

Valuation Summary

- We recommend a LIGHTEN for the Safaricom stock with a target price of Kshs 16.6 representing an upside of 0.2 %, from the current price of Kshs 17.30 as at 13th May 2016, inclusive of a dividend yield of 4.2%
- Safaricom Limited is currently trading at a P/B of 2.9x and a P/E of 18.2x

Key highlights during the year

- Safaricom Limited maintained their market share at 64.7% as at December 2015
- Safaricom rolled out a new Regional Sales and Operations structure
- The company launched the “Hakikisha M-Pesa” name checking system to reduce erroneous transactions on M-Pesa
- Safaricom launched the 4G platform in 20 counties with smartphone users growing to 7.8 mn from 3.3 mn in FY'2015
- Safaricom has rolled out new innovations during the year, which include:
 - i. MTIBA - partnership to deliver healthcare tips via mobile with county governments
 - ii. M-AKIBA – increasing access to government bonds
 - iii. SHUPAVU 291- delivering education content via SMS

Financial Performance:

- Core earnings per share grew by 18.8% to Kshs 0.95 per share from Kshs 0.80 per share in FY'2015 driven by a 19.8% growth in total revenue outpacing operating expenses, which grew by 14.0%. EBITDA grew by 16.7% to Kshs 83.1 bn from Kshs 71.9 bn, with EBITDA margin expanding to 44.6% in FY'2016 from 43.6% in FY'2015
- Voice revenue grew by 3.9% to Kshs 90.8 bn in FY'2016 from Kshs 87.4 bn in FY'2015, driven by a 7.8% growth in the number of total customers to 25.2 mn from 23.4 mn in FY'2015. Despite this growth there was a decline in voice ARPU by 7.0% due to the impact of alternative data based platforms such as Whatsapp
- M-Pesa revenue was up 27.2%, slightly higher than our projected 22.6% growth to Kshs 41.5 bn from Kshs 32.6 bn FY'2015. This was supported by a 19.8% increase in M-Pesa customers to 16.6 mn and increase in usage with airtime top ups through M-Pesa increasing by 42.3%. M-Pesa revenue will remain on the same trajectory driven by the increase in number of users carrying out day to day business transactions on the medium as well as the increased sports betting culture that is reliant on M-Pesa money transfers
- Mshwari 30-day active users grew to 3.9 mn customers from 3.0 mn in FY'2015 with Kshs 8.1 bn being saved through the medium compared to Kshs 7.0 bn in loans disbursed. Given the difference in lending strategies employed by M-shwari and KCB M-Pesa, the KCB M-Pesa's active users grew to 0.7 mn with loans disbursed as at 31st March 2016 at Kshs 1.5 bn while deposits stood at Kshs 0.2 bn. Non-performing loans for Mshwari and KCB M-Pesa stood at 1.9% and 3.6%, respectively
- Total data revenue grew by 42.7% to Kshs 25.0 bn, compared to our projections to Kshs 21.2 bn, from Kshs 17.9 bn driven by a 21.5% growth in 30-day active users to 14.1 mn from 11.6 mn in FY'2015. Mobile data ARPU grew 18.2% to Kshs 130.0 from Kshs 110.0 driven largely by a 77.0% increase in active usage per customer on account of attractive bundle rates and a 128.0% growth in smartphone users to 7.8 mn. There was a 55.0% growth in smartphone penetration driven by the decrease in the price of 3G handsets as well as integration of 700,000 new 4G handsets since FY'2015
- Safaricom recommended a dividend per share of Kshs 0.76, a growth of 18.8% from a dividend per share of Kshs 0.64 in FY'2015, maintaining the target 80% payout ratio
- Return on Average Assets improved to 23.9% in FY'2016 from 20.3% in FY'2015 while Return on Equity increased to Kshs 32.6% in FY'2015 from 30.6% in FY'2015

Safaricom's strategy going forward will be driven by;

- i. Prioritising on improving customer experience by investing in additional call centres

- ii. Increased localization as the company subdivides the business into regions each with its own head to provide tailor-made regional promotions and offers with the strategy being driven forward by the new Regional Operations division
- iii. Using their Big-Data resource to capture key trends that will drive telecommunications in Kenya going forward so as to make tailor-made advertising for customers.

The company has provided target estimates for FY'2017; EBITDA and Capital expenditure to range between Kshs 89 bn – Kshs 92 bn and Kshs 32 bn – Kshs 33 bn, respectively.

Below is a summary of the key line items in the balance sheet and income statement

Figures in Kshs billions unless otherwise stated

Revenue Source	FY'2015	FY'2016	% Contribution to Total Revenue	y/y change	Number of active users (mn)
Voice	87.4	90.8	46.4%	3.9%	25.2
M-Pesa	32.6	41.5	21.2%	27.2%	16.6
SMS	15.7	17.3	8.9%	10.6%	15.2
Mobile data	14.8	21.2	10.8%	42.7%	14.1
Fixed service	3.1	3.8	2.0%	22.0%	
Other service	2.6	3.2	1.6%	20.9%	
Non service revenue	7.1	17.9	9.1%	151.8%	
Total Revenue	163.4	195.7	100.0%	19.8%	

Income Statement	Q1'2015	Q1'2016	y/y change	Q1'2016e	% y/y change	Variance in Growth Actual vs. Expected
Service revenue	156.3	177.8	13.8%	168.4	7.8%	6.0%
Non service revenue	7.1	17.9	151.8%	11.40	60.3%	91.5%
Total revenue	163.4	195.7	19.8%	179.8	10.1%	9.7%
Total Operating expenses	92.2	112.6	22.2%	98.0	6.3%	15.9%
EBITDA	71.2	83.1	16.7%	81.8	14.9%	1.8%
Profit after tax	31.9	38.1	19.5%	33.2	4.1%	15.5%

Key Ratios	FY'2015	FY'2016	y/y change
EBITDA Margin	43.4%	44.51%	2.5%
Return on average equity	30.6%	32.6%	6.8%
Return on average assets	20.3%	23.9%	17.9%

Balance Sheet	Q1'2015	Q1'2016	y/y change	Q1'2016e	% y/y change	Variance in Growth Actual vs. Expected
Equity	104.3	116.7	11.9%	111.8	7.2%	4.7%
Non-Current assets	124.4	129.2	3.9%	124.9	0.4%	3.5%
Current assets	32.6	29.9	-8.1%	26.6	-18.5%	10.4%
Inventories	8.3	0.8	-90.1%	1.7	-79.4%	-10.7%
Current liabilities	52.2	42.4	-18.7%	38.5	-26.1%	7.5%