

Safaricom: FY2020 Earnings Note

Safaricom announced their FY19 results, reporting a **19.5%** increase in profit after tax from **KES 62.49Bn** to **KES 74.70 Bn**. The completion of the acquisition of the M-Pesa brand led to a one-off exceptional gain worth KES 3.3 billion. Excluding this one-off gain, HEPS (Headline Earnings per Share excludes the accounting one-off gain from the acquisition of the M-Pesa brand) was up **14%** which was in line with our earnings expectations.

Key highlights

➤ **Reduced service revenue growth:** Service revenues grew by **4.8%** slightly lower than the **5.3%** growth recognized last year. The slowdown in growth was underpinned by the contraction of the betting industry during the year and adjusted for the depressed industry revenues grew **5.9%**.

➤ **M-Pesa drives service revenue growth.** M-Pesa revenues were up **12.6%** to **KES 84.4Bn**. Transfers and withdrawals increased by **14.6%** and **5.4%** respectively. The lion's share of growth (43.4% YoY), however, came from the New business stream which was driven by growth of Savings and lending.

➤ **Rebound in mobile data revenue growth.** Over the year, mobile data revenue grew **12.1%** supported by the rollout of non-expiry data bundles. Non-expiry data was well received by the market and it now accounts for 40% of mobile data revenues.

➤ **EBIT growths on the back of increased operating efficiencies:** Earnings Before Interest and Tax (EBIT) rose to KES 101Bn from KES 89Bn, representing a 13.5% increment. The growth in EBIT has been credited to a solid commercial performance and aided by a stronger focus on digitization and improvement in operating efficiencies as operating expenditures declined 4.9%.

April 29, 2020

Recommendation: BUY

Target Price: 32.8

Current Price: 27.55

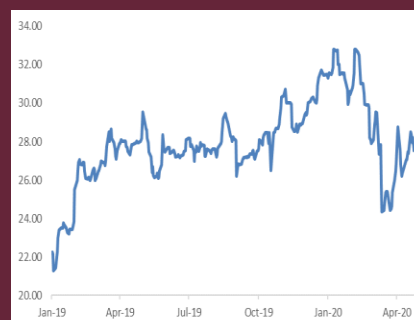
Upside/Downside: 16%

52 week range:

KES 24.35 to KES 32.80

Earnings Per Share: KES 1.86

Latest Results: FY2020, 74.7Bn



Analysts

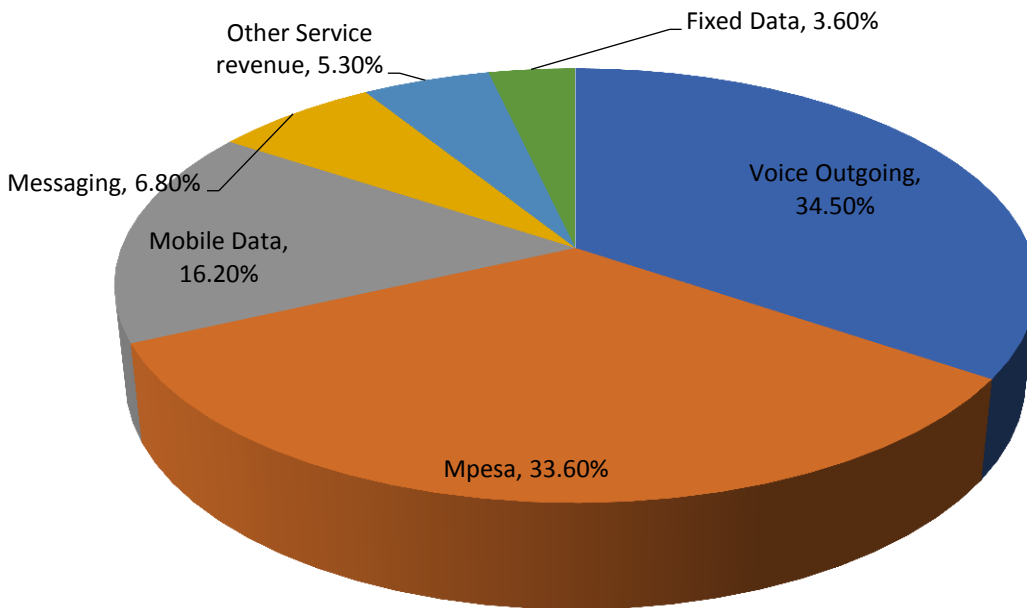
Sarah Wanga

wangas@aibcapital.com

(+254) 711047105

- **Increased connections drives fixed data revenue growth:** Safaricom's Fiber to the home (FTTH) grew 42.7% as homes connected increased by 31.9%. The segment presents an opportunity for growth, especially in the current environment where majority of Kenyans are working from home.
- **Capital investment leans towards expenditure in digital networks.** Safaricom continues to invest in digital infrastructure with digital CAPEX increasing 4.4%. Capex for the firm over the period reduced to KES 36.1Bn as CAPEX intensity declining to 13.8% reflecting an increased efficiency in the firm's investments.

