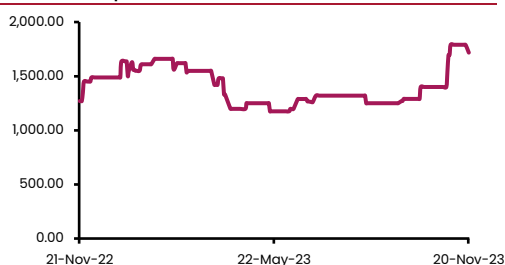




AIRTELAFRI | ICT | H1:2024

Price	NGN1790.00
52-week range	NGN1175– NGN1790
TP	NGN1052.58
Rating	SELL
Market Cap	NGN6.73trn



Analyst

Moyosore Taiwo

Moyosore.taiwo@arm.com.ng**(AIRTELAFRI): Charting through Tumultuous Headwinds****AIRTELAFRI H1:2024 Performance****FX Devaluation Hinder Revenue Growth**

In its recently released H1:2024¹ financial result, Airtel Africa Plc (AIRTELAFRI) posted a marginal increase in its consolidated topline in reporting currency². Overall Revenue increased by 2.28% YoY in H1:2024 (vs. 12.88% YoY in H1:2023). This slowdown in growth can be attributed to currency devaluations³ across markets in all its regions of operation. In Nigeria, the effect of the FX liberalization policy—which resulted in a sizable devaluation in June 2023—on revenue and EBITDA was mostly captured in Q1:2024. Some of the resulting effects, however, were observed during the reporting period, following the adoption of a higher average exchange rate. In constant currency terms⁴, AIRTELAFRI recorded double digit revenue growth of 19.71% YoY in H1:2024 (vs. 16.93% YoY in H1:2023), supported by YoY increases in all business units (Voice: +11.54%; Data: +28.09%; Mobile Money: +30.86%; Others: +18.92%). However, in reporting currency terms, a moderation in total Revenue can be alluded to falling Voice Revenue (–4.61% YoY to USD1.17bn in H1:2024). In USD terms, Data and Mobile Money Revenue both witnessed an increase, albeit at a slower pace, rising by 5.92% YoY (vs. +17.86% YoY in H1:2023) and 25.32% YoY (vs. +28.39% YoY in H1:2023) in H1:2024, respectively.

¹ 31st March 2023 being AIRTELAFRI's 2023 fiscal year end

² United States Dollar

³ The impact of the devaluation on reported currency revenue includes the Nigerian naira (–51.7%), the Malawi kwacha (–10.6%), the Zambian kwacha (–14.9%), Madagascar ariary (–8.8%), Tanzanian shilling (–4.0%) and the Kenyan shilling (–19.3%), which was partially offset by a Central African franc appreciation (+4.9%)

⁴ Local Currency Unit

In reporting currency, Operating expenses recorded slower growth by 1.58% YoY to USD1.34bn in H1:2024 (vs. +11.48% YoY in H1:2023). As a result, EBITDA increased by 3.75% YoY to USD1.30bn (vs. +14.28% YoY in H1:2023). Down to its bottom-line, the surge in total finance costs (+144.13% YoY in H1:2024), which majorly constituted a NGN471.08mn unrealized FX loss, led to a waning Profit before taxes of USD12.08mn (-97.66% YoY in H1:2024).

Looking at the Q2:2024 data, in reporting currency, we noted a decline in total Revenue (-4.72% YoY to USD1.25bn), underpinned by a fall in Voice Revenue (-11.14% YoY) and Data Revenue (-3.78% YoY). This drop was partially offset by a significant uptick in Mobile Money Revenue (+24.46% YoY). Also, lower expenses in Q2:2024 (-5.44% YoY) and Finance costs (-7.63% YoY) helped support positive Profit before taxes of USD232.62mn in Q2:2024 (-2.91% YoY).

An aggressive expansion strategy by AIRTELAFRI continues to support growth prospects, as the company pays down foreign currency debt to switch to an OpCo⁵ focused leverage structure.

