

### **Valuation Summary**

- We recommend a SELL for the Safaricom stock with a target price of Kshs 16.6, representing a downside of 12.7%, from the current price of Kshs 21.25, as at 4<sup>th</sup> November 2016, inclusive of a dividend yield of 3.4%
- Safaricom Limited is currently trading at a P/E of 22.5x

### **Key highlights during the year**

- Safaricom Limited registered a slight decline in their market share to 65.2% as at June 2016 from 67.0% in June 2015
- Launched the “Hakikisha M-Pesa” name checking system to reduce erroneous transactions on M-Pesa
- Safaricom launched the 4G platform in 20 counties with over 600 sites currently running on 4G
- Safaricom reviewed charges for person-to-person and Lipa Na M-Pesa transactions. Introduced M-Pesa Kadogo, where it will be free to send values of Kshs 100 and below
- Safaricom has rolled out new innovations during the year, which include:
  - i. MTIBA - partnership to deliver healthcare tips via mobile Partnership
  - ii. M-AKIBA – increasing access to government bonds
  - iii. SHUPAVU 291- delivering education content via SMS

### **Financial Performance:**

- Core earnings per share grew by 13.8% to Kshs 0.51 per share from Kshs 0.45 per share in H'2016. Performance was driven by a 14.9% growth in operating revenue that outpaced growth in operating expenses, which grew by 10.9%
- Voice revenue grew by 1.1% to Kshs 45.7 bn in H1'2017 from Kshs 45.2 bn in H1'2016, while messaging revenue grew 8.1% y/y to Kshs 8.6 bn from Kshs 8.0 bn. Despite a 6.0% y/y growth in the number of total customers to 26.6 mn from 25.1 mn in H1'2016, voice monthly average revenue per user (ARPU), declined 5.6% to Kshs 294 per user from Kshs 311.4 per user, indicating that the traditional revenue streams are not benefitting as much from the increasing customer base
- M-Pesa revenue rose 33.7% to Kshs 25.9 bn from Kshs 19.4 bn in H1'2016. This was supported by the growth in M-Pesa customers by 12.2% to 24.8 mn, and an increase in activity as measured by active users in the last 30-days by 12.2% to 17.6 mn customers from 15.7 mn in H1'2016
- In our view, M-Pesa revenue will remain on the same growth trajectory driven by the increase in number of enterprises adopting the cashless platform, Lipa na M-Pesa. The number of businesses using this platform has attained the 50,000 mark
- Mobile data revenue grew by 46.3% y/y to Kshs 13.4 bn from Kshs 9.2 bn driven by a 44% y/y increase in mobile data usage per customer to 231 MBs. The number of 30-day active mobile data customers increased 13.7% to 14.9 mn from 13.1 mn in H1'2016. This led to a 21% increase in the mobile data ARPU to Kshs 144
- There was a 38.5% growth in bundle users to 7.4 mn customers after the introduction of the ‘My Data Manager’, a functionality that gives customers control of their browsing using Safaricom data bundles. Growth in data bundle usage has also been boosted by the number of customers on 3G and 4G enabled devices, which currently stands at 10.5 mn devices
- EBITDA grew by 22.2% to Kshs 47.5 bn from Kshs 38.8 bn, with EBITDA margin expanding to 46.5% in H1'2017 from 43.8% in HY'2016
- Return on Average Assets improved to 21.6% in H1'2017 from 20.3% in H1'2016 while Return on Equity increased to Kshs 48.9% in H1'2017 from 30.6% in H1'2016
- The board of directors did not recommend payment of interim dividend

Safaricom's strategy going forward will be driven by;

- i. Investing in their network to enhance capacity, coverage and quality, including the rolling out of 4G network to additional sites
- ii. Prioritising on improving customer experience by investing in additional call centres
- iii. 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

- iv. 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 updated their target estimates for FY'2017;

- EBITDA to range between Kshs 94-97 bn from Kshs 89-92 bn
- Capital expenditure to range between Kshs 34 bn – Kshs 35 bn from Kshs 32 bn – Kshs 33 bn

**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	H1'2016 (bns)	H1'2017 (bns)	% Contribution to Total Revenue	y/y change	Number of active users (mn)
Voice	45.2	45.7	44.8%	1.1%	21.0
M-Pesa	19.4	25.9	25.3%	33.7%	17.6
Mobile data	9.2	13.4	13.1%	46.3%	14.9
Messaging	8.0	8.6	8.5%	8.1%	15.2
Fixed service	1.9	2.4	2.4%	29.0%	
Other service	1.4	2.0	2.0%	46.7%	
Non-service revenue	3.9	4.0	3.9%	3.6%	
Operating Revenue	88.8	102.0	100.0%	14.9%	

Income Statement	H1'2016 (bns)	H1'2017 (bns)	y/y change
Service revenue	84.9	98.0	15.4%
Non-service revenue	3.9	4.0	3.9%
Operating revenue	88.8	102.0	14.9%
Total Operating expenses	49.2	54.6	10.9%
EBITDA	38.8	47.5	22.2%
Profit after tax	20.6	18.1	13.8%

Key Ratios	H1'2016	H1'2017	y/y change
EBITDA Margin	43.8%	46.5%	2.7%
Return on average equity	30.6%	48.9%	18.3%
Return on average assets	20.3%	21.6%	1.3%

Balance Sheet	H1'2016	H1'2017	y/y change
Equity	96.7	82.9	(14.3%)
Non-Current assets	131.1	135.1	3.1%
Current assets	44.6	68.8	54.3%
Current liabilities	78.7	120.9	53.6%