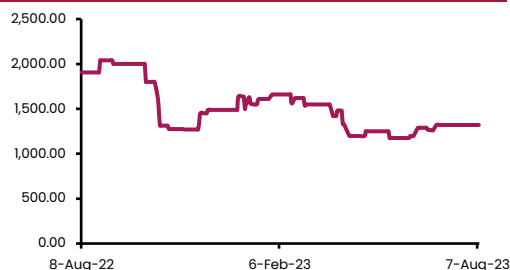




## AIRTELAFRI | ICT | Q1:2024

Price	NGN1319.90
52-week range	NGN1175– NGN2040
TP	NGN1173.84
Rating	<b>SELL</b>
Market Cap	NGN4.96trn



## Analyst

Moyosore Taiwo

[Moyosore.taiwo@arm.com.ng](mailto:Moyosore.taiwo@arm.com.ng)**(AIRTELAFRI): The Constraints of Unrealized FX Losses****AIRTELAFRI Q1:2024 Performance****Revenue Growth Offset by FX Losses**

In its recently released Q1:2024 financial result, Airtel Africa Plc (AIRTELAFRI) posted growth in its consolidated topline in reporting currency<sup>1</sup>. During the period, markets in Nigeria and East Africa noted significant currency devaluations<sup>2</sup> which depressed AIRTELAFRI's Opco's<sup>3</sup> constant currency<sup>4</sup> growth levels upon a Group consolidation. In constant currency terms, AIRTELAFRI recorded strong double digit revenue growth at 20.40% YoY in Q1:2024, underscored by YoY increases in all business units (Voice: +11.90%; Data: +29.80%; Mobile Money: +31.20%; Others: +19.70%). However, in reporting currency terms, total revenue grew marginally by 9.55% YoY in Q1:2024 (vs. +13.04% YoY in Q1:2023). This moderation can be largely attributed to falling Group voice revenue (+1.94% YoY to USD621.50mn vs. +8.57% YoY in Q1:2023). Furthermore, Data and Mobile Money Revenue both witnessed an upsurge, rising by 16.27% (vs. +17.33% YoY in Q1:2023) and 26.25% (vs. +28.65% YoY in Q1:2023) YoY to USD486.26mn and USD201.32mn, respectively. Operating expenses grew, albeit at a slower pace, by 8.84% YoY to USD702.00mn in Q1:2024 (vs. +11.02% YoY in Q1:2023). EBITDA also rose by 11.11% YoY to USD682.79mn in Q1:2024. Down to its bottom-line, the surge in total finance costs (+351.54% YoY to USD682.90mn), which

<sup>1</sup> United States Dollar<sup>2</sup> The impact of the devaluation on reported currency revenue includes the Nigerian naira (-22.7%), the Malawi kwacha (-16.3%), the Zambian kwacha (-8.5%) and the Kenyan shilling (-17.9%), which was partially offset by a Central African franc appreciation (+2.2%)<sup>3</sup> Operating Company<sup>4</sup> Local Currency Units

majorly constituted a NGN471.08mn unrealized FX loss, led to a loss before taxes of USD220.54mn (vs. +6.49% YoY in Q1:2023).

*As AIRTELAFRI continues to de-risk its balance sheet exposure from USD denominated obligations to local currency debt, its financial performance remains subject to exchange rate volatility in its regions of operation.*

### **Currency Revaluations Limit Group Performance**

Relative to constant currency, AIRTELAFRI recorded slower reporting currency revenue growth across all regions, barring Francophone Africa, on the back of currency revaluations during the period. In local currency terms, Nigeria, East and Francophone Africa all ticked higher by 23.00%, 19.80% and 13.00% YoY respectively, in Q1:2024. However, in USD terms, Nigeria slightly advanced by 2.24% YoY to USD528.50mn (vs. +16.19% YoY in Q1:2023); East Africa increased by 14.23% YoY to USD519.48mn (vs. +15.29% YoY in Q1:2023); and Francophone Africa expanded by 14.53% YoY to USD330.10mn (vs. +4.58% YoY in Q1:2023) in Q1:2024. Across all regions, the acceleration in Mobile Money (+26.25% YoY) and Data Revenue (+16.27% YoY) propelled overall revenue growth in Q1:2024.

### **Solid Operating Margins: Delayed Impact of Naira FX Devaluation**

In reporting currency, AIRTELAFRI's lower operating costs of USD702.50mn (down to +8.86% YoY from +10.98% YoY in Q1:2023) supported a decent EBITDA growth in Q1:2024. EBITDA was higher by 11.11% YoY to USD681.79mn in Q1:2024. In Nigeria, the impact of the sharp FX devaluation on EBITDA was muted in Q1:2024, largely due to its occurrence in mid-June 2023. This was because a weighted average exchange rate of USD503/USD was adopted versus a closing rate of USD752/USD. As a result, EBITDA Margin closed higher at 49.50% in Q1:2024 (vs. 48.91% YoY in Q1:2023), also underpinning the cost efficiency

processes undertaken by the group. The FX devaluation (and higher asset values) led to an increase in depreciation and amortization by 16.79% YoY to USD220.30bn (vs. +3.88% YoY in Q1:2023), which then put downward pressure on the company's EBIT (+8.69% YoY to USD461.91bn vs. +20.63% YoY in Q1:2023). Notwithstanding this, Operating Profit Margin remained stable at 33.53% YoY.

