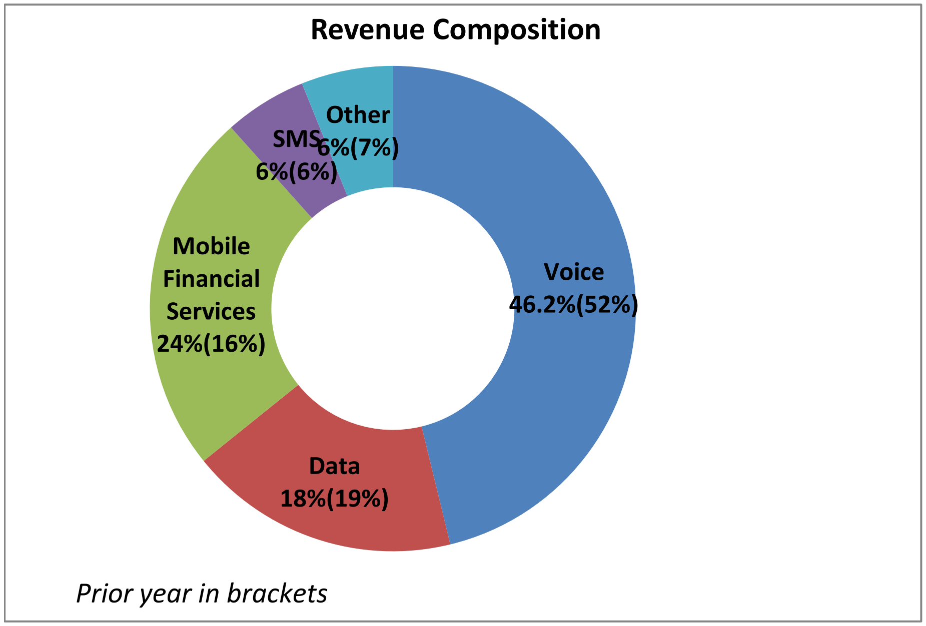
Econet Financial Year Ended 31 August 2017 Analysis

Market Data	
Current Share Price(Usc)	186
Estimated Intrinsic value (Usc)	214
Recommendation	BUY
Shares in Issue	2,590,576,832.00
Market cap(US$)	4,818,472,907.52
Year high(Usc)	190
Year Low(Usc)	13
EPS	2.10
Dividend	0.97
Dividend payout	46%
Annualised dividend yield	1%

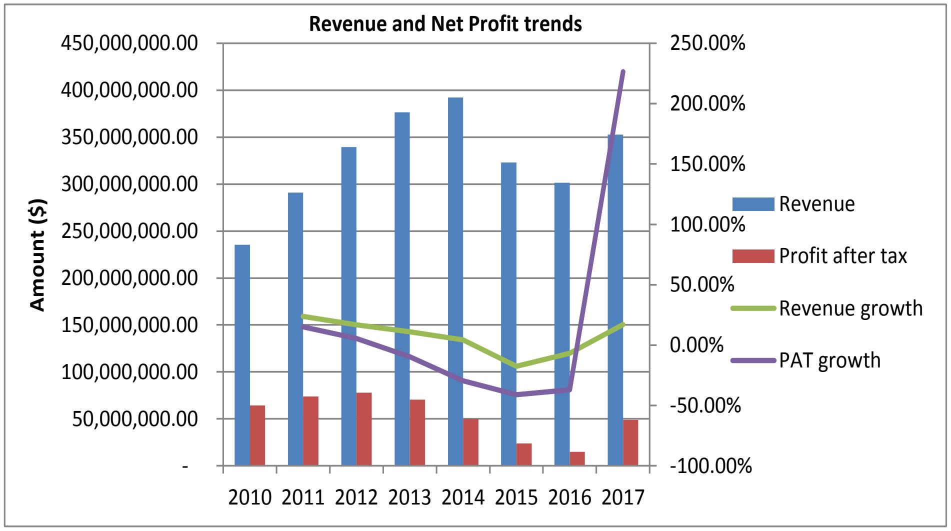
Income Statement	FY 2017 '000'	FY2016 '000'	% Change
Revenue	352,676.00	301,513.00	17.0%
Operating profit	79,588.00	42,101.00	89.0%
Profit After tax	48,854.00	14,965.00	226.5%
Operating margin	22.6%	14.0%	61.6%
Net Profit margin	13.9%	5.0%	179.1%
Financial Position			
Total Assets	1,444,079.00	1,190,330.00	21.3%
Total Liabilites	663,606.00	527,400.00	25.8%
Attributable Equity	776,841.00	659,647.00	17.8%
Cashflows and Ratios			
CFs from Operations	353,299.00	130,227.00	171.3%
CFs from Investing	(149,356.00)	(10,019.00)	1390.7%
CFO/Net Profit	4.44	8.70	-49.0%
ROE	6.3%	2.1%	191.7%
Total asset turnover	0.24	0.25	-3.6%
Debt to Total Assets	32%	19%	65.5%
Subscribers	11,441,822.00	10,020,101.00	14.2%

