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Vodacom Plc EQUITY VALUATION REPORT

December, 2023

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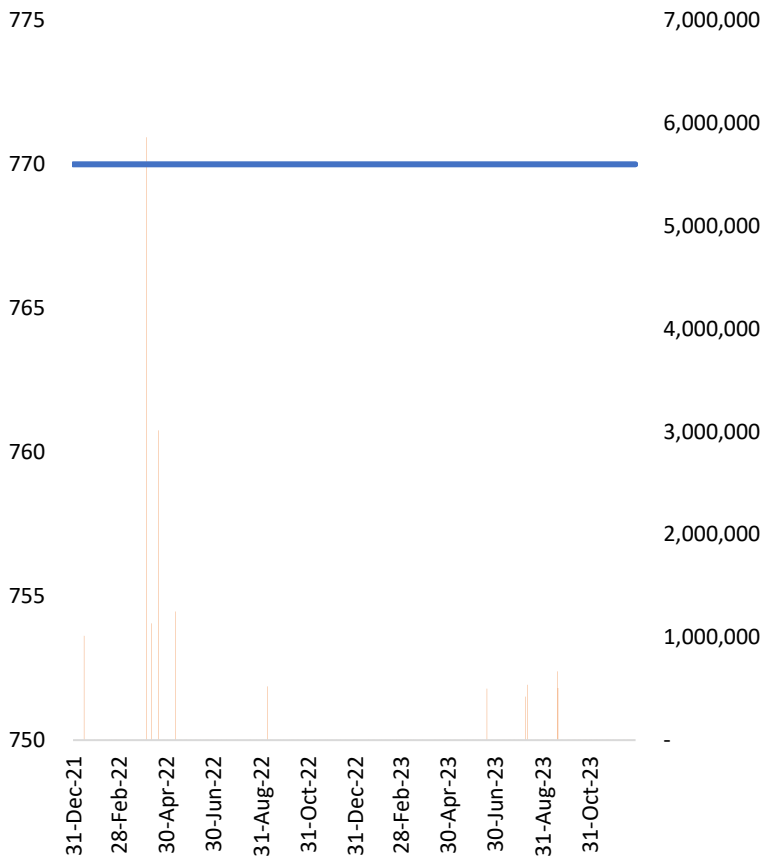
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VODACOM SHARE PRICE & VOLUME TREND



VODA HIGHLIGHTS

Company Name	Vodacom Tanzania
Ticker	VODA
Intrinsic Value per share	TZS 204.68
Share price as of 29 th December 2024	TZS 770
Downside Recommendation	73.42% Strong Sell
Earnings per Share (2023)	TZS 19.89
Dividend per Share (2023)	TZS 9.95
P/E ratio (TTM)	38.75x
Return on Equity (2023)	5.42%

Investment Thesis

1. Intense Competition

Despite having the largest market share in the telecom industry, Vodacom Tanzania faces very strong competition in the telecommunication sector which translates into price wars that significantly affect Vodacom's ability to set prices that can increase the company's profit margins and the potential free cash flow and dividends generated.

2. High Levels of Capital Expenditure

Vodacom's business model is one that requires high levels of capital expenditure on an annual basis. Between 2017 – 2023, the company has had a Capital Expenditure spend of TZS 1.14 Trillion and has on average taken up 16.35% of the company's revenue each year. We project the company to spend about 16.80% of their revenues in capital expenditure as the company strives to improve its 5G coverage across the country, increase its investments in fixed and wholesale solutions for household and enterprises and as it continues to work its way towards transforming M-Pesa into a SuperApp. These investments are expected to cost the company TZS 1.13 Trillion in free cash flows during the period between 2024 – 2028.

3. Comparable Valuations

Vodacom's P/E ratio of 38.2x is much higher than that of other telecommunication companies within the region such as Safaricom (Kenya) with a P/E ratio of 10.8x and MTN Uganda at 9.37x as of March 28th 2024.

COMPANY OVERVIEW

Vodacom Tanzania is a subsidiary of Vodacom Group Limited, a company registered in the Republic of South Africa, which in turn is a subsidiary of Vodafone Group Plc, a company registered in the United Kingdom. It has a leading market share of about 30.26% as of December 2023 with over 19.7 Million customers across the country. It began operations on the year 2000 and its was listed in the Dar es salaam stock exchange on the 15th of August 2017 where by it listed 560,000,100 shares at an IPO price of TZS 850. Vodacom Tanzania offers a wide variety of innovative products and offerings including Voice, data, messaging services, mobile money (M pesa), digital equipment and enterprise solutions.

Business Model

Vodacom's business model is one that ensures it has access to spectrum, invest in mobile and fixed networks and information technology (IT), develop and distribute a wide range of products and services tailored to our market segments, and offer a broad range of financial services through our M-Pesa ecosystem. Coupled with excellent customer care and brand program, these activities enable the company to ensure revenue growth and high levels of cash generation, which is used to reinvest in the resources and relationships that are relied on to deliver on Vodacom's purpose of Connecting for a better future.

Vodacom's Product Portfolio

1. Voice

Vodacom Tanzania offers its customers the ability to call individuals and organizations who are within the same Mobile Network Operator (MNO), different MNO's within the country as well as individuals and organizations outside the country. The voice service is mainly offered to customers via subscribing to a voice bundles which are offered at variety of prices, with predefined time limits and the extent to whom one can call depending on the receiver's MNO jurisdiction with a voice population coverage of 90%.

2. Messaging

Vodacom Tanzania offers its customers the ability to send messages to individuals and organizations who are within the same MNO, different MNOs within the country as well as individuals and organizations outside the country. The messaging service is also offered to customers via subscribing to a voice bundles which is offered at variety of prices, with predefined time limits and the extent to whom one can call depending on the receiver's MNO jurisdiction.

3. Mobile Data

This service allows Vodacom's customers to connect to the internet via subscribing to a bundle that provides the customer with the range of bytes they can use to roam the internet at different prices which last for a predefined period of time.

Vodacom's Product Portfolio

4. M-Pesa

Vodacom provides mobile money services via its M-Pesa platform which allows its customers to send and receive money from other mobile money accounts within the same or different MNO, send and receive money internationally at competitive costs, perform bank transfers, pay for different products and services, access loans and insurance services. Vodacom has the largest mobile money market share at 37.91% as of December 2023

5. Fixed & Wholesale solutions

Products offered by Vodacom in this segment include wireless fixed internet services to residential households and enterprises, digitalization of the agriculture value chain by offering a complete digital solution in farmers' profiling, communication, financial transactions, pesticides and fertilizer loans, digital extension services, insurance and education via the M-Kulima platform. Digitalization of the education ecosystem through digital books, live boards, classrooms, and school management solutions via its Vodashule platform and the delivery of advanced services in areas such as cloud hosting, security, and Internet of Things (IoT).

6. Value Added Services

Services offered in this segment include Media and entertainment, Education and advertisement via Silabu and SmartBango Platform, Self-Care via the My Vodacom app, Website and Airtime Advance, Health via Afyacall and Elimika, Transport and Market place via the Paisha platform.

Vodacom's Delivery Channels

Vodacom Tanzania has been able to deliver its services to its customers due to the availability of an extensive distribution network which as of 31st March 2023 was as follows:

- 3,447 2G Sites
- 3,096 3G Sites
- 2,353 4G Sites
- 231 5G Sites (56.2% population coverage)
- 68% Broadband Coverage across Tanzania
- 461 Retail Points
- 25,000 freelance distributors
- 125,000 active M-Pesa agents

INDUSTRY ANALYSIS

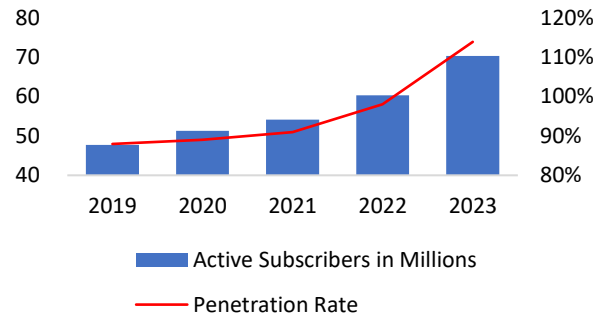
Market Size & Structure

According to the Tanzania Communication Regulatory Authority (TCRA), as of December 2023 there are 5 Mobile Network Operators (MNOs) with over 70,290,876 active subscriptions that have registered activity or have been used at least once in the past three months. The subscription rate represents 114% of the country's total population with the reason behind the high penetration being due to the fact that the industry allows for individuals to have subscriptions with more than one MNO at any given period so long as they are registered.

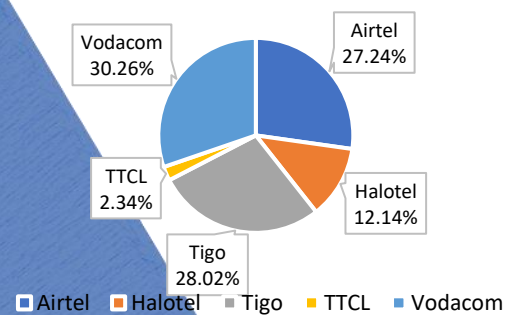
The 5 MNOs operating in Tanzania include Vodacom Tanzania with over 21,272,484 subscribers with a leading market share of 30.26%, Tigo Tanzania with over 19,698,263 subscribers with a market share of 28.02%, Airtel Tanzania with 19,146,016 subscribers representing 27.24% market share, Halotel Tanzania with 8,529,919 subscribers representing 12.14% market share and Tanzania Telecommunication Company Limited (TTCL) with 1,644,194 customers representing a market share 2.34%.

