

## Airtel Africa

### Q1 23 earnings in line, valuation premium widens

Stock Rating: SELL

Price Target: N1,051.07

Price (28-Jul-2022): N1,905.40

Potential Upside / Downside: -44.8%

Tickers: AIRTELAF.NL / AIRTELAFRI.LG

Airtel Africa (AIRTELAFRI) released its Q1 23 unaudited results before the market opened today, 28 July (note: March year-end). The group reported EPS of US\$0.04 (+30.4% y/y) in Q1 22, underpinned by strong revenue growth and decreased tax charges.

The achieved EPS, when annualised, was in line with our estimate (-2.1% variance) for FY 23 but was 3.6% lower than consensus estimates.

The market's reaction was neutral as the stock was flat today on the NGX Exchange. Year-to-date, the stock is up by 99.5%. However, on the London Stock Exchange today the parallel-listed Airtel Africa stock fell by 8.0% in reaction to the results as analysts were disappointed by the earnings miss and erosion of EBITDA margins in Nigeria.

Chart 1: Airtel Africa Q1 2023 results (March year-end)

Income Statement (US\$ millions)	Q1 22	Q1 23	y/y	Q4 22	q/q
Revenue	1,112	1,257	13.0%	1,222	2.9%
Expenses	(581)	(645)	11.0%	(646)	-0.2%
EBITDA	534	614	15.0%	578	6.2%
D&A	(182)	(189)	3.8%	(188)	0.5%
EBIT	352	425	20.7%	390	9.0%
Net Interest	(97)	(151)	55.7%	(131)	15.3%
Non-operating exceptional items	4	-	Na	102	na
Associate	-	2	Na	-	na
PBT	259	276	6.6%	361	-23.5%
Tax	(117)	(98)	-16.2%	(119)	-17.6%
Minority Interest	(17)	(15)	-11.8%	(50)	-70.0%
Net Income	125	163	30.4%	191	-14.7%
EPS (US\$)	0.03	0.04	30.4%	0.05	-13.1%
DPS (US\$)	-	-		0.03	na
Ratios	Q1 22	Q1 23	y/y	Q4 22	q/q
EBITDA Margin	48.0%	48.8%	82bps	47.3%	155bps
EBIT Margin	31.7%	33.8%	216bps	31.9%	190bps
Tax Rate	45.2%	35.5%	-967bps	33.0%	254bps
Net Profit Margin	11.2%	13.0%	173bps	15.6%	-266bps
ROAE	10.8%	14.1%	-788bps		
ROAA	3.8%	4.7%	-276bps		
Net debt/EBITDA (x)	1.80	1.30			
Operating KPIs	Q1 22	Q1 23	y/y	Q4 22	q/q
ARPU (US\$) (quarterly)	3.1	3.2	3.2%	3.2	0.0%
Total customer base (m)	120.8	131.6	8.9%	128.4	2.5%
Data customer base (m)	42.4	46.5	9.7%	46.7	-0.4%
Mobile money customer base (m)	23.1	27.6	19.5%	26.2	5.3%

Source: Company data, Coronation Research

### Revenue growth slowed to eight-quarter low

Revenue grew by double-digits for the eighth successive quarter in Q1 23. However, the pace of growth slowed to 13.0% year-on-year, an eight-quarter low. According to management, the slowdown was attributable to the effect of voice customers barred in Nigeria and the loss of tower sharing revenues following the recent sales of towers in Tanzania, Madagascar and Malawi. Nonetheless, the growth was primarily driven by growth in Data (+17.4% y/y) and Voice (+8.5% y/y).

Growth in Data, which contributed 33.3% (Q1 22: 32.0%) to revenue, was delivered through a combination of Data customer base growth (+9.7% y/y) and Data Average Revenue Per User (ARPU) growth (+5.0% y/y). According to management, the expansion of AIRTELAFRI's 4G network infrastructure helped drive the customer base growth, and 88.4% of the Group's sites are now operating on 4G, compared with 79.4% in the prior year. In addition, 4G customers made up 44.1% of the total Data customer base.

