

ARTHUR STEVEN ASSET MANAGEMENT

AIRTEL AFRICA VALUATION

MAY 2022

CORPORATE PROFLE

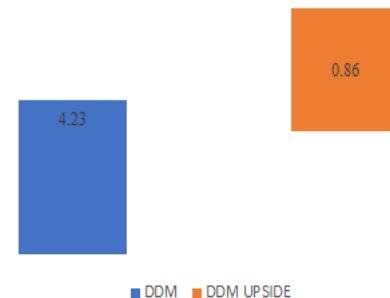
Airtel Africa plc is a multinational company that provides telecommunications and mobile money services in 14 countries in Africa, primarily in East Africa (Kenya, Malawi, Rwanda, Tanzania, Uganda and Zambia), Francophone Africa (Chad, Congo B, the DRC, Gabon, Madagascar, Niger and the Seychelles) and Nigeria. The firm is a subsidiary of Bharti Airtel; the second largest telecommunications company in India and one of the largest in the world. Nigeria is Airtel Africa’s largest market in-terms of revenue, the largest single market in-terms of subscriber base and the second largest in the overall subscriber base. Nigeria as of 2022 had a subscriber base of 44.4 million. In all, as of 2022, the firm had approximately 128.40 million subscribers. The firm’s revenue stems from Voice, Data and Mobile Money and others (messaging, value added services (VAS), enterprise, site sharing and handset sale). The major driver of the company’s revenue is voice (across region and overall).

Between 2019-2021, the firm’s Basic EPS of the firm fell consistently driven mainly by the low subscriber acquisition in Nigeria due to government ban on the sale of sim card as well as the exchange rate exposures and the impact of the Covid-19 Pandemic. However, Airtel Africa has continued to make giant strides towards diversifying its revenue. One of the innovations is launched transactional video on demand (TVOD) services in nine out of the fourteen countries which allows customers to enjoy the latest Nollywood blockbusters through the Airtel TV app. As of 2021, the customer base was 2 million.

Another revenue source which has been making wave in other region except Nigeria is the Mobile Money. In 2021, the revenue source grew by 18.28% and 36.62% in Francophone Africa and East Africa respectively. In Nigeria, this revenue source is expected to come on stream with the final approval of a Payment Service Bank (PSB) license and the super-agent license granted recently granted by the Central Bank of Nigeria (CBN). With Airtel joining the existing operators in driving financial inclusion in Nigeria. The niche portends huge potential for Airtel.

Airtel Africa is dual listed on the Nigerian Exchange Limited and the London stock exchange and the firm remains poised for stellar performance into the foreseeable future.

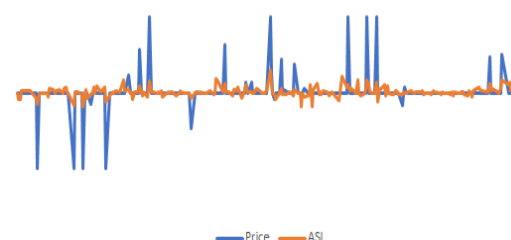
DDM VALUATION USD



BUY

Key Market Statistics	
Price(₦) as at May 11 2022	1400.00
52 Weeks High(₦)	1400.00
52 Low High(₦)	601.00
YTD Change(%)	25.65%
Market Capitalization (₦)	5,261,412,105,600
Shares Outstanding	3,758,151,504.00

AIRTEL AFRICA PRICE MOVEMENT WITH THE BROAD INDEX (May 4 2021-May 11 2022)



CORPORATE GOVERNANCE

**Sunil Bharti Mittal** *Chairman**Nationality: Indian*

Founder of Bharti enterprises with investment in telecoms, insurance, real estate etc.

**Olusegun Ogunsanya** *CEO**Nationality: Nigerian*

30+ years of Cognate Experience in the telecoms sector.

**Douglas Baillie** *Non-executive director**Nationality: British*

38 years of Cognate Experience at Unilever.