During the previous 5 years the number of players have declined from 8 to 5 with MNOs such as Smart Exiting the market as of March 2019, which players such as Zanzibar Telecom (Zantel) getting acquired by Tigo - Tanzania during 2022 and the more recent acquisition of Smile Communications by Vodacom Tanzania during 2023.

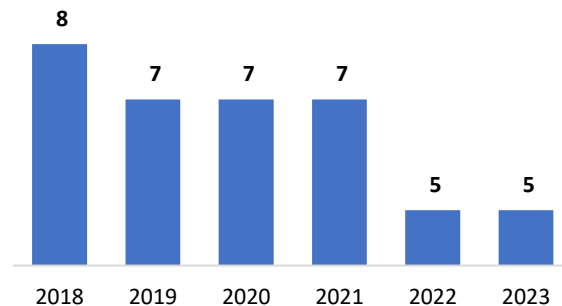
Number of Telecom Subscribers and Penetration Rate



Mobile Network Operators Market Share as of December 2023



Number of MNOs operating in Tanzania

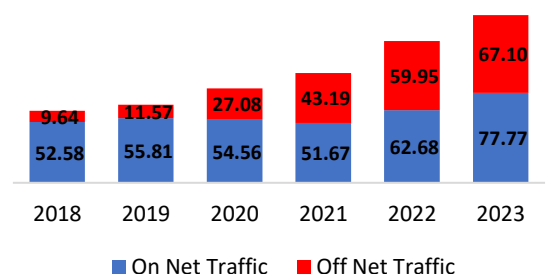


Product Offerings

1. Voice

According to TCRA, voice traffic for the past 5 years between has been increasing with the growth primarily recorded from Off-Net and On-Net Traffic. This growth has been attributed by a fall in tariffs charged for every minute of voice call initiated by a sender to receiver. The decline has primarily been attributed by fierce competition between the 5 dominant MNOs who are trying to attract price sensitive customers from corresponding competitors.

Voice Traffic in Billion Minutes



Product Offerings

1. Voice (Cont.)

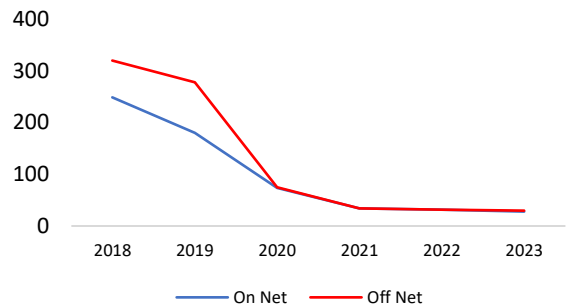
Voice Traffic to and from other East African Countries and Internationals has been declining and this is perhaps mainly attributed by the rise of social media platforms such as WhatsApp, Zoom and Google Meet which allow users to communicate with anyone from across the world using at the cost of their internet bundle subscription which according to industrial estimates tariffs for internet subscriptions have on average been 1.34% and 0.81% of the tariffs for East African and International Voice Calls respectively. It's worth noting that 2023, has seen a recovery in voice traffic from International and East African regions, while no official reason has been provided by TCRA we speculate that it could perhaps due to Tanzania's increased integration with more economic partners from across the globe as well as the continued surge in tourists particularly from Kenya, the United States and Europe who can afford flexible mobile plans that easily allow them to communicate with individuals from across the globe.

2. Messaging

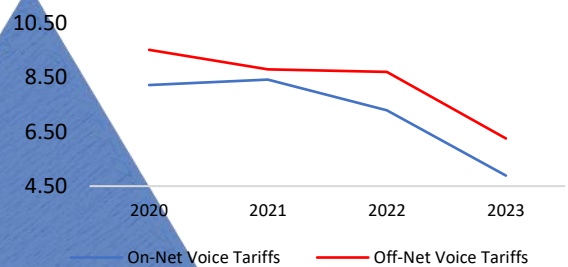
The number of Short Message Service (SMS) sent amongst MNO's in the country has grown at a C.A.G.R of 17.05% from 94 Billion SMS in 2018 to 206.55 Billion SMS in 2023. Just like with voice, the reason behind this surge in traffic is attributed by the fall in tariffs per SMS sent as price wars amongst MNOs intensifies. Local tariffs for SMS have declined at a C.A.G.R of 26.31% from an average of TZS 46.93 per SMS in 2018 to an average of TZS 10.20 per SMS in 2023. SMS incoming and outgoing to other East African countries has been on a steady decline since 2022 with the decline in the total number of SMS sent and received declining at a C.A.G.R of 3.6% from 48.04 Million SMS in 2018 to 39.83 Million SMS in 2023 while the total number of SMS sent and received from other international countries has declined at a C.A.G.R of 4.17% from 6.9 Billion SMS in 2018 to 5.61 Billion SMS in 2021, its worth noting that the number international SMS however has began recovering since

2022.

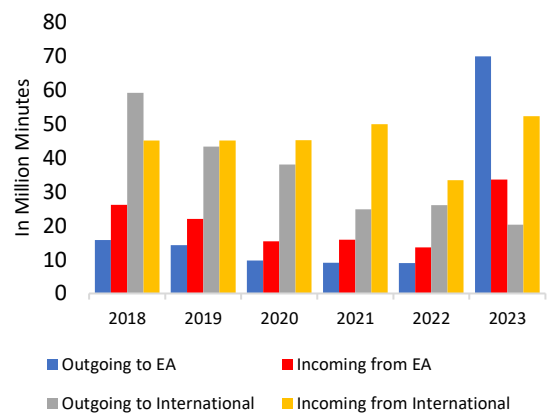
Average Voice Tariffs per Minute Trend without subscribing to a bundle



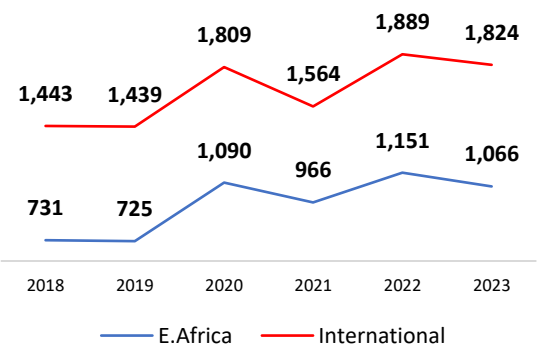
Average Voice Tariffs per Minute Trend when subscribing to a bundle



Voice Traffic with E.African & International Countries



Average Industry Voice Tariffs per Minute



Product Offerings

2. Messaging (Cont.)

The overall reason behind the 5-year decline for incoming and outgoing SMS from East African and International countries could be due to customers switching to online social media platforms that offer chat services to customers at lower tariff prices compared to those of International SMS. During the 4-year period between 2020 – 2023 industrial internet tariffs per Megabyte have been an average of 6.96% of International SMS tariffs.

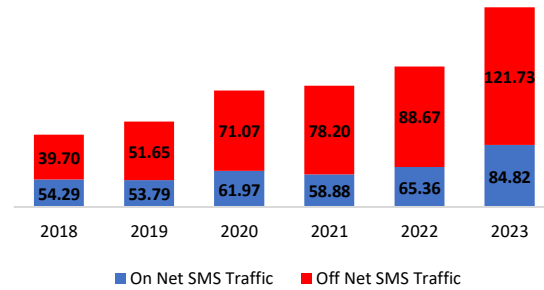
3. Internet Services

Internet service coverage has been on an upward trajectory over the past 5 years attributed by an increase in the internet penetration rate across the country, the fall in tariffs and the rise in data usage across the country. According to the TCRA, the number of internet subscribers has increased at a C.A.G.R of 8.55% from 23.81 Million subscribers in 2018 to 35.89 Million subscribers in 2023 with the penetration rate increasing from 43% as of 2018 to 58.34% as of 2023. Tariffs on the other hand have remained competitive experiencing a 72.20% decline from a peak of TZS 30.96 per MB in 2020 to TZS 8.61 per MB in 2023.

