

## AIRTELAFRI Initiates a Minority Buy-Out Process

On October 4<sup>th</sup>, **AIRTELAFRI** announced its intention to buy-out the 8.27% minority stake in its Nigerian subsidiary (*Airtel Networks Limited*). Accordingly, the group made an open offer to all shareholders at a price of NGN55.81 per share. In the event that all minority shareholders tender their shares at the offer price, this transaction will cost the parent company up to USD148.10mn, representing 23.89% of the Group's total cash as at Q1:2022.

Airtel Africa (**AIRTELAFRI**) is a subsidiary of Bharti Airtel, a leading provider of telecommunications and mobile money services, with presence in 14 countries mostly, in East, Central and West Africa. The Group offers an array of telecommunication services to subscribers, including mobile voice, data, and mobile money services. While mobile voice remains the Group's primary source of revenue (50.54%), there has been an increasing focus on data (32.01%) (driven by the recent expansion of its 4G networks) and other non-voice offerings (17.45%). There has also been an increasing popularity of the Group's mobile money services- *Airtel Money*- among customers outside Nigeria, contributing 12.18% to total revenue. Operation of the Airtel money business is yet to commence in Nigeria, as the group awaits the approval of its Payment Service Bank (PSB) license.

Airtel Networks Limited (Airtel Nigeria) is a subsidiary of **AIRTELAFRI** and contributes c.40.02% to the Group's revenue. Airtel Nigeria also accounts for 33.86% of the Group's customer base, making it the Group's biggest market. The Parent company- **AIRTELAFRI**- currently holds a 91.73% equity stake in Airtel Nigeria, while minority stakeholders hold the remaining 8.27%. Airtel Nigeria is the third-largest telecommunications service provider in the country, with a subscriber base of 50.86 million as of August 2021, which represents 26.91% of the total market share.

In Q1:2022, **AIRTELAFRI** reported a revenue growth of 30.67% to USD1.11bn, driven by the 8.34% increase in its customer base to 120.8 million subscribers and average revenue per user growth by 19.23%. The Group's revenue has grown at a CAGR of 10.33% in the past five years, supported by solid subscriber base growth. All business segments have contributed to the overall expansion in top-line with a two-year average growth rate of - Voice: 4.31%, Data: 30.29%, and Mobile money: 30.93%.

The firm's operating profit margin has also improved consistently to 31.65% in Q1:2022 from a five-year average of 20.76%, indicating an impressive profit position. However, **AIRTELAFRI's** Return on Equity (ROE) of 14.31% remains below its Cost of Equity (19.57%) and trails behind the median ROE of its African peers (19.39%). We note the 23.47% YoY decline in the firm's cash balance in Q1:2022 to USD620mn to settle the Group's debt. Consequently, the Group's debt to equity stood at 1.2x, comparing favorably with its African peers at 2.33x and MTNN at 6.34x.

**OUTLOOK AND RECOMMENDATION:**

We note the potential impact of the minority buy-out on the firm's cash balance- a decline to USD471.90mn from USD620mn in Q1:2022. We, however, do not consider this a threat to the firm's performance and operations, as the firm is expected to receive cashflows from the sale of a minority stake in its Airtel Money business and tower assets later in the year.

We also note that the buyout of the minority stake in Airtel Nigeria will translate to an undiluted interest of the group in the subsidiary, if all minority shareholders tender their holdings. In addition, this will result in a higher share of profit to **AIRTELAFRI** in subsequent periods, given the buy-out of Non-Controlling Interest (*profit attributed to non-controlling interest in Q1:2022 was USD17mn*).

**In the near term, we see the possibility of increased buying interest on the counter based on investors' optimism coupled with the anticipation of improved financial performance as earnings season draws nearer.**

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