Currency Devaluation Slow Group Performance

Relative to constant currency, AIRTELAFRI recorded higher reporting currency revenue growth across all regions, barring Nigeria, on the back of increased customer base growth during the period. The decline in Nigeria can be attributed to the 51.70% average devaluation of the Naira in H1:2023. In local currency terms, Nigeria, East and Francophone Africa all ticked higher by 21.76% YoY, 23.60% YoY and 11.46% YoY respectively, in H1:2024. However, in USD terms, Nigeria fell by 15.51% YoY to USD878.75mn (vs. +16.14% YoY in H1:2023); East Africa increased by 14.20% YoY to USD1.08bn (vs. +14.49% YoY in H1:2023); and Francophone Africa

⁵ Operating Companies

expanded by 14.02% YoY to USD669.68mn (vs. +4.86% YoY in H1:2023) in H1:2024. Across all regions, the acceleration in Mobile Money (+25.32% YoY) and Data Revenue (+5.92% YoY) was offset by a decline in Voice Revenue (-4.61% YoY) in H1:2024.

Effective Cost Optimization: Profit Margins Remain Stable

In reporting currency, the slower advancement in operating expenses to USD1.30bn (down by +1.58% YoY from +11.48% YoY in H1:2023) supported a decent EBITDA⁶ expansion in H1:2024. EBITDA increased by 3.75% YoY to USD1.25bn in H1:2024 (vs. 14.28% YoY in H1:2023). This underscores various cost efficiency initiatives undertaken by the Group, with EBITDA margins closing 70bps higher YoY to 49.63% in H1:2024. Higher asset values stemming from FX devaluations led to higher Depreciation and Amortization (+8.84% YoY in H1:2024 vs. 4.81% in H1:2023), which resulted in slightly lower EBIT⁷ margins (-26bps to 33.73% in H1:2024).

We expect AIRTELAFRI to maintain relatively high EBITDA and EBIT margins owing to strong operational efficiencies across the group.

Foreign Currency Obligations: A Recurring Theme

In H1:2024, AIRTELAFRI recorded USD471.08mn in unrealized foreign exchange losses owing to the currency devaluation in Nigeria. Also, given the Group's strategy to have its OpCos hold more debt, finance costs (excluding FX losses) increased by 12.39% YoY (or USD44.31mn) to USD401.88mn. Consequently, total Finance Costs increased by 144.13% YoY, leading to a 97.66% YoY plunge in Profit before Taxes to USD12.08mn in H1:2024 (vs. -9.07% to USD515.89mn in H1:2023).

After considering the factors outlined, we maintain our bearish stance on Airtel Africa Plc. and retain "SELL" recommendation, with a revised target price of NGN1052.58 (41.20% downside potential as of November

⁶ Earnings before interest, taxes, depreciation, and amortization

⁷ Earnings before interest, and taxes

20th, 2023). Our outlook is predicated on the impact of macroeconomic challenges such as high fuel costs, currency volatility and inflationary uptrends etc., on operational performance. However, we maintain our view of stronger performance in the medium term, supported by an economic recovery, sustained investments in its 4G and 5G infrastructure and the increasing use of local debt in funding growth.

Overview of Financials H1:2024

Item Lines (Millions of USD)	H1:2024	H1:2023	% Change
Revenue	2,623.34	2,564.88	2.28%
Expenses	(1,337.18)	(1,316.41)	1.58%
EBITDA	1,301.87	1,254.84	3.75%
Depreciation and Amortization	(417.31)	(383.42)	8.84%
EBIT	884.83	871.81	1.49%
Finance Cost – Exceptional items	(471.08)	N/A	N/A
Finance Cost (Net)	(872.96)	(357.57)	351.54%
Profit Before Tax	12.08	515.89	-97.66%
Tax Expense (Net)	(24.77)	(185.89)	-86.67%
Profit After Tax	(12.61)	330.01	-103.82%

