Safaricom HY25 Earnings Note

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Summary

Source: Bloomberg

Last Price – 5th December 2024 in KES	15.95
Valuation Estimate in KES :	19.00
Upside	19.10%
Recommendation	**HOLD**
52-Week High	21.15
52-Week Low	12.95
52-Week Price Return	21.10%
Year-to-Date Price Return	18.0%
Price to Earnings Ratio (P/E)	11.71
Price to Book Ratio (P/B)	4.29
Earnings per share	0.70
Dividend yield	4.1%

Source: Bloomberg and Faida Analysis

We recommend a Hold on Safaricom with a fair value estimate of KES 19.00 representing a potential 19.10% upside on the 5th November closing price of KES 15.95.

We anticipate that the group's growth will be driven by the continued expansion of M-Pesa revenue, supported by sustained contributions from legacy voice and messaging streams. Additionally, the strategic entry into Ethiopia provides a significant diversification opportunity, strengthening the company's revenue base and enhancing its long-term stability..

Group Revenue

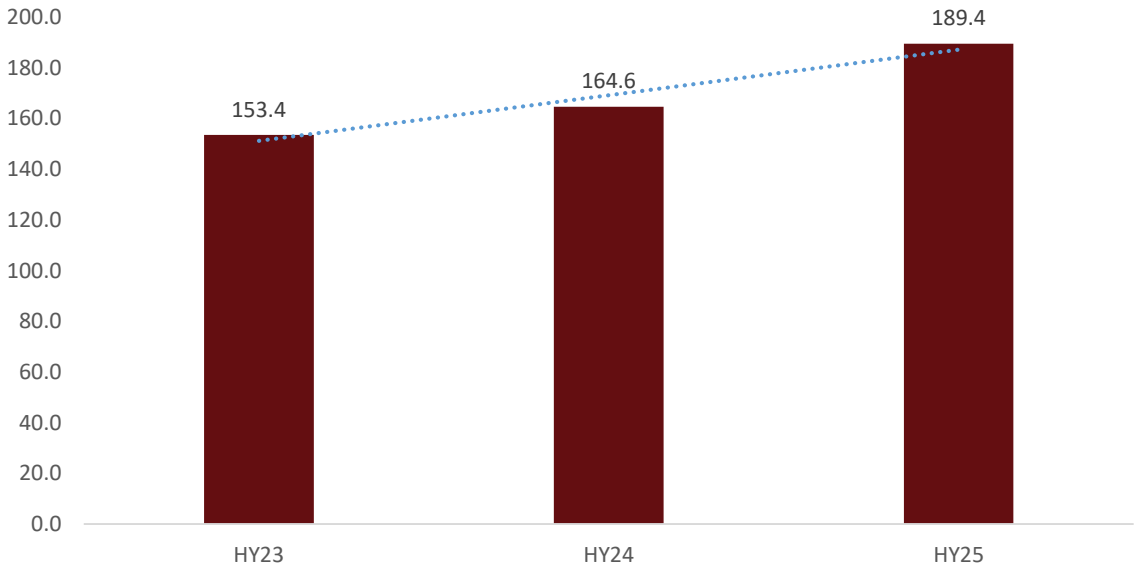
Group total revenue rose significantly by 15.1% in HY'25, reaching KES 189.4 billion, up from KES 164.6 billion in HY'24..

This growth was primarily driven by a solid 13.1% increase in service revenue, contributing an additional KES 20.8 billion compared to the same period last year.

Mobile service revenue came in at KES 171.6 billion up from KES 151.8 billion rising by 13.1% or KES 19.9 billion.

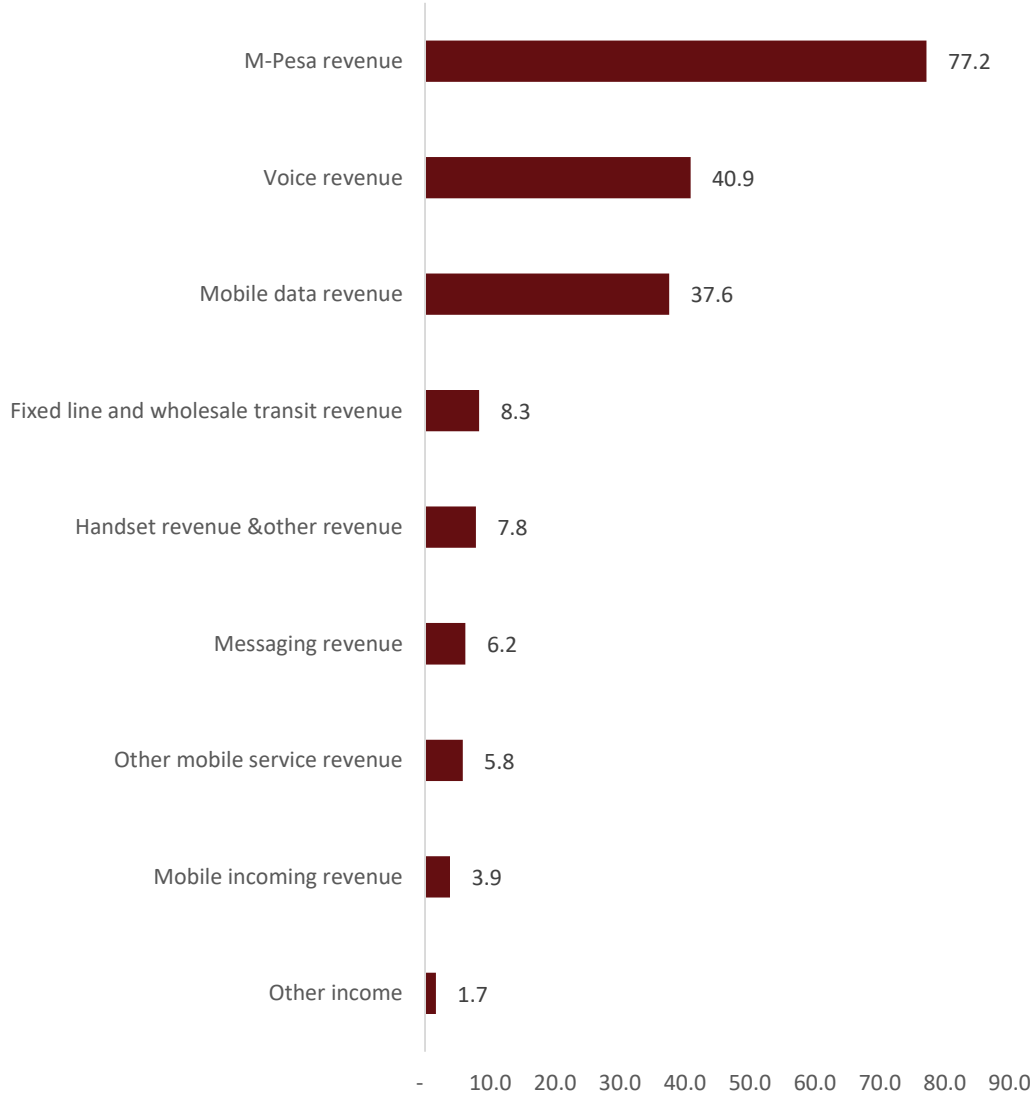
Service revenue accounted for KES 179.9 billion, an increase from KES 159.1 billion recorded in HY24(+13.1%)

Revenue Growth Trend (KES billions)



Source: Company Financials

Composition of Total Revenue(KES billions)



Source: Company Financials

Service Revenue

Service Revenue climbed by 13.1% to KES 179.9 billion up from KES 159.1 billion on the back of strong growth in M-Pesa revenue.

