Vodacom to buy R35bn stake in Safaricom

In what is the largest transaction Vodacom has done to date, the mobile telecoms group will buy most of its parent, Vodafone's, interest in Kenya's Safaricom in a share-swap deal valued at R35bn.

The deal, which involves Vodacom acquiring 35% in Kenya's largest mobile network operator, is seen as a vote of confidence in Vodacom's management and is part of Vodafone's strategy to consolidate some of its African businesses under the umbrella of its subsidiary.

Vodafone is also likely to sell its majority holding in Vodafone Ghana to Vodacom in future while retaining ownership of the North African assets. This move would give Vodafone a single entry point into sub-Saharan Africa.

Diversifying Vodacom's earnings

The deal also diversifies Vodacom's earnings and reduces its reliance on the South African market, which has a 146% mobile penetration rate.

Vodafone CEO Vittorio Colao said in April the group was looking at "improving the cohesion of different operations".

Vodafone will retain a 5% stake in Safaricom but may sell it in future, while the Kenyan government owns 35%. The rest of the company - about 25% - is held by the public.

The transaction will be settled through the issuing of new shares to Vodafone, which will increase its stake in Vodacom to 69.6% from 65%.

"Access to a high growth"

Vodacom Group CEO Shameel Joosub said that acquiring a strategic stake in Safaricom would provide shareholders with "access to a high growth, high margin, high cash generation business operating in a high growth market".

"In addition to producing mutually beneficial opportunities for growth, it will create further incremental value through the close co-operation between the two businesses, particularly in driving M-Pesa adoption across our operations," he said.

He also saw an opportunity for Vodacom to expand its big data and machine-to-machine services in Kenya. While there had been no negotiations regarding the Ghana assets, Joosub said Vodacom would consider it at the right price.

Peter Takaendesa, portfolio manager at Mergence Investment Managers, said Safaricom had a solid business model and could still deliver better growth than Vodacom over the medium term. "It will also give Vodacom better diversification as it will lift earnings from outside SA to over 30%."

But he said the transaction would have been more attractive if Vodacom had entered Safaricom a couple of years ago when the Kenyan telecoms market was undergoing price transformation and "valuation was much more reasonable compared to current levels".

Fits with current Africa portfolio

Chief investment officer at Falcon Crest Asset Manager, Farai Mapfinya, said Safaricom was "high quality and fits perfectly with Vodacom's current Africa portfolio".

"Valuation-wise, the deal appears full to us and only at a marginal discount to market but overall positive and value accretive in the long term," he said.

Also on Monday, Vodacom reported a 4.5% increase in headline earnings a share [for the year to March] to 923c.

Total revenue was up 1.5% to R81.2bn. It declared a dividend of 435c a share taking the total dividend for the year to 830c.

Data driven

In SA, Vodacom added 3-million subscribers taking its total customer base to 37.1-million. Mapfinya said the results were good and generally in line with expectations. There were no surprises on the voice side and the investment thesis continued to be data driven.

While the data traffic surged, prices declined sharply and this was expected to continue.

Vodacom is targeting service revenue growth of a mid-single digit on the back of general improvement in the market.

Source: Business Day