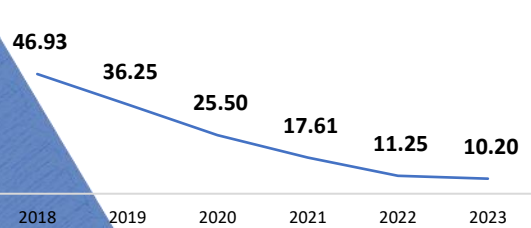
4. Mobile Money

Mobile Money Subscribers have been growing at a C.A.G.R of 17.74% from 23.37 Million Subscribers in 2018 to 52.88 Million subscribers in 2023. The number of transactions have also been growing at a C.A.G.R of 14.94% from 3.02 Billion transactions in 2018 to 5.27 Billion transactions in 2023. The value of transactions done via mobile money accounts has subsequently grown at a C.A.G.R of 4.97% from TZS 127.94 Trillion in 2020 to TZS 140.98 Trillion in 2022. As of December 2023, Vodacom's M-Pesa has had the largest market share of over 37.91% represented by 20.04 Million mobile money subscribers followed by Tigo's Tigo Pesa which commands a market share of 30.75% backed by 16.26 Million customers, then followed by Airtel Tanzania with a market share of 21.12% represented by 11.17 Million subscribers, then Halotel with its Halopesa which has a 7.63% market share from 4.03 Million subscribers

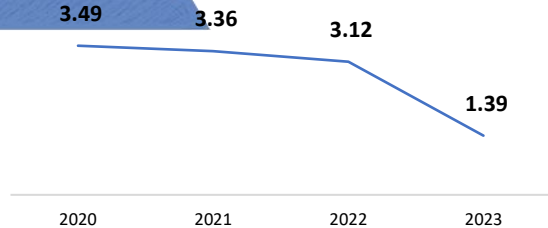
Local SMS Traffic Trend in Billions



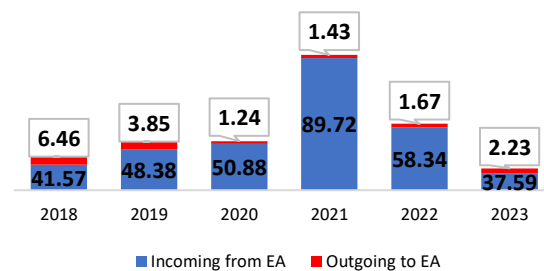
Average Local SMS Tariffs without subscribing to a bundle



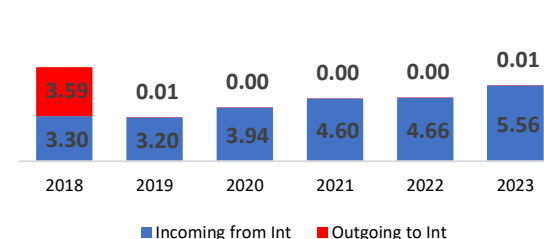
Average Local SMS Tariffs with subscribing to a bundle



SMS Traffic to and from East African Countries in Millions



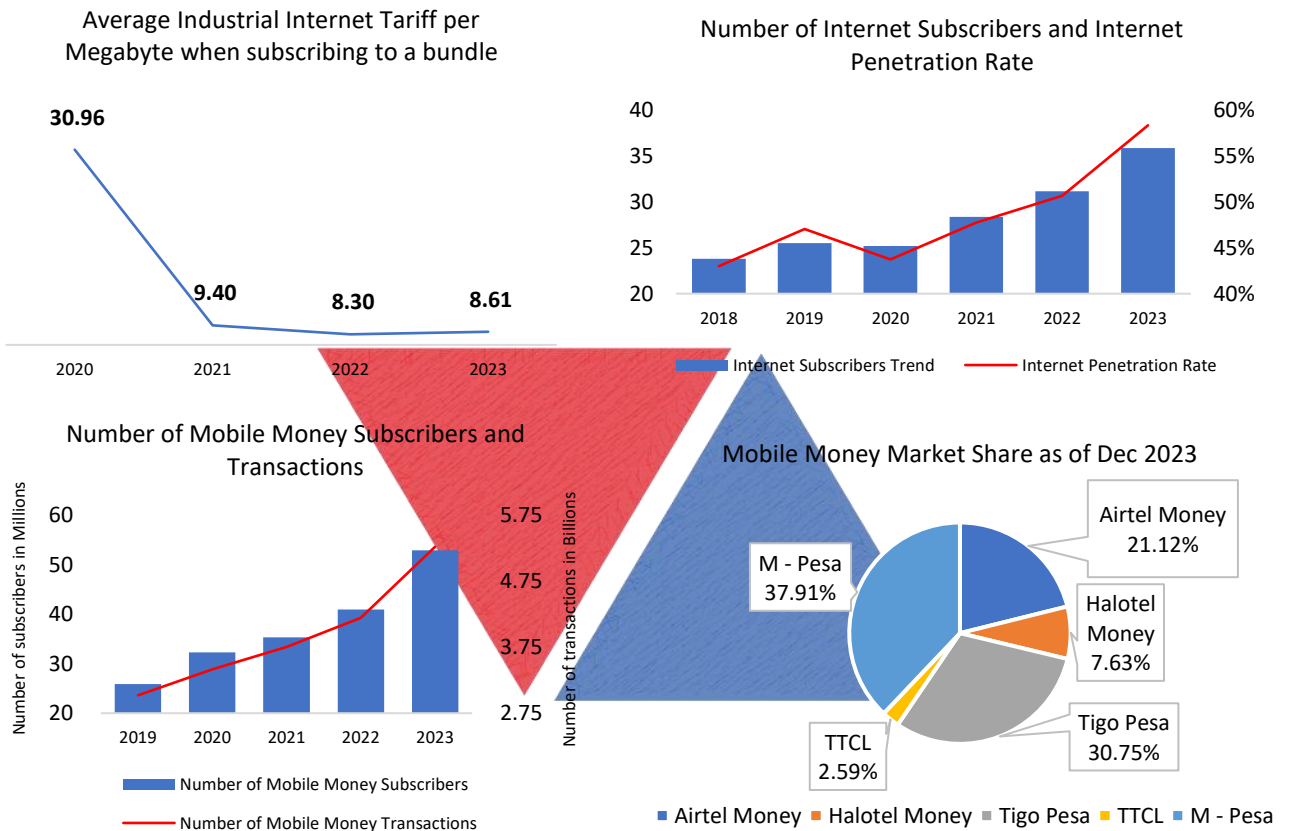
SMS Traffic to and from International Countries in Billions



Product Offerings

4. Mobile Money (Cont.)

And lastly TTCL with its T-Pesa that has a 2.59% market share represented by 1.37 Million customers



Global Trends

According to Vantage Market Research, The Global Telecommunication market is valued at USD 1.75 Trillion in 2022 and is projected grow at a C.A.G.R of 5.3% to reach a value of USD 2.65 Trillion by 2030. The market is characterized by Rising demand for high-speed internet services, Growing adoption of smartphones and tablets, growing online gaming industry, and government initiatives for widespread connectivity across remote areas.

Recent developments in the industry include the rollout of 5G networks by telecom companies worldwide as 5G promises faster speeds, lower latency, and the ability to support a massive number of connected devices. Growth of the Internet of Things (IoT) which drives demand for connectivity solutions tailored to IoT devices across various industries such as healthcare, manufacturing, and transportation. Telcos are also increasingly offering cloud-based services which are hosted on the internet to store, manage, and process data rather than on a local server or a personal computer.

Major players in the telecommunication industry across the globe include AT&T Inc, Verizon Communications Inc, Deutsche Telekom AG, Comcast Corp, Nippon Telegraph and Telephone Corp,

Global Trends

T-Mobile US Inc, Charter Communications, Vodafone Group, Orange S.A. and KDDI Corp. These 10 companies. As of Sept 30th 2023, these 10 companies have generated annual revenues of about USD 880.41 Billion and Net profits of about USD 87.24 Billion. (Source: Investopedia).

According to a report by PWC titled Perspectives from the Global Telecom Outlook 2023–2027. Global Data consumption is expected to nearly triple from 3.4 Million petabytes in 2022 to 9.7 Million petabytes in 2027 with this growth primarily fueled by digitized video content and data consumption associated with gaming driven by a continuous shift into online & cloud gaming on the business to customer (B2C) segment. As far as the business to business (B2B) segment is concerned IOT devices will become more pervasive with the total number of installed devices expected to rise from 16.4 billion in 2022 to 25.1 billion in 2027—roughly three devices for every human on the planet.

As far as Capital Expenditure is concerned the growth in telco capex is being driven by operators in the US, Europe and Japan rolling out 5G, expanding their fixed fibre infrastructure, migrating systems to the cloud and exploring open-source network solution. Additionally 5G is expected to become the leading smartphone connection type in 2025, at just over 50% of the total—and is forecast to rise to more than two-thirds in 2027

Regional Trends

The African telecom market is worth about USD 63.17 Billion in 2024 and anticipated to grow by 5.44% each year to reach USD 82.34 billion by 2029 the growth is anticipated to be primarily driven by increased digital adoption particularly from Africa's robust youth population. The market has been characterized by players diversifying revenue streams away from voice as the mobile phone market has become increasingly saturated, particularly in urban areas, with declining revenue growth from voice.

Notable efforts made towards diversifying revenue streams by African telco companies include major investments into mobile network with attempts at increasing internet penetration in the continent which is evident by International Telecommunication Union (ITU) statistics in 2021 which showed that 82% of Africa's population had access to mobile broadband coverage (49% for 4G and 33% for 3G) with projections that by the year 2029, it's expected that nearly half of all phone connections in Africa will be on a 4G network with 4G remaining as a major player in the African telecommunications market. Investments in mobile money which have seen the African continent register over 856 million mobile money accounts with over 237 million active accounts and the number of transactions reach 62 billion with transaction values worth USD 919 Billion in 2023 according to the GSMA Industry Report on Mobile Money as of 2024.

COMPETITOR ANALYSIS

The Tanzanian telecom market is comprised of 5 key players with over 70.29 Million active subscribers. The market is considered to be fiercely competitive with Vodacom Tanzania stating such competition exposes the company to market disruption risks that could impact the company in less than 6 months if drastic countermeasures are not taken. Below is an in depth analysis on Vodacom's Direct and Indirect Competitors.