M-Pesa jumped by a robust KES 11.0 billion to KES 77.2 billion in HY25 from KES 66.2 billion in HY24 driven by 13.1% YoY growth in Average Revenue Per User (ARPU) to KES 389.27. Chargeable transactions per one month for active customers increased by 25.6% YoY to 37.37. One-month active customers grew by 4.1% to 33.46Mn while M-PESA agents rose by 2.4% YoY to 266.1k.

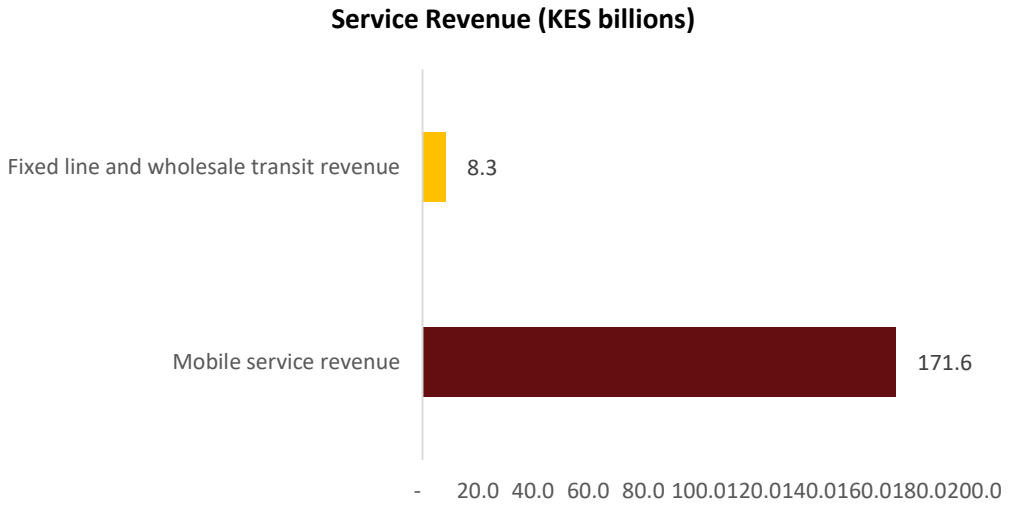
Mobile Data accounted for KES 37.6 billion , an **uptick of 21.5%** or KES 6.7 billion(HY24: KES 31.0 billion)

Messaging revenue also increased to KES 6.2 billion from KES 5.8 billion, rising by KES 462.8 million(+8.0%), while Voice Revenue climbed by 4.5% to KES 40.9 billion from KES 39.1 billion.

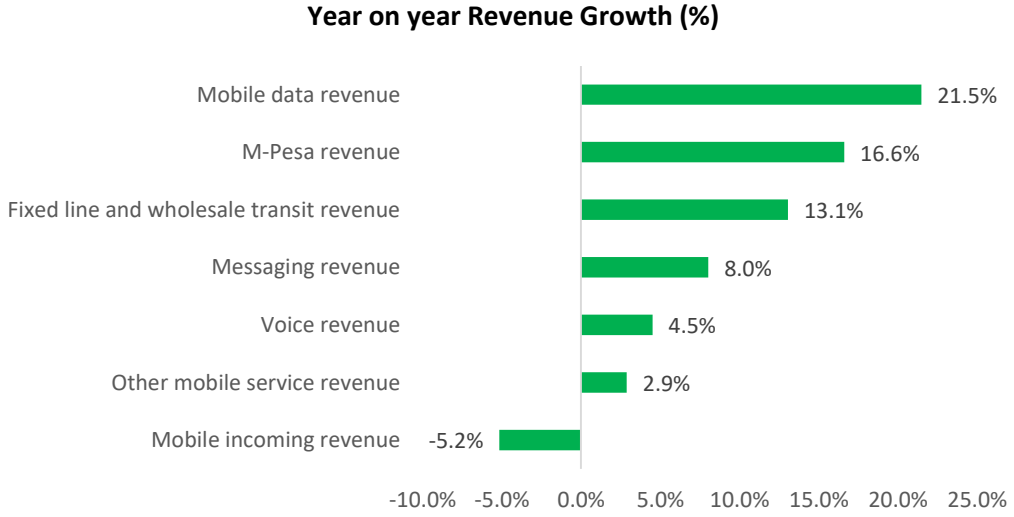
Expansion in Voice and Messaging revenue was driven by increased usage with minutes of use per subscriber rising 7.6% YoY to 198.31 while customers grew 10.6% to 28.5 million

This brings Mobile Service revenue to KES 171.6 billion. Fixed line and wholesale transit revenue brought in KES 8.3 billion from KES 7.3 billion in HY25.

Other income increased by a modest 2.6% to KES 1.7 billion up from KES 1.6 billion.



Source: Company Financials



Source: Company Financials

M-pesa Overview

M-Pesa accounted for 40.8% of Safaricom PLC's total revenue in HY25, this is equivalent to KES 77.2 billion, an improvement from HY24's KES 66.2 billion(+16.6% YoY) .

As earlier mentioned, this was driven by **13.1% YoY growth in ARPU** to KES 389.3. Chargeable transactions per one-month active customers increased by 25.6% YoY to 37.37.

One-month active customers grew by 4.1% to 33.46Mn while M-PESA agents rose by 2.4% YoY to 266.07k.

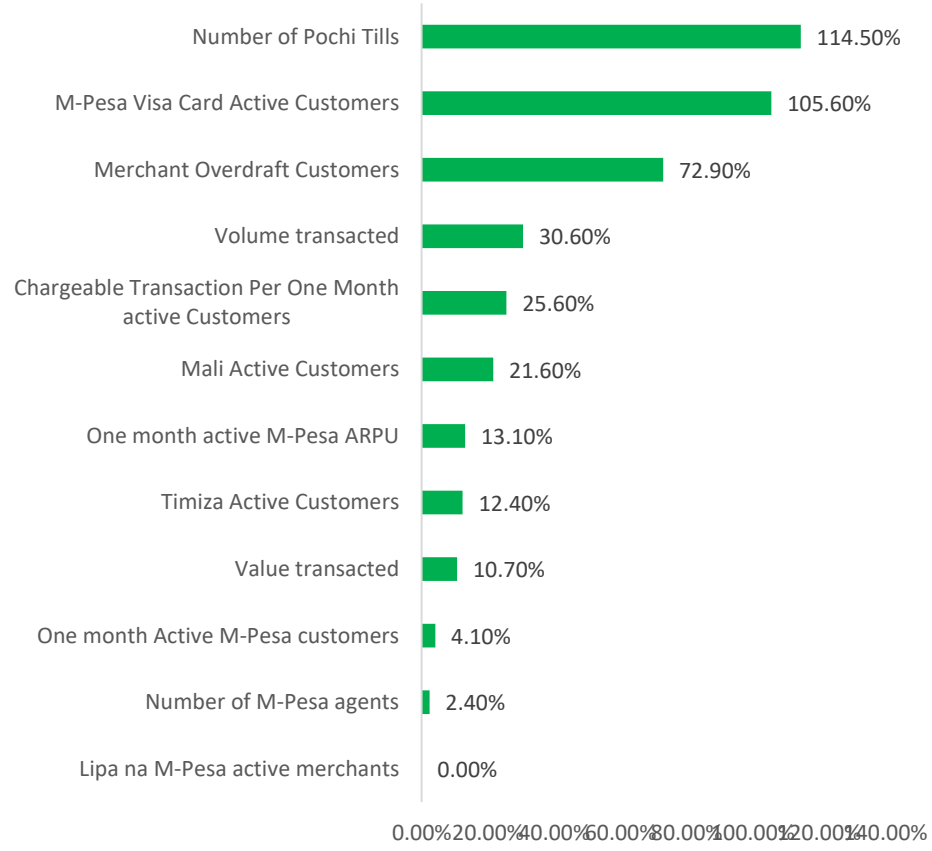
Great performance was seen in Pochi la Biashara and Merchant overdraft products ,some of Safaricom's newest products.

