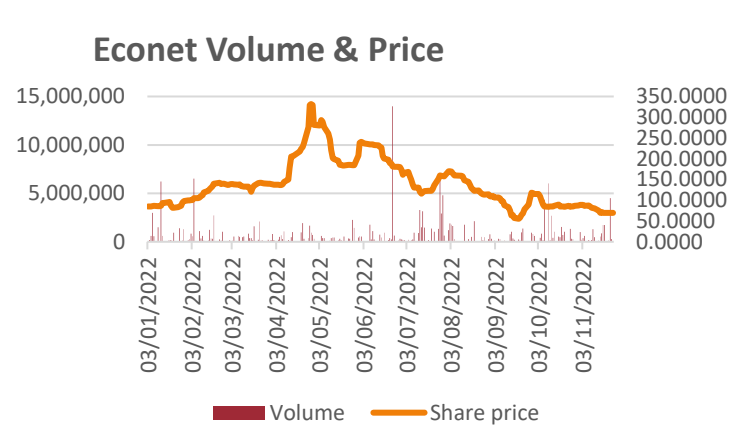
Members of the Zimbabwe Stock Exchange

Sector	Telecommunication
Company Name	Econet
Stock Data	
Price Range YTD (Low, High) ZWL$	($62; $335)
Current Price as at 29.11.2022	71.15
Price Performance YTD	44.78%
Shares Outstanding (bn)	2.39
Market Capitalisation ($bn) as at 29.11.2022	184.32
Average Daily Value ($m)	54.68
Average Daily Volume (000)	731.13

Financial Data			
(billions)	HY 22	HY23	FY23F
Revenues	113.99	112.38	230.38
EBITDA	62.55	52.22	131.61
PBT	35.38	5.45	46.18
PAT	25.36	-5.78	27.45
Total Assets	288.92	377.44	725.97
Total Liabilities	89.15	130.53	452.42
EPS ($)	10.61	-2.31	13.79
P/E (X)	3.55	-47.08	-
ROE	0.13	-0.02	0.09
PBT Margins	31.03%	4.85%	20.05%
Closing Share Price	37.7183	108.7775	
EFE Target price			195



ECONET HY2023 EARNINGS UPDATE

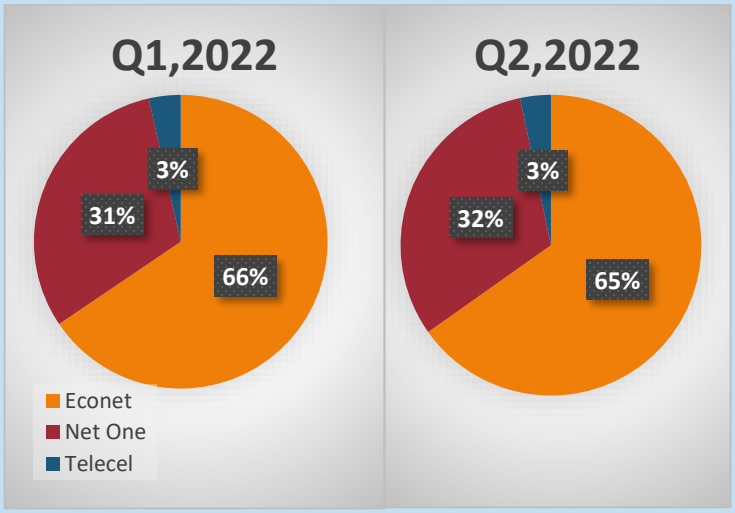
Sub-optimal tariffs drag Econet into losses…

Econet's revenue declined by 1% to $112.4bn as EBITDA dropped 17% to close at $52.2bn. The decline in revenue was attributable to frequent tariff reviews that continued to lag behind inflation and changes in CPI. Voice and data traffic grew 27% and 40% apiece but these increases were negated by tariffs which remain unaligned to the cost base of the business. Profit before tax declined by 84.59% to $5.45bn while, Profit after tax plunged 122.55% to close at a loss of $5.78bn. The increased tax burden from $9bn to $12bn in HY2023 and the rise in exchange losses by 2253.80% to $43.60bn affected the group's profitability. Earnings per share went down 121.77% to -2.31 compared to 10.61 in 2022. Group's total assets amounted to $377.44bn which was a 30.50% increase as total liabilities closed at $130.53bn. The current asset ratio for HY23 is at 1.06:1 down from a ratio of 1.27:1, meaning the company has less resources to cover their short-term liabilities.

