 3.1% was lower than the total customer growth of 7.7%, mainly due to a decline in voice ARPU and reduced mobile data ARPU growth. The main driver for ARPU growth going forward is likely to be M-Pesa as revenues from voice and SMS are expected to continue to decline, while mobile data growth is likely to be subdued.

Date: 3rd May 2019

ROE: 46.6%

ROA: 34.7%

Dividend yield: 4.2%

52-week range: KES 21.00 to
KES 30.50

P/E: 18.70x

P/B: 8.27x

FY19 EPS: KES 1.58

Latest Results: FY2019

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Financials Statements

KES (Billions)	FY19(IFRS15)	FY19(IAS 18)	FY18(IAS 18)	% Change
Voice Revenue	95.8	95.94	95.64	0.3%
Mpesa Revenue	74.99	74.99	62.91	19.2%
SMS Revenue	19.61	17.5	17.72	-1.2%
Mobile Data Revenue	36.27	38.69	36.36	6.4%
Fixed Service Revenue	8.1	8.19	6.67	22.8%
Other Service Revenue	5	5	5.24	-4.6%
Service Revenue	239.77	240.3	224.54	7.0%
Total Revenue	250.28	250.96	234.22	7.1%
Direct Costs	-71.79	-71.82	-70.55	1.8%
Operating costs	-53.65	-53.65	-50.61	6.0%
EBITDA	124.3	124.94	112.83	10.7%
EBT	91.22	91.86	79.91	15.0%
TAX	-28.73	-28.46	-24.62	15.6%
PAT	62.49	63.4	55.29	14.7%
EPS	1.56	1.58	1.38	14.5%

Balance Sheet	FY19(IFRS15)	FY19(IAS 18)	FY18(IAS 18)	% Change
Non Current Assets	142.52	141.55	139.98	1%
Current Assets	49.96	47.88	27.46	74%
Current Liabilities	46.26	44.55	43.53	2%
Total Assets	192.48	189.43	167.44	13%
Shareholders Funds	144.35	143.24	123.91	16%
Non Current Liabilities	1.87	1.63	0	
Total Equity & Non current Liabilities	146.22	144.87	123.91	17%

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