The number of Pochi tills more than doubled to 869.0k while merchant overdraft customers grew 72.9% YoY to 52.3k. Total M-PESA transaction value rose 10.7% YoY to KES 20.6 trillion while volumes grew 30.6% YoY to 17.1 billion.

Over to Ethiopia, M-Pesa closed the half year at KES 24.4 million in revenue with 8.3 million registered customers. Active M-Pesa agents stood at 3.2k while active Lipa na M-pesa merchants increased to 6.7k

Value transacted saw a surge rising by 375.7% to KES 11.0 billion in HY25 from KES 2.3 billion in HY24.Similarly, Volume transacted bulged from 2.0 million to 86.5 million.

M-Pesa KPIs Year-on-Year Growth(%)-Kenyan business



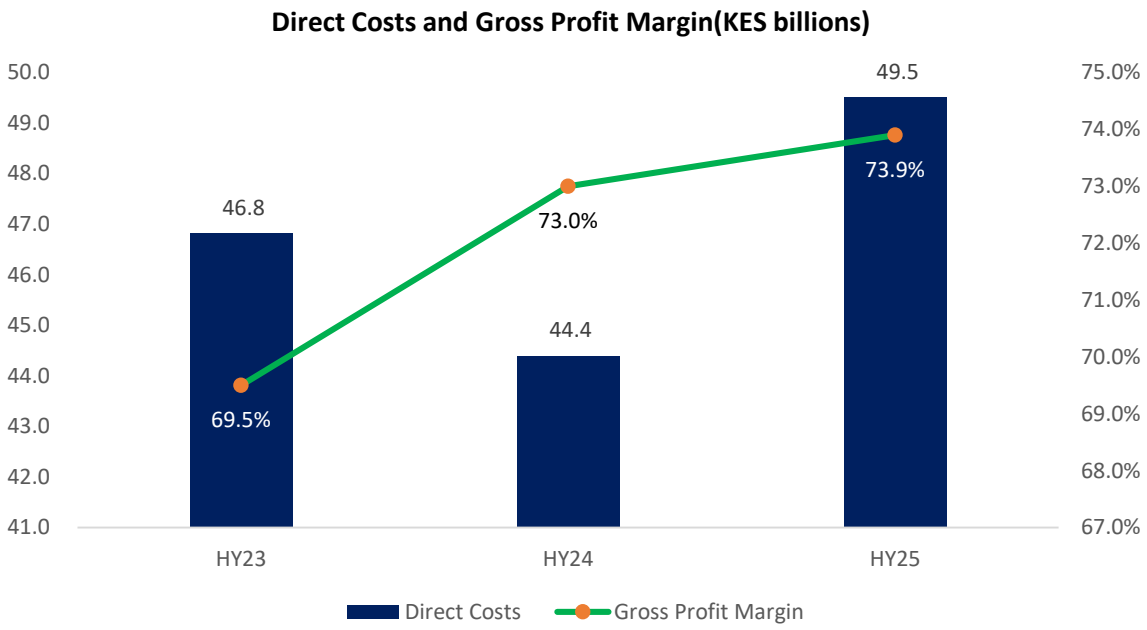
Source: Company Financials

Revenue to EBITDA

Direct costs ticked upwards by 11.5% to KES 49.5 billion in HY25 from KES 44.4 billion in HY24. The main driver of Direct Costs is M-Pesa commissions which accounts for KES 18.5 billion closely followed by License fees at KES 3.9 billion.

Expected credit losses on financial assets **escalated by 63.7%** to close at KES 4.6 billion from KES 2.8 billion

Other operating expenses followed suit rising by 59.6% to KES 60.2 billion up from KES 37.7 billion.



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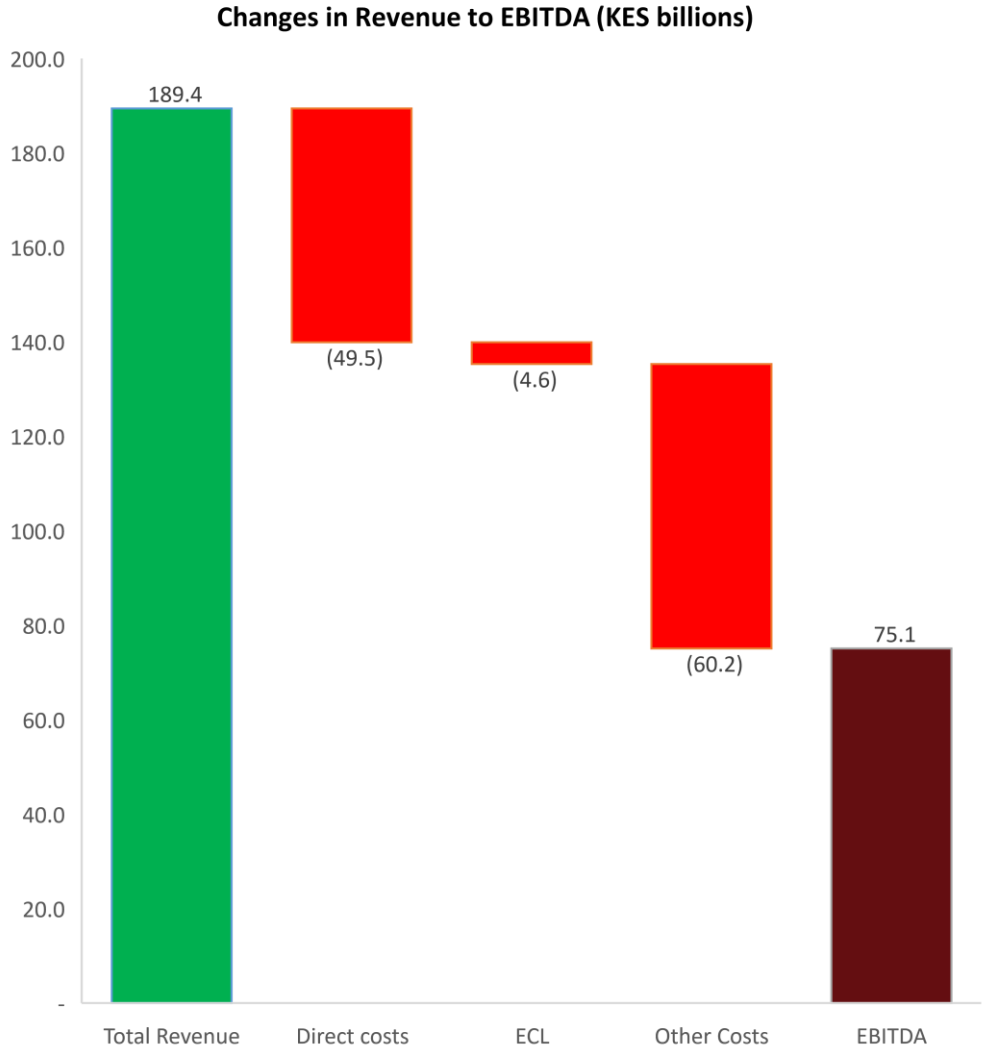


