

Airtel Africa Earnings Review Q1 2021

Stock rating: BUY
Target Price: N469.68/s
Closing Price: N380.00/s

Company Information	
TTM P/S (x)	0.91x
TTM P/B (x)	0.85x
TTM P/E (x)	9.99x
TTM EV/EBITDA (x)	3.74x
Dividend Yield	3.06%
Market Cap (N'tn)	1.43

FY 2020: Non recurring Income, higher tax expense underpins underwhelming Q1 2021 numbers

- Revenue growth of 6.9% y/y
- FY 2020 EBITDA climbed 8.2% y/y despite inflationary pressures
- Profit before tax slumped 33.5% y/y
- Net Income declines on higher tax expense, non-recurring income

Growth in Data & Mobile money Revenue sustain Revenue growth

Airtel Africa in its recently released Q1 2021 (Apr 2019 – Jun 2020) result reported Revenue growth of 6.9% y/y to US\$851m (in constant currency terms – 13.0% y/y) from US\$796m in Q1 2020. The growth in Revenue was driven by sustained growth in Data (up 28.0% y/y to US\$265m) and Mobile Revenue (up 20.0% y/y to US\$81m). On the flip side, Voice Revenue was disappointing, it declined by 3.2% y/y to US\$454m. The decline in Voice Revenue was largely driven by devaluation of currencies in key markets like Nigeria, Zambia and Kenya. In constant currency terms, Voice Revenue grew by 2.2% y/y. The growth in Revenue was further underpinned by an increase in Airtel Africa's voice subscribers base which increased by 11.8% y/y to 111.5m subscribers while data subscriber base grew 23.2% y/y to 37.0m subscribers. In addition, Data Revenue was particularly driven by increased data usage as data traffic grew by 100.7% while Mobile money Revenue growth was driven by increased transaction value (up 33.9% y/y) processed via Airtel's mobile money platforms. Lastly, we note the company provided free SMS for subscribers as well as free mobile money transactions as part of palliative contributions during the covid-19 pandemic which has slowed Revenue growth.

Sub-inflationary Opex growth underpins modest Operating performance

Airtel Africa reported sub-inflationary growth in Operating expenses, which climbed higher by 5.7% y/y to US\$483m in Q1 2021 from US\$457m in Q1 2020. The increase in Operating expenses was driven by increases in Network Operating expenses (+10.6% y/y), Employee benefits (+30.0% y/y), Sales & Marketing expenses (+5.3% y/y) and License Fee/Spectrum usage charges (+4.3% y/y). That said, we note the increase in Opex was below Q1 2021 Revenue growth. Against this backdrop, EBITDA expanded 8.2% y/y to US\$371m in Q1 2021 from US\$343 in Q1 2020 while EBITDA margin strengthened by 0.5ppts y/y to 43.6%. In addition, Depreciation & Amortisation rose by 2.5% y/y to US\$161m. Consequently, Operating profit printed a sturdy 12.9% y/y increase to US\$210m in Q1 2020 from US\$186m in Q1 2020.

Non-recurring income drags Q1 2021 Pre-tax profit

The company's Net finance cost edged higher by 8.8% y/y to US\$99m in Q1 2021 from US\$91m in Q1 2020. The increase in Net finance cost was primarily down to lower Finance income (down 87.5% y/y) due to the lower yield environment as Finance cost declined by 5.6% y/y. We note that Airtel Africa's debt position sustained its y/y improvement as Net Debt to EBITDA printed at 2.2x at the end of Q1 2021 compared to 3.0x at the end of Q1 2020. Notably, the company did not book any Non-operational income as against the US\$72m booked in Q1 2020, As a result, Pre-tax profit slumped 33.5% y/y to US\$111m in Q1 2021 from US\$167m in Q1 2020. Excluding the Non-recurring income, Pre-Tax profit would be up 16.8% y/y.

Higher effective tax rate further dents Q1 2021 performance

Airtel Africa's Effective tax rate in Q1 2021 printed at 48.6% as against 21.0% in Q1 2020. As a result, Tax expense jumped by 54.3% y/y to US\$54m in Q1 2021. This placed significant pressure on Net Income which plunged 56.8% y/y to US\$57m from US\$132m. Furthermore, Earnings per Share settled at 1.12cents for Q1 2021 as against 4.06cents in Q1 2020.

