



APERTURE

INSIGHTFUL AND RELEVANT RESEARCH UPDATES

Vodacom FY 2024 Results

Share Price	R91.57
Fair Value	R105.22
Date	13 May 2024

RESULTS SUMMARY

Vodacom reported 2024 full year results that were broadly in line with expectations and boosted by strong performance in Egypt. This reads as positive for the group as they are currently facing pressure in the local voice and prepaid market. Group revenue was up 26.4% driven by service revenue growth of 29.1%. Excluding Egypt, group service revenue was up 5.9%. Financial services remains the largest segment within new services and delivered growth of 19.9% on a like-for-like basis. Growth in financial services was driven by growth in Egypt, with the segment doubling revenue over the period.

Foreign exchange rate losses, start-up losses in Ethiopia and higher finance costs contributed to the 10.8% decline in headline earnings per share (to R8.46). In line with the group's dividend policy to pay 75% of headline earnings, a final dividend of R2.85 was declared, bringing the full year dividend to R5.90 (-11.9%). On the back of strong growth in financial services over the second half of the year, the group has revised their medium-term service revenue target up from mid to-high to high single digit growth.

OUR LONG-TERM INVESTMENT VIEW

- Vodacom maintains a strong balance sheet supported by healthy cash flow generation. The management team have proven themselves adept at growing the business amid an environment of changing regulation and evolving consumer preferences.
- The long-term shift from voice to data is well underway and Vodacom have done well to keep pace with infrastructure and network upgrades, increasing coverage and maintaining superior service quality. To this end, Vodacom have become the continent's first operator to reach 90% population coverage on a 4G network.
- Growth into Africa presents an attractive opportunity for revenue diversification and customer growth. While this is not without risks, there is significant upside as customers are skipping fixed lines entirely in favour of wireless technologies. With meaningful ownership in Safaricom, Vodacom will rely on their superior network quality to drive growth and differentiate themselves from peers.

UNPACKING THE FY 2024 RESULTS

High level numbers

- **Revenue** of R151bn grew 26.4% driven by a 29.1% increase in Service revenue (9.2% including Egypt on a pro-forma basis). Growth in group service revenue was driven by strong growth in Egypt as well as growth in new services. New services now contribute 20% of group service revenue, up from 18.7% in the prior year.
- Group **earnings before interest, tax, depreciation & amortisation (EBITDA)** increased 24.3% to R56.1bn, resulting in an EBITDA margin of 37.3%. Excluding Egypt, EBITDA was up 1.8%. Group EBITDA was impacted by a foreign exchange loss of R1.4bn associated with the devaluation of the Egyptian pound in the fourth quarter.
- **Headline earnings per share (HEPS)** fell 10.8% to

Growing diversification through Egypt

- **Egypt** delivered service revenue of R30.2bn and now contributes 25% of group service revenue. Service revenue accelerated in the fourth quarter, up 40.5% in local currency versus 29.1% in the third quarter.
- The region saw **ARPU growth** of 24.6% reflective of price increases and strong consumer traction. Mobile data revenue growth accelerated to 48.1% in the fourth quarter.
- Egypt's **EBITDA margin** of 40.2% was impacted by foreign exchange losses as the Egyptian pound depreciated in the fourth quarter. Excluding the foreign exchange impact, EBITDA margins were healthy at 44.5% due to cost control measures.

International operations

- **International** operations service revenue

R8.46, negatively impacted by foreign exchange rate losses, start-up losses in Ethiopia, and higher finance costs.

- The group generated **free cash** flow of R18.2bn (down 1.7%). There was a significant improvement in free cash flow generation in the second half of the year.

Pressure on SA prepaid

- **SA** service revenue of R61.6bn was up 2.6% in the tough macro environment. New services, which was up 11.2%, contributed significantly (16.6%) to SA service revenue. Service revenue growth decelerated in the fourth quarter as a result of weaker performance in the Internet of Things.
- **Mobile contract customer revenue** was up 3.9% supported by a price increase in the first quarter. The 1.3% increase in mobile contract average revenue per user (ARPU) was offset by underperformance in Vodacom Business, which saw corporate customers adjust spending as they returned to office.
- The group added 7.3 million prepaid customers over the year, of which many were low ARPU additions resulting in a 5.2% decline in prepaid ARPU growth.
- **Financial services revenue** of R3.2bn was up 7.9% driven by insurance and Airtime Advance, which represents 45.7% of total prepaid recharges. Insurance revenue was up 13.8% over the year.
- **EBITDA** grew modestly by 0.7% and was impacted by prepaid service revenue pressure and higher network operating costs. SA EBITDA margins decreased 1.2 percentage points to 37.2% as a result of strong growth in low margin equipment revenue.
- **Operating profit** was down 3.6% as a result of depreciation increasing more than EBITDA.

increased 13.1% (5% on a normalised basis) supported by strong growth in data and M-Pesa as well as foreign exchange tailwinds.

- EBITDA rose 8.2% to R11bn reflective of foreign exchange tailwinds.
- **Operating profit** declined 6.8% impacted by higher depreciation and start-up losses in Ethiopia.

Safaricom performs well in Kenya

- **Safaricom** generated service revenue growth of 13.4% over the period with the Kenyan business delivering double-digit growth.
- EBITDA was up 16.8% supported by margin expansion in Kenya.
- Safaricom's contribution to the group operating profit declined 4.6% to R2.7bn as a result of foreign exchange tailwinds.

Looking ahead

- Management are forecasting improved levels of profitability in the second half of the year, supported by robust service revenue growth and cost savings.
- Management revised their medium-term service revenue growth target up from mid to high-single digit growth. Additionally, management are guiding for the following over three years:
 - EBITDA growth (in constant currency) of a high single digit, and
 - Capital expenditure in the range of 13% – 14.5% of revenue.

Vodacom's recent financial performance was impacted by multiple headwinds, including loadshedding in SA, significant exchange rate volatility across African regions (particularly Egypt) and a once-off currency devaluation in Egypt. As these headwinds fade, we expect a modest recovery in group profitability with Egypt driving diversification in terms of revenue sources. The fair value estimate assumes management guidance of high single-digit revenue growth is achieved.

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