Safaricom: One of Africa’s Great Success Stories

Today’s post is about one of Africa’s great success stories… Safaricom.

If you’ve spent any time in East Africa, you’ll know the name. If you haven’t, YOU should.

Safaricom isn’t just Kenya’s largest mobile network. It’s East Africa’s biggest LISTED company, probably the region’s strongest consumer brand, and the owner of M-Pesa, the world’s third-largest mobile payment platform.

It is benefiting - as we have been saying to YOU - from one of the biggest structural investment themes anywhere in the world: Africa’s move from cash to digital payments.

AND in our view, Safaricom is right at the centre of it.

So why is it so special?

Back in 2007, millions of Kenyans had a mobile phone but no bank account. Safaricom recognised a simple opportunity.

Their customers were already visiting Safricom agents to top up their prepaid airtime with cash. Instead of building expensive bank branches, Safaricom turned these agents into a nationwide banking network.

A worker in Nairobi could hand cash to a Safaricom agent, receive a simple USSD code, text it to their family in rural Kenya, and within minutes the money could be collected from another agent hundreds of miles away.

No need for a smartphone, the internet or a bank account.

What used to take an entire day travelling on overcrowded buses, carrying cash [and risking being robbed], now took seconds.

It was a brilliant African solution to an African problem and brought millions of people into the financial system.

Today, M-Pesa is far more than a money transfer service.

YOU use it to pay shops, save money, borrow, buy insurance, invest, send international remittances and run your business.

And that’s what makes the economics so attractive.

Once YOU have the M-Pesa customer, every new service can be added at virtually zero marginal cost.

So the numbers really are impressive.

Safaricom is one of the most profitable telecom businesses anywhere in the world, with EBITDA margins of around 60%.

Interestingly, Vodafone’s two standout businesses today are both in Africa: Safaricom in Kenya and Vodafone Egypt, both delivering around a 40% annual EBITDA growth, while Vodafone UK has broadly flat earnings.

That tells YOU where the growth is.

Safaricom also has some enormous competitive advantages.

It has invested billions into its network, its fibre, and its customer infrastructure, and unlike many Telcos it still owns most of its towers, protecting its barrier to entry and giving M-Pesa a roughly 70% share of Kenya's mobile money market.

Even better, customers pay before they use the service.

That means virtually no credit risk, very low bad debts and exceptional cash generation.

And now there's also Ethiopia, Safaricom's second major growth engine.

Safaricom launched in Ethiopia in 2022. It's a country of more than 130 million people with only a state operator as a meaningful competitor.

Already Safricom has almost 15 million active customers. M-Pesa users have more than doubled in the past year, service revenues are up 68%, and transaction values have increased 175%.

and here is the really interesting part.

Safricom's shares have been LISTED since 2008, traded every second of the day, and despite delivering these exceptional fundamentals for almost a decade, it is today trading on only about a 10 times earnings, close to its lowest valuation in years.

Across Africa we've had a five-year equity-bear market during which the fundamentals of companies like Safricom's have kept on improving, while valuations have collapsed.

This disconnect won't last forever, and YOU are now seeing liquidity improve from both international investors and, unlike previous rally's, a domestic pension fund and retail investor base that will provide long term support to these improving valuations.

Finally, remember the bigger picture.

Across much of Africa, more than 80% of everyday transactions are still made in cash.

Every time someone moves from cash to digital payments, businesses like M-Pesa benefit.

And this is a trend that has decades to run

[Even PayPal chose to partner with M-Pesa rather than compete with it. That says a lot about the strength of Safaricom's network, brand and distribution].

So for us, Safaricom is no longer just a telecom company.

It's one of Africa's most important digital infrastructure businesses.

It has the strongest brand in East Africa, dominant market share, exceptional margins, world-class cash generation, a rapidly growing second business in Ethiopia… and today you can buy its LISTED shares at close to one of the cheapest valuations we've seen for years.

We think this is a very compelling investment opportunity for YOU.

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