

Airtel Africa Earnings Review FY 2020

Stock rating: BUY
Target Price: N477.60/s
Closing Price: N298.90/s

Company Information	
TTM P/S (x)	0.45x
TTM P/B (x)	0.50x
TTM P/E (x)	4.32x
Dividend Yield	3.72%
Market Cap (N'tn)	1.12

FY 2020: Impressive FY 2020 performance despite dent from higher tax expense

- Revenue growth of 11.2% y/y
- Profit before tax grew by 71.8% y/y
- FY 2020 EBITDA climbed 17.3% y/y despite inflationary pressures
- Net Income declines on higher tax expense

Broad based revenue growth as data leads

Airtel Africa in its recently released FY 2020 (Apr 2019 – Mar 2020) result reported a 9th consecutive quarter. On a y/y basis, FY 2020 Revenue climbed higher by 11.2% to US\$3.4bn (in constant currency terms – 13.8% y/y) from US\$3.1bn in FY 2019. Q4 2020 standalone Revenue growth printed at 15.1% y/y (in constant currency terms – 17.9%) to US\$899.0m from US\$781m in Q4 2019. The growth in Revenue was driven by broad-based increase across key service units as Voice Revenue (up 2.9% y/y to US\$2.0bn), Data Revenue (up 36.1% y/y to US\$0.9bn) and Mobile Money Revenue (up 32.9% y/y to US\$0.3bn) all printed higher in the financial year. The growth in Revenue was further underpinned by increase in Airtel Africa's voice subscribers base which increased by 11.8% y/y to 110.6m subscribers while data subscriber base grew 15.9% y/y to 34.8m subscribers. In addition, Mobile money subscribers increased 28.9% y/y to 18.3m subscribers.

Improved operating performance driven by sub-inflationary Opex growth

Airtel Africa reported sub-inflationary growth in Operating expenses, which climbed higher by 6.1% y/y to US\$1.9bn in FY 2020 from US\$1.8bn in FY 2019. The increase in Operating expenses was driven by modest rise in Network Operating expenses (+12.5% y/y), Access charges (+9.0% y/y) and Spectrum usage charges (+3.8% y/y). We note devaluation of currencies in key countries where Airtel Africa operates have not fully crystallised but we observed some evidence of pressure in Q4 2020 standalone result which showed an 11.0% y/y increase in Total Operating expenses relative to Q4 2019. However, we note the increase remained below Q4 2020 Revenue growth of 15.1%. Against this backdrop, EBITDA expanded 17.3% y/y to US\$1.5bn in FY 2020 from US\$1.3bn in FY 2019 while EBITDA margin expanded 2.3ppts y/y to 44.8%. In addition, despite the 10.3% y/y uptick in Depreciation & Amortisation, Operating profit printed a sturdy 22.8% y/y increase to US\$901m in FY 2020 from US\$734m in FY 2019.

Finance cost edges higher despite lower debt balance

Airtel Africa continued to improve its debt position as Net Debt to EBITDA printed at 2.1x as the end of FY 2020 compared to 3.0x at the end of FY 2019. In absolute terms, the company's total debt position declined by US\$381m at the end of FY 2020 with debt position now at 0.29x of total asset (down from 0.34x at the end of FY 2019). Nevertheless, Finance cost still recorded an increase of 11.7% y/y to US\$440m driven by interest payment on other foreign currency denominated payables. Finance Income increased 109.4% y/y to US\$67m, thus ensuring a marginal 3.0% increase in Net Finance cost to US\$373m in FY 2020 from US\$362m in FY 2019. Consequently, Pre-tax profit expanded 71.8% y/y to US\$598m in FY 2020 from US\$348m in FY 2019.

Tax expense dents impressive FY 2020

The company recorded a Tax expense of US\$190m in FY 2020 as against a Tax credit of US\$78m in FY 2019. This drove a 4.2% decline in Net Income to US\$408m in FY 2020 from US\$426m in FY 2019. Earnings per share printed at 10.32cents for FY 2020, down from 19.53cents in FY 2019 due to higher number of outstanding shares following the Nigerian IPO conclusion. The company recommended final dividend of 3cents which brings total dividend for the year to 6cents which implies a full year dividend yield of 6.8% and payout ratio of 58%.

Outlook: Growth story remains valid; Strong FY 2021 in view

Growth frontier remains data and mobile money

We remain very bullish on Airtel Africa's Revenue growth prospects which we believe would be spurred by data and mobile money Revenue growth. The company invested significantly in expansions projects and new initiatives to drive growth in these frontiers in FY 2020 and signals intentions to sustain further investment in bid to capture more value in the African telecoms market. On data expansion projects, the company acquired more spectrum in Nigeria, Tanzania, Malawi, and Chad. For mobile money, the company signed strategic partnerships with Mastercard and Western Union in bid to enable Airtel mobile money subscribers make cross border payments along with several new product features. The company's launch of Airtel TV earlier in 2019 continues to support Revenue from other services subscriber base growing following introduction of improved content across Hollywood and Nollywood. Factoring in this growth potentials in our model, we project an 11.5% y/y increase in Revenue to US\$3.8bn driven by accelerated growth in Data (forecasted to grow by 26.6% y/y to US\$1.2bn) and Mobile money Revenue (forecasted to grow by 12.7% y/y to US\$350m).