Total customer base growth (+8.9% y/y) and Voice ARPU growth (+1.8% y/y), following the continued expansion of the Group's network and distribution infrastructure, supported voice revenue (+8.5% y/y) which accounted for 48.5% of total revenue in Q1 23.

Elsewhere, Mobile money revenue (+28.2% y/y) continued to grow by double-digits, following the continued expansion of the Group's distribution network, particularly the expansion of the exclusive channel of Airtel money branches and kiosks. However, although growth in the segment remains strong, we note that mobile money revenue growth has slowed in recent quarters (Q2 22: +35.0%; Q3 22: +33.6%; Q4 22: +33.6%). According to management, this was due to the implementation of additional levies by the Government of Tanzania on mobile money withdrawals and P2P transactions from July 2021, which have subsequently been revised on several occasions. Ex-Tanzania, mobile money revenue grew by 34.2%.

During the quarter, total expenses (ex-depreciation) grew by 11.0% y/y, as inflation negatively impacted the company's cost base, particularly energy costs. Nevertheless, EBITDA grew by 15.0% y/y, with the EBITDA margin expanding slightly to 48.8% (vs 47.3% in Q4 22 and 48.0% in Q1 22).

### Lower tax rate underpins higher profits

Net finance costs (+55.7% y/y) rose in Q1 23 due to a US\$51m increase in foreign exchange and derivative losses and a US\$6m increase in interest on lease obligations. Overall, Q1 PBT grew 6.6% y/y. The total tax charge declined by 16.2% year-on-year due to the initial recognition of a deferred tax credit of US\$21m in Kenya. As a result, Net profits grew 30.4 % y/y.

### Conference call highlights

#### Cash upstreaming

- Airtel Nigeria repatriated US\$150m-US\$160m in Q1 23 at an undisclosed exchange rate. The average exchange rate of the transaction was somewhere between the official exchange rate and the parallel market exchange rate.

#### Nigeria margin contraction

- The EBITDA margin in Nigeria fell by 424bps to 51.0%. The contraction was primarily due to the rise in local diesel prices.
- The company models a 10% devaluation in the Naira to have a 1% impact on its EBITDA margin
- AIRTELAFRI is trying to mitigate diesel cost pressures by moving from diesel to battery and solar power. It is also implementing cost-sharing agreements with tower companies (towercos).
- Management is renegotiating how much of the fuel price increases are passed on by the towercos by guaranteeing new sites and actively encouraging conversion of new sites to solar and battery power.

#### National Identification Number (NIN) - SIM linkage impact in Nigeria

- Airtel Nigeria barred (voice calls only) 13.6m subscribers in April 2022. Since then, 5.3m of those subscribers have submitted their NINs (8.3m did not submit), and services have been reinstated to 2.3m subscribers.
- There has been some SIM consolidation – customers who had multiple SIMs have shifted usage to one primary SIM.
- AIRTELAFRI recorded an increase in ARPU from customers who transferred usage to Airtel.
- 37m-38m customers can make calls but all customers (46m) can access data and SMS services.

#### Slowdown in data revenue growth

- AIRTELAFRI Q1 23 data revenue grew by 17.4% y/y, much slower than in Q4 22 (26.3%). According to management, this was due to higher churn due to NIN-related call barring in Nigeria. In addition, there was a downward adjustment in data prices in the Francophone Africa region to make data services more affordable, while in East Africa, data prices were reduced in response to competitive pressures.
- High end data users showed increased usage – 4G data usage per customer grew from 6.5GB in Q4 22 to 7.5GB in Q1 23.
- Customers lost due to NIN are at the lower end of the market. However, smartphone penetration has increased across the board.

#### Nigeria PSB

- Smartcash had a soft launch in May and a full launch in June. Management did not give any KPIs on the business as it is still early days.

