26 October 2024

2QFY25 Results Update | Sector: Telecom

Airtel Africa

BSE SENSEX	S&P CNX
79,402	24,181

airtel

Strong 2QFY25 as growth accelerates in Nigeria

Revenue and EBITDA ahead as constant currency growth accelerates

- Airtel Africa's (AAF) constant currency (CC) revenue at USD1.26b **continued to grow in healthy double digits (+21% YoY** vs. ~19% YoY in 1QFY25), driven by a pick-up in data (+30% YoY) and Mobile Money (+29% YoY) revenue growth and acceleration in CC revenue growth in Nigeria (+38% YoY).
- AAF's reported revenue came in at USD1.21b (+5% QoQ), **2% above** our estimate of USD1.19b.
- AAF's EBITDA in CC at USD588m **continued its double-digit** growth **(+16% YoY** vs. 11% YoY in 1QFY25). Reported EBITDA at USD560m (+9% QoQ) came in **~4% above** our estimate of USD537m.
- Reported EBITDA margin recovered 160bp QoQ to 46.1% (though declined 290bp YoY on higher diesel costs) and was 100bp above our estimate.
- With capex largely flat YoY at USD169m, 2Q **operating FCF in CC terms improved 24% YoY to USD419m**. AAF's 1HFY25 CC operating FCF stood at USD803m (up 19% YoY).
- Net debt increased to USD5.2b (vs. USD3.5b at end-Mar'24) on USD1.2b increase in lease liabilities on renewal of tower leases with ATC. Leverage inched up to 2.3x (vs. 1.6x QoQ) on higher lease liability and lower EBITDA.

Robust double-digit YoY CC growth fueled by a surge in data and Mobile Money

- Mobile services revenue at USD1b (+4% QoQ) continued to report double-digit CC YoY growth (+19% YoY, vs. 17% in 1Q), with robust growth across both voice (+9% YoY) and data (+30% YoY).
- Mobile services EBITDA at USD469m (+7% QoQ) was up 12% YoY (vs. 8% in 1Q), in CC, with margins recovering 130bp QoQ to 45.7%.
- Mobile money revenue at USD244m (+10% QoQ) jumped 29% YoY in CC terms, driven by 13% YoY subscriber growth and 13% YoY CC ARPU increase.
- Mobile money EBITDA at USD128m (+8% QoQ) also increased 32% CC YoY, with EBITDA margin resilient at 52.6% (-90bp QoQ).

Strong growth in Nigeria and East Africa, recovery in Francophone Africa

- **Nigeria:** Nigeria CC revenue growth accelerated to 38% YoY (vs. 33% YoY in 1Q), driven by strong growth in data (+47% YoY) and voice (+25% YoY) revenue. Reported revenue declined 33% YoY due to the impact of the Naira devaluation. EBITDA was up ~26% YoY in CC as margin recovered 130bp QoQ to 49.1% on cost efficiency measures.
- **East Africa:** Revenue growth in CC remained robust at 21% YoY on strong 26% YoY growth in data and 31% YoY growth in Mobile Money. Cc EBITDA was up ~20% YoY as margin expanded 60bp QoQ to 52.8%.

- **Francophone Africa:** Growth recovered in Francophone Africa with CC revenue up 9% YoY (vs. 5% YoY in 1Q). EBITDA in CC inched up ~1% YoY (vs. ~7% YoY decline in 1Q) as margin recovered 200bp QoQ to 43.8%.

Robust operating performance under-pinned by strong data consumption and ARPU growth

- Subscriber base inched up by modest 1.2m QoQ (vs. 2.7m net adds in 1Q) to 156.6m (+6% YoY), following the disconnections to meet KYC norms in Nigeria.
- Data subs inched up by 1.6m QoQ (vs. flat in 1Q) to 66m (+10% YoY, 42.1% of subs now opting for data). Mobile money subs inched up by 2m QoQ (vs. 1.5m in 1Q) to 41.5m (13% YoY).
- Blended ARPU was up 3% QoQ at USD2.2 (+12% YoY CC growth) on robust ~17% YoY CC growth in data ARPU and ~13% YoY CC growth in Mobile Money ARPU.
- Data usage per subscriber jumped ~16% QoQ to 7.1GB/month (vs. 5.2GB/month YoY). Voice usage per customer increased ~3% QoQ to 300min/month (vs. 288 min YoY).