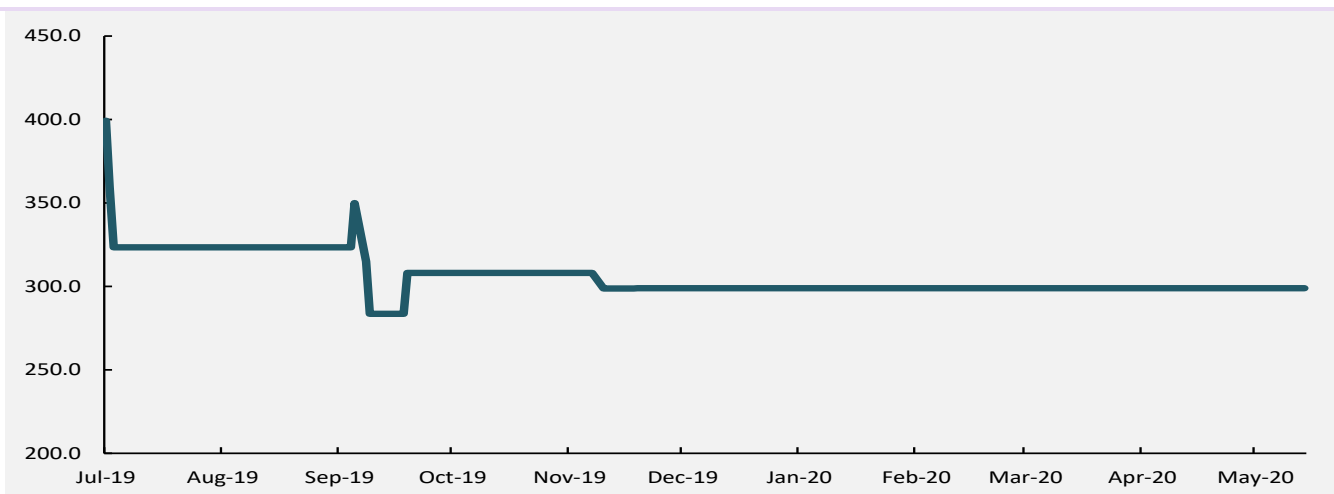
Profit lines to sustain sturdy growth despite emerging risks

While we retain our confidence in management's ability to keep costs under control despite high inflationary environment, we reckon that emerging risks of devaluation would pose mild pressures on cost efficiency. Thus, we forecast a faster than Revenue growth in Operating expenses which we forecast will grow by 12.7% to print at US\$2.1bn. However, we expect profit lines to remain sturdy with EBITDA, Operating Income and Net Income forecasted to grow by 10.6%, 21.3% and 26.4% respectively. We forecast Earnings per Share will print at 12.94cents in FY 2021 with dividend payment of 7.76cents at a 60.0% payout ratio.

Highly illiquid but valuation and sturdy growth story informs BUY rating

The company's healthy fundamentals, improving debt position and sturdy growth story places it among our favoured buys. Post-IPO listing, the stock is down 8.2% driven largely by the bearish sentiments that has dominated the Nigerian equities market and thus trades at 4.3x PE multiple. However, we note trading activities on Airtel Africa remains very muted due to limited volumes traded among the investing public. Against this backdrop, we have had to factor in an illiquidity discount in pricing Airtel Africa stock. We have a target price of N477.60/s (or US\$1.33/s) which implies a 59.79% upside to Friday's closing price of N298.90/s and consequently place a BUY rating on the stock.

Airtel Historical Price Movement



Source: Bloomberg, FSDH Research

Airtel Africa Plc Earnings Highlight FY 2020

US\$m	FY 2020	FY 2019	y/y
Revenue	3,422	3,077	11.2%
Other Income	17	26	-34.6%
Network Operating Expenses	(628)	(558)	12.5%
Access Charges	(376)	(345)	9.0%
License Fee/Spectrum Charges	(189)	(182)	3.8%
Employee Benefit Expense	(234)	(236)	-0.8%
Sales & Marketing Expenses	(148)	(152)	-2.6%
Other Expenses	2	(5)	-140.0%
Impairment (loss)/Reversal on Financial Assets	(333)	(318)	4.7%
EBITDA	1,533	1,307	17.3%
Depreciation & Amortisation	(632)	(573)	10.3%
Operating Profit	901	734	22.8%
Finance Income	67	32	109.4%
Finance Costs	(440)	(394)	11.7%
Net Finance Income/(Cost)	(373)	(362)	3.0%
Non-Operating Income/(Expense)	70	-	n/a
Share of Profit/(Loss) of JV & Associate	-	(24)	
Profit before Tax	598	348	71.8%
Income Tax (Expense)/Credit	(190)	78	-343.6%
Profit for the Period	408	426	-4.2%

Profit for the period attributable to:

Owners of the Company	370	388	-4.6%
Non-Controlling Interests	38	38	0.0%
	408	426	-4.2%