*We expect AIRTELAFRI to reflect significantly higher operating expenses in Q2:2024 as the full impact of the Naira devaluation is evaluated in its performance. Therefore, EBITDA margins are likely to decline over the next two quarters.*

#### **High Foreign Currency Obligations – Decline in Profit Before Tax**

In July 2022, AIRTELAFRI successfully repaid USD450.00mn worth of liabilities at its Holding Company level, leaving a balance of NGN550.00bn. This underscores the commitment of AIRTELAFRI to reduce its foreign currency exposures on the balance sheet, and shielding against further FX devaluations. However, in June 2023, following the FX liberalization policy (and an official and parallel market rate convergence) adopted by the new Nigerian government administration, AIRTELAFRI recorded a significant 351.54% YoY upsurge in Net Finance Costs to USD682.90mn. Of the total Net Finance Costs, USD471.08 is directly attributed to the revaluation of its foreign currency liabilities and derivatives in Nigeria. This led to a Loss before Taxes of USD220.54bn (-179.94% YoY in Q1:2024 vs. +6.49% YoY in Q1:2023).

*After considering the factors outlined, we maintain our bearish stance on Airtel Africa Plc. and retain "SELL" recommendation, with a revised target price of NGN1173.84 (11.07% downside potential as of August 8<sup>th</sup>, 2023). Our outlook is predicated on the negative macroeconomic outlook in the countries in which AIRTELAFRI operates, which could continue to hinder earnings growth in 2024FY. A recent development is the military coup in Niger, which may pose varied degrees of risk to*

*AIRTELAFRI's operations in the country. Moreover, while we recognize attempts to reduce USD exposure, the company's performance remains vulnerable to FX directionality, limiting profitability. On the other hand, assuming no additional major declines, the impact of the Naira depreciation and rapid increase in Net Finance Costs should be one-off. However, AIRTELAFRI's operating costs would likely be much higher, as operating expenses and tower contract renewals would fully reflect the new exchange rate. We opine a 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 Q1:2024

Item Lines (Millions of USD)	Q1:2024	Q1:2023	% Change
Revenue	1,377.42	1,257.23	9.56%
Expenses	(702.50)	(645.31)	8.86%
<b>EBITDA</b>	<b>681.79</b>	<b>613.61</b>	11.11%
Depreciation and Amortization	(220.30)	(188.62)	16.79%
<b>EBIT</b>	<b>461.91</b>	<b>424.98</b>	8.69%
Finance Cost (Net)	(682.90)	(151.24)	351.54%
<b>Profit Before Tax</b>	<b>(220.54)</b>	<b>275.89</b>	-179.94%
Tax Expense	69.58	(97.82)	-171.14%
<b>Profit After Tax</b>	<b>(150.86)</b>	<b>178.07</b>	-184.72%

Balance Sheet Extract (Millions of USD) <sup>5</sup>	2023FY	2022FY	% Change
<b>Total Asset</b>	11,166	10,364	7.74%
<b>Shareholders Fund</b>	3,635	3,502	3.80%
<b>Long-term Liability</b>	3,959	3,789	4.49%
<b>Short-term Liability</b>	3,572	3,073	16.24%
Ratios <sup>6</sup>	Q1:2024	Q1:2023	% Change
<b>EBITDA Margin</b>	49.50%	48.81%	0.69%
<b>Operating Margin</b>	33.53%	33.80%	-0.27%
<b>PBT Margin</b>	-16.01%	21.94%	-37.96%
<b>Net Margin</b>	-10.95%	14.16%	-25.12%
<b>Return on Asset</b>	6.16%	6.20%	-0.04%
<b>Return on Equity</b>	18.58%	18.27%	0.31%
<b>Basic EPS (USD)</b>	<b>(4.53)</b>	<b>4.35</b>	<b>-204.01%</b>

<sup>5</sup> Quarterly Balance Sheet numbers are not provided

<sup>6</sup> 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

Copyright © 2023 Asset & Resource Management Company Limited (“ARM”).

All rights reserved. Unauthorized use, reproduction, distribution, or disclosure of this document is strictly prohibited. This material has been issued by ARM Securities Limited, a member of the Asset and Resource Management (“ARM”) Group, and a Company regulated by the Nigerian Securities & Exchange Commission. The analyst(s) primarily responsible for preparing this research report, in whole or in part, certifies that with respect to each security or issuer covered; all of the views expressed accurately reflect his/her personal views about the subject securities and issuers and no part of his/her compensation was, is, or will be, directly or indirectly, related to the inclusion of specific recommendations or views in the report. This research report is based on information from sources that ARM, and its analysts believe to be reliable. Neither ARM nor any of its Research Analysts, nor any member of the ARM Group, gives any representation or warranty, express or implied, or undertaking of any kind or assumes responsibility or liability of any kind with respect to the accuracy or completeness of the information set out in this report or any third party’s use (or the results of such use) of such information. This report is provided solely for informational purposes and is not to be construed as providing advice, recommendations, or endorsements of any kind whatsoever. The investments and strategies discussed here may not be suitable for all investors; counsel of investment advisor should be obtained with regard to such investments and or strategies. This research report is not a replacement for advice from an accountant, lawyer, personal finance advisor or other category of investment advisor. The investments discussed in this report may oscillate in price or value. Opinions and information provided are made as of the date of the report issue and are subject to change without notice. This research report is not intended as an offer or solicitation for the purchase or sale of any financial instrument. Reference herein to any specific security or financial instrument does not necessarily constitute or imply its endorsement or recommendation by ARM, its directors, officers, employees, or designated agents. Members of ARM may act as broker, advisor, or lender, or make a market in any investments or issuers referenced in this report. Further information on any of the securities discussed herein may be obtained upon request to ARM. By accepting this document, you agree to be bound by the foregoing limitations