**Annika Poutiainen** *Non-executive Director**Nationality: Finnish*

Working Chairman of the council for the Swedish Financial Reporting Supervision

**Kelly Bayer Rosmarin** *Non-executive director**Nationality: Australian*

CEO of Singtel Optus Pty Limited

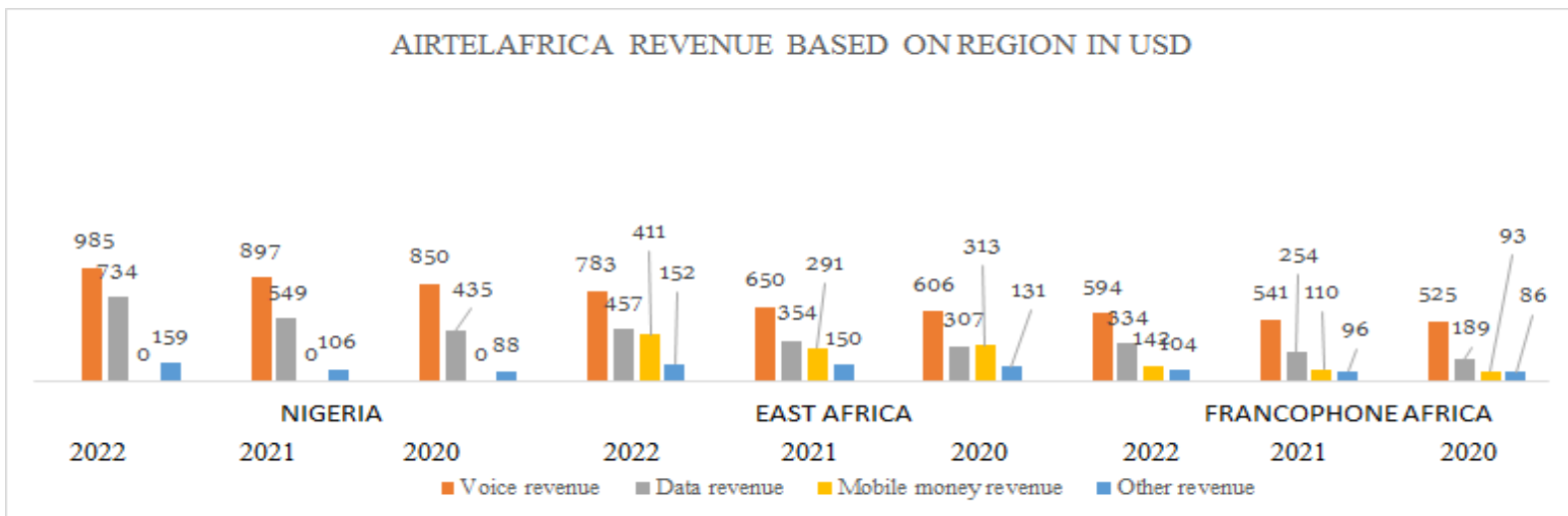
**Tsega Gebreyes** *Non-executive director**Nationality: Ethiopian*

Non-executive director London Stock Exchange Group

Airtel Africa Plc is listed on the premium board of the Nigerian Exchange group. The premium board is made up of companies who have consented to adhere with the most stringent and best internationally recommended corporate governance practices. By rule, companies in this category must have a minimum score of 70% on Corporate Governance Rating System (CGRS). By and Large, AIRTELAFRICA meets this criterion and by implication good on corporate governance. Hence investors can be sure of proper corporate disclosure amongst others.

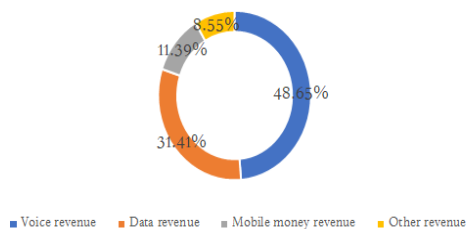
A painstaking look at the board composition shows diverse experiences from various fields with enough relevance to the core business of the firm. More still, the firm has on its board various nationality as well as a good gender balance which allows for diverse opinions and well-thought-out decisions. Based on gender composition, females constitute 31% of the total number of board members while they constitute about 36% of the total non-executive directors. In all, we are propitious AIRTELAFRICA portend huge growth prospect.