Source: Company Financials

*ECL-Expected Credit Losses

Earnings and Profitability

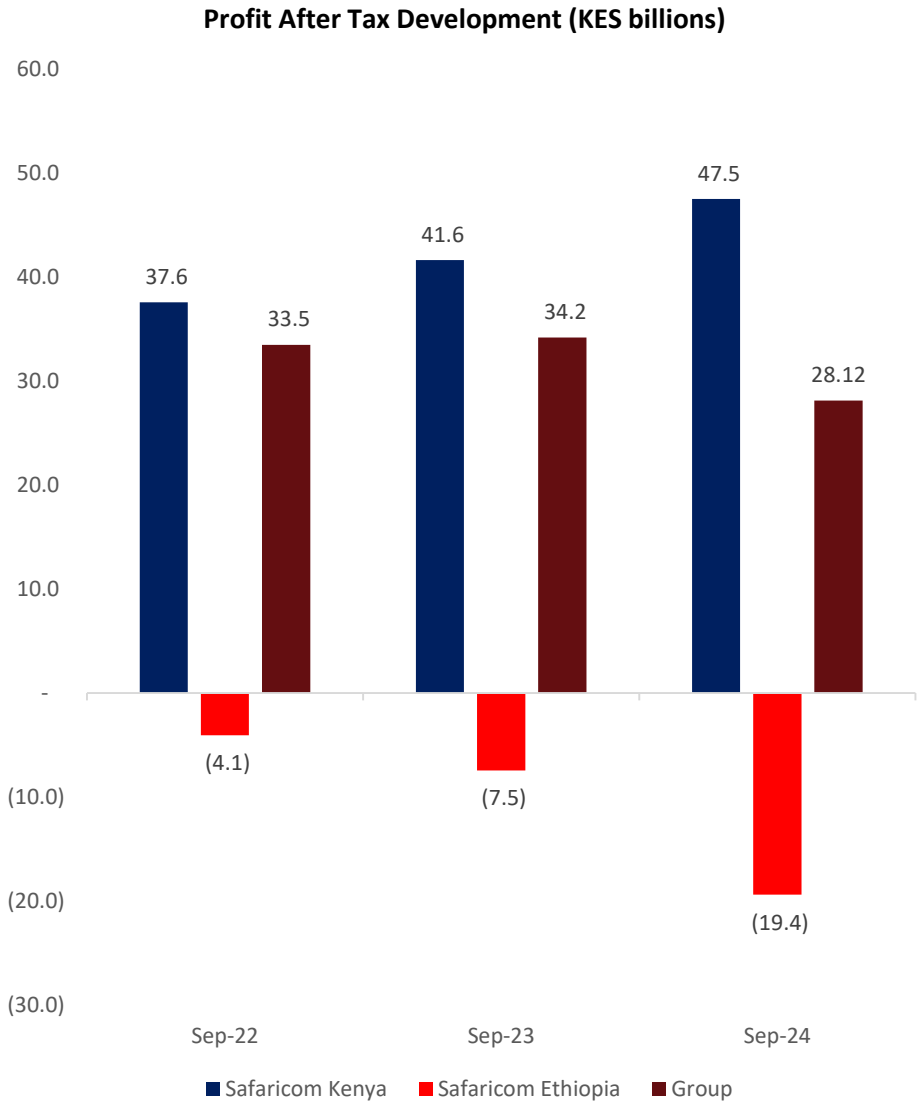
Group profitability declined significantly by 17.7% or KES 6.0 billion, falling to KES 28.1 billion from KES 34.2 billion in the prior year.

This sharp reduction in profit after tax primarily reflects the impact of a KES 19.4 billion net loss from the Ethiopian subsidiary, which substantially offset the KES 47.5 billion profit generated by Safaricom Kenya(14.1% year-on-year growth).

Earnings Before Interest and Taxes(EBIT) climbed by a modest 1.8% to KES 42.2 billion from KES 41.4 billion recorded in HY24.

The Group also booked a Hyper-Inflationary Monetary Gain in HY25 of KES 3.4 billion down from KES 13.0 billion as a result of the application of IAS 29 (Financial Reporting in Hyperinflationary Economies) in Ethiopia for the Ethiopian subsidiary.Inflation has steadily dropped from 29.4% seen in January 2024 to 16.1% as of October 2024.

The Basic and Diluted Earnings per Share (EPS) dipped to KES 0.70 from KES 0.85.



Source: Company Financials

Safaricom Ethiopia Topline

Over to Ethiopia, total revenue closed at KES 2.8 billion in HY25 down from KES 2.9 billion(-1.5%) recorded in the previous year. Of this **Mobile Data revenue accounts for 71.7% of total revenue and 77.9% of service revenue.**

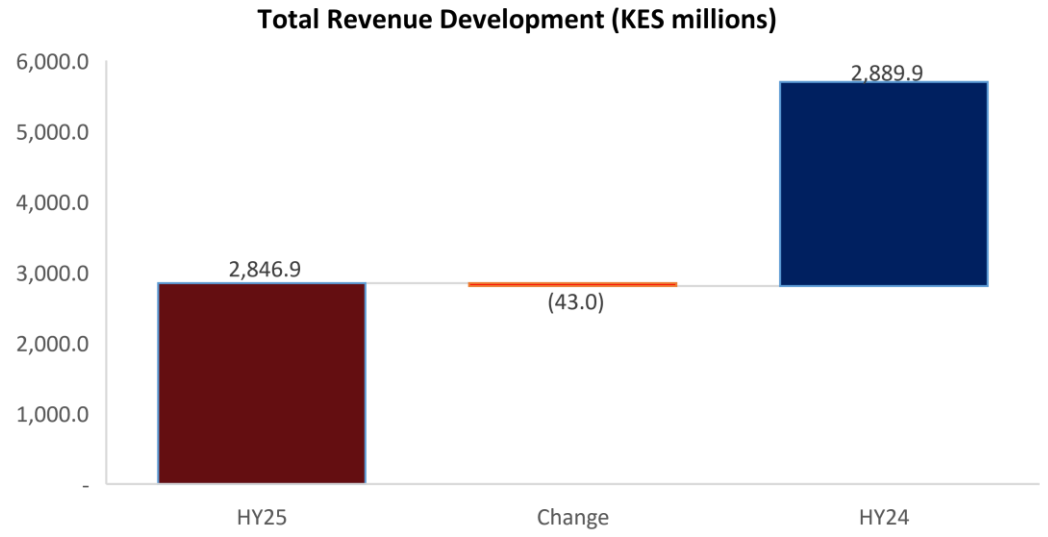
Voice Revenue took a 24.7% hit dropping by KES 104.6 million to KES while Messaging revenue showed strong double-digit growth, advancing by 25.2% to KES 23.9 million from KES 19.1 million(+KES 4.8 million)

