

News Release

SAFARICOM PLC ANNOUNCES UNAUDITED RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2019.

KEY HIGHLIGHTS

Full-Year Guidance Maintained

- Service revenue growth of 5.3% to KShs 124.32bn.
- Voice service (incoming and outgoing) revenue declined 1.4% to KShs 46.87bn.
- M-PESA revenue grew by 18.2% to KShs 41.97bn.
- Mobile data revenue increased by 4.0% to KShs 19.78bn.
- Messaging revenue declined by 11.0% to KShs 8.60bn.
- Fixed service revenue increased by 18.4% to KShs 4.55bn.
- One month active overall customers increased by 8.9% to 27.45mn.
- One month active M-PESA customers increased 12.4% to 23.61mn.
- One month active mobile data customers increased 14.8% to 20.19mn.

Strong financial performance

- 12.7% growth in EBIT, or Profit before Interest and Tax, to KShs 49.82bn with an EBIT margin of 38.5%, up 2.4ppts YoY.
- Net Income, or Profit after Tax, increased by 14.4% to KShs 35.65bn.
- Free Cash Flow declined 2.8% to KShs 37.33bn.

Michael Joseph, Safaricom PLC Interim CEO commented:

Our top priority for the first half of this year continues to be our customers, specifically regaining their trust and in the process growing our market share. I am pleased to advise that we have witnessed improved customer sentiments through measures such as NPS and brand consideration and a market share increase for the first time since 2017.

We have always believed that investment in our network and infrastructure is a key to success, and continue to invest ahead of the curve. In the first half of this year, we accelerated our 4G rollout as promised, adding an additional 732 sites in the period, a growth of 50% year on year and reaching 63% coverage as we strive to cover every town in Kenya by the end of the year.

We also continue to accelerate our digital transformation and agile agenda. We believe our continued focus on digital engagement with customers will enable us to enhance and simplify our customer service offerings.

Looking ahead, the innovation pipeline looks promising. We will sustain the momentum of investing in the quality of our service and growth in our portfolio including deeper penetration of M-PESA into the economy, cloud and IoT solutions, our agricultural and e-commerce platforms, regional expansion and new business opportunities.

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We remain committed to our purpose of transforming lives, integrating the Sustainable Development goals into everything we do. We continue to support maternal and educational projects, and economic empowerment for the youth.

As I announced last week, we are making a commitment to be Simple, Transparent and Honest in everything we do as demonstrated by the launch of our simplified plans and customer journey. This is a total transformation of how we do business, and while there may be some impact in the short-term, we believe it is the right thing to do to ensure the long-term sustainability of this company. We hope you are as excited as we are and look forward to welcoming some of you back to the Safaricom family.

Operating review

Revenue growth for the half year to September 2019 was 5.3% driven by robust performance across M-PESA and fixed data and strong customer growth offsetting decline in the traditional revenue streams and soft performance on mobile data.

Voice and messaging

Voice declined 1.4% while messaging declined 11.0%. This decline was partly driven by competitive pressures and migration to newer technologies, and partly by the impact of corrective actions taken last year to make it easier for our customers to manage their premium rate subscriptions, and opt out of them where no longer needed. Voice and messaging are now 44.6% of service revenue.

M-PESA

M-PESA has sustained robust growth in the period recording a YoY growth of 18.2% despite the impact of the slow-down in the gaming industry. The growth was driven by 12.4% YoY increase in 30-day active M-PESA customers to 23.61 million and a 7.8% YoY growth in monthly usage per customer to 13 chargeable transactions per month. The company added 2.6 million active M-PESA customers with MPESA now accounting for 33.8% of service revenue, further accelerating displacement of traditional voice and messaging services. Excluding gaming, revenue grew 20.9% YoY and chargeable transactions per customer per month grew 17.5%.

Mobile Data

Mobile data registered a 4.0% growth in revenue as we continue to carry the effect of corrective actions taken in prior year; repositioning data bundles and absorbing the excise duty increase. Mobile data now accounts for 15.9% of service revenue and registered an impressive 14.6% growth on the revenue earned in the second half of last year. Growth in mobile data revenue is expected to return to double digits in the second half of this year driven by increased penetration and usage.

