

Solid Start to the Year

Growth Across Board Drives Topline

In its recently released Q1:2022 result, **AIRTELAFRI** delivered an impressive performance, as topline grew by 30.67% YoY to USD1.11bn. This was driven by the expansion in both customer base (+8.34% YoY) to 120.8 million, and ARPU to USD3.1 (vs. USD2.6 in Q1:2021). Also, sizable customer additions in East Africa (+13.52% YoY) and Francophone Africa (+21.29% YoY) overshadowed the decline in Nigeria (-3.76%YoY) to deliver growth recorded in customer base. We note that the additional regulation (NIN requirement) for SIM registration stifled customer addition in Nigeria, (the group's biggest market). Across regions, the highest revenue growth was recorded in Francophone Africa (+32.06% YoY), while revenue in Nigeria and East Africa increased by 30.50% YoY and 29.18% YoY respectively. All operating segments also witnessed revenue expansion- mobile money (+50.09% YoY), data (+34.34% YoY) and voice (23.79%YoY) due to increased penetration of the firm's services. **We maintain a positive outlook for topline, hinged on the rising penetration of both data and mobile money services which contribute 32.01% and 11.15% to revenue respectively. We also expect the commencement of subscriber registration in Nigeria and the firm's effort to link subscriber data to NIN to support subscriber growth. We therefore expect subscriber base to reach 124.11 million in 2022FY and ARPU to settle at USD3.11, bringing our 2022FY revenue forecast to NGN1,893.18bn vs. NGN1,607.17bn in 2021FY.**

Increased Efficiency Enhances Margins

The firm's expense increased by 21.29% YoY on the back of growth in network operating expense (+25.64% YoY), access charge (+20.24% YoY) and other OPEX (+25.88% YoY). Cost to Income ratio in Q1:2022 however moderated to 52.25% (vs. 56.29% in the prior period), reflecting the firm's cost saving techniques (single RAN network and optimization of leased line capacity) aimed at minimizing OPEX. Consequently, EBITDA stood at USD534mn, (+42.40% YoY) and EBITDA margin advanced to 48.02% (+395bps YoY). The expansion in operating profit and the relatively stable finance cost thereby ensured the increase in after tax profit by 149.12% YoY and a 607bps growth in net margin. **In subsequent periods, we expect the firm's RAN network modernization to temper its energy and loading cost. In light of this, we project a lower (54.07%) cost to income ratio for 2022FY, (this is lower compared to a five-year cost to income average of 60.00%). However, a key pressure point could be higher obligations on lease liabilities. This should however be counterbalanced by lower interest expense on its borrowings (USD165.98mn) – a result of the firm's debt paydown. Overall, we project a profit after tax of NGN227.82bn in 2022FY - a growth of 34.14% (vs NGN170.67bn in 2021FY).**

Intensifying on Strategic Moves at Improving Financial Soundness

The firm further intensified its strategic asset monetization strategy, aimed at improving its financial position and reducing leverage. In this regard, **AIRTELAFRI** agreed to the sale of 1,400 units of the group's tower portfolio in Tanzania for c. USD175mn with proceeds expected to be received during the second half of the year. Additionally, the firm agreed on a new USD500mn loan facility to aid refinancing its EURO750mn (USD879mn) Euro dominated debt, improving net debt to EBITDA to 1.8x and reducing the firm's exposure to foreign denominated debt. Cash position however declined by 33.59% YoY as a result of the financing cash outflow. **We are of the view that the firm's drive to improve capacity expansion and value in mobile money services further affirm the management's aim to position the firm for sustainable growth. We also note that the proceeds from the strategic asset monetization will help to ease the company's debt burden, improve leverage, and further drive value.**

Recommendation

We forecast an EBITDA of NGN873.70bn for 2022FY and applied a Target EV/EBITDA ratio of 3.08x. After adjusting for net debt of NGN1,224.55bn, we arrive at our target price of NGN720.32. This represents a downside potential of 3.96% from its current price, hence we recommend a **HOLD** on the counter.