Direct Competitors

1. Tigo Tanzania

Tigo Tanzania is the 2nd largest MNO in Tanzania with over 19.70 Million customers representing a 28.02% market share and 16.26 Million customers using its mobile money service Tigo - Pesa representing 30.75% of the Tanzanian mobile money market. To remain competitive in the market Tigo has had to lower prices of its services. Additionally, the company has also made invested heavily towards innovation and fostering digital inclusion with some notable achievements made such as introducing the first Smartphone in Swahili, Free Facebook in Swahili, TigoPesa App, Tigo Mobile App, the first East African cross-border mobile money transfer with currency conversion and the fastest internet network in Tanzania as of 2023 according to Ookola Speedtest Award.

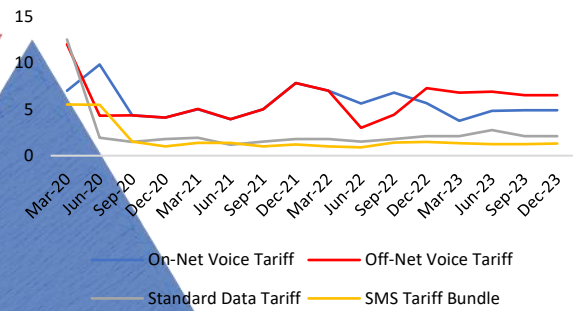
2. Airtel Tanzania

Airtel Tanzania is the 3rd largest MNO in Tanzania with over 19.14 Million customers representing a market share of 27.24% and 11.17 Million customers using its mobile money service Airtel Money representing 21.12% of the Tanzanian mobile money market. As has been with many other Tanzanian telecoms Airtel Tanzania has had to engage in price wars in order to remain competitive in the market. Recent developments made by the company include the introduction of 5G to its network capabilities, strategic partnerships with Jubilee Insurance to offer flexible insurance plans with subscriptions as low as TZS 3,500 via Airtel Money and partnerships with Tanzania Commercial Bank to unveil a group savings and lending (VICOBA) via the airtel money platform.

TIGO TARIFFS FOR SUBSCRIBING TO A BUNDLE

Selected Tariffs	Mar-20	Dec-23	C.Q.G.R
On-Net Voice Tariff	7.00	4.90	-2.35%
Off-Net Voice Tariff	12.00	6.50	-4.00%
Standard Data Tariff	12.5	2.10	-11.21%
SMS Tariff Bundle	5.5	1.30	-9.17%

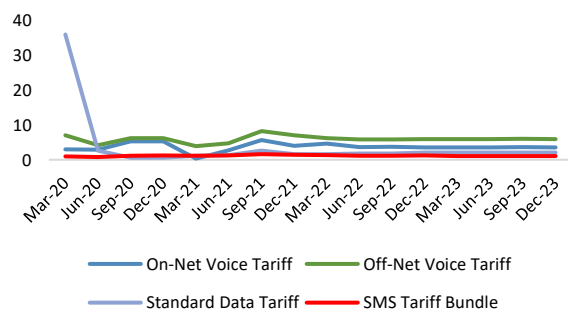
Tigo Tariff Trends with subscribing to a bundle



AIRTEL TARIFFS FOR SUBSCRIBING TO A BUNDLE

Selected Tariffs	Mar-20	Dec-23	C.Q.G.R
On-Net Voice Tariff	3.00	3.54	1.11%
Off-Net Voice Tariff	7.00	5.96	-1.07%
Standard Data Tariff	36.00	2.04	-17.42%
SMS Tariff Bundle	1.00	1.07	0.45%

Airtel Tariff Trends with subscribing to a bundle



COMPETITOR ANALYSIS

Direct Competitors

3. Halotel Tanzania

Halotel Tanzania is the 4th largest MNO in Tanzania with over 8.52 Million customers representing a 12.14% market share and 4.03 Million customers using its mobile money service Halotel Money representing 7.63% of the Tanzanian mobile money market. The company is the youngest in the telecom industry having only began its operations during October 2015, to remain competitive in the market Halotel has had to enter the market and grow its position using a price penetration approach where its charged lower tariffs for essentially all its products, however after gaining a considerable footing in the market the company seems to be switching its pricing strategy from the price penetration approach to a price follower approach. Notable achievements made by the company include being the Most Affordable & Consumer-Friendly Telecom for the years 2020, 2021 & 2022. Investment in more than 1,730 4G sites across the country and providing free communication services targeting over 2 million higher educational students in Tanzania who could become potential customers as well as being recognized as one of the fastest growing enterprises in Africa and the Middle East according to Stevie Awards in 2017.

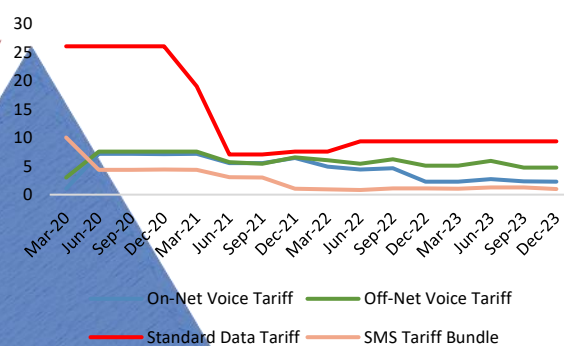
4. Tanzania Telecommunications Company Limited (TTCL)

TTCL is the a fully owned government MNO and the smallest of the 5 network providers with over 1.64 Million customers representing a 2.34% market share and 1.37 Million customers using its mobile money service T-Pesa representing 2.59% of the Tanzanian mobile money market. Despite its tariffs indicating an overall decline, its prices have remained relatively higher than that of the other 4 network operators, perhaps due to its limited customers and a weaker distribution channel compared to that of its competitors which makes it even more difficult to expand and reach the levels of its fellow network operators. The main competitive advantage it is that it manages and operates the National ICT Broadband Backbone on behalf of the Tanzanian government meaning that all other network operators depend on TTCL to maintain fiber-optic connections, high-performance routers and higher internet quality overall.

HALOTEL TARIFFS FOR SUBSCRIBING TO A BUNDLE

Selected Tariffs	Mar-20	Dec-23	C.Q.G.R
On-Net Voice Tariff	1.00	2.28	5.65%
Off-Net Voice Tariff	3.00	4.73	3.08%
Standard Data Tariff	26.00	9.35	-6.59%
SMS Tariff Bundle	10.00	0.98	-14.35%

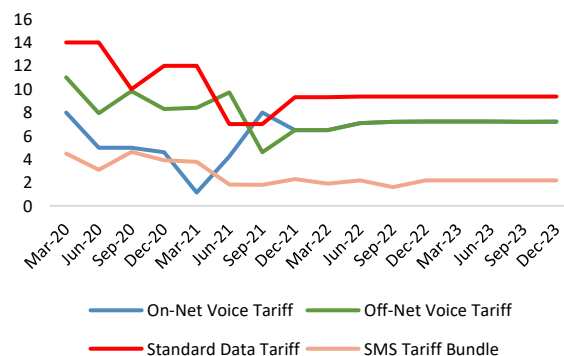
Halotel Tariff Trends with subscribing to a bundle



TTCL TARIFFS FOR SUBSCRIBING TO A BUNDLE

Selected Tariffs	Mar-20	Dec-23	C.Q.G.R
On-Net Voice Tariff	8.00	7.23	-0.67%
Off-Net Voice Tariff	11.00	7.20	-2.79%
Standard Data Tariff	14.00	9.35	-2.66%
SMS Tariff Bundle	4.50	2.18	-4.72%

TTCL Tariff Trends with subscribing to a bundle



Porter's 5 Forces

Competitive Rivalry – High

The Tanzanian Telecom Industry is a highly competitive market with 5 players. The competition has mainly been based on product pricing and the player's ability to innovate new products that resonate well with the market. Market Share is mainly concentrated to 3 players namely; Vodacom Tanzania, Tigo Tanzania and Airtel Tanzania who boast a combined market share of 85.53% as of December 2023. Despite having a leading market share in both total number of active subscribers and mobile money subscribers Vodacom has been steadily losing market share in both fronts.

Threat of New Entry – Low

The threat of new entrants is remains low due to the high level of capital required to begin operations and the large amount of capital expenditures a company needs to make every year in order to boost their coverage across the country and reach out to more customers. Additionally, large amount of revenue expenditure would have to be incurred in order to improve the entrants publicity and gain agents to sell their services across the country would greatly harm any new entrants prospects of profitability.

