

Currency Devaluation Drags Profitability into the Red Zone

Revenue from Nigerian Market Limits Topline Growth

Although AIRTELAFRI's total customer base increased by 9.70% YoY to 148mn subscribers, the company reported modest H1:2024 revenue growth (+2.26% YoY to USD2.62bn vs USD2.57bn in H1:2023). This marginal growth can be attributed to the company's exposure to currency devaluation across its markets, mainly due to the liberalization of the exchange rate in its largest market: Nigeria. The Naira depreciated to NGN755.27/USD as of September 30 2023 from NGN437.03/USD in September 30, 2022 - (For context, a 1% USD appreciation against the Naira has a negative translation impact of c. USD 14m on AIRTELAFRI's revenue). Nonetheless, data revenue and mobile money revenue grew by 5.90% YoY and 25.30% YoY, respectively. The growth in mobile money revenue was fueled by increases in transactions (+43.52% YoY) and mobile money customers (+23.10% YoY). Amongst the operating regions, Nigeria remained the highest contributor to topline (c. 33%), despite experiencing a substantial decline (-15.51% YoY). Conversely, other regions experienced impressive growth driven by the increased adoption of data and mobile money services – East Africa (+31.07% YoY) and Francophone Africa (+22.95% YoY). **For the second half of 2024FY, we anticipate the growing penetration and usage of the 4G network coupled with the company's efforts to enhance network capacity to sustain the ascent of data revenue across regions. Additionally, with the infusion of digitalization in its mobile money service offerings, the outlook remains positive for the segment. However, the volatility of the Nigerian Naira will continue to adversely impact revenue growth. Ultimately, we forecast a 2024FY revenue of USD5.67bn.**

Bottom-line Posted in Red as FOREX Loss Wipes Profit

Despite the soaring inflation across its operating regions, AIRTELAFRI's operating expenses grew marginally by 1.60% YoY to USD1.34bn (vs USD1.32bn in H1:2023) majorly buoyed by increases in employee benefits expense (+10.95% YoY), sales & marketing expenses (+7.62% YoY) and other operating expenses (+6.12% YoY). As revenue growth rate outpaced OPEX's, the cost-to-income ratio moderated to 50.97% compared to 51.31% in H1:2023. Thus, EBITDA grew by 3.75% YoY, and EBITDA margin improved by 71bps to 49.64%. Meanwhile, finance costs surged significantly by 143.85% to USD0.87bn owing to an increase in debt (+22.07% YoY), high-interest rate and derivative & foreign exchange loss of USD471mn (revaluation of USD liabilities due to the devaluation of Naira). Ultimately, the company recorded a loss after tax of USD13mn, a stark contrast to the profit of USD330mn posted in H1:2023. This led to negative profitability margins as compared to H1:2023 – net margin (-0.50% from 12.83%), return on equity (-0.44% vs 9.19%) and return on asset (-9.59% vs 5.48%). Nevertheless, the company declared a dividend per share of USD2.38 for the period. **Looking ahead, it is anticipated that operating expenses will continue to grow at a slower pace than revenue as the company intensifies efforts to maximize cost efficiency. However, the persistent FOREX volatility in its significant market raises the possibility of further exchange losses in H2:2024 and, ultimately, higher finance costs. In conclusion, we expect 2024FY after-tax profit to decline by 71.65% YoY to USD0.22bn.**

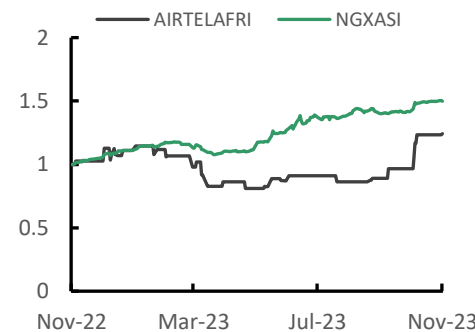
Cash Position Remains Strong Despite Negative Earnings

In line with the commitment to its capital allocation policy, the company made significant spectrum purchases. It intensified its CAPEX investments across regions, primarily funded with debt, which rose by 4.29% YoY to reach USD4.11bn from USD3.94bn in H1:2023. Consequently, financial leverage increased to 3.36x (vs. 2.84x in H1:2023). Notwithstanding, operating cash flow grew by 10.89% to settle at USD1.12bn (vs USD1.01bn in H1:2023) primarily due to lower cash tax payments. As a result, cash flow to debt (0.37x vs 0.26x in H1:2023) and cash flow to CAPEX (3.59x vs 3.26x in H1:2023) remained strong, indicating the ability to fund its liquidity needs from cash generated.