Operations review and Outlook

Number of subscribers increased by 20% to 16.1m from 13.4m in the prior period. The group launched the first 5G network in the first half year and its expansion will be important for delivering additional digital growth services to both retail and enterprise customers. Econet invested in a radio access network in a bid to reduce congestion and improve call completion rates and quality. The business migrated and upgraded the call center platform to a more reliable and scalable cloud platform that handles customers efficiently and reduce waiting and query handling period. There was a significant increase in the uptake of self-care platforms which include subscriber registration verification self-service, PUK, retrieval international roaming activation and airtime transfer among other services. Econet also launched the electronic recharging system (ERS) for mobile channel partners and have signed up more than 200 channel partners as the group seek to serve even the most remote areas of the country. There was an increase in self-service adoption on both the traditional USSD and more recent web platforms. Foreign currency shortages continue to affect the group's network expansion plans and the routine maintenance plan but however, we anticipate seeing a change as the group now receives some of its income in USD.

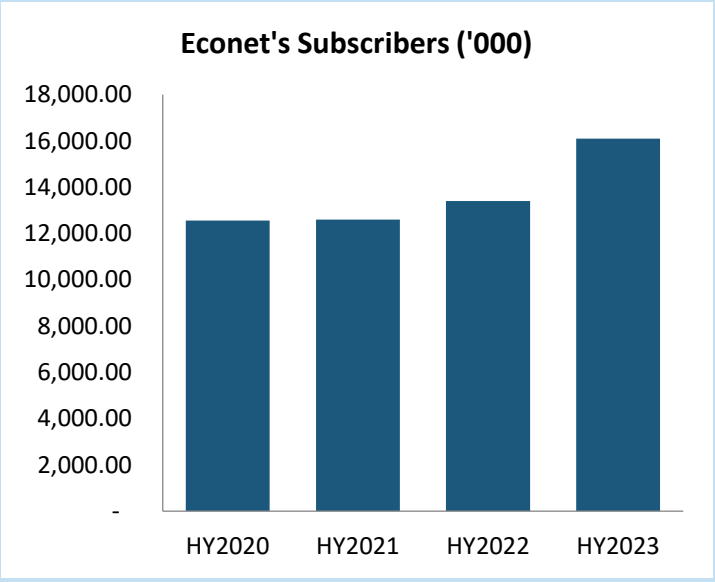
Market Share Analysis



Source-Potraz/EFE

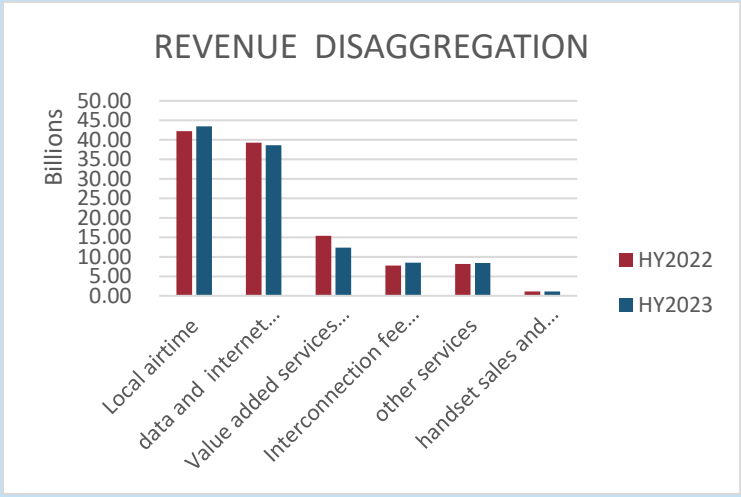
The duo of Econet and Telecel lost subscriber market share by 0.3% and 0.2% respectively. Conversely, NetOne gained subscriber market share by 0.5% in the second quarter of 2022. The Econet market share decline may be attributable to competitive pricing by its competitor Netone.

Subscriber Analysis



Source-Econet

Number of subscribers have been increasing over the years, recording the highest surge of 20% in HY2023.



Local airtime was the major revenue earner for the group followed by data and interrnet services that claimed $38.58bn. SMS, interconnection fees and roaming and handset accessories accounted for $12.33bn, $8.53bn and $1.11bn of total revenue.

Valuation

Our valuation on Econet assumes that revenue for the next half year will increase by 5% to a forecasted $118bn driven by increase in the number of subscribers in the next half year, tarriffs adjustment and the expected uptake of the 5G network. We project a PAT of $38.80bn and an EBITDA of $79.38bn. Applying a regional PE of 22.50x and a forward company PER of 8.21x ,we anticipate a target price of $195. We therefore rate Econet as a **BUY** at current prices.

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