

Safaricom Plc FY20 Earnings Update

Overall Financial Performance

- Safaricom PLC has released its financial results FY20 reporting a 13.5% growth in Earnings Before Interest and Taxation (EBIT) to KES.101Bn and 19.5% in Profit After Tax (PAT) to KES.74.7Bn.
- Actual FY20 EBIT and PAT fell above our 11.7% (KES.99.4Bn) and 15.4% (KES.72.1Bn) expectations.
- Earnings Per Share (EPS) reported is KES.1.84 against our KES.1.80 estimate while the Dividend Per Share (DPS) is KES.1.40 against our expectations of KES.1.44.
- Total Service Revenue grew 4.8% to KES.251.2Bn (our estimate - KES.251.1Bn) driven largely by the strong performance of M-Pesa (+12.6%), mobile data (+12.1%) and Fixed Data (+10.7%).
- Total Revenue stood at KES.262.6Bn a 4.9% increase over FY2019 slightly higher than our KES.262Bn estimate.
- PAT was boosted by KES.3.3Bn, one off share of profit gain from the acquisition of M-Pesa brand.
- With regards to Operating Expenses (Opex), the company reported a 4.9% decline over FY19 to KES.51Bn, the first decline in its history over the previous year which fell below our estimated 1.5% decline to KES.52.8Bn.
- Capital Expenditure (Capex) stood at KES.36.1Bn a 3.1% decline from FY2019 compared to our estimate of KES.38.8Bn with a bulk of this used on radio access (45%) and digital (18.6%).
- Overall, FY20 performance was largely in line with our expectations with a few surprises such as the strong performance of mobile data in spite of stiff price competition and operating expenses which fell by a bigger margin than initially expected.

Voice calls & SMS

- Total voice revenue stood at KES.94.5Bn outperforming our KES.93.4Bn estimate and translating to a 1.4% decline over FY19.
- Voice contributed 37.6% of total service revenue down from 40.0% the previous year.
- SMS revenues fell 12.3% over FY19 (KES19.6Bn) to KES.17.2Bn in line with our expectation KES.17.3Bn with the service line contributing 6.8% of total service revenue from 8.2% the preceding year.
- The decline in Voice and SMS was mostly driven by competition from other service providers, migration of customers to newer technologies and corrective action taken to make it easier for customers to manage their premium rates.

M-Pesa

- M-Pesa FY20 revenues came below our 17.4% growth estimate at 12.6% to KES.84.4Bn.
- The slowdown in growth is largely attributed to decline in gaming revenues following the exit of the two largest players (as a result of regulatory requirements and tax disputes).
- One-month active M-Pesa ARPU grew marginally by 1.6% to KES.294.7 while the 30-Day active M-Pesa subscribers rose 10.0% to 24.9Mn.

- Volume and value of M-Pesa transactions rose 7.8% and 18.4% to 8.9Bn and KES.13.9Tn respectively.
- M-Pesa now accounts for 33.6% of service revenues up from 31.3% FY19.

Mobile & Fixed Data

- **Mobile Data** FY20 revenues returned to double digit growth (+12.1% over FY19) to stand at KES.40.7Bn (KES.36.3Bn FY19), outperforming our expectation of KES.37.7Bn.
- The service line had recorded a modest 4% growth HY20.
- Contribution to total service revenue FY20 increased to 16.2% from 15.1% FY19.
- Growth was mainly driven by a 28.3% reduction in the effective rate per MB, introduction of bundles without expiry, increased smartphone penetration and usage, all resulting in an increase in average customer data usage to above 1GB per month.
- One-month active mobile data customers increased to 22Mn a 14.2% growth over FY19 (19.3Mn).
- Average Revenue Per User (ARPU) grew by 5.1% over the previous year to stand at KES.179.7.
- **Fixed Data** revenue registered a 10.7% growth to KES.9Bn (KES.8.1Bn FY19), this lower than our KES.9.5Bn estimate.
- Fixed data contributed 3.6% to total service revenue compared to 3.4% the previous year.
- Increased penetration and activity of fiber to the home (FTTH) connections (+42.7%) drove 60% of the growth in fixed data revenues in the period.

Financial and business performance outlook FY21

- The country is operating under uncertain times due to COVID-19 which we expected to slow down economic activity, household consumption and disposable incomes, all having a negative impact on the company's overall performance which might be hard to quantify at this point in time.
- Our FY21 total revenue estimate is KES.263.4Bn supported by strong performance by M-Pesa and the data businesses.
- M-Pesa revenues could account for the bulk of total service revenues FY21 replacing voice calls revenues in spite of the temporarily negative impact of fee waivers.
- As we highlighted in our FY20 earnings expectations report titled "**Dropped calls but M-Pesa holds steady**", we are wary of the threat presented by the merger of Airtel and Telkom Kenya particularly on voice call and mobile data revenues.
- SMS revenues will fall further on account of rising use of over the top (OTT) services and a reduction of P2P messaging due to the COVID-19 pandemic that has seen disposable incomes fall.
- New emerging business opportunities such as E-Government services and increased data consumption due to the COVID-19 pandemic will drive both mobile and fixed data (note the competitive intensity increasing in the latter).
- We expect strong fixed service revenue growth FY21 due to growth in connections due to the work/stay at home directive and the double bandwidth at no extra cost offer to home fiber customers for a period of 90 days.

- A big area of focus for the company will be operational cost management as the top line comes under pressure.
- Regional expansion into Ethiopia is still within sights FY21 but this could be delayed due to regulation.
- With regards to top management we are confident that Peter Ndegwa has both the expertise and experience to run the company in what we expect to be a more challenging operating and business environment than FY20.
- On the basis of FY20 results, **we maintain our HOLD position with the unchanged fair value estimate of KES.31.05.**

Attached, please find Safaricom Plc audited financial performance results FY20



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