

Company Update Report

Vodacom Group Limited

Telecommunications

Analyst thesis

Ticker	VOD-ZA
Share price	R154
Intrinsic value	R182
Upside/(Downside)	18%
Recommendation	Buy

As at: 14 September 2026

Our recommendation is based on:

- **Safaricom consolidation as a structural catalyst:** Vodacom completed the acquisition of an additional effective 20% stake in Safaricom on 30 June 2026, increasing its holding from approximately 35% to a controlling share of 55%. The R35 billion transaction comprised of a 15% stake acquired from the Government of Kenya and an effective further 5% acquired from Vodafone Group. On a full-year consolidated basis, Safaricom is expected to make a significant contribution to reported group results, with group EBITDA projected to increase by 47%.
- **Fintech becoming a key growth engine:** Vodacom is leveraging its large mobile customer base and trusted M-Pesa, Vodafone Cash and VodaPay platforms to deepen its role in everyday financial services across Africa. Strong financial-services growth in Egypt and the International M-Pesa markets, combined with the consolidation of Safaricom, expands Vodacom's fintech scale and strengthens the group's position in Africa's mobile financial-services market.
- **Egypt and the International portfolio:** These businesses provide attractive growth opportunities outside the mature South African market, with revenue growth translating into operating leverage and supporting group earnings diversification. They benefit from rising smartphone penetration, strong data consumption, underpenetrated digital financial services, and expanding merchant ecosystems.
- **Key risks:** Key risks include the negative impact of translating local currency earnings into earnings reported in ZAR, currency depreciation, inflation, stricter regulation, spectrum costs, and political or economic disruption. There is also integration risk associated with incorporating Safaricom into broader group operations and managing its position as a strategic public asset.

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Key highlights

In this report, we review Vodacom's latest trading update for the quarter ended 30 June 2026, released in July 2026:

Financial results at a glance:

- **Revenue:** Group revenue grew by 5.9% (11.4% on a normalised basis) from the corresponding period to R42.4 billion, supported by 17.8% growth in financial services revenue, but was impacted by translation effects from a stronger ZAR. Normalised group services revenue grew 12.6%, supported by strong performance in Egypt, which achieved service revenue growth of 32.8% in local currency, reflecting continued investment in spectrum and network capacity.
- **Vodacom's 'beyond mobile' services** rose from 21.4% to 22.8% of group service revenue year-on-year, generating R7.8 billion in the quarter. Financial services remain the largest component of 'beyond mobile', including Safaricom. Mobile wallet transaction value expanded 19.1% year-on-year to \$547.9 billion.
- **Group financial services revenue** grew by 17.8% to R4.5 billion on a reported basis and 27% on a normalised basis.
- **Group capital expenditure (capex)** was R4.9 billion, representing 11.5% of group revenue reinvested in capex during the quarter. Management continues to guide capex to 13.5%-14.5% over the medium term.
- **FY26 free cash flow (FCF)** rose 20.1% to R21.8 billion, headline earnings per share (EPS) moved 22.9% higher to 1 053 cents, and return on capital employed improved to 27.5% from 23.5%.
- **FY26 dividend** advanced by 18.5% to 735 cents per share. However, the R35 billion debt-funded Safaricom acquisition increases leverage and has prompted a revision in the dividend policy to a payout of at least 65% of headline earnings, from at least 75%.

Management outlook

Following the consolidation of Safaricom, Vodacom has upgraded its medium-term outlook, targeting double-digit normalised service revenue growth and low-teens EBITDA and operating FCF growth over the next three years. Growth will be supported by the continued expansion of financial services, data and fixed connectivity, including fibre through Maziv and Herotel, fixed-wireless access, and enterprise offerings in cloud, cybersecurity and IoT. Under Vision 2030, Vodacom targets revenue exceeding R300 billion, 275 million customers, 130 million financial services customers, smartphone penetration above 75%, and 'beyond mobile services contributing more than 30% of group service revenue.



Sector outlook

The South African mobile market is mature, competitive, and increasingly constrained by consumer affordability pressures, limiting broad-based subscriber and prepaid-revenue growth. The key opportunity remains the continued growth in mobile data usage, supported by rising smartphone adoption, greater 4G/5G penetration and increasing data consumption per device. The principal sector risks remain sustained price competition, the expansion of mobile virtual network operators, consumer downtrading, regulatory uncertainty, and the possibility that rapid data-traffic growth outpaces declining revenue from lower data prices.