Fixed Data

In the period, fixed service revenue registered a growth of 18.4% and contributes 3.7% of total service revenue in the period.

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IFRS 16

IFRS 16 Leases was effective for financial periods beginning on or after January 1 2019 and the Group has adopted it but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on April 1 2019.

Summary and outlook

We are pleased with the strong results we have delivered for first half of FY20 and we remain confident that we shall attain our full year guidance, building on our long track record of consistent delivery, protecting shareholder wealth and putting the customer first.

ⁱFollowing the adoption of IFRS 16 - Leases on 1 April 2019, the Group's results for the six months ended 30 September 2019 are on an IFRS 16 basis, whereas the results for the period to 30 September 2018 are (as previously reported) on an IFRS 15/IAS 17 basis. To ensure appropriate disclosure during the period of transition onto IFRS 16, numbers for the six months ended 30 September 2019 have been disclosed on both an IFRS 16 and IAS17 basis and our commentary describing our operating performance has been provided solely on an IFRS 15/IAS17 basis.

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1. Key Performance Indicators

Key Performance Indicators	HY20 IFRS 15	HY19 IFRS 15	% Change IFRS 15
Total customers	34.57	29.94	15.5%
90-day active total customer ARPU*	624.80	661.62	(5.6%)
One month active customers (m)	27.45	25.20	8.9%
One month active customer ARPU*	763.60	781.86	(2.3%)
Churn (%)	21.20%	23.89%	(2.7ppt)
Voice			
One month active voice customers (m)	24.90	23.17	7.5%
One month active voice customer ARPU*	315.91	346.32	(8.8%)
M-PESA			
Number of M-PESA agents	176,084	162,800	8.2%
One month active M-PESA customers (m)	23.61	21.01	12.4%
One month active M-PESA ARPU*	299.32	284.24	5.3%
Mobile Data			
One month active mobile data customers (m)	20.19	17.59	14.8%
One month active mobile data ARPU*	162.38	179.07	(9.3%)
Messaging			
One month active SMS customers (m)	18.36	17.17	6.9%
One month active Messaging ARPU*	77.86	92.58	(15.9%)
Base Stations			
2G base stations	5,147	4,839	6.4%
3G base stations	5,137	4,737	8.4%
4G base stations	3,523	2,353	49.7%

*ARPU is in KShs.

Note; All KPIs are on an IFRS15 basis

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1. Condensed consolidated statement of comprehensive income

KShs. Billion	HY20 IFRS 15/16	HY20 IFRS15/IAS17	HY19 IFRS15/IAS17	IFRS15/IAS17 % Change
Voice revenue	46.87	46.87	47.53	(1.4%)
M-PESA revenue	41.97	41.97	35.52	18.2%
Messaging Revenue	8.60	8.60	9.67	(11.0%)
Mobile data revenue	19.78	19.78	19.01	4.0%
Fixed service revenue	4.55	4.55	3.84	18.4%
Other service revenue	2.55	2.55	2.49	2.4%
Service Revenue	124.32	124.32	118.05	5.3%
Handset revenue and other revenue	5.16	5.16	4.31	19.7%
Construction revenue	0.35	0.35	0.30	15.2%
Other Income	0.10	0.07	0.17	(58.8%)
Total Revenue	129.93	129.90	122.83	5.8%
Direct Costs	(37.48)	(37.48)	(34.96)	7.2%
Construction costs	(0.35)	(0.35)	(0.30)	15.2%
Contribution margin	92.10	92.07	87.57	5.1%
Contribution margin %*	71.1%	71.1%	71.5%	(0.4ppt)
Operating costs	(23.75)	(25.59)	(25.82)	(0.9%)
Forex Loss on trading activities	0.02	0.02	0.03	(51.0%)
Opex & forex loss % total revenue	18.3%	19.7%	21.0%	(1.3ppt)
EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation)	68.37	66.49	61.79	7.6%
EBITDA margin %*	52.8%	51.3%	50.4%	0.9ppt
Depreciation, impairment & amortisation	(18.12)	(16.67)	(17.56)	(5.1%)
EBIT (Earnings before Interest and Tax)	50.25	49.82	44.22	12.7%
EBIT Margin %*	38.8%	38.5%	36.1%	2.4ppt
Net Financing, Forex and Fair Value Losses	1.03	1.85	1.41	31.2%
Share of associate profit/(loss)	0.05	0.05	(0.01)	<100.0%
Earnings Before taxation	51.32	51.71	45.63	13.3%
Taxation	(16.13)	(16.07)	(14.46)	11.1%
Net Income	35.20	35.65	31.17	14.4%
Net Income %*	27.2%	27.5%	25.4%	2.1ppt
Earnings per share	0.88	0.89	0.78	14.4%