Other Key Inputs	FY 2020	FY 2019	y/y
Earnings Per Share (Cents)	10.32	19.53	-47.2%
EBITDA (US\$m)	1,533	1,307	17.3%

Margins	FY 2020	FY 2019	y/y
EBITDA Margin	44.8%	42.5%	2.3ppts
Operating Margin	26.3%	23.9%	2.5ppts
Net Margin	11.9%	13.8%	-1.9ppts
No of Outstanding Shares	3,586	1,986	

Source: Company Financials, FSDH Research

FSDH Forecast

US\$m (unless otherwise stated)								
Income Statement	2017	2018	2019	2020	2021E	2022E	2023E	2024E
Revenues	2,884	2,910	3,077	3,422	3,816	4,236	4,674	4,855
Other Income	7	17	26	17	17	17	17	17
Operating Expenses	(2,058)	(1,798)	(1,796)	(1,906)	(2,137)	(2,372)	(2,618)	(2,719)
EBITDA	842	1,139	1,307	1,533	1,696	1,881	2,074	2,153
Depreciation & Amortisation	(660)	(577)	(573)	(632)	(603)	(679)	(767)	(831)
Operating Profit	173	552	734	901	1,093	1,202	1,307	1,322
Other Income	14	17	(24)	70	-	-	-	-
Net Finance (cost)/ income	(839)	(578)	(362)	(373)	(335)	(315)	(296)	(272)
PBT	(652)	(9)	348	598	758	887	1,011	1,050
Taxation	(117)	(125)	78	(190)	(243)	(284)	(323)	(336)
Net Profits	(769)	(134)	426	408	516	603	687	714
EPS, Cents	(53.95)	(11.82)	19.53	10.32	12.94	15.13	17.25	17.92
DPS, Cents	-	-	-	6.00	7.76	9.08	10.35	10.75
Dividend Sum				215	278	326	371	386

Balance Sheet (US\$m)	2017	2018	2019	2020	2021E	2022E	2023E	2024E
Property, Plant & Equipment	1,692	1,559	1,597	1,832	1,815	1,795	1,772	1,746
Capital Work-In-Progress	110	271	367	259	259	259	259	259
Right of Use Assets	673	640	655	639	639	639	639	639
Goodwill	4,403	4,322	4,126	3,943	3,943	3,943	3,943	3,943
Other Non-current Assets	1,053	755	940	981	887	793	699	642
Non-Current Assets	7,931	7,547	7,685	7,654	7,543	7,429	7,312	7,229
Inventories	4	2	3	3	3	3	3	3
Financial Assets	460	812	1,300	1,519	3,938	3,412	3,404	3,016
Other Current Assets	207	145	118	149	149	149	149	149
Current Assets	671	959	1,421	1,671	1,768	1,895	2,152	2,201
Total Assets	8,602	8,506	9,106	9,325	9,310	9,324	9,464	9,429
LIABILITIES								
Financial Liabilities	2,918	4,290	2,749	2,035	2,092	2,118	2,152	2,136
Provisions			70	70	70	70	70	70
Deferred Revenue	112	118	110	124	124	124	124	124
Current Tax Liabilities	93	77	67	144	144	144	144	144
Other Current Liabilities	222	210	103	115	115	115	115	115
Current Liabilities	3,345	4,695	3,099	2,488	2,545	2,571	2,605	2,589
Financial Liabilities	6,133	5,008	3,488	3,435	3,126	2,837	2,626	2,279
Other Non-Current Liabilities	68	55	34	29	29	29	29	29
Provisions	37	29	22	23	23	23	23	23
Deferred Tax Liabilities (net)	17	36	33	69	69	69	69	69
Non-Current Liabilities	6,255	5,128	3,577	3,556	3,247	2,958	2,747	2,400
Total Liabilities	9,600	9,823	6,676	6,044	5,792	5,529	5,352	4,989
Share Capital	2,359	2,359	3,082	3,420	3,420	3,420	3,420	3,420
Share Premium	-	-	470	-	-	-	-	-
Retained Earnings	-	-	1,688	2,805	2,991	3,208	3,455	3,712
Other Reserve	-	-	(2,614)	(2,837)	(2,837)	(2,837)	(2,837)	(2,837)
Other Equity	(3,127)	(3,444)	-	-	-	-	-	-
Shareholders' Funds	(768)	(1,085)	2,626	3,388	3,574	3,791	4,038	4,295
Non Controlling Interest	(230)	(232)	(196)	-107	-55	5	74	145
Total Equity	(998)	(1,317)	2,430	3,281	3,518	3,796	4,112	4,440
Total equity and liabilities	8,602	8,506	9,106	9,325	9,310	9,324	9,464	9,429

Cash Flow (US\$m)	2017	2018	2019	2020	2021E	2022E	2023E	2024E
Operating Cash Flow	421	831	1,071	1,387	1,546	1,639	1,793	1,835
Investing Cash Flow	(398)	(283)	(630)	(801)	(426)	(499)	(582)	(676)
Financing Cash Flow	(60)	(409)	179	(370)	(1,037)	(1,028)	(972)	(1,117)
Free Cash Flow	731	1,013	1,127	578	807	935	1,008	1,013

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