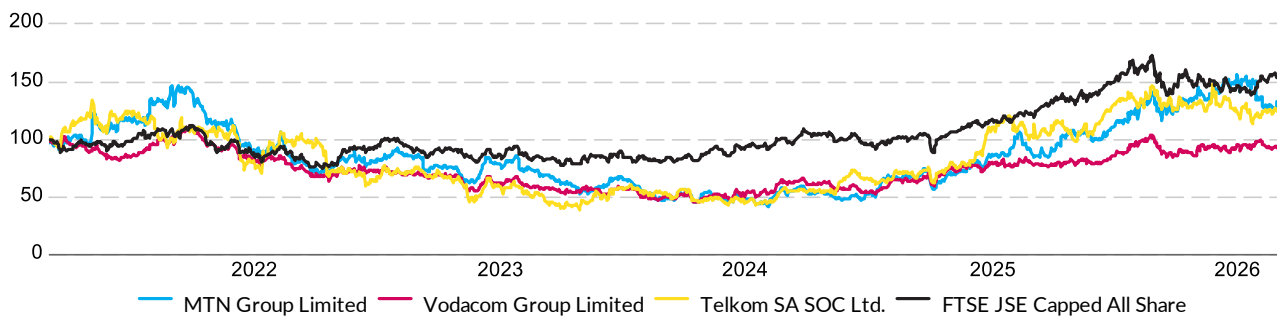
Table 1: Qualitative summary

Factor	Rating	Description
Growth	★★★★☆	Expected three-year revenue CAGR is 17.2%, and expected three-year EPS CAGR is 12.7%. On average over the next three years, management targets the following on a normalised basis: Double-digit group service revenue growth and low-teens group EBITDA growth.
Valuation	★★★★☆	The share price is trading at an 18% discount to the intrinsic value (IV). Current NTM P:E of 12.3x is trading at a 6% premium to the five-year average P:E of 11.6x.
Dividend	★★★★☆	LTM dividend yield of 4.9%. NTM dividend yield of 5.0%.
Issuance	★★★★☆	Shares issued have increased by 14% over the past five years. The dilution is largely linked to the Safaricom transaction, particularly the shares issued to Vodafone as consideration for the original acquisition of its Safaricom interest.
Catalyst		Safaricom consolidation and execution: Increasing the stake from 35% to 55% broadens Vodacom's future reported revenue EBITDA, and financial-services exposure, while giving it greater strategic control over Kenya and Safaricom Ethiopia. Financial services acceleration: Vodacom's platforms such as M-Pesa, Vodafone Cash and VodaPay address consumers and merchants, improving transaction frequency and broadening the pool of commission and service revenue. Egypt's operating momentum: Egypt remains the group's strongest organic growth market, supported by mobile data demand, Vodafone Cash adoption and industry price increases implemented in May 2026. Fibre and enterprise growth: Expansion through Maziv and Herotel can accelerate Vodacom's presence in the home and business fibre market.
Quality of earnings	★★★★☆	Five-year average ROE is 20.1%. Five-year average operating profit margin is 22%. The business has recorded positive earnings growth in seven of the past 10 years. Earnings quality is supported by recurring revenue from subscription connectivity, data, enterprise services and financial services, while cash conversion has remained strong. However, reported ZAR earnings have been volatile because of foreign exchange movements, inflation and the timing of major portfolio changes, including the addition of Vodafone Egypt and, more recently, Safaricom.
Moat	★★★★☆	Intangible assets: These consist primarily of brand strength, regulated licences, spectrum holdings, operating relationships and local market expertise. Vodacom, Vodafone, M-Pesa and Safaricom are deeply established brands in their respective markets. Network effects: M-Pesa, Vodafone Cash and VodaPay benefit from two-sided network effects, where greater consumer participation attracts more merchants and service providers, while greater merchant acceptance makes the platform more useful to consumers. Efficient scale: Vodacom's established network base, spectrum holdings and national coverage make it difficult for smaller competitors to replicate its quality and scale, as doing so would require significant capital investment.
Management and governance	★★★★☆	The current CEO, Shameel Joosub, has been with the group for 32 years. His long track record is complemented by CFO Raisibe Morathi's balance sheet and financial services expertise. As a controlled company, Vodacom Group has access to Vodafone's operational and capital-allocation capabilities. The additional purchase of Safaricom increases Vodacom's ownership to 55%, with the Kenyan government owning 20% and public investors holding 25%. This represents a material governance change. A resolution was passed giving Vodafone Kenya the right to nominate candidates for the pool from which the Safaricom CEO is appointed, as well as five board appointments. The board retains formal appointment authority, but Vodacom or Vodafone now has far greater practical influence over Safaricom's leadership and strategy.
Balance sheet	★★★★☆	Net debt-to-EBITDA ratio of 1x, interest coverage ratio of 4.8x. Debt-to-assets ratio of 34.1%.
Risks		Foreign exchange translation: A stronger rand and volatility in the Egyptian pound can weaken reported growth relative to local currency operating performance. Safaricom integration and accounting effects: The transaction increases debt, raises leverage toward the guided 1.5x net debt-to-EBITDA threshold, and creates higher depreciation and amortisation through purchase-price allocation. Regulatory and political risk: Spectrum allocation licence conditions, pricing regulation, mobile-money rules, tax changes and political developments can affect returns across African markets. Ethiopian execution: Safaricom Ethiopia remains a scale-up business. It provides meaningful long-term upside but requires sustained customer acquisition, network investment and a path towards the expected FY27 EBITDA breakeven. Consumer affordability and competition: South Africa remains highly competitive, and pressure on lower-income consumers could constrain prepaid recovery and pricing growth.

