EFE Research –Econet Wireless FY14 Results Review
Tuesday, 22 May 2014

STOCK DATA			
Price:			65.00
52 Wk High:			72.60
52 Wk Low:			48.00
20 Day VWAP:			65.01
P/E:			4.57
D/Y:			1.98
PBV:			1.06
EV/EBITDA:			3.55
Issued Shares:			923.31
Market Cap:			600.15
	28-Feb-13	**28-Feb-14**	**28-Feb-15**
	$0	**$0**	**$0**
Revenue	694,844	752,678	806,970
EBITDA	305,344	332,174	363,257
EBIT	233,781	230,450	250,096
Net Interest	(25,947)	(36,441)	(43,729)
PBT	204,903	194,009	206,367
PAT	139,938	119,397	127,002
OCI	(774)	102	-
TCI	139,938	119,397	127,002
Equity holders Earnings	139,593	119,103	126,689
NonControlling Interests	345	115	313
Total non-current assets	740,010	942,955	1,356,983
Total current assets	275,100	230,709	332,008
Total assets	1,015,110	1,173,664	1,688,991
Net Asset Value	489,405	599,795	734,672
Long Term liabilities	288,293	244,690	309,741
Current liabilities	233,933	325,255	260,204
NAVPS(cents)	29.84	36.57	44.80
Basic EPS	8.51	7.26	7.72
Price at Date	92.02	93.02	94.02
EBITDA Margins	43.94	44.13	45.01
EBIT Margins	33.65	30.62	30.99
PBT Margins	29.49	25.78	25.57
PAT Margins	20.14	15.86	15.74
P/E	10.81	12.81	12.17
PBV	3.08	2.54	2.10
Target Price			**81.02**

Financials

Revenue for the group went up 8% to $752.7m on prior year this was despite a -2% decline in voice revenue. EBITDA remained positive going up 10% to $332.2m; however a 42% increase in depreciation and impairment charge resulted in a percentage decline in operational profit to $230.5m compared to last year. PBT came in at $194m which was 5% worse off last year's outturn dragged by a wider net negative finance cost. PAT of $119.4m was thus achieved which is a 15% contraction on the preceding year's levels. From these profits a dividend of 1.29c was declared which translate to a dividend cover of 5.6x while an EPS of USD0.08 sufficed from the resultant profit. As at the reported date the balance sheet stood at $1.173b which is growth of 16%. Total Liabilities grew by 9% to $570m while cash and cash equivalents closed the period at $71.3m which is a 9 dearth on the comparable year.

Review of operations

Growth in revenue was attributable to increased Data and Ecocash contributions. Data had an absolute growth of 62% to $72.4m while EcoCash grew by 307% to $33.4m. The growths from these two resulted in an 8% improvement in overall group revenue; while the resultant contribution of non-voice revenue to the top line improved to 18% against last year's 10%. Overall none voice revenue stood at $139m and this is against a decline in voice revenue which contracted by -2% to $614m resulting in a contribution of 82% to the overall revenue. The dearth in profit from operations was due to higher depreciation charge due to bigger asset base loan impairment in subsidiary banking institution Steward Bank as the group seeks to clean the inherited loan book.

The net current liability position was due to capital equipment purchases that will be refinanced using long term debt. The group expects additional debt to cover for the impact of licence renewal position which impacted on working capital strategy. The group's data offering saw a 31% increase in subscribers to 4.2m that was complemented by a 124% surge in usage on the back of continuous review of data bundles structure to align with market trends.

In the year Econet subscribers grew by 10% to 8.8m however this did not result in a matching gain in voice revenue due to saturation and pressure on disposable income, the result was the group maintaining its market shares in the mobile telephony operating space at 66%. Against this background the group will focus on Data and other Overlay services for future growth in revenue.

Fibre infrastructure roll-out is on-going while additional LTE's sites are envisaged in a bid to prop up network infrastructure. Some of the overlay services introduced includes EcocashSave, Ecocash Loans, EcoCash Payroll, while some products which are still in pilot phrase include EcoFarmer and EcoSchool.

Valuation and recommendation

Source: EFE

Cognisant of the dynamics prevalent in the telecoms sector due to technological advancements we believe Econet has done quite remarkable in realigning and adapting through a protracted network and fibre infrastructure investment. This in turn has boosted its capacity to sustain subscriber growth while at the same time ensure synergistic proficiencies in data and other overlay services. The declining trend in voice contribution to revenue has therefore been substituted and will continue to be so, by data and overlay services as technological transformations continually skew in favour of the latter. The rate of growth in data and overlay in relative and absolute terms far outweighs the decline in voice revenue which is a healthy trend going forward.

In our view the preceding year's write-offs in subsidiary banking unit Steward Bank which led to a spontaneous increase in depreciation, amortisation and impairment charge, are likely to subside thereby positively impacting on EBITDA. However though leverage has commendably decreased to 38%, the liquidity ratio of the group currently at 0.7x need be revised in the shortest possible term through restructuring of debt. The group also need to optimise its cost structure so as to relay its data cost to curb competition. However the introduction of 4G broadband by the group gives the company a competitive advantage over its peers as it offers value for money.

With mobile penetration already above the 100% mark while the Data penetration in Zimbabwe is at one of the highest levels in Africa we believe that Econet's revenues growth will be slower than prior year at around 7% driven by data and other overlay services as well as better contributions from the recently added banking subsidiary. To this end we are forecasting revenues of $806m while however operating at slightly better EBITDA margins of 45% as benefits of rationalisations at the bank filter through to see them post $363.3m in EBITDA and close with PAT of $127m implying a 6% improvement in EPS to 7.72c. In valuing Econet we applied a PE multiple of 10.49x from a selection of its regional peers to arrive at a target price of 81.02c. We believe that Econet has shown the strongest resilience in the tough operating environment dominated by serious a liquidity squeeze, maintaining growing revenues through adoption of fast changing technology market needs, and with the continued thrust along these lines growth should be attainable even in the face of the economic challenges. We are therefore maintaining our **BUY** recommendation on the group.

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