Highlights from the management commentary

- **Robust growth:** Despite volatile macroeconomic and operating environment, the demand for mobile services remains strong, given low penetration in the Airtel Africa footprint. Airtel Africa (AAF) has been able to deliver a five-year CC revenue/EBITDA CAGR of 19%/22%.
- **Cost efficiency:** Inflationary cost pressures, especially a spike in diesel costs in Nigeria, hit AAF's margin. However, the company's focus on cost efficiency and reducing USD-denominated costs resulted in sequential margin expansion.
- **Leverage:** Sharp increase in leverage was largely driven by renewal of 7,100 towers across four countries. Tower renewals have led to an increase in lease liability by USD1.2b. Net debt/EBITDA excluding lease impact stood at 1x (vs. 0.7x YoY).
- **Price hikes in Nigeria:** AAF remains in discussion with the Nigerian regulator for price hikes but is yet to get a go ahead. AAF is seeking tariff hikes to at least cover for the cost inflation.
- **Airtel Money IPO:** AAF continues to stick to the original guidance of four years (nine months from now) from the first strategic investor coming into Airtel Money and would look to provide more updates on listing plans by end-FY25.

Consistent growth as well as long runway for growth warrants a re-rating

Airtel Africa continues to deliver double-digit CC revenue and EBITDA growth for the past 20 quarters. Despite solid growth, AAF trades at ~3.5X Dec'26 EV/EBITDA. We believe with consistent strong growth and a long runway for growth, there is a case for re-rating of Airtel Africa, which in turn would benefit Bharti Airtel's shareholders. We ascribe ~INR110/share valuation to Bharti's stake in Airtel Africa, based on 5x Sep-26 EV/EBITDA.

Key takeaways from the management interaction

- **Robust growth:** Despite volatile macroeconomic and operating environment, the demand for mobile services remains strong, given low penetration in the Airtel Africa footprint. Airtel Africa (AAF) has been able to deliver a five-year CC revenue/EBITDA CAGR of 19%/22%.
- **Cost efficiency:** Inflationary cost pressures, especially a spike in diesel costs in Nigeria, hit AAF's margin. However, the company's focus on cost efficiency and reducing USD-denominated costs resulted in sequential margin expansion.
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- **Price hikes in Nigeria:** AAF remains in discussion with the Nigerian regulator for price hikes but is yet to get a go ahead. AAF is seeking tariff hikes to at least cover for the cost inflation.
- **Airtel Money IPO:** AAF continues to stick to the original guidance of four years (nine months from now) from the first strategic investor coming into Airtel Money and would look to provide more updates on listing plans by end-FY25.
- **Nigeria mobile money:** Nigeria is a relatively evolved market with higher banking penetration (vs. the rest of AAF's footprint). The current focus is to build the agent network and onboard customers. The pickup in revenue contribution from Nigeria Mobile Money would still take a few more quarters.
- **ATC contract renewal:** AAF has renewed its contract with ATC for a period of 12 years on ~7,100 sites. The impact of renewals on the cash flow of the company is neutral to positive; however, the impact on PAT would be ~USD120-130m in the first year and then gradually reduce over the lease period.
- **Shareholder returns:** AAF is nearing completion of its USD100m buyback plan and has announced 2.6cents interim dividend, a 9% YoY increase in line with its policy of progressively increasing dividends.
- **Datacenter:** AAF is building two datacenters, one each in Nigeria and Kenya to tap the rapid data growth in Africa. It will look to adopt learnings from Nxtra by Airtel.