Sources: FactSet, PSG Wealth



Graph 1: Five-year price (Indexed to 100)



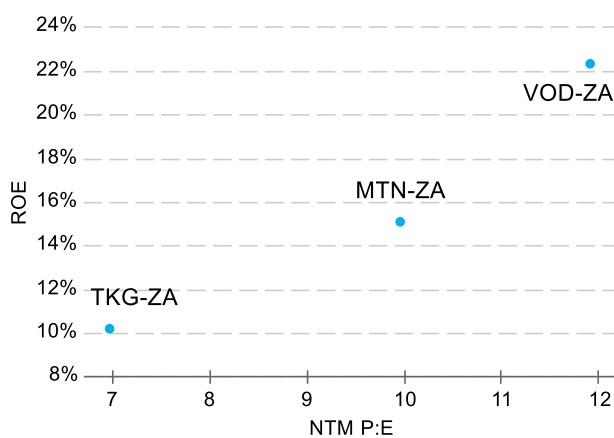
Source: FactSet

Table 2: Price performance versus benchmark and peers

Period	YTD	MTD	3M	6M	1Y	2Y	3Y	5Y	10Y
VOD-ZA	4.4%	-1.2%	-1.8%	-9.3%	5.1%	34.1%	36.0%	4.0%	-3.7%
MTN-ZA	17.1%	5.0%	-7.2%	-4.4%	36.3%	123.3%	61.9%	49.7%	66.4%
TKG-ZA	-5.9%	0.4%	-10.3%	-13.7%	9.7%	96.5%	106.0%	40.7%	-7.7%
Capped All Share	0.2%	-0.3%	3.4%	-8.9%	14.5%	38.9%	55.2%	72.4%	113.2%

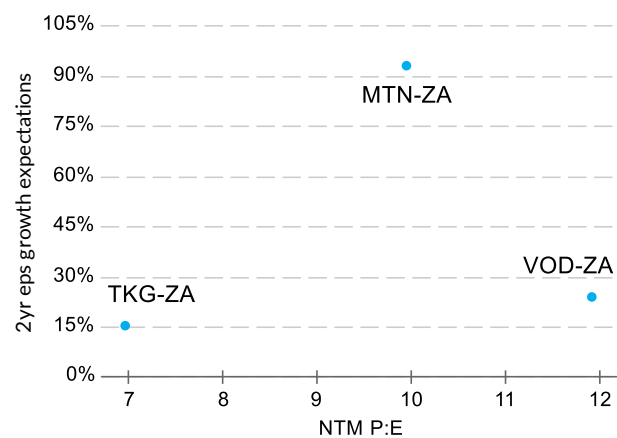
Source: FactSet

Graph 2: P:E vs 2Y average ROE



Source: FactSet

Graph 3: P:E vs 2Y Growth forecast



Source: FactSet

Valuation

Our valuation uses a two-year forward EV:EBIT exit multiple, with outcomes expressed through probability-weighted bear, base, and bull scenarios. The framework reflects Vodacom's transition towards a more diversified African connectivity and financial-services platform following the consolidation of Safaricom, while recognising that reported rand earnings remain exposed to FX translation, acquisition-related leverage and execution risk. The bear case assumes muted South African growth and FX pressure on reported earnings. The base case assumes sustained execution against Vision 2030, with growth driven by Egypt and Safaricom Kenya, and expansion of M-Pesa. The bull case assumes rapid financial services and data monetisation across M-Pesa, Vodafone Cash and VodaPay.