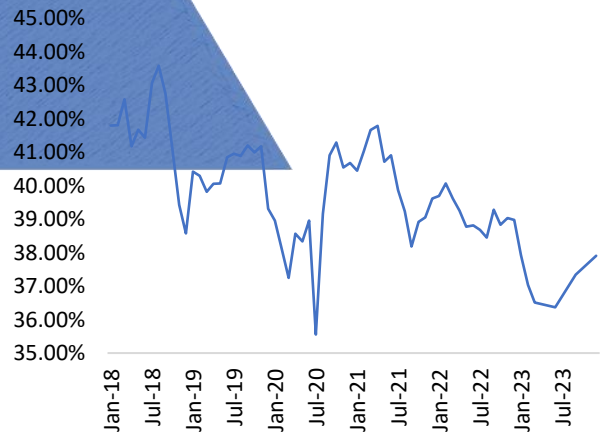
Threat of Substitution – Moderate

Threat of substitution remains low in the traditional business model for telecommunication companies as one is required to subscribe to a Mobile Network Operator in order to make and receive calls, messages and access the internet. However in the mobile money segment, the substitution threat remains elevated as individuals and organizations can easily switch towards banks and other fintech related companies if they are offered better affordability & convenience in accessing financial services such as peer to peer transactions, international money transfers, lending and insurance

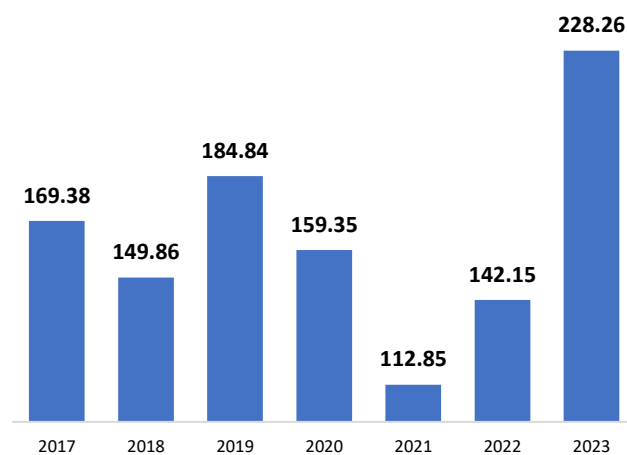
Vodacom Market Share



M-Pesa Market Share



Capital Expenditure by Vodacom Tanzania in Billions TZS

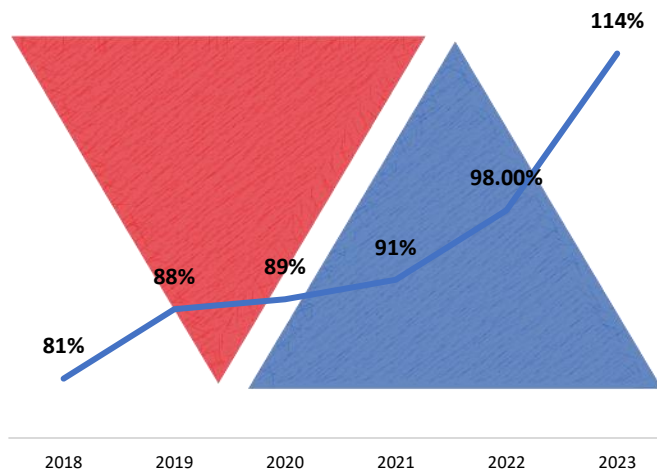


Porter's 5 Forces

Buyer Power – High

Buyer's power remains high as most customers are very sensitive to the price offering of a service provided by an MNO and would easily switch service providers if given the opportunity as the overall cost to subscribe to a new line costs less than TZS 3,000. This is the reason to why subscriptions towards Mobile Network providers is much higher than the overall population mobile phone penetration rate as a significant proportion of the Tanzanian population have ownership of 2 or more mobile carriers.

Active Subscribers Penetration Rate



Suppliers power – Moderate

Vodacom procures most of its equipment through the Vodafone Procurement Company, although Vodacom Tanzania has not disclosed any risks of being overpriced on the products that they've purchased for the delivery of their services. They have expressed that there is underlying risk involved in the case that there are delays in delivering the equipment to the company on time as that may affect their operations. However efforts have been placed to mitigate risks from the suppliers including making timely payments and transparent and fair tender processes

Management

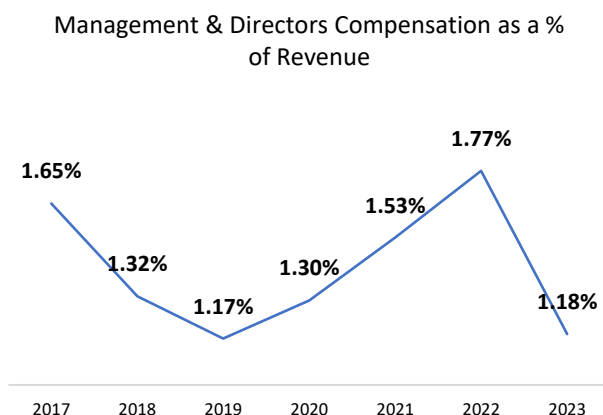
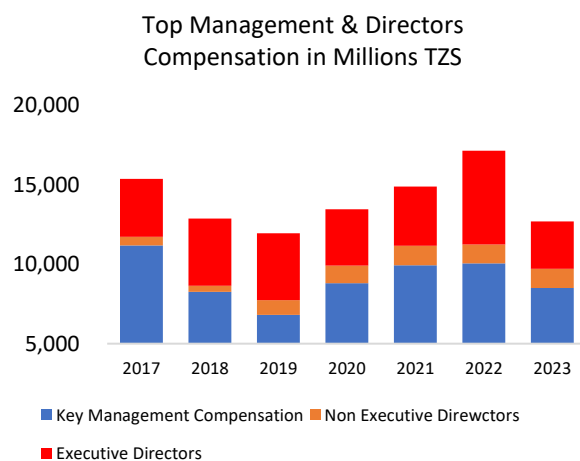
The Managing Director for Vodacom Tanzania is Mr. Philip Besiimire, appointed in September 2022. Philip was previously from MTN South Africa where he was the Chief Sales, Distribution and Regional Operations Officer since 2019. He held various senior roles at MTN including Executive Regional Operations in South Africa, Chief Executive Officer in South Sudan, Chief Marketing Officer in Zambia and Chief Marketing Officer and Acting Chief Executive Officer in Swaziland. He has over 15 years' experience in leadership and commercial execution (marketing, consumer, enterprise and mobile financial services) working with one of the largest telco companies in Africa. He holds a Master's degree in Business Administration from the Netherlands and a Bachelor of Arts in Social Sciences from Makerere University, Kampala, Uganda. Since he began his responsibilities in October of 2022 the company has earned cumulative revenues of TZS 1.17 Trillion and net profits of 45.87 Billion from October 1st 2022 – September 30th 2023 which has put the company in a favorable position from it's the cumulative losses worth TZS 50.37 Billion loss made since 2021.

Insider Ownership

The directors do not hold any direct interest in the issued share capital of the Company or any of the subsidiaries

Directors & Management Compensation

Directors and Management's compensation has declined at a C.A.G.R of 3.14% from TZS 15.37 Billion in 2017 to TZS 12.69 Billion in 2023. With recoveries in overall compensation taking place since 2020 – 2022 despite the company recording an overall loss during 2021 and 2022 while 2023 the year where they had regained profitability had seen compensations slashed by 26.03% on a year-on-year basis. Compensations to directors and top management has maintained an average of 1.42% from 2017 – 2023.



Ownership Structure as of 31st March 2023

Shareholder	Shareholding
Vodacom Group Limited	75.0%
BNYMSANV Re: BNYMLB Re: Government Employees Pension Fund	7.3%
Public Service Social Security Fund	3.8%
National Social Security Fund	2.5%
SC (T) Nominee Re: Standard Chartered Bank Uganda Re: National Social Security Fund	1.2%
National Health Insurance Fund	1.0%
Umoja Unit Trust Scheme	0.9%
JPMCB-LB Oasis Crescent Equity Fund	0.7%
Workers Compensation Fund.	0.7%
JPMCB-LB Designated First Rand Bank Ltd	0.6%
General Public	6.3%
Total	100.00%



FINANCIAL ANALYSIS

VODACOM TANZANIA FINANCIAL ANALYSIS

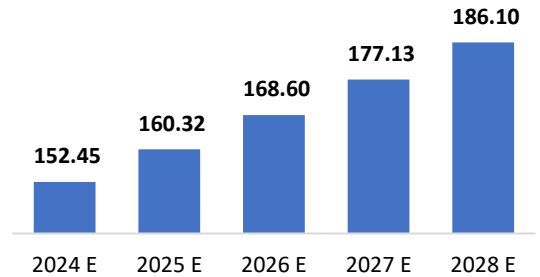
	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	Average
12 Months Ending	31-Mar-19	31-Mar-20	31-Mar-21	31-Mar-22	31-Mar-23	Average
Margins:						
EBITDA Margin	28.2%	35.3%	33.4%	30.9%	30.7%	31.90%
Operating Profit Margin	11.26%	9.30%	5.08%	6.64%	7.59%	26.29%
Net Profit Margin	8.86%	4.43%	-3.09%	-2.09%	4.15%	18.55%
Returns:						
Return on Equity	7.18%	3.65%	-3.77%	-2.61%	5.42%	29.07%
Return on Assets	4.56%	1.91%	-1.46%	-0.99%	2.01%	20.55%
Return on Capital Employed	9.88%	3.41%	0.50%	0.26%	2.16%	37.69%
Liquidity:						
Current Ratio	1.81	1.75	1.06	1.05	0.91	2.60
Quick Ratio	1.80	1.75	1.05	1.04	0.90	1.86
Cash Ratio	0.63	0.76	0.31	0.32	0.24	1.12
Leverage:						
Debt to Assets Ratio	36.57%	47.61%	61.21%	61.87%	62.85%	29.43%
Debt to Equity Ratio	57.65%	90.88%	157.77%	162.26%	169.17%	41.79%
Borrowings to Equity Ratio	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Shareholders Ratios:						
Dividend Yield	2.17%	2.86%	26.38%	0.00%	1.29%	13.24%
Dividend Payout	42.77%	118.99%	-1511.07%	0.00%	50.00%	84.90%
Sustainable Growth Rate	4.11%	-0.69%	-60.81%	-2.61%	2.71%	4.58%

Revenue

1. Mobile Voice Revenue

Mobile Voice is set to decline at a Compound Annual Growth Rate (C.A.G.R) of 1.96% from TZS 283.55 Billion as of 2023 to TZS 256.88 Billion in 2028. The rate of decline is set to be lower than the historical decline of 6.20% C.A.G.R between 2017 and 2023. This is due to a steady rise in the number of voice minutes spent by users across the telecommunication industry due to declining voice tariffs and the growth in mobile phone penetrations across the country, triggered by the increased affordability of mobile phones and a growing demographic of mobile phone users.