Recommendation

We forecast a 2024FY EBITDA per share of NGN559.83 and applied a Target EV/EBITDA ratio of 2.61x to arrive at our target price of NGN1,461.15. This represents a downside potential of -18.37% from its current price of NGN1,790.00; we, therefore, retain our **SELL** recommendation on the ticker as it remains overpriced.

Company	AIRTELAFRI
Valuation	
EBITDA per share (NGN)	261.95
EV/EBITDA	3.20x
P/E	15.98x
P/BV	1.77x
Target EV to EBITDA	2.61x
Mar-2024 Exp. EBITDA per share	NGN559.83
Mar-2024 Target price	1,461.15
Current Price	1,790.00
Up/Downside Potential	-18.37%
Ratings	SELL
Key metrics	
ROE	-0.44%
ROA	-9.59%
Net margin	-0.50%
Asset Turnover	0.26x
Leverage	3.36x
Yr Hi	1,790.00
Yr Lo	1,175.00
YTD return	+9.48%
Beta	1.61
Adjusted Beta	1.41
Shares outstanding	3.75bn
Market cap [NGN]	6.72trn
Financial year end	Mar
Most Recent Period (MRP)	H1:2024



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Chart 1: Sensitivity Analysis

Sensitivity Analysis of 2024 Target Price to Key Model Inputs						Min	1,180.19	
						Max	1,742.63	
		EBITDA						
		559.33	559.58	559.83	560.08	560.33		
Target EV/EBITDA	2.11	1,180.19	1,180.71	1,181.24	1,181.77	1,182.30		
	2.36	1,320.02	1,320.61	1,321.20	1,321.79	1,322.38		
	2.61	1,459.85	1,460.50	1,461.15	1,461.81	1,462.46		
	2.86	1,599.68	1,600.40	1,601.11	1,601.83	1,602.54		
	3.11	1,739.52	1,740.29	1,741.07	1,741.85	1,742.63		

Financial Highlights and Forecasts (USD'billion)

Profit & Loss Account	H1:2023	H1:2024	2024F	2025F	2026F	2027F	2028F
Revenue	2.62	2.62	5.66	6.01	6.50	7.03	7.60
Operating Expense	1.32	1.34	3.04	3.11	3.37	3.65	3.94
EBITDA	1.26	1.30	2.62	2.90	3.13	3.38	3.66
Operating Profit	0.87	0.89	1.67	1.88	2.04	2.21	2.40
Finance Cost	0.36	0.87	-1.32	-0.97	-0.88	-0.90	-0.96
PBT	0.52	0.01	0.50	0.61	0.85	0.99	1.16
Tax	0.19	0.03	-0.14	-0.36	-0.46	-0.52	-0.57
PAT	0.33	-0.01	0.21	0.56	0.72	0.81	0.89

Balance Sheet	2023FY	H1:2024	2024F	2025F	2026F	2027F	2028F
Property, Plant and Equipment	2.30	1.94	2.72	3.07	3.43	3.81	4.21
Total Debt	4.23	4.11	4.38	4.57	4.63	4.73	4.88
Total Assets	11.17	10.00	10.95	11.68	12.48	13.21	14.72
Total Equity	3.81	2.98	3.59	3.69	3.92	4.22	5.23
Total Current Liabilities	3.57	3.73	3.51	3.95	4.44	4.77	5.12
Non-Current Liabilities	3.79	3.29	3.86	4.04	4.12	4.23	4.37
Total Liabilities	7.36	7.02	7.37	7.99	8.56	8.99	9.49

Financial Ratios	H1:2023	H1:2024	2024F	2025F	2026F	2027F	2028F
EBITDA Margin	47.85%	49.64%	46.33%	48.23%	48.13%	48.13%	48.13%
Operating Margin	33.24%	33.74%	29.44%	31.32%	31.41%	31.50%	31.52%
Net Margin	12.58%	-0.50%	3.75%	9.29%	11.01%	11.51%	11.74%
Return on Asset	5.48%	-9.59%	9.29%	9.83%	9.97%	10.22%	9.93%
Return on Equity	9.19%	-0.44%	5.93%	15.12%	18.23%	19.19%	17.06%
Asset Turnover	0.26	0.26	0.52	0.51	0.52	0.53	0.52
Financial Leverage	2.84	3.36	3.05	3.17	3.18	3.13	2.81
Current Ratio	0.56	0.56	0.33	0.39	0.43	0.46	0.62
Quick Ratio	0.41	0.21	0.25	0.33	0.38	0.40	0.56

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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
07-Jul-2023	1,319.00	1,209.03	1,249.02	SELL	HOLD
28-Nov-2023	1,709.00	1,249.02	1461.15	HOLD	SELL

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Company	Disclosure
Airtel Africa Plc	

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