Company	AIRTELAFRI
Valuation	
Trailing EPS	85.58
BVPS	382.92
P/E	8.80
P/BV	1.96
Target EV/EBITDA	3.08x
Mar-2022 Exp. EBITDA	NGN873.70bn
Mar 2022 Target price	720.32
Current Price	750.00
Up/Downside Potential	-3.96%
Ratings	HOLD
Key metrics	
ROE	22.40%
ROA	8.10%
Net margin	12.77%
Asset Turnover	0.43x
Leverage	1.80x
Yr Hi	930.00
Yr Lo	601.00
YTD return	-11.95%
Beta	0.69
Adjusted Beta	0.79
Shares outstanding	3.76bn
Market cap [NGN]	2,818.61
Financial year end	Mar
Most Recent Period (MRP)	Q1:2022

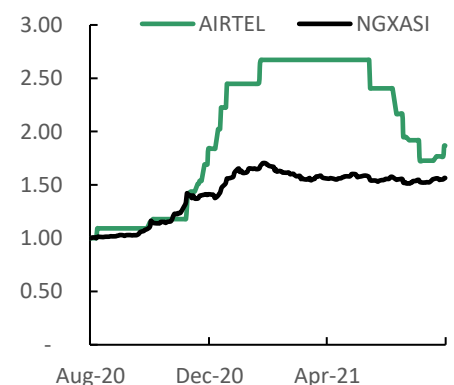


Chart 1: Sensitivity Analysis

Sensitivity Analysis of 2022 Target Price to key model inputs						Min	525.25
						Max	935.39
EBITDA per share							
		213.62	223.62	233.62	243.63	253.62	
Target EV/EBITDA	3.75x	525.25	542.75	560.25	577.75	595.25	
	2.98x	600.28	620.28	640.28	660.28	680.28	
	3.08x	675.32	697.82	720.32	742.82	765.32	
	3.18x	750.35	775.35	800.35	825.35	850.35	
	3.28x	825.39	852.89	880.39	907.89	935.39	

Financial Highlights and Forecasts (NGN billion)

Profit & Loss Account	Q1:2021	Q1:2022	2022F	2023F	2024F	2025F	2026F
Revenue	350.39	457.87	1,893.18	2,057.73	2,187.48	2,264.37	2,321.20
Expenses	198.88	239.23	1,027.05	1,116.32	1,186.71	1,188.79	389.91
EBITDA	152.76	219.87	873.70	949.64	1,008.43	1,082.37	1,097.93
Depreciation/Amortization	66.29	74.94	319.19	360.10	401.48	435.82	468.68
Operating Profit	86.47	144.94	554.51	589.54	606.95	646.54	621.76
Finance Cost	41.59	41.59	171.83	171.90	172.93	177.34	182.02
PBT	45.70	106.64	382.68	417.65	434.02	469.20	429.25
PAT	23.47	58.47	227.82	248.78	280.77	303.57	311.75

Balance Sheet	2021A	Q1:2022	2022F	2023F	2024F	2025F	2026F
Property, Plant and Equipment	849.64	836.68	889.17	1,008.25	1,133.22	1,242.93	1,345.55
Total Debt	1,898.33	1,679.27	1,671.09	1,676.77	1,761.70	1,780.04	1,813.00
Total Assets	4,109.21	3,995.21	4,214.79	4,407.24	4,664.35	4,861.02	5,035.17
Total Equity	1,378.92	1,439.07	1,508.90	1,627.22	1,762.34	1,891.21	2,019.15
Total Current Liabilities	1,441.02	1,413.02	1,445.86	1,547.36	1,648.59	1,685.41	1,700.57
Non-Current Liabilities	1,289.27	1,413.13	1,260.03	1,232.66	1,253.41	1,284.40	1,315.45
Total Liabilities	2,730.29	2,556.14	2,705.89	2,780.02	2,902.00	2,969.81	3,016.02

Financial Ratios	Q1:2021	Q1:2022	2022F	2023F	2024F	2025F	2026F
EBITDA Margin	43.60%	48.02%	46.15%	46.15%	46.10%	47.80%	47.30%
Operating Margin	24.68%	31.65%	29.29%	28.65%	27.75%	28.55%	27.11%
Net Margin	6.70%	12.77%	12.27%	12.31%	13.01%	13.58%	13.62%
Return on Asset	3.54%	8.10%	5.51%	5.75%	6.10%	6.33%	6.28%
Return on Equity	10.15%	22.40%	16.13%	16.04%	16.70%	16.84%	16.17%
Return on Invested Capital	18.42%	27.62%	24.90%	31.29%	33.13%	32.61%	31.26%
Asset Turnover	0.37	0.43	0.46	0.47	0.48	0.48	0.47
Financial Leverage	2.20	1.80	1.40	1.37	1.35	1.23	1.23
Debt to Asset Ratio	0.48	0.43	0.40	0.38	0.38	0.36	0.36
Debt to EBIT Ratio	4.38	3.34	3.01	2.84	2.90	2.74	2.88
Current Ratio	0.51	0.57	0.70	0.66	0.66	0.68	0.70
Quick Ratio	0.51	0.55	0.69	0.66	0.66	0.68	0.70

All figures were converted using our forecast exchange rate.

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- 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	BUY
08-Aug-2021	750.00	503.00	720.32	BUY	HOLD

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Company	Disclosure
Airtel Africa Plc	

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