Outlook: Negative tax surprise derails short-term outlook but long-term prospects remain solid

Revenue growth to be sustained by Data and Mobile Money

We cut our Revenue forecast lower to US\$3.7bn reflecting reduced optimism on voice traffic growth. Despite the cut in our Revenue, our forecast implies an 8.4% y/y increase over FY 2020 forecast. We remain very bullish on business prospects for Data and Mobile money. For Data Revenue, the company earlier had acquired more spectrum in Nigeria, Tanzania and Malawi. It has acquired additional spectrum (10MHz in the 2600 band) in Malawi. Our optimism on Data Revenue reflects in our 21.3% y/y forecast growth for Data Revenue. For Mobile Money, we forecast a 12.7% y/y growth on sustained initiatives to drive transaction growth on Airtel Mobile Money channels. The company recently announced new partnerships with Mukuru & WorldRemit in July to drive cross border transfers into Airtel Money customer wallets. We expect Voice Revenue to recover during the rest of the year as economic activities continue to open up across different countries. However, we expect the growth to remain weak as reflected in our 1.2% y/y forecast to US\$2.0bn.

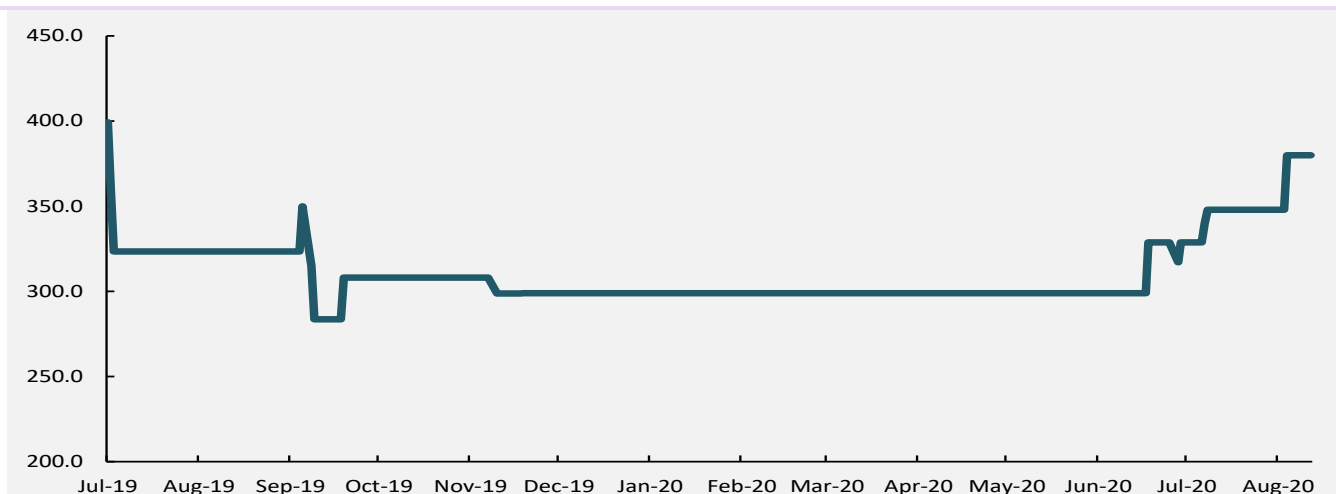
Lower Profit forecast on negative Tax surprise

Airtel Africa's Operating expenses growth remains lower than Revenue growth and we expect it to follow recent trend despite the inflationary pressures in the countries it operates. As a result, we forecast EBITDA and Operating profit would grow by 6.4% and 9.7% y/y. We note that Airtel Africa's profit growth has come under pressure from previously recorded Non-recurring operating income as well as higher Tax expense. However, we expect Pre-Tax profit to recover in subsequent quarters as the impact of the high base caused by Non-recurring income fades. Overall, we forecast Pre-Tax profit to grow by 9.5% y/y to US\$655m. That said, we reckon that the negative surprise in Effective Tax rate serves as a downside risk to Net Income. We model an Effective Tax Rate of 45.0% for FY 2020e as against 32.0% previously. Consequently, we forecast an 11.7% y/y decline in Net Income to US\$360m. We lower our EPS forecast to 8.63cents from 12.94cents previously.

Target price lowered but BUY rating retained

Following lower adjustments made to our profit lines, we lower our target price from US\$1.33/s (or N477.60/s) to US\$1.18/s (or N448.26/s). The slower decline in our Target price adjustment in Naira relative to the USD adjustment reflects the recent devaluation of the naira. We note the stock has gained 27.1% since our last communication largely due to demand by FPIs who needed to repatriate funds outside the country due to FX illiquidity. That said, the recent rally caps the potential upside on the stock to 18.0%. However, we retain our BUY rating on the stock as it trades at an EV/EBITDA multiple of 3.74x which is a 25.2% to our peer average of 5.0x. Furthermore, while we see short-term headwinds to growth, we remain confident in the company's long-term prospect as we consider current drags temporary.