Exhibit 1: Quarterly performance summary

	2QFY24	1QFY25	2QFY25	YoY	QoQ
Revenue	**1,246**	**1,156**	**1,214**	**(2.6)**	**5.0**
Network operating expenses	-223	-231	-232	4.0	0.4
Access charges	-78	-61	-61	(21.8)	0.0
License fee / spectrum usage charges	-60	-62	-65	8.3	4.8
Employee benefits expense	-79	-71	-77	(2.5)	8.5
Sales and marketing expenses	-149	-150	-161	8.1	7.3
Impairment loss/(reversal)	-1	-4	-1		
Other operating expenses	-45	-62	-57	26.7	(8.1)
EBITDA	**611**	**515**	**560**	**(8.3)**	**8.7**
EBITDA margin (%)	**49.0**	**44.6**	**46.1**	**-290bp**	**160bp**
Other income	9	8	4		
Finance cost	-190	-261	-267	40.5	2.3
Depreciation and amortization	-197	-188	-193	(2.0)	2.7
Profit before taxes	**233**	**74**	**104**	**(55.3)**	**40.5**
Extraordinaries	0	80	71		
Taxes	-95	-43	-56		
Share of profit of associates	0	0	0		
Adjusted net income	**138**	**111**	**119**	**(13.7)**	**7.2**
Reported net income	**138**	**31**	**48**	**(65.2)**	**54.8**
In CC terms					
Revenue	**1,046**	**1,172**	**1,263**	**20.7**	**7.8**
Implied costs	-538	-641	-675	25.5	5.3
EBITDA	**508**	**531**	**588**	**15.7**	**10.7**
EBITDA margin (%)	48.6	45.3	46.6	-200bp	120bp
Capex	172	147	169	(1.7)	15.0

Exhibit 2: Segmental performance summary

	2QFY24	1QFY25	2QFY25	YoY	YoY in CC terms	QoQ
Mobile services (USD m)						
Revenue	**1,080**	**986**	**1,026**	**-5**	**19**	**4**
Voice	548	476	484	-12	9	2
Data	429	409	435	1	30	6
Others	103	101	107	4	28	6
Underlying EBITDA	**538**	**438**	**469**	**-13**	**12.0**	**7.0**
Underlying EBITDA margin	49.8	44.4	45.7	-410bp	(299)bp	130bp
Operating profit	315	240	159	-50	83	-34
Capex	160	138	310	94	-9	124
Operating cash flow	378	300	310	-18	193	4
Mobile money (USD m)						
Revenue	215	222	244	14	29	10
Underlying EBITDA	**111**	**118**	**128**	**16**	**32.0**	**8.2**
Underlying EBITDA margin	51.6	53.5	52.6	93bp	116bp	-90bp
Operating profit	103	111	119	15	32	8
Capex	7	4	6	-14	-14	42
Operating cash flow	104	114	122	17	35	7