Balance Sheet Extract (Millions of USD) ⁸	2023FY	2022FY	% Change
Total Asset	11,166	10,364	7.74%
Shareholders Fund	3,635	3,502	3.80%
Long-term Liability	3,959	3,789	4.49%
Short-term Liability	3,572	3,073	16.24%
Ratios ⁹	H1:2024	H1:2023	% Change
EBITDA Margin	49.63%	48.92%	0.70%
Operating Margin	33.73%	33.99%	-0.26%
PBT Margin	0.46%	20.11%	-19.65%
Net Margin	-0.48%	12.87%	-13.35%
Return on Asset	6.16%	6.20%	-0.04%
Return on Equity	18.58%	18.27%	0.31%
Basic EPS (USD)	(1.46)	7.89	-118.46%

⁸ Quarterly Balance Sheet numbers are not provided⁹ Balance Sheet related ratios are as of 2023FY

Overview of Financials Q2:2024

Item Lines (Millions of USD)	Q2:2024	Q2:2023	% Change
Revenue	1,245.92	1,307.64	-4.72%
Expenses	(634.59)	(671.10)	-5.44%
EBITDA	620.08	641.23	-3.30%
Depreciation and Amortization	(197.01)	(194.80)	1.13%
EBIT	422.92	445.77	-5.13%
Finance Cost (Net)	(190.49)	(206.24)	-7.63%
Profit Before Tax	232.62	239.59	-2.91%
Tax Expense (Net)	(94.51)	(88.07)	7.30%
Profit After Tax	138.25	151.52	-8.76%

Balance Sheet Extract (Millions of USD) ¹⁰	2023FY	2022FY	% Change
Total Asset	11,166	10,364	7.74%
Shareholders Fund	3,635	3,502	3.80%
Long-term Liability	3,959	3,789	4.49%
Short-term Liability	3,572	3,073	16.24%
Ratios ¹¹	Q2:2024	Q2:2023	% Change
EBITDA Margin	49.77%	49.04%	0.73%
Operating Margin	33.94%	34.09%	-0.14%
PBT Margin	18.67%	18.32%	0.35%
Net Margin	11.10%	11.59%	-0.49%
Return on Asset	6.16%	6.20%	-0.04%
Return on Equity	18.58%	18.27%	0.31%
Basic EPS (USD)	3.08	3.53	-12.90%

¹⁰ Quarterly Balance Sheet numbers are not provided

¹¹ Balance Sheet related ratios are as of 2023FY

ARM ratings and recommendations

ARM now employs a two-tier rating system which is based on systemic importance of the security under review and the deviation of our target price for the stock from current market price. We characterize systemic importance as a function of a stock's ranking among the group of top 20 stocks by NSE market capitalization over a trailing 6-month period (minimum) to the review date. We adopt a 5-point rating system for this category of stocks and a 3-point rating system for stocks outside this group. The choice of top 20 stocks arises from the consideration that this group of stocks constitutes >75% of overall market capitalization and stocks outside this group are generally less liquid and individually account for <<1% of market capitalization. For stocks in both categories, the basis for ratings subject to target price deviation is outlined below:

TOP 20		NON-TOP 20	
Rating	Deviation	Rating	Deviation
STRONG BUY	>20%	BUY	>20%
OVERWEIGHT	10% – 20 %	NEUTRAL	5% – 20 %
NEUTRAL	0% – 10 %	SELL	<5%
UNDERWEIGHT	-5% – 0%	N/A	
SELL	<-5%		

RECOMMENDATION	
Rating	Recommendation
BUY	Accumulate security to a substantial extent constrained only by portfolio diversification considerations
OVERWEIGHT	Accumulate security to an extent moderated by cognizance of its benchmark weight
NEUTRAL	Maintain status quo for security with respect to current holding – i.e. keep if already holding and don't buy otherwise – subject to reasonable portfolio constraints
UNDERWEIGHT	Minimize exposure to security taking cognizance of its index weighting
SELL	Sell-off security completely from portfolio

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