



STERLING INVESTMENT BANK
Members of the Nairobi Stock Exchange

Safaricom HY09 Results: Performance improves, potential exists

November 5 2009

Safaricom's Performance Improves yoy

Safaricom has announced its HY2009 results, with a 17.8% rise in turnover, a 10.1% rise in EBITDA, a 14.8% improvement in Shareholders' funds, a 21.4% in subscriber numbers and a resultant 8.1% increase in EPS. The company appears set to register a >10% improvement in the bottom-line, against a backdrop of a significant rise in mobile broadband services (up159.8%) and growth in money transfer (MPESA) revenue (up 247.5%). Below we provide a summary of the key highlights.

MPESA Transactions on the up-trend: Since its inception, MPESA has had phenomenal growth and now covers 7.9 million users (or about 20% of the Kenyan population). The service is distributed through 13,326 users (2008 – 4,230 users). However, it has to be noted that Safaricom British associate Vodafone has the intellectual property rights. Under a previous agreement between the two firms, all proceeds from M-Pesa belonged to Vodafone. A recent change will see M-Pesa change from being a joint venture to one in which Safaricom only pays a software licensing fee for every active M-Pesa subscriber, similar to other software licensing fees. The new contract would replace the current one and will last five years, after which a new agreement will have to be negotiated.

Data Services a Key Revenue Driver: Going by the company's investment in fibre optic technology (through TEAMS and SEACOM), a Wimax roll-out (through acquisition of a 100% share purchase of Packet Stream Data Networks Limited and the acquisition of a majority stake in One Communication) and investment in 3G technology, Safaricom appears to be preparing itself for an anticipated explosion in the data services market. Already, in the 6 months to Sep. 2009, data revenue has increased by 93.6% representing 17.7% of revenue (2008 – 10.8%).

Safaricom's Voice Revenue likely to face some pressure: Stiff competition in the voice market will most likely see Safaricom's market share easing marginally in the short-to-medium term. Although in the period to September 2009 the company's voice revenue rose by 6.2%, its contribution to total revenue fell to 77.6%, from 86.1% in September 2008.

In terms of Subscribers, Both Safaricom and Zain Kenya seem to have lost some numbers to Telkom Orange and YU. The market shares of Safaricom, Zain Kenya and Telkom Orange in 2008 were 81%, 17% and 2% respectively. These market shares have now changed to 77%, 14%, 6% and 3% for Safaricom, Zain Kenya, Telkom Orange and YU respectively.

Overall, Safaricom seems to be ahead in revenue market share, controlling about 83% of the total generated revenue.

Blended ARPU on the decline, churn on a marginal rise: As competition tightens, we expect tariffs to fall, with an adverse consequence on the blended Average Revenue per User (ARPU). Blended ARPU declined by 7.3%, with increased penetration into low-end income areas and lower average tariffs. The churn rate (for any given period of time, the number of participants who discontinue their use of a service divided by the average number of total participants) for Safaricom rose to 27.6% from 25.1%, an indication that there was a decline of the average length of participation in the service, given that the subscriber base rose.

Capital Expenditure: The Company continues to invest significant amounts of cash in improving its infrastructure. However, the amount invested dropped yoy, from Kshs. 10b to Kshs. 8.5b. Safaricom's CAPEX is expected to be high (at least Kshs. 5b on average) in the coming years, as the company continues to position itself to retain or even improve its market share.

Operating Costs: In the coming years, we see Commission payments (trade and MPESA fees to Vodafone and others) making up a significant portion of operating costs (Sep. 2009 – 32.98%, Sep. 2008 – 29.87%). The other operating costs that are likely to be significant would be network costs and interconnection expenses.

Other Costs: Of importance too is the 44% rise in payroll and personnel costs which made up 50% of the Selling, General and Administrative expenses in 2009, (2008 – 42%). These will most likely continue to be on an uptrend.

By September 2009, Person to Person (P2P) MPESA transactions were at Kshs. 22.65b, with the cumulative value standing at Kshs. 253.10b.

Safaricom added about 1.15 new subscribers between March and September 2009.

Disclaimer

All facts and figures used here are from sources deemed reliable and believed to be accurate. They have been prepared from data available as at the date of preparation and may have since changed. Past performance does not guarantee future results. This document should not be misconstrued to be an express recommendation for a buy, sell or hold position on any security. The investor should consider their investment objective and risk tolerance before taking any investment action.

Safaricom has the potential and ability to maintain its #1 market position

Challenges: Competition seems to be the foremost challenge that the company faces, in addition to a dynamic regulatory environment, a challenging economic environment, energy costs and political challenges among a host of many other challenges.

Prospects: Despite facing a number challenges, Safaricom appears set to maintain its #1 market position well into the foreseeable future. The company has a high potential of further growing its data services, expanding the MPESA service, widening its Wimax coverage and increasing penetration into even more remote areas.

Safaricom's Financials

INCOME STATEMENT	Sep-09	Sep-08	% Δ y-o-y
	KSHS.B	KSHS.B	
Revenue	40,661	34,508	17.8%
EBITDA	16,517	15,005	10.1%
% of Revenue	40.62%	43.48%	(6.6%)
Depreciation & Amortization	(6.66)	(5.43)	22.5%
Operating Profit	9,898	9,543	3.7%
Financing Costs	(0.76)	(0.60)	28.0%
Profit Before tax	9.13	8.98	1.8%
Taxation	(2.50)	(2.76)	(9.3%)
Net Income	6,632	6,217	6.7%
Basic EPS	0.168	0.155	8.4%

BALANCE SHEET	Sep-09	Sep-08	% Δ y-o-y
	KSHS.M	KSHS.M	
ASSETS			
Non-Current Assets	76,475	66,455	15.1%
Current Assets	20,600	13,465	53.0%
Total Assets	97,076	79,921	21.5%
Share Capital	2,000	2,000	0.0%
Share Premium	1,850	1,850	0.0%
Retained Earnings	50,121	43,009	16.5%
Non-controlling interest	(192.00)	-	-
Shareholders' Funds	53,779	46,859	14.8%
Current and non-current liabilities	27,384	24,157	13.4%
Borrowings	15,913	8,905	78.7%
Total Shareholders' Funds and liabilities	97,076	79,921	21.5%
Gearing (Gross borrowing inc cash) – (%)	14.90%	12.90%	15.5%
Gearing (Gross borrowing excl cash) – (%)	29.60%	19.00%	55.8%

CASHFLOW	Sep-09	Sep-08	% Δ y-o-y
	KSHS.M	KSHS.M	KSHS.M
Cash from Operating Activities	7,493	9,648	(22.3%)
Investing Activities and Dividend	(8,532)	(10,044)	(15.1%)
Financing Activities and Dividend	4,602	(2,294)	(300.6%)
Increase / Decrease in cash	3,563	(2,690)	(232.5%)
Movement in Cash			
As at the start of the year	4,362	5,535	(21.2%)
Increase / Decrease	3,563	(2,690)	(232.5%)
As at the end of the year	7,925	2,845	178.6%

Source: Safaricom

Disclaimer

All facts and figures used here are from sources deemed reliable and believed to be accurate. They have been prepared from data available as at the date of preparation and may have since changed. Past performance does not guarantee future results. This document should not be misconstrued to be an express recommendation for a buy, sell or hold position on any security. The investor should consider their investment objective and risk tolerance before taking any investment action.