Exhibit 3: Key performance indicators

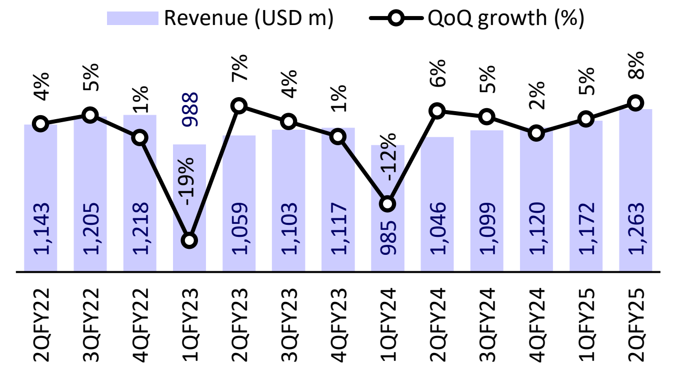
	2QFY24	1QFY25	2QFY25	YoY	YoY in CC terms	QoQ
Subscriber base (m)	**147.7**	**155.4**	**156.6**	**6.1**		**0.8**
Net additions (m)	4.6	2.7	1.2			
Monthly churn (%)	4.1	4.0	4.7			
ARPU (USD/month)	**2.5**	**2.1**	**2.2**	**(11.1)**	**11.6**	**3.0**
Voice						
Voice revenue (USD m)	548	476	484	(11.6)	27.9	1.7
Voice ARPU (USD/month)	**1.3**	**1.0**	**1.0**	**(17.3)**	**2.2**	**0.8**
Minutes on the network (b)	126	134	140	11.1		4.1
Voice usage per customer (minutes)	**288**	**290**	**300**	**4.0**		**3.2**
Data						
Data revenue (USD m)	429	409	435	1.4	12.0	6.2
Data customer base (m)	**59.8**	**64.4**	**66.0**	**10.4**		**2.5**
Share of customer base (%)	40.5	41.4	42.1			
Data ARPU (USD/month)	**2.4**	**2.1**	**2.2**	**(8.6)**	**17.4**	**5.3**
Total MBs on the network (b MB)	940	1,218	1,423	51.4		16.9
Data usage per customer (MB)	**5,351**	**6,305**	**7,303**	**36.5**		**15.8**
Mobile Money						
Mobile money revenue (USD m)	215	222	244	13.5	29.1	10.0
Active customers (m)	**36.5**	**39.5**	**41.5**	**13.4**		**5.0**
Mobile money ARPU (USD/month)	**2.0**	**1.9**	**2.0**	**(0.7)**	**12.9**	**4.7**
Transaction value (USD m)	28.9	30.0	33.8	17.0	31.5	12.6
Network and Coverage						
Network towers	33,144	35,216	35,961			
Owned towers	2,292	2,232	2,240			
Leased towers	30,852	32,984	33,721			
Data capacity (TB/day)	28,287	33,091	33,960	20.1		2.6

Exhibit 4: Geographical performance summary

	2QFY24	1QFY25	2QFY25	YoY	YoY in constant currency	QoQ
Nigeria						
Revenue	**350**	**256**	**234**	**(33.1)**	**38.2**	**(8.5)**
Voice revenue	161	112	97	(39.7)	24.5	(13.6)
Data revenue	157	117	112	(28.6)	47.3	(4.6)
Mobile money revenue	0	1	1			
Other revenue	32	26	25	(23.1)	58.8	(5.3)
Underlying EBITDA	**189**	**123**	**115**	**(39.2)**	**25.7**	**(6.2)**
Underlying EBITDA margin	54.0	47.8	49.1	(536)bp	(486)bp	120bp
Subscribers (m)	**48.6**	**50.4**	**48.7**	**0.2**		**(3.4)**
ARPU (USD/month)	**2.4**	**1.7**	**1.6**	**(34.0)**		**(5.3)**
East Africa						
Revenue	**556**	**554**	**605**	**8.8**	**21.2**	**9.2**
Voice revenue	229	210	229	(0.1)	9.5	8.6
Data revenue	158	170	185	16.9	26.4	9.1
Mobile money revenue	165	167	182	10.5	31.1	9.3
Other revenue	36	41	45	27.5	39.8	10.2
Underlying EBITDA	**301**	**289**	**320**	**6.1**	**19.6**	**10.6**
Underlying EBITDA margin	54.2	52.2	52.8	(149)bp	(70)bp	60bp
Subscribers (m)	**68.1**	**72.0**	**74.2**	**9.0**		**3.1**
ARPU (USD/month)	**2.1**	**2.0**	**2.1**	**(1.0)**		**5.1**
Francophone Africa						
Revenue	**340**	**345**	**371**	**9.4**	**9.0**	**7.6**
Voice revenue	159	154	159	0.1	(0.3)	3.4
Data revenue	114	122	138	21.3	20.9	12.6
Mobile money revenue	50	54	61	22.4	21.9	11.8
Other revenue	33	30	31	(5.1)	(5.3)	3.5
Underlying EBITDA	**161**	**144**	**163**	**1.2**	**0.8**	**12.9**
Underlying EBITDA margin	47.3	41.8	43.8	(527)bp	(355)bp	200bp
Subscribers (m)	**30.9**	**32.9**	**33.6**	**9.0**		**2.2**
ARPU (USD/month)	**3.4**	**3.1**	**3.3**	**(2.1)**		**4.8**