Mobile data revenue demonstrated robust momentum, increasing by KES 677.6 million to reach KES 2.0 billion, up from KES 1.4 billion in HY25(+49.7%)

Meanwhile, **M-Pesa revenue surged by an impressive 122.3%,** more than doubling to KES 16.0 million from KES 7.2 million in the same period last year**. M-Pesa revenue accounts for only 0.6% of total revenue.**

This brings Mobile Service revenue to KES 2.6 billion, reflecting a solid 31.7% increase from KES 2.0 billion in the previous year. Including revenue from Fixed Line and Wholesale Transit, Total Service Revenue now stands at KES 2.6 billion, up from KES 2.0 billion last year.

The Ethiopian market has shown distinct characteristics, with customers leaning more towards mobile data usage, unlike in Kenya, where M-Pesa is the dominant revenue driver, contributing 40.8% of total revenue. In contrast, mobile data takes third place in Kenya, accounting for 19.8% of the total revenue. This divergence highlights different consumer behavior patterns between the two markets.



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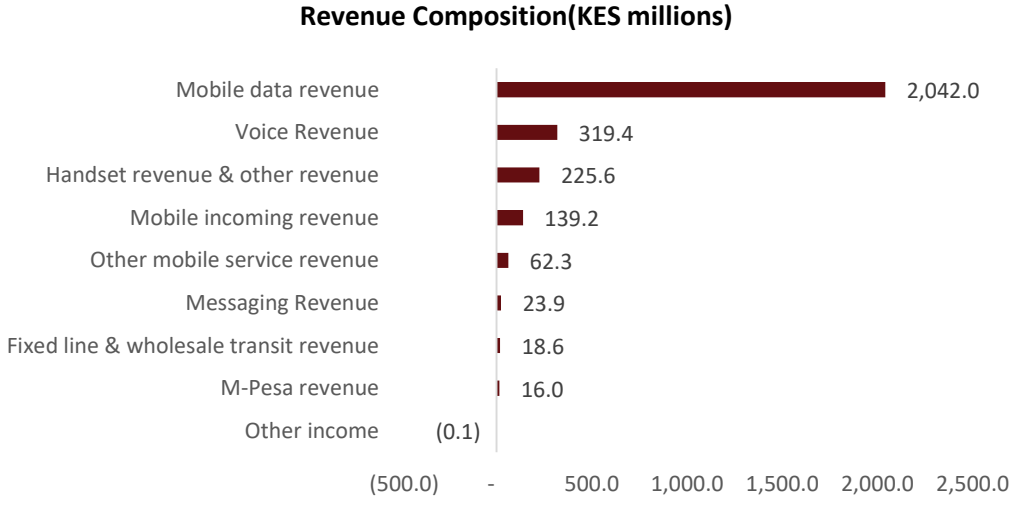


Source: Company Financials

Safaricom Ethiopia

Direct costs dropped by 38.8% to KES 1.9 billion from KES 3.2 billion in HY25 while provision for expected credit losses expanded from KES 0.3 million to KES 27.8 million.

Operating costs surged 175.0% during the period, closing at KES 28.8 billion up from KES 10.5 billion in HY25.

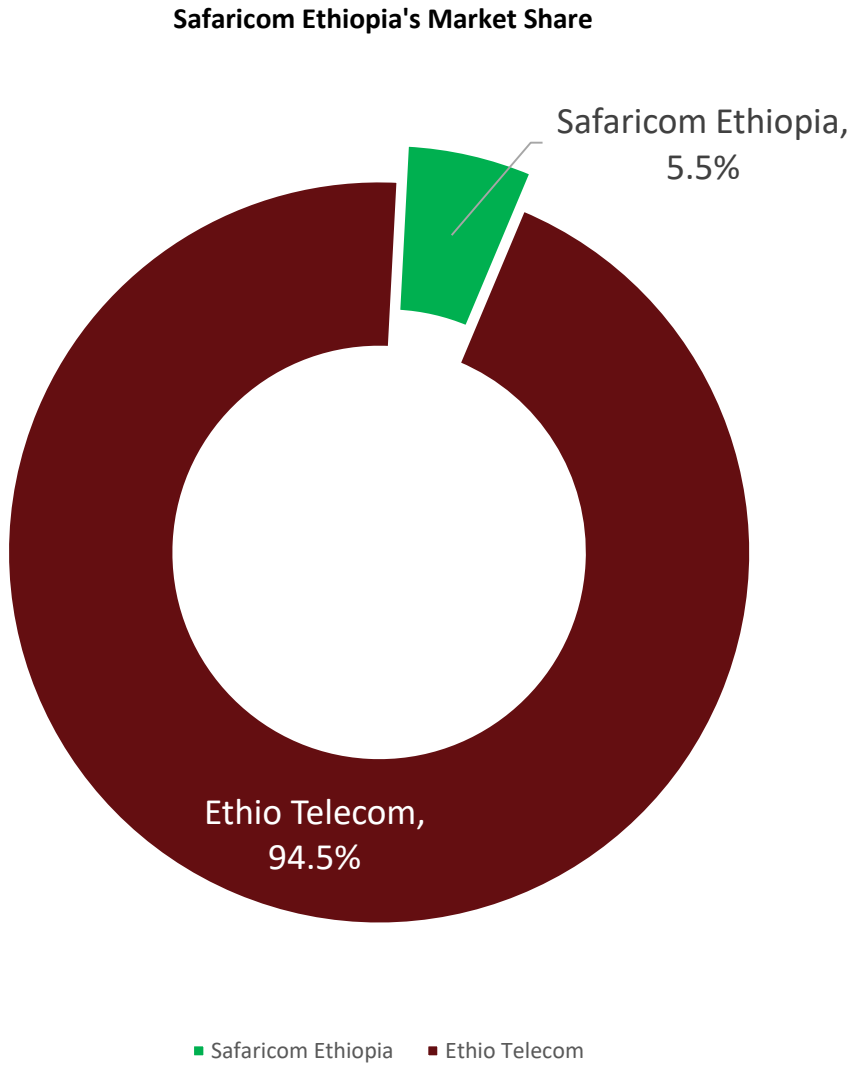
The company reported a loss of KES 19.4 billion for the year, a substantial increase of 159.9% compared to the prior year's loss of KES 14.4 billion.