Table 3: Valuation summary

Valuation probabilities			
	Bear	Base	Bull
EV: EBIT multiple	5x	6x	8x
Probability	20%	65%	15%
Implied share price	R145	R179	R246
Weighted intrinsic value	R182		
Upside/(Downside)	18%		

Sources: FactSet, PSG Wealth

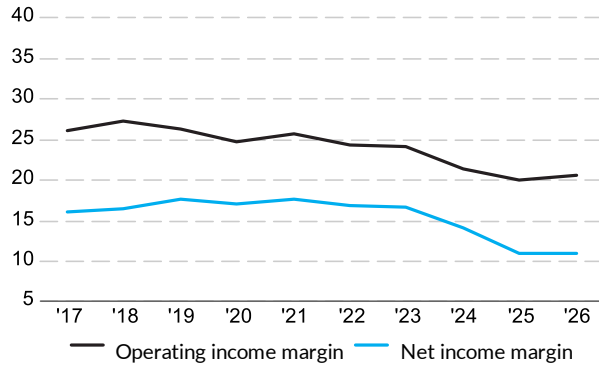


Graph 4: NTM P:E relative to benchmark



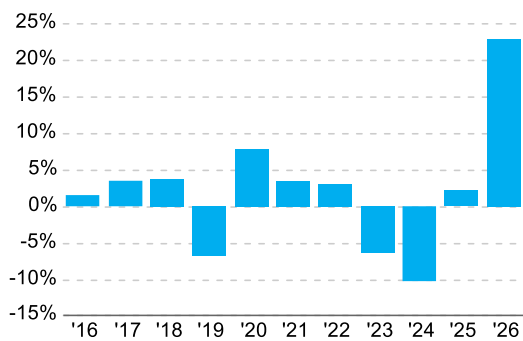
Source: FactSet

Graph 5: Profit margins (%)



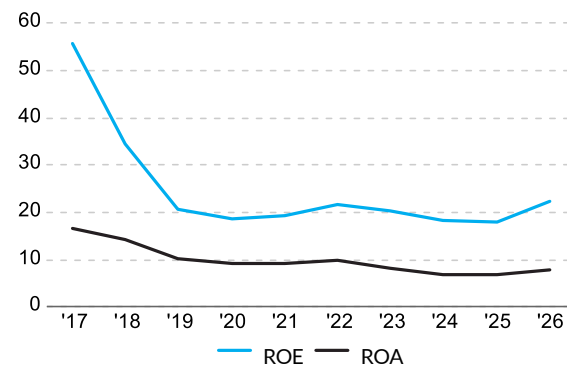
Source: FactSet

Graph 6: 10Y EPS year-on-year change



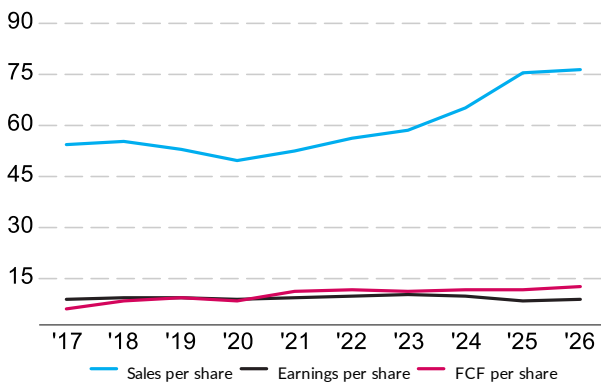
Source: FactSet

Graph 7: ROE and ROA (%)



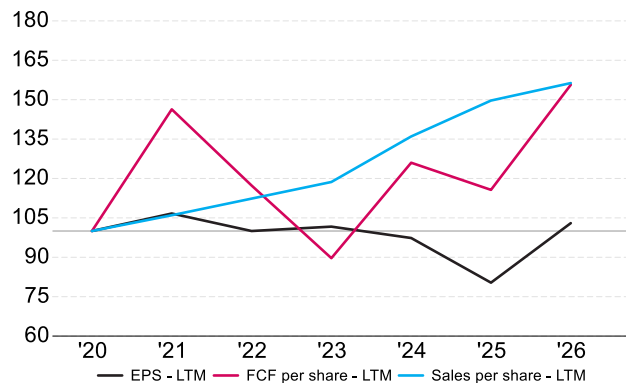
Source: FactSet

Graph 8: Sales, earnings and FCF per share (ZAR)