AIRTELAFRICA'S REVENUE

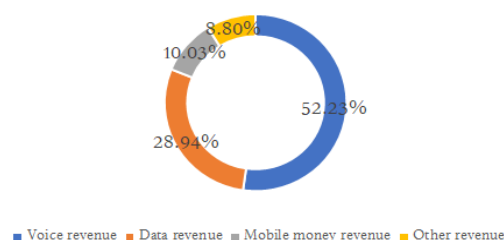


The Nigerian Market is Airtel Africa's main source of revenue in aggregate terms while she remains the major revenue contributor across the various revenue stream except for the other revenue and mobile money which has made wave in other regions and it's expected to come on stream in the next financial year consequent on regulatory approval. Except for Nigeria which didn't have any mobile money revenue over the period under consideration. In terms on YoY growth, Francophone Africa experienced the highest growth for Data with 31.50% while revenue from mobile money grew the highest in East Africa with a growth rate of 41.24%. Other revenue (which include messaging, value added services (VAS), enterprise, site sharing and handset sale) grew the highest in Nigeria with a growth rate of about 50%. In all, the various revenue streams grew across all regions.

Revenue Breakdown for 2022



Revenue Breakdown for 2021

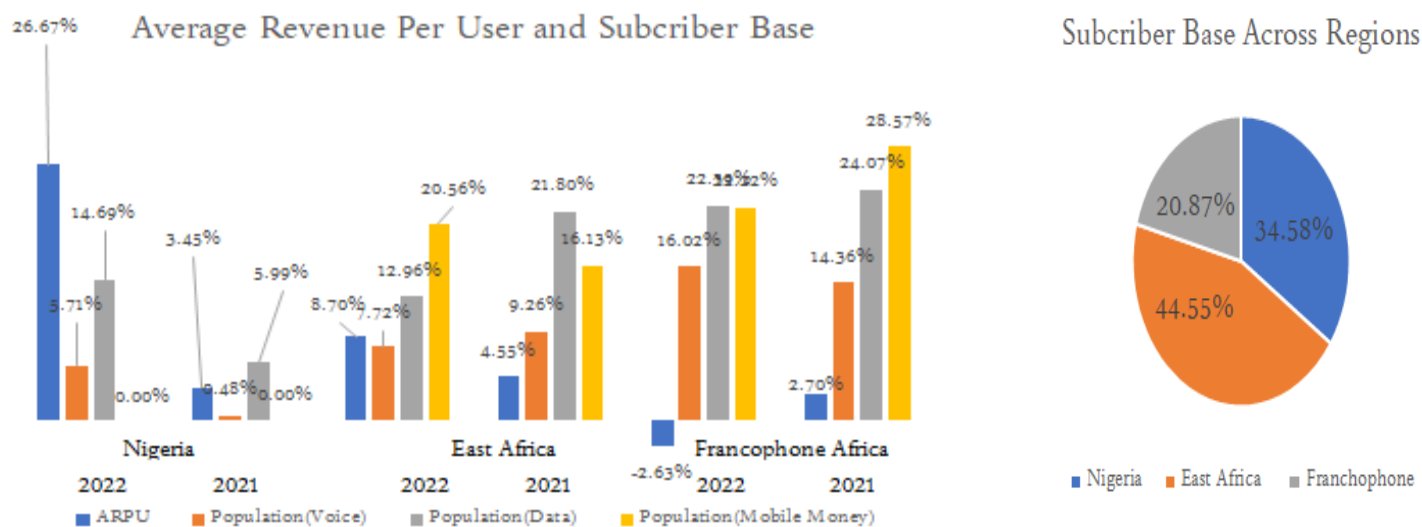


Voice remains the major driver of revenue for AirtelAfrica as the revenue stream accounted for over 50% of the total revenue over the two period being considered. In 2020 voice contributed 54.68% of the total revenue. However, its contribution dropped by 245 basis point in 2021 indicating a shrink in the stream to total revenue. Mobile money also declined in 2021 by 118 basis point. However, the contribution of Data and other revenue to the topline increased by 324 basis point and 39 basis point respectively. We suspect that the slowdown in the contribution of voice revenue to have been caused by the ban in sim sales by the Nigerian Government which impacted the onboarding of new subscribers. More still, we envisage a change in the revenue mix as the demand for data continues to grow and the mobile money business comes on stream in Nigeria.