This performance is on account of the 106.0% depreciation of the Ethiopian Birr since the Ethiopian Central Bank implemented a floating exchange rate regime. The Birr's value against the US dollar was at 119.0 on September 30th, 2024, from 57.7 in June 2024.

This sharp depreciation has led to considerable revaluation losses on foreign-denominated monetary assets and liabilities, notably affecting the company's lease liabilities and its loan with the International Finance Corporation (IFC).**The total FX impact stands at KES 17.5 billion.**

Following the currency reforms, the anticipated break-even point has been deferred by one year, moving from 2026 to 2027.

Quite notably, **Safaricom's network covers 46.0% of the population and are working to meet the license obligation of 55.0% cover by June 202**5.The subsidiary has so far secured 5.5% of the country's telecommunications market, growing its subscriber base to 4.6 million within 22 months of operation.



Source: Company Financials

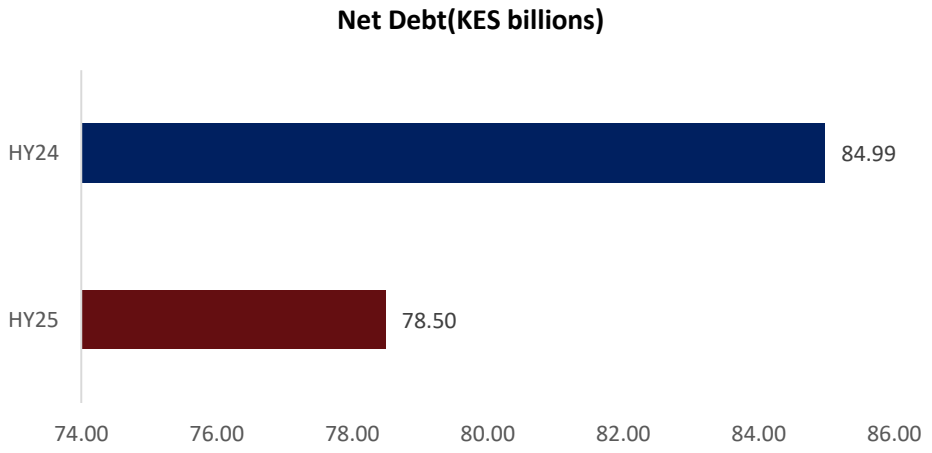
Balance Sheet Snapshot

Safaricom PLC saw a 22.6% decline in total assets to KES 483.1 billion from KES 624.1 billion in HY25. Non-current assets dipped by 25.4% while current assets followed suit falling by 22.6%.

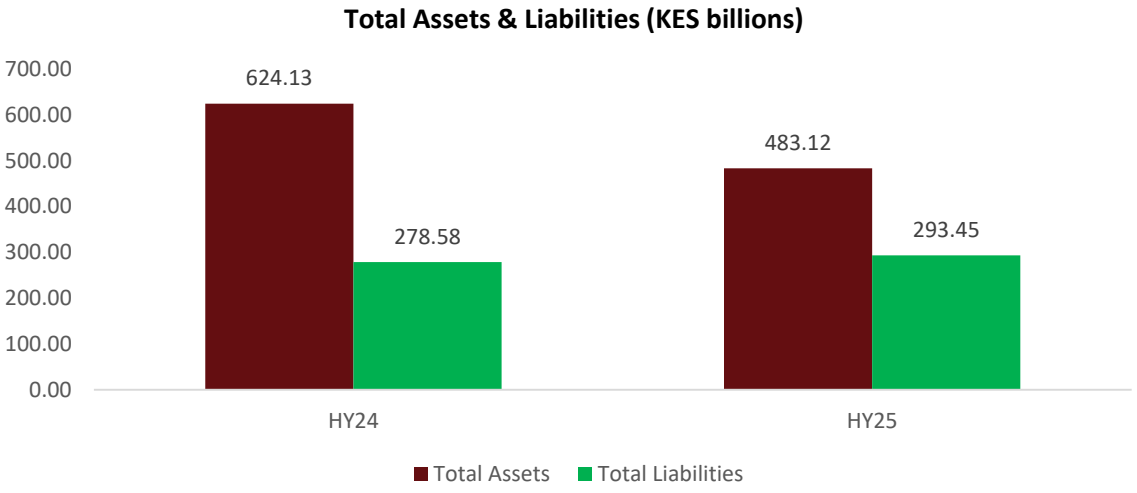
Total Non-current liabilities climbed by a modest 3.1% to KES 135.1 billion from KES 131.0 billion.

Current liabilities rose by 7.3% to KES 158.4 billion from KES 147.6 billion(+KES 10.8 billion). **Total Liabilities recorded a 5.3% growth to KES 293.5 billion from KES 278.6.**

Net debt, after factoring in available cash and cash equivalents, decreased by 7.6% to KES 78.5 billion from KES 85.0 billion. This includes short-term borrowings of KES 38.8 billion and long-term borrowings of KES 68.8 billion, resulting in total borrowings of KES 107.6 billion.



Source: Company Financials



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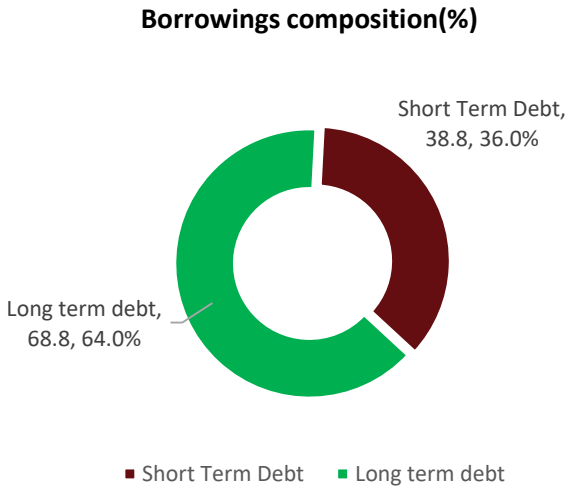


Source: Company Financials

Capex

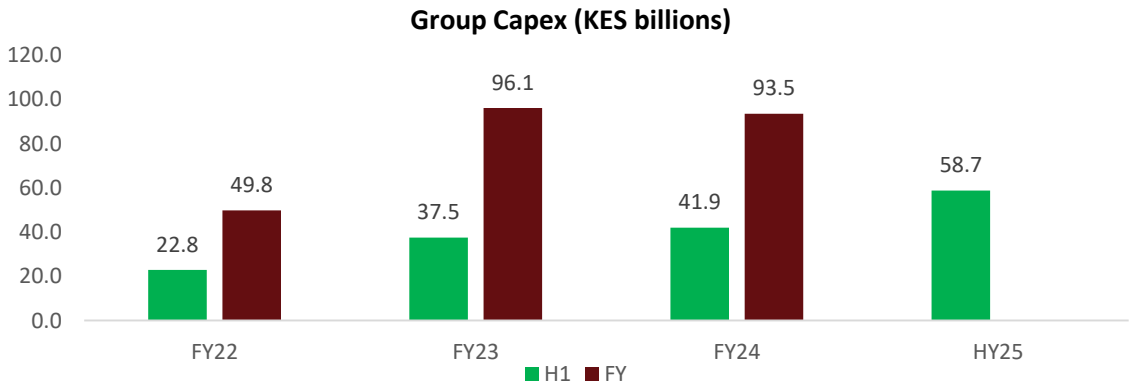
Safaricom continues to increase its capital expenditure in a bid to support network expansion in new growth areas including increasing network cover in Ethiopia from the current 46.0% to the statutory 55.0%.