#### Research | Nigeria | Equities

## Conclusion

---

AIRTELAFRI's operational performance in Q1 23 was strong and in line with our expectations. We expect that continued network and infrastructure expansion will see the Group deliver substantial revenue and earnings growth over the rest of FY 23. The investment case for the company remains the same – the company is well-positioned to capture increasing mobile and internet adoption across Africa's largely underpenetrated market – and we think this has already been priced-in.

However, on the NGX Exchange in Nigeria, the stock continues to trade at valuations that we find unjustifiably rich. Moreover, it has become more expensive since our last note. On our estimates, the stock is trading on forward P/E and EV/EBITDA multiples of 25.0x and 8.3x, a rich premium to emerging market peer multiples of 13.7x and 5.6x. Furthermore, in London, it trades at a Forward P/E of 10.8x.

We think the primary reasons for the mispricing are majorly around Nigeria's FX liquidity conundrum and the stock's low liquidity compared with its market capitalisation. In our view, a much-improved FX liquidity could take the steam out of the rally. Accordingly, we maintain our SELL recommendation on the stock.

**Analyst:**

**Ope Ani, Senior Analyst**

[oani@coronationam.com](mailto:oani@coronationam.com)

# Disclaimer & Disclosure

The analyst(s) and/or Head of Research has (have) produced this report independently of the company or companies, and independently of the issuer of security or securities, covered in this report, and (has) have done so using publicly-available information. Information used in the preparation of this report is believed to be accurate at the time of going to press, though not verified independently. No liability is accepted for errors nor omissions of fact, nor is any warranty given for the reasonableness, accuracy or completeness of the information presented. Market information may have been gathered from different sources, including official and government sources, and processed in arriving at the opinion(s) expressed in this report.

This report is intended as background information for clients of Coronation Asset Management Ltd, and clients of its subsidiaries and affiliates, and is not to be read as a solicitation, approval or advice to buy or sell securities.

Neither Coronation Asset Management Ltd, its directors, employees and contractors, nor its subsidiaries and affiliates, nor the directors, employees and contractors of its subsidiaries and affiliates, accept(s) responsibility for losses or opportunity costs, whether direct or consequential, that may be incurred as a result of trading, or not trading, in securities covered in this report, or other securities, as a result of any decision taken after reading this report. Clients of Coronation Asset Management Ltd, and of its subsidiaries and affiliates, who read this report, should not rely on it for the purposes of making investment decisions and should make their own evaluation of: the potential performance of securities; the risks involved in buying or selling securities; the volatility and liquidity of securities; and of other factors such as interest rates, exchange rates, exchange rate liquidity, trading costs, settlement and custody. Clients of Coronation Asset Management Ltd, and of its subsidiaries and affiliates, who read this report, should assess their own investment objectives and financial capacities when taking investment decisions and should consult a relevant financial adviser in these respects.

This report is intended for the clients of Coronation Asset Management Ltd, and of its subsidiaries and affiliates. Copying and reproduction of this report, and onward forwarding, is only allowed with the specific permission of Coronation Asset Management Ltd, its subsidiaries and affiliates. Receipt of this report does not qualify you as a client of Coronation Asset Management Ltd, its subsidiaries and affiliates. If you are in unauthorised receipt of this report you are requested to notify Coronation Asset Management Ltd, or one of its subsidiaries or affiliates, and to return or delete the report.

This report is intended for corporate and institutional clients of Coronation Asset Management Ltd, and of its subsidiaries and affiliates, where those clients are regulated and professional investment customers and market counterparties. This report is not intended for individual investors.

This report is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulations.

Coronation Research is a department within Coronation Asset Management Ltd which supplies research services to Coronation Asset Management Ltd, and is ring-fenced with regard to the activities of Coronation Asset Management Ltd. The Head of Research, contractors and employees of Coronation Research do not receive any non-public information regarding the investments or investment objectives of Coronation Asset Management Ltd and do not take part in its internal meetings.

Coronation Asset Management Ltd and its subsidiaries are incorporated under the laws of the Federal Government of Nigeria and are licensed by the Central Bank of Nigeria and by the Securities and Exchange Commission of Nigeria.

