

## Impressive Performance Only Soured by Reduced Earnings

### Solid Operating Metrics Boost Topline

Airtel Africa Plc.'s (AIRTELAFRI) recently released H1:2021 was broadly positive, and in line with our expectations. A comparatively stronger revenue performance in the second quarter (+14.22% YoY) lifted overall revenue growth in the first half to 10.67% YoY, with revenue settling at USD1.81bn (NGN700.59bn). Topline growth reflected a strong performance across its operating subsidiaries in Nigeria (+20.20% YoY), East Africa (+21.90% YoY) and Francophone Africa (+4.40% YoY). Excluding the impact of currency devaluation from Nigeria (6.50%), Zambia (51.00%) and Kenya (4.50%), groupwide revenue growth would have been reported at 16.40% YoY. Revenue performance was supported by improved operating metrics during the period. Customer growth was reported at 12.02% YoY (with net YoY customer additions of 12.49 million customers), while average revenue per user (ARPU) inched higher by 6.80% YoY to USD2.80 per month.

### Data and Mobile Money Poised to Lead Revenue Growth

Notable improvements were recorded in data revenue for the period (+26.27% YoY), which we attribute to the increased demand for data, following the outbreak of the COVID 19 pandemic, and higher smartphone penetration in its operating markets. This was evident in the improved volume of data usage per customer (to 2.5Gb, from 1.6GB in 2019), while Data ARPU increased by 10.10% to USD2.50 per month. **The outlook for data demand is positive, which bodes well for data revenue growth in subsequent periods. We also expect this to be supported by the company's continued expansion of its 4G network capacity.** Along with the data segment performance, we highlight the marked improvement in the company's mobile money segment. The company processed mobile money transactions worth a cumulative total of USD20.68bn in H1:2021, up by 45.67% from USD14.19bn in H1:2020. As such, mobile money revenue surged by 24.30% YoY to USD181mn. We like that the company has continued to expand its mobile money ecosystem, announcing new partnerships with Standard Chartered Bank, Mukuru, WorldRemit and MoneyGram. **We expect this to deliver additional value to customers which would lead to improved mobile money revenue growth in subsequent periods. In sum, we have set our revenue projections for 2021FY to USD3.88bn (+12.77% YoY), driven largely by our expectations for data revenue and mobile money revenue growth.**

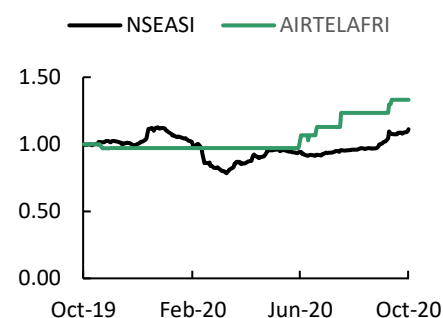
### One-off Exceptional Items Drag Bottomline Lower

Operating profit for the period advanced by 19.49% to USD472mn, aided by improved cost management. Free cashflow generated during the period also witnessed a strong growth of 52.00% to USD319mn, due to improved EBITDA growth (+USD92mn), lower capex (+USD31mn) and positive cashflows from working capital (+USD30mn), which were slightly offset by higher cash taxes (-USD49mn). We however highlight that PBT and PAT for the period were significantly lower, at USD281mn (-11.36% YoY) and USD145mn (-36.68% YoY) respectively, due to one off exceptional items (+USD72mn) and derivative gains (+USD46mn) recognized in the prior period. **Furthermore, we highlight the company's new progressive dividend policy which aims to grow declared dividends annually by a mid to high single digit percentage, from a base of USD0.04c per share for 2021FY. We understand that this will be sustained until its reported net debt to EBITDA ratio falls below 2.0x.**

### Recommendation

We expect EBITDA to settle at USD1.68bn (NGN649.56bn, +9.77% YoY) and adopted a Target EV/EDITDA ratio of 4.75x. After adjusting for its net debt of USD3.09bn (NGN1.12trn), we arrived at our target price of NGN503.00, which gives an upside potential of 22.62% from its current price. Hence, we recommend a **BUY** on the counter