Total capital expenditure ticked upwards by a strong 40.1% to KES 58.7 billion from KES 41.9 billion recorded in HY24.

Safaricom Kenya's Capex stands at KES 30.8 billion, with a significant allocation toward Radio Access and IT, accounting for 36.2% and 28.7%, respectively.

Safaricom Ethiopia's capital expenditure rose to KES 27.9 billion, marking a 59.9% year-on-year increase, with 69.5% of the investment directed towards Radio Access infrastructure reflecting the companies commitment to expand its cover in the country.

Management revised the FY25 Capex guidance for Ethiopia to a higher range of KES 28.0-31.0 billion, up from KES 21.0-24.0 billion, to address the effects of the Ethiopian Birr's depreciation..



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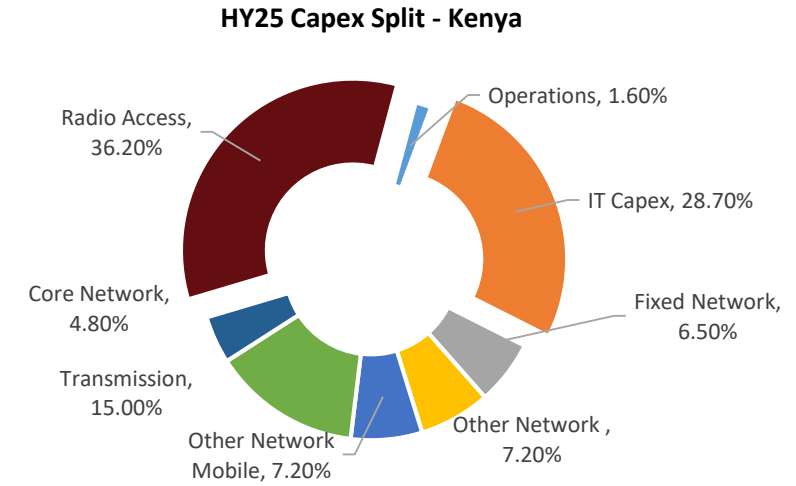

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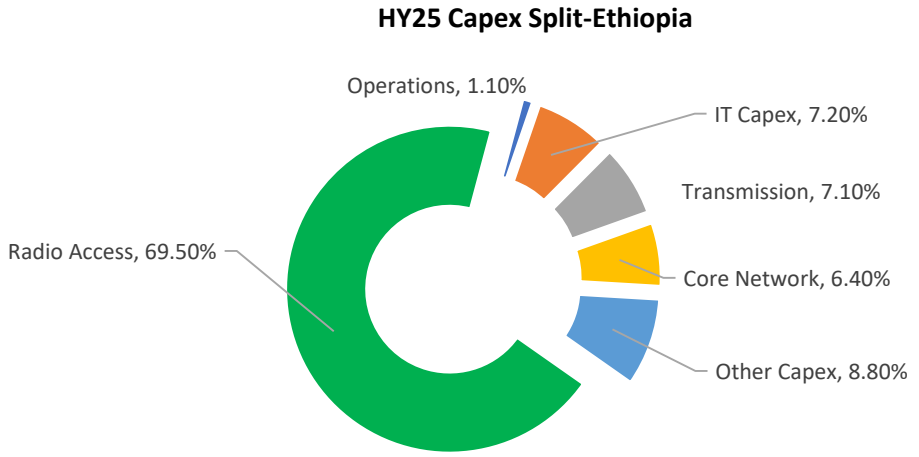


Source: Company Financials

Cash Flows

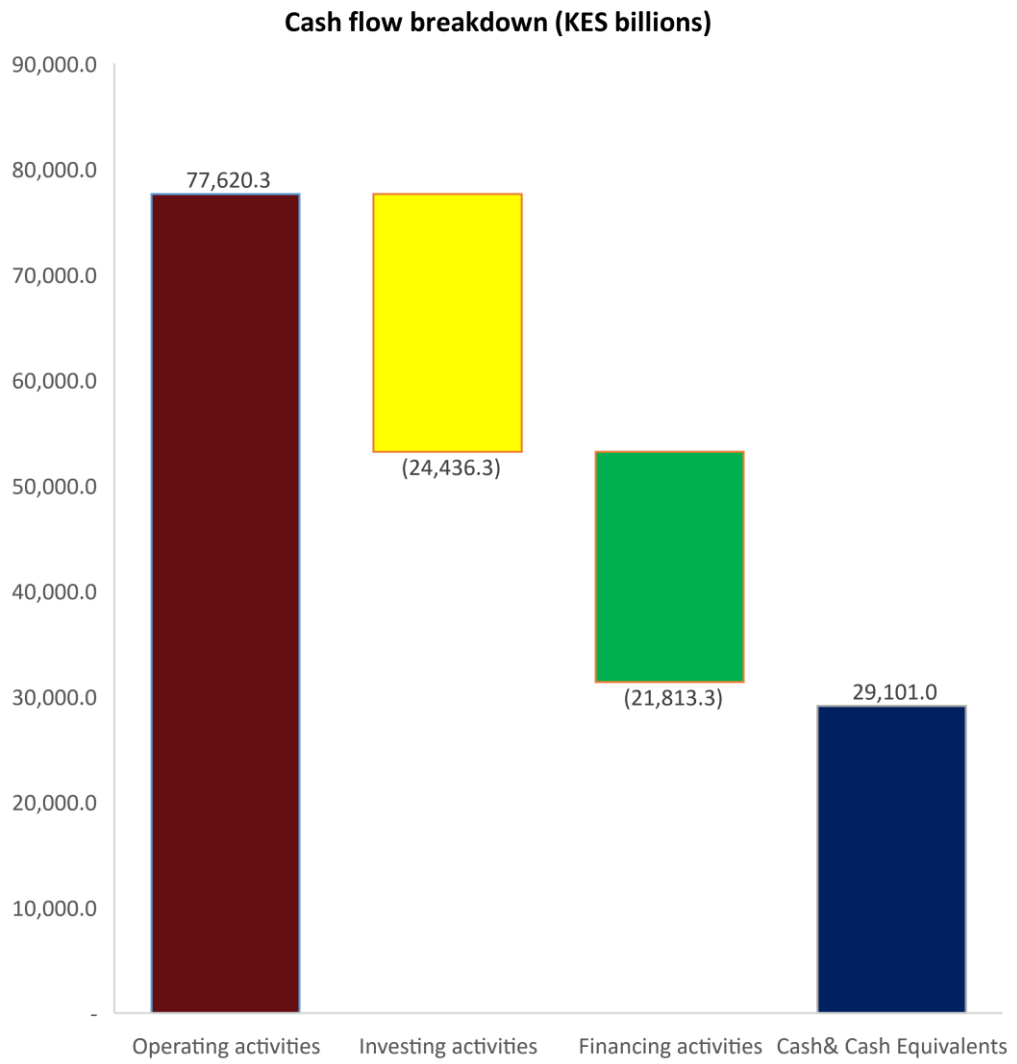
Net cash flow from operating activities saw a remarkable increase of 142.5%, rising by KES 45.6 billion to reach KES 77.6 billion, up from KES 32.0 billion.