Your attention is brought to the fact that the analyst(s), and/or Head of Research, mentioned at the beginning of this report is (are) employed by Coronation Asset Management Ltd in the Federal Republic of Nigeria, and while subject to the laws of the Federal Republic of Nigeria is (are) not subject, as author(s) of this report, to the laws of other countries, notably the United States of America ('US'), the member states of the European Union ('EU'), or the United Kingdom ('UK'), during and after its membership of the EU) as these laws may affect the production, publication and distribution of this report.

Your attention is brought to the fact that the analyst(s), and/or Head of Research, mentioned at the beginning of this report, is (are) not registered or qualified as research analysts with the Financial Industry Regulatory Authority in the US, nor registered with the

Financial Conduct Authority of the United Kingdom. No liability for compliance with those laws, with respect to this report, is accepted by Coronation Asset Management Ltd, its directors, staff and contractors, or those of its subsidiaries and affiliates.

Where this report is distributed to clients and potential clients of Coronation Asset Management Ltd, and of its clients and affiliates, in the European Union ('EU'), including the United Kingdom ('UK'), during and after its membership of the EU, this report is either: a) distributed by virtue of a contract between Coronation Asset Management Ltd, its subsidiaries and affiliates, and the client for research services, or: b) distributed as a free sample, for a given period of time, pursuant to a future contract for the sale of research services.

The opinions expressed in this report concerning the company(ies) and securities covered, accurately represent the personal views of the analyst(s) and Head of Research whose names are given at the beginning of the report. No part of the compensation of the analyst(s) and Head of Research mentioned at the beginning of this report is, or will be, related to the views or recommendations(s) given in this report.

## Conflicts of Interest

The compensation of the analyst(s), and/or Head of Research, mentioned at the beginning of this report is not linked to the recommendations, forecasts, estimates or opinions expressed in this report, nor to commissions or spreads or other gains generated in trading securities, whether covered in this report or not.

This report is produced by the Research Department of Coronation Asset Management Ltd and may be used, after its publication, by other departments of Coronation Asset Management Ltd for advisory or trading purposes, or otherwise for the assessment of companies and securities. However, it is the policy of Coronation Asset Management Ltd that no department influences the opinions, estimates, forecasts or recommendations of the Research Department, nor is privy to the contents or recommendations of the Research Department's reports and recommendations ahead of their publication. It is also the policy of Coronation Asset Management Ltd that members of the Research Department are not privy to knowledge of advisory mandates, or other fiduciary relationships, engaged in by other departments. Coronation Asset Management Ltd, its directors, contractors and staff, and its subsidiaries and affiliates and their directors, contractors and staff, and connected parties, may have positions in the securities covered by this report, and may have advisory and/or other fiduciary relationships with companies covered in this report. As such, this report should not be considered free from bias.

## Disclosures for companies cited in report

The table below outlines currently known conflicts of interest that may unknowingly bias or affect the objectivity of the analyst(s) with respect to an issuer that is the subject matter of this report. Disclosure(s) apply to Coronation Asset Management or any of its direct or indirect subsidiaries or affiliates with respect to any issuer or the issuer's securities.

- A) The analyst(s) responsible for the preparation and content of this report (as shown on the front page of this report) holds personal positions, directly or indirectly, in securities of the company(s) to which this report relates.
- B) The analyst(s) responsible for this report as indicated on the front page is a board member, officer or director of the Company(ies)
- C) Coronation Asset Management or its affiliates have recently been the beneficial owners of 1% or more of the securities mentioned in this report.
- D) Coronation Asset Management or its affiliates have managed or co-managed a public offering of the securities mentioned in the report in the past 12 months.
- E) Coronation Asset Management or its affiliates have received compensation for investment banking services from the issuer of these securities in the past 12 months.
- F) Coronation Asset Management or its affiliates expects to receive compensation for investment banking services from the issuer of these securities within the next three months.
- G) The company (s) covered in this report is a client of Coronation Asset Management or its affiliates.