Airtel Historical Price Movement



Source: Bloomberg, FSDH Research

Airtel Africa Plc Earnings Highlight Q1 2021

US\$m	Q1 2021	Q1 2020	y/y
Revenue	851	796	6.9%
Other Income	3	4	-25.0%
Network Operating Expenses	(156)	(141)	10.6%
Access Charges	(84)	(90)	-6.7%
License Fee/Spectrum Charges	(48)	(46)	4.3%
Employee Benefit Expense	(65)	(50)	30.0%
Sales & Marketing Expenses	(40)	(38)	5.3%
Impairment (loss)/Reversal on Financial Assets	(5)	(4)	25.0%
Other Expenses	(85)	(88)	-3.4%
EBITDA	371	343	8.2%
Depreciation & Amortisation	(161)	(157)	2.5%
Operating Profit	210	186	12.9%
Finance Income	2	16	-87.5%
Finance Costs	(101)	(107)	-5.6%
Net Finance Income/(Cost)	(99)	(91)	8.8%
Non-Operating Income/(Expense)	-	72	-100.0%
Share of Profit/(Loss) of JV & Associate	-	-	
Profit before Tax	111	167	-33.5%
Income Tax (Expense)/Credit	(54)	(35)	54.3%
Profit for the Period	57	132	-56.8%
Profit for the period attributable to:			
Owners of the Company	42	125	-66.4%
Non-Controlling Interests	15	7	114.3%
	57	132	-56.8%

Other Key Inputs	FY 2020	FY 2019	y/y
Earnings Per Share (Cents)	1.12	4.06	-72.4%
EBITDA (US\$m)	371	343	8.2%

Margins	FY 2020	FY 2019	y/y
EBITDA Margin	43.6%	43.1%	0.5ppts
Operating Margin	24.7%	23.4%	1.3ppts
Net Margin	6.7%	16.6%	-9.9ppts
No of Outstanding Shares	3,758	3,082	

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	3,709	4,077	4,446	4,613
Other Income	7	17	26	17	17	17	17	17
Operating Expenses	(2,058)	(1,798)	(1,796)	(1,906)	(2,096)	(2,263)	(2,468)	(2,560)
EBITDA	842	1,139	1,307	1,533	1,696	1,881	2,074	2,153
Depreciation & Amortisation	(660)	(577)	(573)	(632)	(642)	(702)	(793)	(862)
Operating Profit	173	552	734	901	988	1,129	1,202	1,208
Other Income	14	17	(24)	70	-	-	-	-
Net Finance (cost)/ income	(839)	(578)	(362)	(373)	(333)	(315)	(295)	(271)
PBT	(652)	(9)	348	598	655	814	907	937
Taxation	(117)	(125)	78	(190)	(295)	(261)	(290)	(300)
Net Profits	(769)	(134)	426	408	360	554	617	637
EPS, Cents	(53.95)	(11.82)	19.53	10.32	8.63	13.26	14.77	15.25
DPS, Cents	-	-	-	6.00	5.18	7.96	8.86	9.15
Dividend Sum				215	195	299	333	344

Balance Sheet (US\$m)	2017	2018	2019	2020	2021E	2022E	2023E	2024E
Property, Plant & Equipment	1,692	1,559	1,597	1,832	1,923	1,902	1,879	1,851
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	7,651	7,536	7,419	7,334
Inventories	4	2	3	3	3	3	3	3
Financial Assets	460	812	1,300	1,519	1,370	1,664	1,676	1,776
Other Current Assets	207	145	118	149	149	149	149	149
Current Assets	671	959	1,421	1,671	1,522	1,612	1,816	1,828
Total Assets	8,602	8,506	9,106	9,325	9,173	9,148	9,235	9,162
LIABILITIES								
Financial Liabilities	2,918	4,290	2,749	2,035	2,072	2,089	2,113	2,094
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	2,525	2,542	2,566	2,547
Financial Liabilities	6,133	5,008	3,488	3,435	3,080	2,784	2,563	2,215
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	3,201	2,905	2,684	2,336
Total Liabilities	9,600	9,823	6,676	6,044	5,726	5,447	5,250	4,884
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	2,935	3,134	3,356	3,585
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	3,518	3,717	3,939	4,168
Non-Controlling Interest	(230)	(232)	(196)	(107)	(71)	(16)	46	110
Total Equity	(998)	(1,317)	2,430	3,281	3,447	3,701	3,985	4,278
Total equity and liabilities	8,602	8,506	9,106	9,325	9,173	9,148	9,235	9,162

Cash Flow (US\$m)	2017	2018	2019	2020	2021E	2022E	2023E	2024E
Operating Cash Flow	421	831	1,071	1,387	1,418	1,607	1,742	1,786
Investing Cash Flow	(398)	(283)	(630)	(801)	(574)	(525)	(612)	(710)
Financing Cash Flow	(60)	(409)	179	(370)	(1,003)	(1,006)	(940)	(1,071)
Free Cash Flow	731	1,013	1,127	578	501	889	942	935

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