Econet Revenues Up 17%, PAT 226.5%

Econet revenues were up by 17% to 352.7million with much support coming from mobile financial services whose revenue contribution increased significantly from 16% to 24% in the current year. In mobile financial services, Ecocash has leveraged on the cash crisis and has become a leading alternative to bank payment channels. Its subscribers increased from 5.8million to 6.7million thereby leading to a 45% growth in revenues to $57.1million. Voice contribution to revenues further declined from 51.6% to 46.2% as alternative calling options continue to increase with advances in technology. SMS contribution recorded a slight decline from 5.6% to 5.5% whilst data contribution was down from 19.3% to 18%. Despite the decline in contribution from data, its absolute revenues were up 9% to $63.4million. The chart below shows the revenue composition of the various segments.

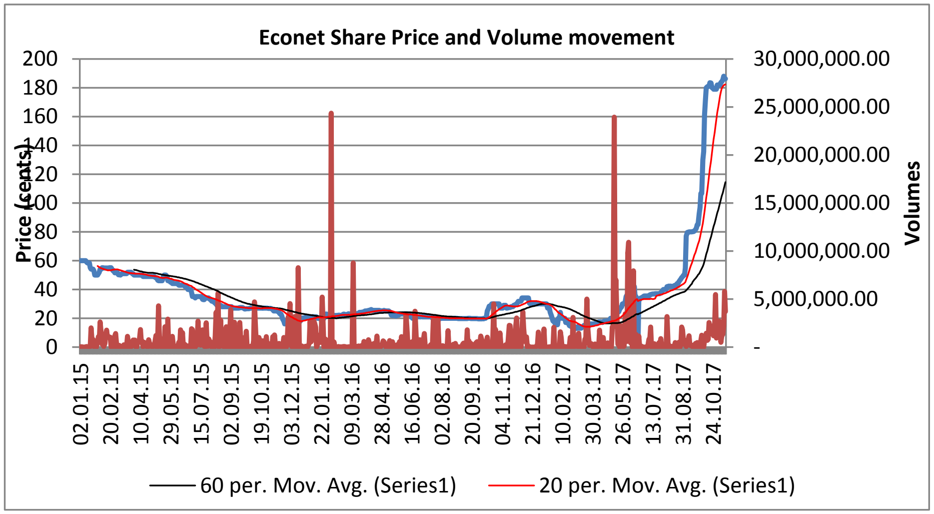


EBITDA grew by 31.4% to $139million coming up much higher than revenue growth due to significant cost optimization. Operating profit was up 89% due to a lower cost of depreciation and amortization and Profit After Tax recorded a substantial growth of 226.5% due to significant reduction in finance costs after Econet paid off its foreign debt. Basic EPS was 2.1cents and a total interim dividend of 0.965 cents was declared in two separate quarterly dividends leading to a payout of 46%. Cash generated from operations was significantly up by 171% to $353million leading to a healthy CFO/Net Profit ratio of 4.4.



The graph indicates a persistent decline in both revenue and PAT from 2011 to 2015 which has been followed by a significant surge in the current financial year.