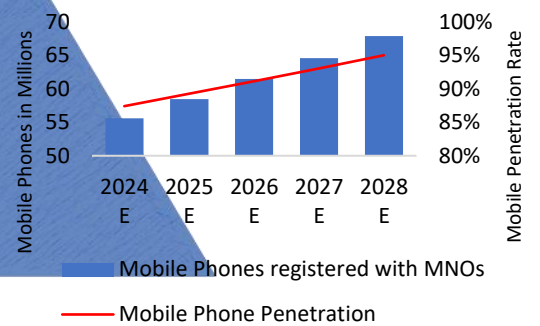
Projected Voice Traffic across Telecommunication Sector in Billion Minutes



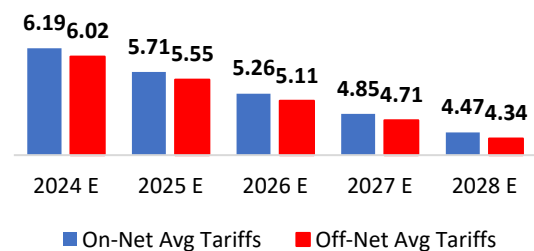
2. M-Pesa Revenue

Revenue from the M-Pesa platform is projected to grow at a C.A.G.R of 8.10% from TZS 357.14 Billion in 2023 to TZS 527.16 Billion in 2028, which would mainly be driven by the growth in M-Pesa subscribers who are projected to grow in line with the growth in the number of mobile network operators subscribers and the growth in the number of mobile phone users. Additionally, we anticipate a recovery in peer-to-peer transactions and Vodacom's transaction fees following the reduction in government levies on mobile money transactions and increased revenue from the company's value-added financial services such as an International Money Transfers (IMT), lending, insurance, and merchant payments. These efforts would align with the company's strategic objective of expanding M-Pesa's dominance in the mobile money industry.

Projection Mobile Phone Usage and Mobile Phone Penetration



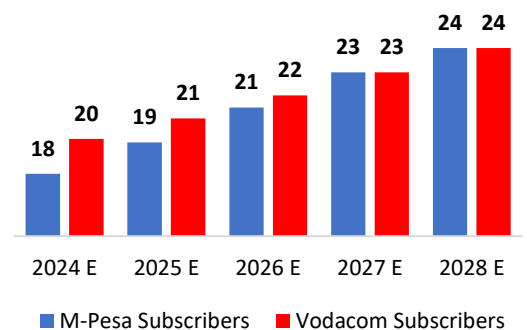
Vodacom Tanzania Projected Voice Tariffs per minute under a subscribed bundle



3. Mobile Data Revenue

Revenue from Mobile Data is projected to grow at a C.A.G.R of 15.20% from TZS 273.70 Billion in 2023 to TZS 555.30 Billion in 2028. The growth is anticipated to be fueled by a nationwide rise in internet & smartphone penetration due to efforts made by the government and telecommunication companies

Projected Subscribers in Millions

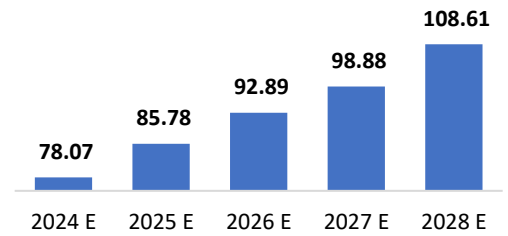


Revenue

3. Mobile Data Revenue (Cont.)

to increase mobile network coverage across the country and increase smartphone usage to achieve an internet penetration rate of 80% by 2025. Additionally, the company acquired TZS 143 Billion worth of spectrum, which will allow the company to increase the range of its radio frequencies, which is crucial for increasing the quality and coverage of its mobile network.

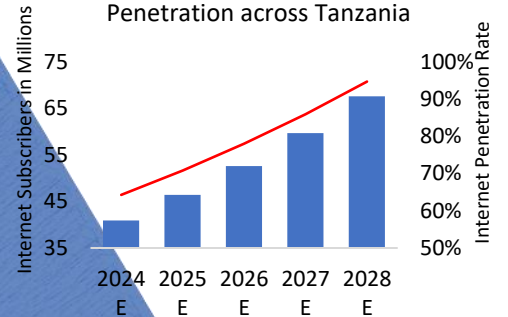
Projected Amount of Money Transacted with M-Pesa



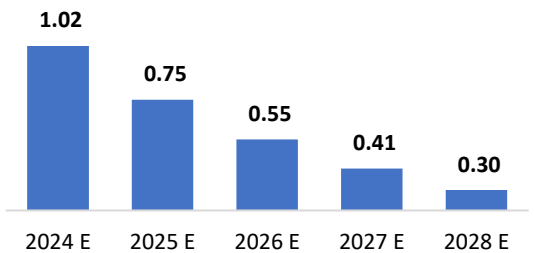
4. Digital & Value Added Service revenue

Between 2017 and 2020, Digital and VAS were aggregated between mobile voice and mobile data revenue. This revenue segment comprised off-airtime advance credit service, previously reported as part of Mobile Voice revenue, and Value Added Services, reported under Mobile Data revenue. The disaggregation is necessary to enhance consistency with other reports. We projected this revenue segment to grow at a C.A.G.R of 7.83%, the C.A.G.R of the total projected mobile voice and mobile data revenues.

Projected Internet Subscription and Penetration across Tanzania



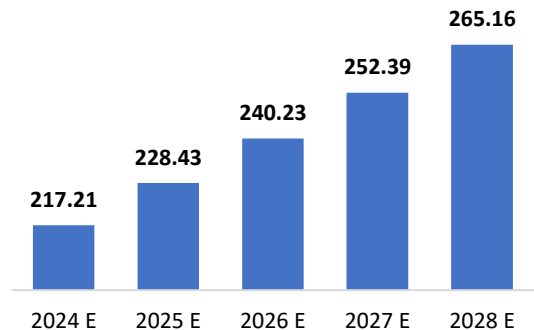
Projected Industrial Average Tariff per SMS under a subscribed bundle



5. Messaging revenue

Messaging revenue is set to decline at a C.A.G.R of 3.30% from TZS 29.04 Billion in 2023 to TZS 24.56 Billion in 2028 due to a projected reduction in Average tariffs for SMS under bundle subscription at a historical average rate of 26.29% recorded from 2020 to 2023 which won't be offset by the projected growth in SMS traffic which is estimated to grow at 5.12% C.A.G.R from 206.54 Billion SMS to 265.16 Billion SMS in line with projected mobile phone growth across the country.

Projected SMS Traffic across the Telecommunication Industry in Billions



6. Other Service Revenue

This revenue segment mainly comprises revenue from fixed internet services, which has been anticipated to grow at the same rate as mobile data as the company pursues expanding network solutions to businesses and residential customers.

FORECASTED PERFORMANCE

Revenue

7. Mobile Incoming Revenue

Mobile Incoming is anticipated to grow at a C.A.G.R of 5.98%, this is despite the 11.43% historical average decline experienced between 2017 and 2023 and that is due to the assumption that tariffs on mobile termination rate set out by TCRA are projected to remain stagnant at TZS 2 per minute on voice calls while the traffic of minutes routed to Vodacom are projected to rise in line with the voice traffic from off-net minutes.

8. Non-service revenue

Non-service revenue mainly comprises equipment revenue from the sale of mobile phones and other similar handsets. Such equipment has been projected to grow at a C.A.G.R of 23.38%, in line with historical growth, as demand for smart devices is anticipated to remain elevated in the medium term. This leads to an overall projected growth of 10.38% C.A.G.R for the business' Non-Service Revenue.

9. Finance Income

Finance Income comprises of interest income from cash and treasury bills which has been projected to average at about 3.05% of the previous year's cash and cash equivalent which is inline with the historical average. Interest Income from M-Pesa deposits which is projected to average 3.63% of the M-Pesa balances for the respective financial year which inline with the rate for 2023.

