



EFE Research – Econet H1 Results Review

Recommendation: BUY

November 1, 2013

Econet Wireless

Stock Data

Current Price :	60.50
52 Week High :	75.42
52 Week Low :	48.00
20 Day VWAP :	60.96
P/E :	6.68
D/Y :	-
PBV :	1.89
EV/EBITDA :	4.49
Shares Issue (m)	1,532.55
Market Cap (\$m):	927.19

Financial Data

	Interim Aug-12	Full Year Feb-13	Interim Aug-13	Fore Cast 2014 F
Revenues	339	695	377	769
EBITDA	153	305	165	363
PBT	112	205	106	233
PAT	78	140	71	137
NAV	439	489	564	392
Total ASSETS	875	1,015	1,135	730
Total Liabilities	432	522	567	294
EPS (US cents)	5	9	5	9
Dividend Per Share	0	0	0	1

Ratios

RoE	35.51	28.59	12.51	34.85
EBITDA Margin	45%	44%	44%	47%
PBT Margins	33%	29%	28%	30%
PAT margins	23%	20%	19%	27%
P/E (X)	4.54	7.89	13.33	6.79
Div Yield	0.00%	0.00%	0.00%	1.65%
Div Cover	-	-	-	8.91
Earnings Yield	22.01%	12.68%	7.50%	14.72%
Closing Share Price	41.8	71	60	

EFE Target Price

92.87

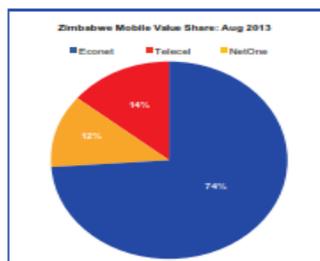
Extras

Subscribers	7,016	8,000	8,528	8,570
ARPU	8.90	-	8.00	8.00

Econet Interim Results

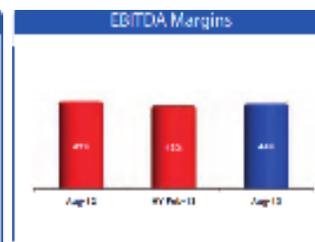
Econet posted an almost flat performance for the interim period to August 2013 where the basic and diluted EPS took a marginal 2% drop to 4.5c. The highlights of the interim period performance included the 11% increase in revenues to \$376.6m coupled with an 8% jump in EBITDA to \$165.3m as group sustained a respectable EBITDA margin of 44%. Higher depreciation charges at \$45m on the back of the heavy impairment of loans at the bank coupled with steeper finance charges at \$18m saw the group close with before tax profits of \$106m which was 5.5% lower than the prior year comparative. From these the group closed with after tax profits of \$70.5m 10% down on last year. The group's balance sheet stood at \$1.1bn and of this \$564m was the group's NAV. Operations generated \$219m in cash and they closed with cash and cash equivalents of \$39.9m.

Operations Review



Source Econet

The group registered a 22% increase in subscribers to 8.5m over the period helping them maintain their position in the value share of 74%. The group registered 2.6% growth in voice related revenue streams of which 3.2% of the growth is attributable to new lines of business as ARPU's are sustained at about US\$ 8.

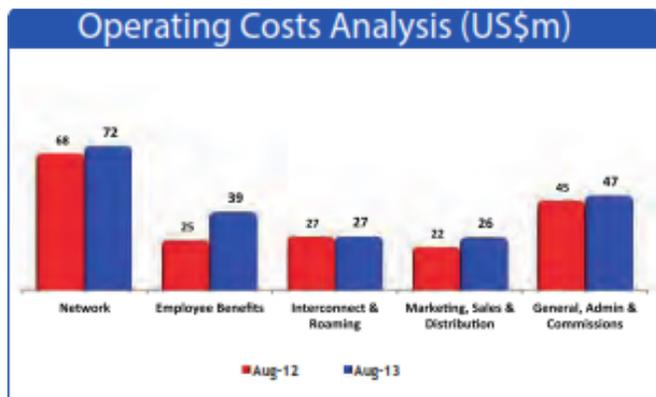


Source: Econet

On data the group launched the 4G service and a device finance scheme. Data subscriber base and volume of data delivered grew as data bundles products were launched. Ecocash the group's mobile money transfer platform registered exponential growth in number and value of transactions and further growth is forecast as new products are introduced; over the same period the platform was



Source: EFE Securities



Source: Econet

Company	Country	PER	Source
Econet	Zimbabwe	6.68	ZSE/EFE Database
MTN	South Africa	16.20	Reuters P/E TTM
Safaricom	Kenya	21.21	Reuters P/E TTM
Vodacom	South Africa	12.73	Reuters P/E TTM
AVERAGE		11.36	

upgraded to cater for higher volumes and transaction capacity per second. Innovative products launched over the interim period to date include the mobile agro insurance product Eco Farmer and the savings account product Eco Cash Save to take advantage of the higher mobile penetration that exceeds the percentage of the population with bank accounts. The customer focus initiatives included the improvement of the call centre by doubling capacity to handle SMS email and website enquiries.

Valuation and Recommendation

Based on Econet’s interim performance trajectory we forecast that the group should post revenues, EBITDA and PAT of \$769m, \$363m and \$137m. The company is already trading at P/E multiple of 6.68x while our selected peer group has an average of 11.36x making the group discounted relative with its peers. Given the challenging and slowing economic environment Econet has demonstrated its resilience with the 10% growth in revenues were all else is stagnating. Lower margins that were somewhat expected given the investments in promotion and growth of new products which should be recouped as the products find footing in the market. Our P/E based valuations places Econet at a target market capitalisation of \$1.1bn (92.87c), which we believe presents an opportunity for capital gains.

While the lower profitability, despite the reasonable 11% increase in revenue and 8% uplift in EBITDA, could be a cause for concern we believe that this should not be surprising given their aggressive expansion drive and the attendant rationalizations that were to come along with the acquisitions like the bank. Margins should therefore improve as these processes come to fruition. As growth in some of the mobile products like voice continues to show signs of stagnating we commend the group for the expansion drive that should auger the income diversification efforts and sustain the group on a growth path. We therefore maintain our **BUY** rating on the group.

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