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STERLING CAPITAL LIMITED

Safaricom group taps KES.55Bn loan for Ethiopia entry

- Safaricom and its partners have signed an agreement to borrow up to US\$500Mn (KES.55.7Bn) from US International Development Finance Corporation (DFC) to fund expansion into Ethiopia's telecommunications market.
- The joint venture, Global Partnership for Ethiopia, comprising of Safaricom, Vodafone Group Plc and Vodacom Group Limited are bidding for one of two telecommunications licenses being auctioned in that country.
- The financial investment in Ethiopia is expected to top the US\$1Bn (KES.111Bn) mark with the DFC loan deal seen as part of the project's fundraising efforts.
- The project is expected to have a highly developmental impact through the creation of a new private telecommunications network that will increase connectivity in Ethiopia while utilizing trusted technology.
- Safaricom is ready to take more debt in its role as the majority shareholder of the consortium with a 51% stake.
- Vodacom has a 5% interest in the joint venture with the rest of the ownership spread among unnamed strategic financial investors.
- DFC's loans typically mature between 5-25 years, with repayment schedules set on quarterly or semi-annual basis whereas the interest rate is a negotiated spread over the base-cost of funds.
- Safaricom sees Ethiopia presenting significant growth opportunities with its high population and relatively lower uptake of mobile and broadband services.
- The auction of the telecoms licenses for the potential Ethiopian entry is anticipated in February or March next year.
- The Ethiopian government is also disposing of a minority stake in Ethio Telecom which has a monopoly in that market.

Our View

- **The strategic tapping into the Ethiopian market would likely provide a new income stream for Safaricom if it succeeds in acquiring the license.**
- The Kenyan market currently nears saturation indicated by a slow growth in the telco's revenues over the last two years. Entry into Ethiopia would therefore be a well calculated move.
- Ethiopia's mobile banking can generate as much as KES.1.34Tn (US\$13Bn) by 2025 according to a study by Ethio Telecom. The acquisition would be a great opportunity for Safaricom as part of its strategy to take the telco to the next level of growth.
- A partnership with Ethio telecom would provide a cheaper market entry option considering the high licensing fees for foreign companies estimated at US\$1Bn as well as other business set up costs.
- Besides competition from global telco's such as MTN, Orange, Etisalat, Saudi Telecom Company and Telkom SA, Safaricom has a strong cash position that would enable it to implement the infrastructure and diversify its revenues.