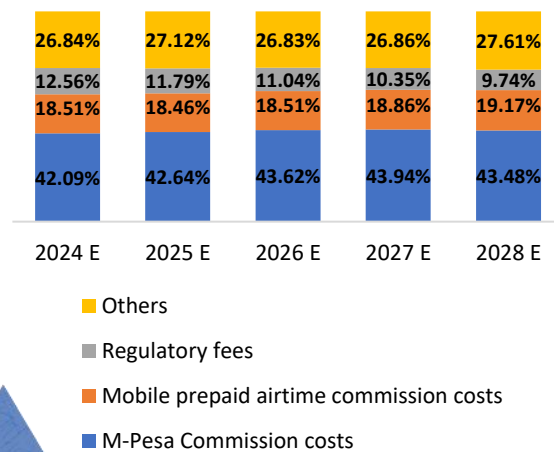
VODACOM TANZANIA REVENUE PROJECTION								
Amount in Millions TZS	2021	2022	2023	2024 E	2025 E	2026 E	2027 E	2028 E
Mobile voice revenue	302,037	286,985	283,547	277,661	272,103	266,872	261,710	256,879
Growth Rate		-4.98%	-1.20%	-2.08%	-2.00%	-1.92%	-1.93%	-1.85%
M-Pesa revenue	356,801	329,557	357,136	395,788	428,540	465,147	501,629	527,155
Growth Rate		-7.64%	8.37%	10.82%	8.28%	8.54%	7.84%	5.09%
Mobile data revenue	171,585	203,985	273,702	313,846	365,755	422,935	485,921	555,303
Growth Rate		18.88%	34.18%	14.67%	16.54%	15.63%	14.89%	14.28%
Digital & VAS revenue	24,749	36,294	35,797	37,998	40,975	44,312	48,027	52,174
Growth Rate		46.65%	-1.37%	6.15%	7.84%	8.14%	8.38%	8.63%
Mobile incoming revenue	58,141	48,105	46,340	54,321	56,638	58,734	57,978	61,947
Growth Rate		-17.26%	-3.67%	17.22%	4.26%	3.70%	-1.29%	6.85%
Messaging revenue	31,877	28,861	29,038	28,083	26,844	25,884	25,137	24,558
Growth Rate		-9.46%	0.61%	-3.29%	-4.41%	-3.58%	-2.89%	-2.30%
Other service revenue	20,824	22,728	28,202	29,619	31,649	33,538	35,298	36,937
Growth Rate		9.14%	24.08%	5.02%	6.85%	5.97%	5.25%	4.65%
Non-service revenue	8,377	14,510	19,256	23,004	27,627	28,887	30,186	31,551
Growth Rate		73.21%	32.71%	19.46%	20.10%	4.56%	4.50%	4.52%
Revenue	974,391	971,025	1,073,018	1,160,319	1,250,132	1,346,310	1,445,885	1,546,504
Growth Rate		-0.35%	10.50%	8.14%	7.74%	7.69%	7.40%	6.96%

Expenses

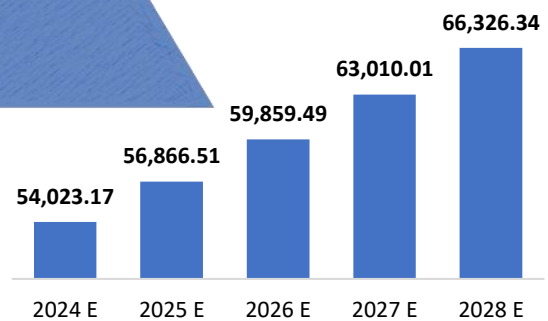
1. Direct Expenses

Direct Expenses are anticipated to average 31.24% of the company's total revenue during the period between 2024 – 2028 with the expenses forecasted to grow at a C.A.G.R of 6.37% from TZS 349.47 Billion in 2023 to TZS 475.90 Billion in 2028. Significant items that make up the company's direct expense include M-Pesa Commission costs paid out to M-Pesa agents which are projected to stand at 39.24% of the company's projected M-Pesa Revenue in line with its historic average. Mobile prepaid airtime commission costs which is the Commission paid out to the retailer for selling voucher which used to subscribe to minutes, SMS or data has been projected to stand at 10.93% of the company's revenue from Mobile Data, Voice and Messaging. While regulatory fees paid out were projected to remain the same at TZS 46.36 Billion during the 5-year period.

Direct Expenses Breakdown



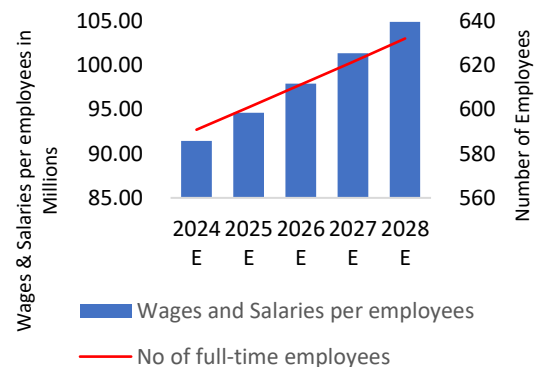
Projected Wages and Salaries to Employees in Millions TZS



2. Staff Expenses

Staff Expenses are projected to grow at a C.A.G.R of 5.92% from TZS 65.23 Billion in 2023 to TZS 86.94 Billion in 2028. The growth is primarily driven by the projected growth in the number of employees from 581 full time employees in 2023 to 632 full time employees in 2028 as the company continues to expand its operations, the growth is also inline with historical growth rates. Additionally, average salaries and wages per employee is expected to grow by 3.3% which is inline with our projected inflation outlook for Tanzania in the medium term.

Projected Average Wages and Salaries per Employees & Number of Employees



3. Publicity Expenses

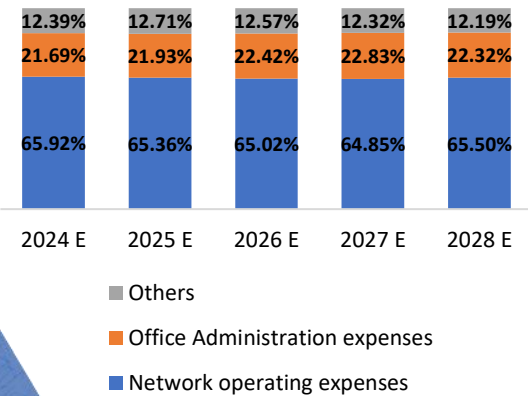
Publicity Expenses are projected to average at about 3.12% of revenue between 2024 – 2028 with the expenses growing at a 11.47% C.A.G.R from TZS 36.66 Billion in 2024 to TZS 46.90 Billion in 2028.

Expenses

4. Other Operating Expenses

Other Operating expenses are anticipated to average 27.18% of the company's total revenue during the period between 2024 – 2028 with the expenses forecasted to grow at a C.A.G.R of 7.05% from TZS 298.31 Billion in 2023 to TZS 419.35 Billion in 2028. Significant items that make up the company's other operating expenses include Network Operating Expenses which are expenses incurred with maintaining the company's network equipment. These expenses have been projected to average 17.76% of the sales revenues generated while Office Administration Expenses have been projected to average about 6.05% of the total revenue generated during the forecasted period

Other Operating Expenses Breakdown



5. Depreciation & Amortization

Projected Depreciation Rates for Plant, Property & Equipments as well as Intangible Assets					
Years	2024 E	2025 E	2026 E	2027 E	2028 E
Leasehold Land & Buildings	2.58%	2.58%	2.58%	2.58%	2.58%
Network Infrastructure & Equipment	22.72%	22.72%	22.72%	22.72%	22.72%
Other Assets	35.78%	35.56%	35.67%	35.62%	35.64%
Licenses	7.19%	7.18%	6.91%	6.38%	6.91%
Computer software	38.43%	37.91%	38.01%	38.34%	38.63%

*Figures are based on historical % of opening Net Book Values and CapEx for the respective assets

6. Finance Costs

Finance Costs comprise of interest expenses from lease liabilities which are projected to average at 11.31% of the opening balances for the respective lease liabilities in line with historical averages. Finance costs are also comprised of interest expenses from M-Pesa deposits of which were projected to average 3.63% of the M-Pesa balances for the respective financial year.

7. Income Tax Expenses

Income tax expenses are projected to stand at 30% of the company's Profit before Tax

Methodology used

A Dividend Discount Model (DDM) and Free Cash Flow to Equity (FCFE) Model were used to approximate the intrinsic share price for Vodacom Tanzania. The inherent value result from the DDM Model was assigned a 70% weight, with the remaining 30% weight given to the FCFE Model. A higher weight was given to the DDM Model, since the company has historically offered most of its profit returns in the form of dividends rather than reinvestments and since most small-scale retail investors gauge their returns based on the dividends paid by the company.

Discount Rate

Vodacom Tanzania's discount rate was 19.26%, derived from the Capital Asset Pricing Model (C.A.P.M). To arrive at this figure, the 5-year bond yield of 10.0922% from the primary market auction held on 2nd August was used, and the Equity risk premium of 11.18% which was sourced from https://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/ctryprem.html for countries with Moody's credit ratings of B1, as the website has not been updated with Tanzania's recent credit rating upgrade to B1 positive outlook as of March 2024. A levered beta of 0.82, the average levered beta for Telecom service providers in emerging markets was sourced from [betaemerg.xls \(live.com\)](#)

COST OF CAPITAL	
Latest 5-Year Bond Yield	10.09%
Beta	0.82
Equity Risk Premium	11.18%
Capital Asset Pricing Model	19.26%

Sustainable GrowthRate

The sustainable growth rate used when calculating for the Terminal Value was 6%, derived from the average projected growth rates for Tanzania's economy in the medium term by various sources such as the African Development Bank, the World Bank and IMF.