Service Revenue Profile



Statement of Profit or Loss(KES Billions)	31-Mar-20	31-Mar-19	% Change
Service Revenue	251	240	4.78%
Handsets and Other revenue	10	9	10.90%
Construction revenue	0.58	0.60	-3.33%
Other Income	0.28	0.46	-39.13%
Total Revenue	263	250	4.91%
Direct costs	(74.70)	(71.80)	4.04%
Provision for expected credit loss on receivables.	(1.67)	0.01	>100%
Construction costs	(0.58)	(0.60)	-3.33%
Other Expenses	(50.97)	(53.59)	-4.89%
EBITDA	135	124	8.32%
Depreciation and amortization.	(34)	(35)	-4.84%
EBITDA	101	89	13.54%
Net Finance Income	3	2	14.29%
Share of profit of associate	0.06	0.01	>100%
Share of profit of joint venture	3.3	0	>100%
Profit before Income Tax	107	91	17.23%
Income tax expense	(32)	(29)	12.18%
Profit After Tax.	75	62	19.56%
Profit and total comprehensive for the year.	75	62	19.56%
Basic and Diluted EPS	1.86	1.56	19.23%
Dividend Per share	1.40	1.25	12.00%

Balance sheet	31-Dec-18	31-Dec-19	% Change
Non Current Assets	14,867	15,386	3.49%
Current Assets	166,737	175,329	5.15%
Current Liabilities	6,724	10,152	50.98%
Total Assets	288,522	315,290	9.28%
Shareholder Funds	5647	8005	41.76%
Non Current Liabilities	213,139	229,736	7.79%
Total Equity and Non-Current Liabilities	18,861	16,687	-11.53%

CONTACTS:

Research Desk

Sarah Wanga
wangas@aibcapital.com
(+254) 711047105

Keith Maru
maruk@aibcapital.com
(+254) 711047105

Equities Dealing

Bernard Kung'u
kungub@aibcapital.com
(+254) 711047108

Benard Gichuru
gichurub@aibcapital.com
(+254) 711047111

Brian Tanui
tanuib@aibcapital.com
(+254) 711047124

Bond Dealing

Crispus Otieno
otienoc@aibcapital.com
(+254) 711047113

Titus Marenye
marenyet@aibcapital.com
(+254) 7110471180

RESEARCH DISCLOSURE

Though utmost care has been taken in the preparation of this report, we do not guarantee the accuracy or completeness of the information contained herein nor will AIB Capital Ltd be held liable for the information contained herein.

The views expressed in this report are solely those of the Research Department and are subject to change without notice.

The information in this report is not an offer for the sale or purchase of any security. This document should only be considered a single factor used by investors in making their investment decisions.

This publication may not be distributed to the public media or quoted or used by the public media without prior and express written consent of AIB Capital Ltd.

NOTICE TO US INVESTORS

This report was prepared, approved, published and distributed by AIB Capital Limited Company located outside of the United States (a non-US Group Company). This report is distributed in the U.S. by LXM LLP USA, a U.S. registered broker-dealer, on behalf of AIB Capital Limited only to major U.S. institutional investors (as defined in Rule 15a-6 under the U.S. Securities Exchange Act of 1934 (the "Exchange Act")) pursuant to the exemption in Rule 15a-6 and any transaction effected by a U.S. customer in the securities described in this report must be effected through LXM LLP USA.

Neither the report nor any analyst who prepared or approved the report is subject to U.S. legal requirements or the Financial Industry Regulatory Authority, Inc. ("FINRA") or other regulatory requirements pertaining to research reports or research analysts. No non-US Group Company is registered as a broker-dealer under the Exchange Act or is a member of the Financial Industry Regulatory Authority, Inc. or any other U.S. self-regulatory organization.

Analyst Certification. Each of the analysts identified in this report certifies, with respect to the companies or securities that the individual analyses, that (1) the views expressed in this report reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly dependent on the specific recommendations or views expressed in this report. Please bear in mind that (i) AIB Capital Limited is the employer of the research analysts responsible for the content of this report and (ii) research analysts preparing this report are resident outside the United States and are not associated persons of any US regulated broker-dealer and that therefore the analysts are not subject to supervision by a US broker-dealer, and are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with US rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

Important US Regulatory Disclosures on Subject Companies. This material was produced by Analysis AIB Capital Limited solely for information purposes and for the use of the recipient. It is not to be reproduced under any circumstances and is not to be copied or made available to any person other than the recipient. It is distributed in the United States of America by LXM LLP USA and elsewhere in the world by AIB Capital Limited or an authorized affiliate of AIB Capital Limited. This document does not constitute an offer of, or an invitation by or on behalf of AIB Capital or its affiliates or any other company to any person, to buy or sell any security. The information contained herein has been obtained from published information and other sources, which AIB Capital Limited or its Affiliates consider to be reliable. None of AIB Capital Limited accepts any liability or responsibility whatsoever for the accuracy or completeness of any such information.

All estimates, expressions of opinion and other subjective judgments contained herein are made as of the date of this document. Emerging securities markets may be subject to risks significantly higher than more established markets. In particular, the political and economic environment, company practices and market prices and volumes may be subject to significant variations. The ability to assess such risks may also be limited due to significantly lower information quantity and quality. By accepting this document, you agree to be bound by all the foregoing provisions.

LXM LLP USA assumes responsibility for the research reports content in regards to research distributed in the U.S. LXM LLP USA or its affiliates has not managed or co-managed a public offering of securities for the subject company in the past 12 months, has not received compensation for investment banking services from the subject company in the past 12 months, does not expect to receive and does not intend to seek compensation for investment banking services from the subject company in the next 3 months. LXM LLP USA has never owned any class of equity securities of the subject company. There are not any other actual, material conflicts of interest of LXM LLP USA at the time of the publication of this research report. As of the publication of this report LXM LLP USA, does not make a market in the subject securities.