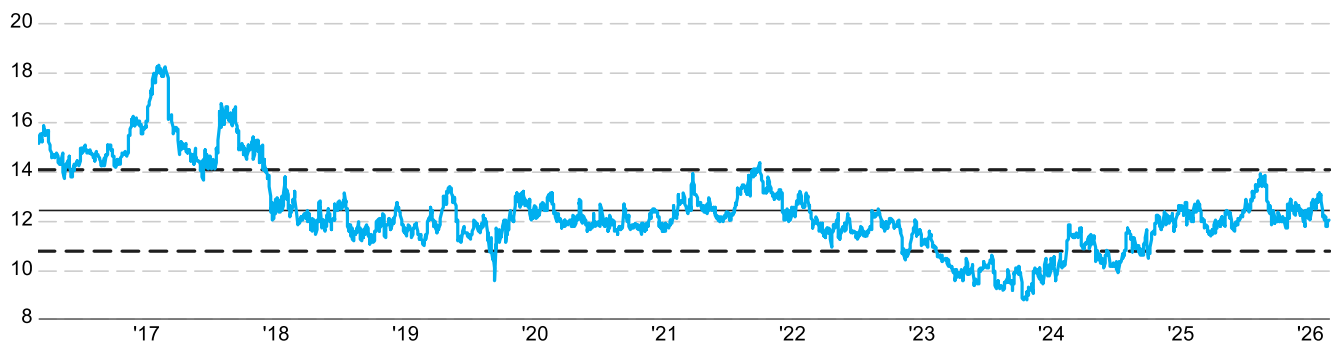
Source: FactSet

Graph 9: Sales, earnings, and FCF per share indexed



Source: FactSet

Graph 10: NTM P:E



Source: FactSet



Table 4: Financials and ratios

Income statement (RMn)	Mar 22	Mar 23	Mar 24	Mar 25	Mar 26	1Y Growth	3Y CAGR	5Y CAGR
Revenue	102 736	119 170	150 594	152 227	167 652	10%	12%	11%
Cost of sales	38 624	45 942	57 700	59 340	64 262	8%	12%	2%
Gross income	64 112	73 228	92 894	92 887	103 390	11%	12%	21%
EBIT	28 236	29 252	35 337	35 791	44 108	23%	15%	13%
EBITDA	39 888	45 144	56 116	55 511	62 626	13%	12%	10%
Net income	17 734	18 111	19 262	19 891	26 737	34%	14%	10%
EPS (ZAR)	10.1	9.5	8.4	8.6	10.7	24%	4%	2%
Balance sheet (RMn)	Mar 22	Mar 23	Mar 24	Mar 25	Mar 26	1Y Growth	3Y CAGR	5Y CAGR
Total assets	177 967	228 315	240 613	249 981	276 433	11%	7%	10%
Total shareholders' equity	85 466	97 427	103 828	103 652	107 235	3%	3%	5%
Total liabilities	92 501	130 888	136 785	146 329	169 198	16%	9%	14%
Ratios	Mar 22	Mar 23	Mar 24	Mar 25	Mar 26	5Y Avg		
Net debt/EBITDA	0.9	1.1	0.9	1.0	1.0	1.0		
Interest coverage	6.1	4.6	3.7	3.8	4.8	4.6		
Debt/assets	29.5%	30.8%	30.5%	31.1%	34.1%	31.2%		

Source: FactSet

Table 5: Standard finance and investment abbreviations

Abbreviation	Definition
R/ZAR	South African rand
CAGR	Compounded annual growth rate
DCF	Discounted cash flow
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
EPS	Earnings per share
FCF	Free cash flow
FTTH	Fibre-to-the-home
FX	Foreign exchange
FY	Financial year
IoT	Internet of Things
LTM	Last 12 months (also known as trailing)
M&A	Mergers and acquisitions
MTD	Month-to-date
MTN-ZA	MTN Group Limited
NTM	Next 12 months (also known as forward)
P:E	Price to earnings
ROA	Return on assets
ROE	Return on equity
TKG-ZA	Telkom SA SOC Limited
VOD-ZA	Vodacom Group Limited
YoY	Year-on-year
YTD	Year-to-date



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*Share price as at closing.

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