Discount Dividend Model

Discounted Dividend Model (Amounts in per share basis):	2024 E	2025 E	2026 E	2027 E	2028 E
Projected Dividend per Share	11.62	17.08	22.48	27.67	33.22
Present Value	9.74	12.01	13.25	13.68	13.77

VALUATION

Discount Dividend Model (Cont.)

Discounted Dividend Model (Amounts in per share basis):	2024 E	2025 E	2026 E	2027 E	2028 E
Projected Dividend per Share	11.62	17.08	22.48	27.67	33.22
Present Value	9.74	12.01	13.25	13.68	13.77

Details	Amounts in per share basis
Present Value of 2027 Projected Dividend	13.77
Discount Rate	19.26%
Sustainable Growth Rate	6.00%
Terminal Value per share	103.83

Details	Amounts
Sum of Present Value per share	62.45
Terminal Value per share	103.83
Total Intrinsic Value per share	166.29

Free Cash Flow to Equity Model

Free Cash Flow to Equity Model (Amount in per share basis):	2024 E	2025 E	2026 E	2027 E	2028 E
Free Cash Flow to Equity	4.24	41.10	46.49	52.35	58.90
Present Value	3.56	28.90	27.41	25.88	24.41

Details	Amounts in per share basis
Present Value of 2027 Free Cash Flow to Equity	24.41
Discount Rate	19.26%
Sustainable Growth Rate	6.00%
Terminal Value per share	184.12

Details	Amounts
Sum of Present Value per share	110.15
Terminal Value per share	184.12
Total Intrinsic Value per share	294.27

The Intrinsic Value per share

Methodology	Intrinsic Value per share	Weight	Weighted Value
Discounted Dividend Model	166.29	70%	116.40
Free Cash Flow to Equity	294.27	30%	88.28
Intrinsic Value per share			204.68

Margin of Safety

Intrinsic Value	204.68
Market Price	770.00
Downside	73.42%

Sensitivity Analysis Table

Sustainable Growth Rate	Cost of Capital					
	204.68	17.26%	18.26%	19.26%	20.26%	21.26%
4.00%	230.99	211.70	195.16	180.83	168.31	
5.00%	237.44	217.01	199.59	184.56	171.47	
6.00%	245.04	223.20	204.68	188.81	175.04	
7.00%	254.12	230.48	210.61	193.69	179.12	
8.00%	265.16	239.18	217.59	199.38	183.81	

Projected Income Statement

AMOUNTS IN TZS 000,000 except per share basis & ratios					
YEARS	2024 E	2025 E	2026 E	2027 E	2028 E
Revenue	1,160,318.8	1,250,132.1	1,346,309.8	1,445,885.0	1,546,504.0
Direct Expenses	(369,011.3)	(393,299.0)	(419,842.8)	(448,075.6)	(475,897.0)
Staff Expenses	(70,361.1)	(73,941.3)	(77,944.3)	(82,459.5)	(86,943.1)
Publicity Expenses	(36,662.7)	(39,554.4)	(41,744.9)	(45,170.5)	(46,902.8)
Other Operating Expenses	(312,581.3)	(339,671.7)	(367,739.5)	(395,942.5)	(419,347.7)
Share-based payment charges	-	-	-	-	-
Operating Costs before Depreciation Charges	(788,616.4)	(846,466.4)	(907,271.4)	(971,648.0)	(1,029,090.6)
EBITDA	371,702.4	403,665.7	439,038.4	474,237.0	517,413.4
Depreciation & Amortization	(242,022.9)	(239,744.7)	(242,801.8)	(247,229.6)	(257,052.9)
Impairment Charges	(3,332.4)	(3,531.8)	(3,832.7)	(4,100.5)	(4,394.3)
Total Depreciation, Amortization and Impairment Charges	(245,355.3)	(243,276.6)	(246,634.5)	(251,330.1)	(261,447.2)
Operating Profits	126,347.2	160,389.2	192,403.9	222,906.9	255,966.2
Gain on sale of equity stock investment	-	-	-	-	-
Finance income	28,579.6	27,834.5	31,469.5	33,474.7	37,090.0
Finance costs	(77,609.1)	(75,968.2)	(77,044.9)	(76,357.7)	(77,535.6)
Net loss/gain on foreign currency translation	(2,939.0)	(2,939.0)	(2,939.0)	(2,939.0)	(2,939.0)
Net Finance Income/(Cost)	(51,968.5)	(51,072.7)	(48,514.4)	(45,822.0)	(43,384.6)
Profits before income tax	74,378.7	109,316.5	143,889.5	177,084.9	212,581.6
Income Tax Expenses	(22,313.60)	(32,794.94)	(43,166.85)	(53,125.47)	(63,774.49)
Profit for the year	52,065.1	76,521.5	100,722.6	123,959.4	148,807.1
Basic & Diluted Earnings per Share	23.24	34.16	44.97	55.34	66.43
Dividend per Share	11.62	17.08	22.48	27.67	33.22
Special Dividend per share	-	-	-	-	-

FINANCIAL STATEMENTS

Projected Balance Sheet

AMOUNTS IN TZS 000,000 except per share basis & ratios YEARS	2024 E	2025 E	2026 E	2027 E	2028 E
STATEMENT OF FINANCIAL POSITION					
ASSETS:					
Non-Current Assets:					
Goodwill	1,639.0	1,639.0	1,639.0	1,639.0	1,639.0
Property & Investment	355,843.0	368,675.5	387,382.5	1,023,416.3	1,063,043.1
Intangible Assets	200,114.3	191,788.1	184,851.3	179,218.8	173,598.6
Capacity prepayments	39,564.2	38,847.5	39,177.9	39,721.8	40,655.7
Income Tax Receivables	37,036.0	36,173.2	34,371.0	35,169.6	35,687.5
Trade & other receivables	3,768.3	5,888.1	8,026.4	10,400.4	12,898.2
Deferred tax assets	52,353.0	52,353.0	52,353.0	52,353.0	52,353.0
Deferred loss	-	-	-	-	-
	1,230,324.3	1,295,364.4	1,307,801.1	1,341,319.5	1,385,881.0
Non-current assets held for sale	-	-	-	-	-
	1,230,324.3	1,295,364.4	1,307,801.1	1,341,319.5	1,385,881.0
Current Assets:					
Capacity Prepayments	18,305.3	19,709.4	21,680.4	23,865.6	26,414.0
Inventory	3,416.1	2,942.7	1,472.1	1,202.8	652.3
Trade and other receivables	126,893.8	131,996.3	140,888.8	148,245.7	156,567.3
Income tax receivables	11,501.0	12,363.8	14,166.0	13,367.4	12,843.5
Mobile financial deposits	564,856.3	620,626.1	672,062.3	715,396.2	785,843.5
Short term investment	-	-	-	-	-
Bank and cash balances	197,785.2	228,766.7	257,061.6	285,727.7	313,880.6
	322,758.3	1,016,405.7	1,107,331.2	1,187,805.4	1,296,207.3
TOTAL ASSETS	2,213,083.2	2,311,770.1	2,415,132.3	2,529,725.0	2,682,088.3
EQUITIES & LIABILITIES:					
EQUITY:					
Share capital	112,000.0	112,000.0	112,000.0	112,000.0	112,000.0
Share premium	442,435.0	442,435.0	442,435.0	442,435.0	442,435.0
Capital contributions	27,698.0	27,698.0	27,698.0	27,698.0	27,698.0
Retained earnings	265,622.5	303,883.3	354,244.6	416,224.3	490,627.3
TOTAL EQUITY	847,755.5	886,016.3	936,377.6	998,357.3	1,072,760.3
Non-current liabilities:					
Lease liabilities	402,598.7	387,535.5	368,651.8	361,055.4	348,028.1
Government grants	1,132.2	333.5	108.2	41.4	12.1
Deferred tax liabilities	-	-	-	-	-
Trade and other payables	-	-	-	-	-
Provision	4,253.3	5,165.2	5,658.2	5,525.1	5,972.2
	407,984.7	393,034.1	374,418.1	366,621.8	354,012.3
Current liabilities:					
Lease Liabilities	72,369.35	72,509.05	75,696.32	68,823.55	67,623.69
License Payable	-	-	-	-	-
Borrowings	-	-	-	-	-
Trade and other payables	299,818.0	326,216.8	345,411.0	369,421.6	390,791.3
Mobile deposits and Interest due to customers	564,856.3	620,626.1	672,062.3	715,396.2	785,843.5
Income tax payable	-	-	-	-	-
Government grants	10,667.3	3,860.3	1,415.3	462.2	143.5
Provisions	3,630.8	3,506.8	3,750.3	10,636.2	10,312.5
	957,342.3	1,032,719.6	1,104,336.5	1,164,745.8	1,255,315.1
TOTAL LIABILITIES	1,365,327.6	1,425,753.8	1,478,754.7	1,531,367.6	1,609,327.4
TOTAL EQUITY & LIABILITIES	2,213,083.2	2,311,770.1	2,415,132.3	2,529,725.0	2,682,088.3



SOLOMON Stockbrokers

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