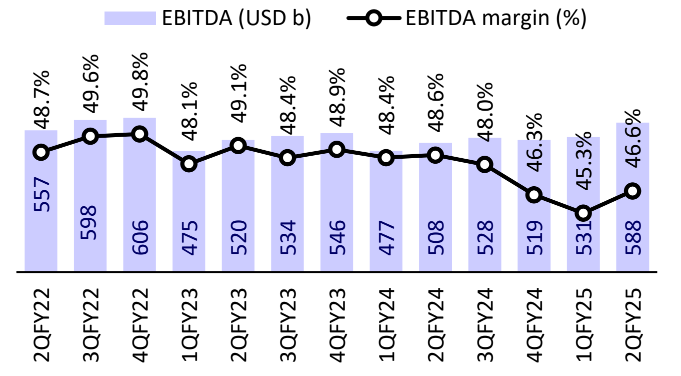
Key exhibits

Exhibit 5: Revenue up 8% QoQ (CC terms)



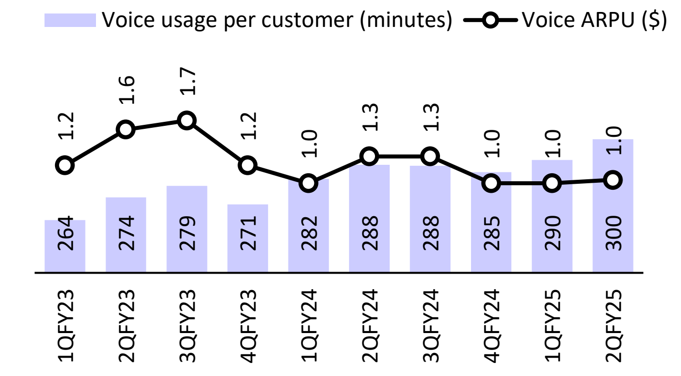
Source: MOFSL, Company

Exhibit 6: EBITDA and margin improve 11% and 25bp QoQ



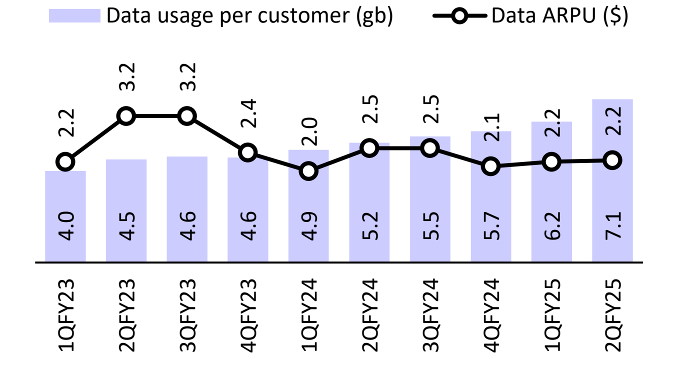
Source: MOFSL, Company

Exhibit 7: Voice ARPU up ~1% QoQ, usage up 3% QoQ



Source: MOFSL, Company

Exhibit 8: Data ARPU up ~5% QoQ, usage rises 16% QoQ



Source: MOFSL, Company

Exhibit 9: AAF trades at a modest 3.5x Dec'26E EV/EBITDA

Airtel Africa's implied valuation		
Current market price	GBPx	109
Market cap	USDm	5,249
Net debt	USDm	5,155
Implied Enterprise value	USDm	10,404
Annualized 2QFY25 EBITDA	USDm	2,240
Implied EV/EBITDA	**x**	**4.6**
Dec'26E EBITDA	USDm	2,940
Implied Dec'26E EV/EBITDA	**x**	**3.5**

Source: London Stock Exchange, MOFSL

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Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
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