H) Coronation Asset Management has other financial or other material interest in the Company

Security Name	Available Disclosure
Zenith Bank	
Guaranty Trust Bank	
Access Bank	D, E, F, G
FBNH Holdings	E, F, G
United Bank for Africa	
Stanbic IBTC Holdings	

## Coronation Research's equity research rating system

Coronation Research's Investment ratings are a function of the research analyst's expectation of a stock's performance relative to relevant indices or peers. The benchmark used in deciding our stock rating is the trailing three-year average yield of the 12-month T-Bill plus one standard deviation rounded to the nearest percent.

Coronation Asset Management uses the following rating system:

<b>Buy:</b>	The analyst considers the stock undervalued and expects the stock to outperform the Benchmark over the next 12 months or the stated investment horizon.
<b>Hold:</b>	The analyst considers the stock to be fairly valued and expects the stock to perform in line with the Benchmark over the next 12 months or the stated investment horizon.
<b>Sell:</b>	The analyst considers the stock overvalued and expects the stock to underperform the Benchmark over the next 12 months or the stated investment horizon.
<b>Under Review (UR):</b>	Where the company covered has a significant material event with further information pending or to be announced, it may be necessary to temporarily place the investment rating Under review. This does not revise the previously published rating but indicates that the analyst is actively reviewing the investment rating or waiting for additional information to re-evaluate the expectation of the company's performance.
<b>Not Rated:</b>	This applies when the stock is either not covered by Coronation Research or the rating and price target has been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances including when Coronation Asset Management is acting in an advisory capacity in a merger or strategic transaction involving the company or due to factors which limits the analysts' ability to provide forecasts for the company in question.
<b>Price Targets:</b>	Price targets reflect the analyst's estimates for the company's earnings. The achievement of any price target may be impeded by general market and macroeconomic trends, and by other risks related to the company or the market and may not occur if the company's earnings fall short of estimates.

In cases where issuing of research is restricted due to legal, regulatory or contractual obligations, publishing investment ratings will be restricted. Previously published investment ratings should not be relied upon as they may no longer reflect the analysts' current expectations of total return. While restricted, the analyst may not always be able to keep you informed of events or provide background information relating to the issuer.

If the investment rating on a stock has not been reviewed for a period of one year, coverage of the stock will be discontinued by Coronation Research. Investment decisions should be based upon personal investment objectives and should be made only after

evaluating the security's expected performance and risk. Coronation Research reserves the right to update or amend its investment ratings in any way and at any time it determines.

## Ratings and Price Target History

	Date	Recommendation	Date	Recommendation	Date	Recommendation	Target price, Naira/s
Zenith	08-May-19	Buy	08-Jan-20	Buy	15-Jun-21	Buy	30.86
GT Holdco	08-May-19	Hold	08-Jan-20	Buy	15-Jun-21	Buy	36.63
Access	08-May-19	Buy	08-Jan-20	Buy	15-Jun-21	Buy	12.88
FBNH	08-May-19	Buy	08-Jan-20	Buy	15-Jun-21	Sell	7.80
UBA	08-May-19	Buy	08-Jan-20	Buy	15-Jun-21	Buy	9.95
Stanbic IBTC	08-May-19	Buy	08-Jan-20	Buy	15-Jun-21	Buy	51.72

Coronation Research Investment Rating Distribution	
Buy	66.7%
Sell	33.3%
Hold	0%
Under Review	0%

By accepting this document, you agree to be bound by all the preceding provisions. The information contained in this document is confidential and is solely for use of those persons to whom it is addressed and may not be reproduced, further distributed to any other person or published, in whole or in part, for any purpose without the written consent of Coronation Asset Management.

© Coronation Asset Management 2021. All rights reserved

Coronation Asset Management,  
10 Amodu Ojikutu Street,  
PO Box 74853, Victoria Island  
Lagos, Nigeria.