*All margins are calculated on total revenue (excluding construction revenue, gain on lease terminations and gain on disposal of fixed assets)

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2. Condensed consolidated statement of financial position

KShs. Bn	30 Sep 2019 IFRS 15/16	30 Sep 2019 IFRS 15/IAS17	31 Mar 2019 IFRS15/IAS17	% Change IFRS15/IAS17
Share Capital (including share premium)	4.20	4.20	4.20	0.0%
Retained earnings	100.42	100.87	65.22	54.7%
Proposed Dividends	0.00	0.00	74.92	(100.0%)
Capital Employed	104.62	105.07	144.35	(27.2%)
Represented by				
Non-current liability	15.67	1.77	1.87	(5.6%)
Total Equity and Non-current liabilities	120.29	106.83	146.22	(26.9%)
Non-Current Assets	161.20	144.01	142.52	1.0%
Current Assets				
Cash and cash equivalents	23.28	23.28	20.03	16.2%
Other Financial assets	19.22	19.22	8.04	>100.0%
Receivables and prepayments	19.54	20.30	18.13	12.0%
Inventories	1.98	1.98	1.78	10.8%
Contract assets	2.36	2.36	1.99	18.2%
Current income tax	0.03	0.03	0.00	0.0%
	66.40	67.17	49.96	34.4%
Current Liabilities				
Payables and accrued expenses	33.79	33.79	28.70	17.7%
Dividends Payable	56.14	56.14	0.00	>100.0%
Current income tax	0.76	0.81	0.35	>100.0%
Lease Liability	3.02	0.00	0.00	0.0%
Borrowings	(0.00)	(0.00)	4.03	(<100.0%)
Provision for other liabilities	3.72	3.72	3.89	(4.6%)
Contract liabilities	9.89	9.89	9.28	6.6%
	107.31	104.34	46.26	>100.0%
Net Current Liabilities	(40.91)	(37.18)	3.70	(<100.0%)
Net Assets	120.29	106.83	146.22	(26.9%)

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3. Net Cash

KShs. Bn	30 Sep 2019 IFRS 15/16	30 Sep 2019 IFRS 15/IAS17	31 Mar 2019 IFRS15/IAS17	% Change IFRS15/IAS17
Cash and cash equivalents	23.28	23.28	20.03	16.2%
Bank and other borrowings	0.00	0.00	(4.03)	(<100.0%)
Total net cash	23.28	23.28	16.00	45.5%

4. Free cash flow

KShs. Bn	30 Sep 2019 IFRS 15/16	30 Sep 2019 IFRS 15/IAS17	30 Sep 2018 IFRS 15/IAS17	% Change IFRS15/IAS17
EBITDA	68.37	66.49	61.79	7.6%
Net Working Capital Changes	3.70	2.94	5.99	(51.0%)
Movement in;				
ROU assets and lease liabilities	(2.61)	0.00	0.00	0.0%
Gain on Lease terminations	(0.03)	(0.00)	0.00	0.0%
Gain (Loss) on PPE disposal	(0.01)	(0.01)	(0.08)	(86.5%)
Operating cash flow	69.42	69.42	67.70	2.5%
Capital Additions	(18.11)	(18.11)	(16.85)	7.5%
Operating free cash flow	51.31	51.31	50.85	0.9%
Net Interest paid/received	1.80	1.80	1.28	40.3%
Taxation paid	(15.77)	(15.77)	(13.71)	15.0%
Free cash flow	37.33	37.33	38.42	(2.8%)