Technical Analysis



The graph indicates a steady decline in the Econet share price from January 2015 to low levels of between 20 and 30 cents. In March 2017, the company had a rights issue which was followed by a substantial rise in the share price, a result of the bullrun on the ZSE and greater confidence in the company's financial strength. Furthermore, the introduction of Kwese TV, an additional revenue stream led to the sharp increase in the share price in September. The short term moving average has remained above the long term average since April 2017, an indicator of the continued uptrend that has been witnessed. Going forward, we expect the acceleration to slow down in light of the current market weakness on the ZSE. However, the strong volumes being traded are expected to continue to support the share.

Investment case

- The Company has introduced a new business strategy that further diversifies its revenue streams adding Media to Telecommunications and Technology. The product, Kwese TV allows connection to a bouquet of TV channels which can be viewed from up to 4 mobile devices through live streaming. As such, management expects the introduction of Kwese TV to be significant to the data segment.
- The response to Kwese TV since inception has been tremendous with 50 000 subscribers in one month alone. It is projected to be a firm competitor to DSTV especially because of the flexibility and ease of payment for the product, an edge over DSTV whose payments have been affected by foreign currency shortages.
- The company remains a market leader in the telecommunications industry. It commands 80.1% of voice traffic and its subscriber base has increased 10.9 million. It has a massive 99% market share in mobile money transactions via the Ecocash platform and has 71% Data market share.
- The company has the financial capacity to make material capital investments which allows it to offer a quality and scale of service that is unrivalled. It has recently upgraded its infrastructure for Steward Bank and Ecocash in response to rising transaction volumes.
- The innovativeness of Econet has led to the company leveraging on the cash crisis and coming up with avenues of facilitating payments across a wide spectrum of goods and services. This has reflected in the numbers and we expect continued growth in Ecocash going forward.
- Paying off foreign debt allowed the company to have a massive reduction in its finance costs which are expected to recur in the coming periods.
- The company has managed to record a strong growth in revenues despite an additional 5% tax on airtime thus increasing excise duties on airtime to 10%.
- It is a highly liquid counter.

Investment Concerns

- Despite being the number one mobile operator in the country, Econet has not been immune to the economic woes of the country. The company is also being affected by the shortages of foreign currency and as such other regional operations will need to subsidise the operations of Kwese TV whose content is imported.
- Although the introduction of Kwese TV is expected to grow data revenues, we believe that the issue of data affordability will remain a key concern which may have to be addressed so that the anticipated growth is realised. As it is, Econet is not very competitive when it comes to data pricing whereas live TV streaming requires even more data usage. Consumers may just stick to using alternative ways of streaming that do not necessarily use Econet's data packages.
- Econet is facing strong competition from Netone which is fast growing its subscriber base due to competitive pricing. It is also gradually replicating Ecocash services through One Money and as such will start eating into the growing Ecocash pie.

Valuation and Recommendation

Going into the second half of the year, we expect continued growth in Econet revenues supported by the additional revenue streams from Kwese TV and positive growth in Ecocash. Kwese TV is mainly targeted to grow the data segment. However, this growth may not be as high as anticipated as consumers are already quite strained and may not have capacity to spend more on data to access the services on additional devices. Growth in the Ecocash subscriber base and revenue contribution is expected as the segment continues to collaborate with more service providers to facilitate payments. As such, we expect second half revenues to grow by 20% and EBITDA margins to improve by only 2% to 41% due to high initial operating expenses on launching the Media platform. Finance costs are anticipated to remain the same as in the first half and a 93% growth in Net profit is expected. Therefore, a growth of 152% in annual Net Profit is expected, leading to a forward EPS of 3.9 cents. We used the Relative Valuation method in our valuation with the consideration of 3 other regional countries. In calculation of the two multiples that we considered, that is the P/E and the P/Sales, we adjusted the current price for Econet by the current cash premium of 92% which we consider to be a barometer of the loss in value reflected in share prices. After these adjustments, Econet had an indicative P/E of 35.8x against a regional benchmark of 25x which we then adjusted to 28x to reflect Econet's expected growth in earnings. Econet has a P/S of 3.7x against the benchmark of 3.3x. We adjusted the figure upwards to 3.8x in anticipation of higher than benchmark growth in revenues. A combination of both the P/E and the P/S gives an estimated intrinsic value of 214 cents which is 15% higher than the current price of 186 cents. We therefore give a **BUY** recommendation.