This significant growth underscores strong performance in the company's core operations, demonstrating its ability to generate substantial cash from its primary business activities.

Cash utilized in investing activities dipped by 52.1% or KES 26.6 billion less than the KES 51.0 billion used in HY24.

Net cash from financing activities turned negative, closing at KES 21.8 billion, compared to a positive KES 12.4 billion in the prior period.

The closing Cash and cash equivalents position improved robustly by 42.2% to KES 29.1 billion from KES 20.5 billion in HY25.



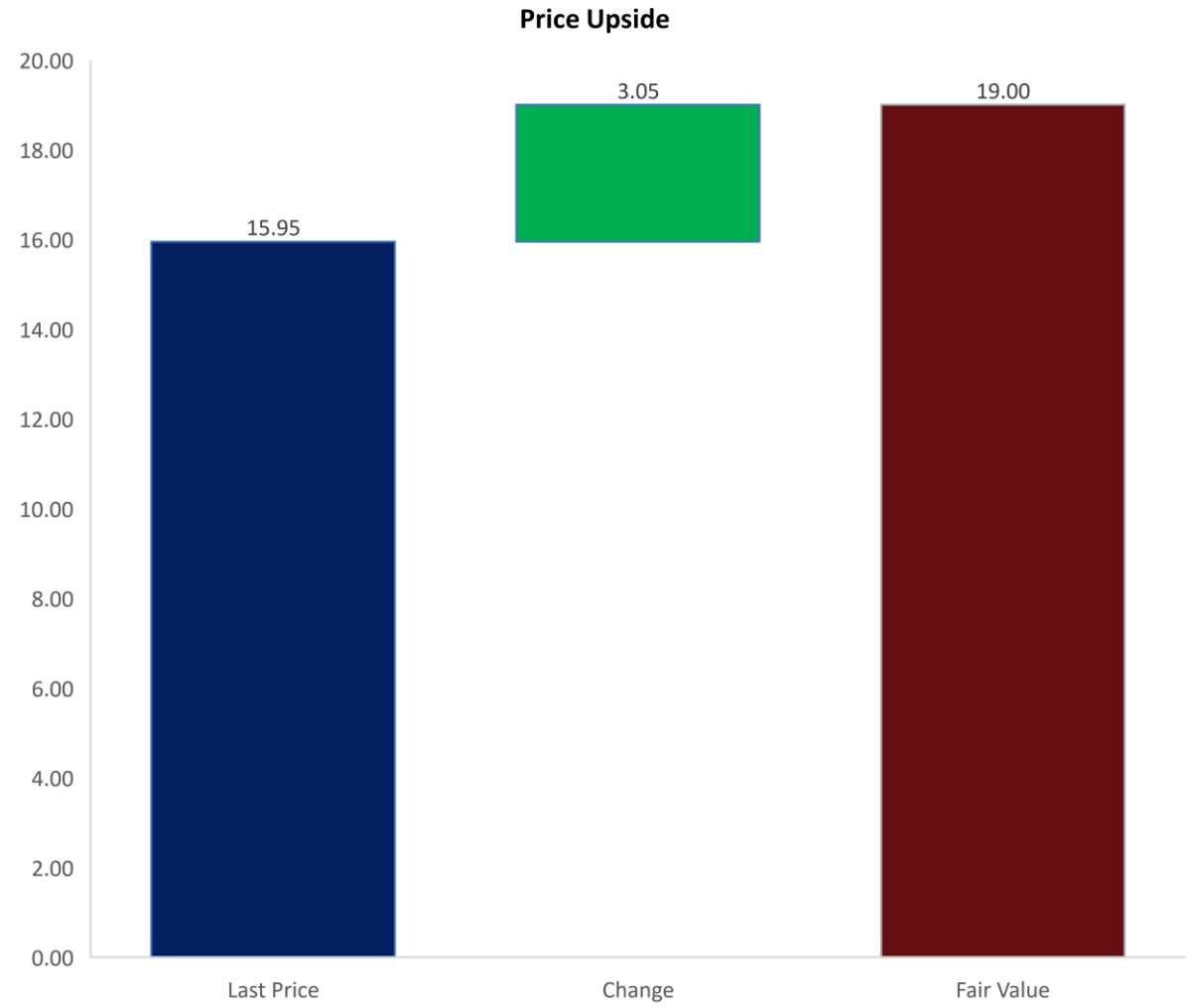
Source: Company Financials

Outlook and Recommendation

Safaricom PLC's performance continues to show strong upward momentum, driven by steady revenue growth, with its cash cow, M-Pesa, contributing 40.8% of total group revenue. Group service revenue increased by 13.1% year-on-year, primarily fuelled by robust M-Pesa, Mobile Data, and Fixed Data performances.

Although Safaricom Kenya continues to deliver strong performance, its subsidiary, Safaricom Telecommunications Ethiopia (STE), remains a drag on the group's overall profitability, primarily due to the depreciation of the Ethiopian birr, which has significantly affected earnings in HY25. With the break-even timeline for STE extended from 2026 to 2027, we expect ongoing downward pressure on profit after tax in the medium term until profitability is achieved in Ethiopia.

Safaricom's recent acquisition of an insurance license underscores its commitment to revenue diversification and strategic expansion. As the company continues to scale its operations in Ethiopia, this move is poised to unlock new revenue streams, mitigating risks associated with reliance on core telecom services. In the long term, this initiative is expected to drive sustained revenue growth and enhance the company's positioning in the regional market.



Source: Company Financials and Faida Forecasts

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Glossary of Terms

Target Price – Analyst estimate of the fair value or intrinsic value of the company.
Cost of Funds - This is the effective average interest rate paid on interest-earning liabilities. It is calculated as Total Interest Expense/Average Interest Earning Liabilities.
Loan Yield - This is the effective average interest rate received on average loans and advances. It is calculated as Interest on Loans and Advances/Average Loans and Advances.
Cost of Risk – This ratio measures the amount of risk involved in lending. It is calculated as Net Impairment Provisions/Average Gross Loans in the period.
Non-Performing Loans -These are loans that have been classified as impaired. The CBK classifies loans into five categories i.e. Normal, Watch, Substandard, Doubtful, and Loss depending on the performance of the loan. The last three i.e. sub-standard, doubtful, and loss are referred to as non-performing loans. Under IFRS, these are classified as stage 3 loans.
Non-Performing Loans (NPL) Ratio - This is the proportion of NPLs in the loan book. It is calculated as Gross NPLs/Gross Loans.
Non-Funded/Non-Interest Income– This represents income that is not classified as interest income.

Recommendation

BUY – Minimal risks to catalysts.
SELL- Risks outweigh the catalysts.
NEUTRAL – This is where the positives and negatives in a company almost balance out. You can accumulate for the long term