Company	AIRTELAFRI
<b>Valuation</b>	
TTM EBITDA [NGN]	624.93bn
EV/EBITDA	4.38x
Net Debt [NGN]	1,195.06bn
P/E	15.18x
P/BV	1.20x
Target EV/EBITDA	4.75x
Mar-2021 Exp. EBITDA [NGN]	643.48bn
Target price	<b>503.00</b>
Current Price	410.20
Up/Downside Potential	<b>+22.62%</b>
<b>Ratings</b>	<b>BUY</b>
<b>Key metrics</b>	
ROE	7.84%
ROA	2.78%
Net margin	7.95%
Asset Turnover	0.38x
Leverage	2.90x
Yr Hi	410.20
Yr Lo	298.90
YTD return	37.24%
Beta	0.36
Adjusted Beta	0.57
52-Week average volume	6,394,650
Shares outstanding	3.76bn
Market cap [NGN]	1,541.59bn
Financial year end	Mar
Most Recent Period (MRP)	H1:2021



## Chart 1: Sensitivity Analysis

Sensitivity Analysis of 2021 Target Price to key model inputs						Min	434.57
EBITDA/Share						Max	563.93
Target EV/EBITDA		161.84	166.84	172.84	176.84	181.84	
	4.65x	434.57	457.82	485.71	504.32	527.57	
	4.70x	442.66	466.16	494.35	513.16	536.66	
	4.75x	450.75	474.50	503.00	522.00	545.75	
	4.80x	458.84	482.84	511.64	530.84	554.84	
	4.85x	466.93	491.18	520.28	539.68	563.93	

Financial Highlights (NGN billion) H1:2021 Financial result			
Profit & Loss Account	H1:2021	H1:2020	y/y Growth
Revenue	700.59	633.04	10.67%
Network Operating Expenses	127.38	114.64	11.11%
Other Operating Expenses	394.11	370.17	6.47%
Operating Profit	182.19	152.47	19.49%
Net Finance Cost	74.11	57.13	29.73%
Profit Before Tax	108.47	88.39	22.71%
Profit After Tax	55.97	88.39	-36.68%
Balance Sheet	H1:2021	2020FY	
Inventories	2.32	1.16	-19.07%
Trade Receivables	53.27	50.95	20.37%
Cash and bank	561.63	506.05	53.93%
Right of Use Assets	281.78	246.65	6.92%
PPE & Capital Work in Progress	819.86	807.13	-2.48%
Other Assets	1,991.37	1,987.51	6.04%
<b>Total Assets</b>	<b>3,710.23</b>	<b>3,599.45</b>	<b>6.96%</b>
Shareholders' fund	1,280.75	1,266.47	35.26%
Trade Payables	166.37	160.58	-6.01%
Lease Liabilities	474.78	451.23	8.11%
Borrowings	1,281.91	1,200.46	-0.55%
Other Liabilities	506.43	520.71	10.35%
<b>Total Liabilities</b>	<b>2,429.48</b>	<b>2,332.98</b>	<b>4.00%</b>

\*All figures were converted using the I&E FX rate of NGN386.00/USD as of 26<sup>th</sup> October 2020

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### Fair Value Estimate

We estimate stock's fair value by computing a weighted average of projected prices derived from discounted cash flow and relative valuation methodologies. The choice of relative valuation methodology (ies) usually depends on the firm's peculiar business model and what in the opinion of our analyst is considered as a key driver of the stock's value from a firm specific as well as an industry perspective. However, we attach the most weight to discounted cash flow valuation methodology.

### Target Price Estimate

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- HOLD:** Target Price of the stock ranges between **-10 percent and 10 percent** from the current market price.
- SELL:** Target Price of the stock is more than **10 percent** below the current market price.

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**Asset allocation:** The recommended weighting for equities, cash and fixed income instrument is based on a number of metrics and does not relate to a particular size change in one variable.

## Movements in Price Target

**Company Name:** Airtel Africa Plc.

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
28-Oct-2020	410.20	-	503.00	-	BUY

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Company	Disclosure
Airtel Africa Plc.	

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