



Safaricom share price drops after Airtel cut



Photo: Investors queue to buy Safaricom shares.

Safaricom's share price has dropped 5.56 per cent since Thursday's announcement of a tariff cut by rival Airtel, with analysts saying investors are watching to see what action the leading mobile phone company will take to protect its market share.

Robert Munuku, a research analyst at Drummond Investment Bank, said the market was reacting to the possibility that Airtel's 67 per cent price cut could have re-opened tariff wars in the mobile phones market, a move that is expected to erode revenues from airtime sales—the biggest revenue driver in the industry.

Safaricom's share price has fallen by 5.56 per cent from Sh4.75 to Sh4.50 since Wednesday, when its competitor Airtel reduced the price of calls within its network to Sh1 from Sh3 per minute, the lowest in the industry.

"It (the price) did have an immediate affect on the share price," said Mr Munuku. "We expect a slowdown of activity on Safaricom as investors watch to see its response to Airtel's price cut on its calling rates, which may trigger fresh rivalry in the industry," said the Sterling Investment Bank's research desk.

Price war

For Safaricom, a retaliatory move would eat into voice income which accounts for 77.7 per cent of total revenues.

Financial results for the first half of 2010 showed that revenues from voice were Sh31.5 billion of the Sh40 billion total revenues that the mobile phone operator made therefore a reduction in prices would affect revenues from this revenue stream and consequently earnings.



Eric Musau, a research analyst at African Alliance Investment Bank, said that there was a tepid response from both local and foreign investors, who have previously been bullish on the stock.

When the price war started in August, investment banks downgraded their rating of the Safaricom's share price.

Kestrel Capital, for example, reduced its rating from Sh6.20 to Sh4.85 at the time.

Safaricom's financial year ends in March and Mr Musau said that they would wait until then when official results are announced, but added that Airtel's announcement that it had increased its subscriber base from 3 million to 5 million is "quite positive."

Safaricom still has the lion's share of the market as per statistics from the industry regulator, the Communications Commission of Kenya (CCK).

The CCK data shows that the firm had 16.2 million of the 20 million total mobile phone subscriber base as of September 2010.

The mobile phone industry however still has room for growth given the current low penetration levels.

"As at the end of the quarter being reported June 10, the penetration of mobile service was reported at 51.2 per 100 inhabitants which is still below the world average of 67.0 per 100 inhabitants," said the CCK's quarterly report on the industry.