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AIRTELAFRICA'S REVEUE DRIVER

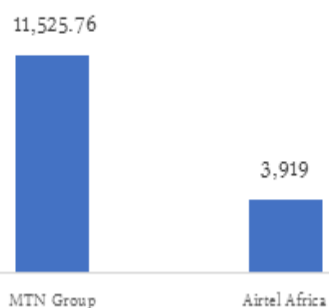


In 2022, the Average Revenue Per User (ARPU) grew astronomically in Nigeria with a YoY growth of 26.67%. This huge increase is attributed to the lifted ban on sim sales by the Nigerian Government which also impacted the subscriber base bringing it to a total of 44.4 million which accounts for 34.58% of the total market of 128.4 million across all 14 countries. In East Africa, the situation was a little different while the ARPU grew by 8.70%, there was a slowdown in growth in voice and data subscribers. In Francophone Africa, the ARPU declined by -2.63% YoY in 2022. The sharp decline in the ARPU was mainly driven by reductions in international call revenue and local incoming call revenue (the latter due to changes in local interconnect rates in Gabon, Niger and Republic of the Congo). The customer base growth was driven by expansion of both network coverage and distribution infrastructure.

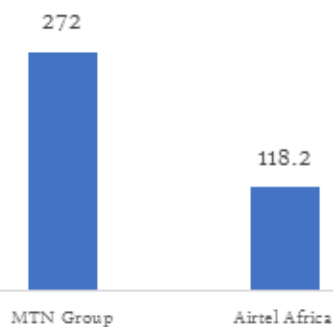
As of 2022, AirtelAfrica's subscriber base across all 14 countries of operations totaled 128.40 million subscribers which was up by 8.62% from 118.20 million in 2021. East Africa accounts which have 6 countries is the Telecommunications giant's largest market. East Africa accounts for approximately 45% of the total subscribers. Nigeria which is the only single market is the firm's second largest which accounts for approximately 35% of the total subscriber base while Francophone Africa accounts for the remainder. We remain propitious with the growing broadband penetration and the growing needs for financial inclusion in Nigeria and other regions, AirtelAfrica has a solid growth potential.

COMPARABLE FOR FY 2021

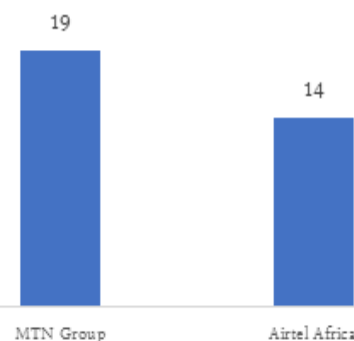
Revenue in USD



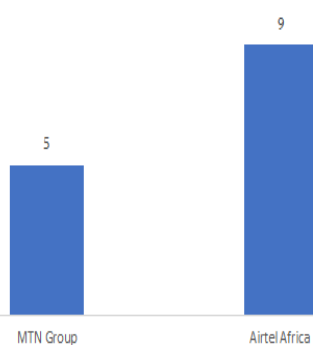
Subscribers in Millions



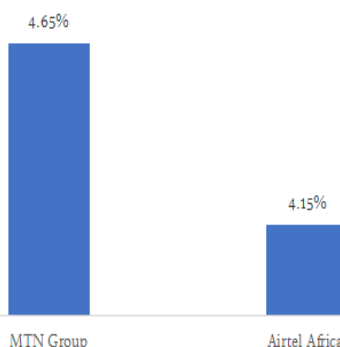
Footprints in Africa



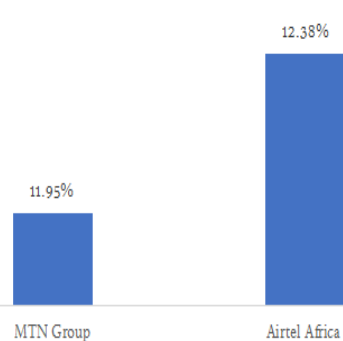
EPS in Cents



Return on Asset



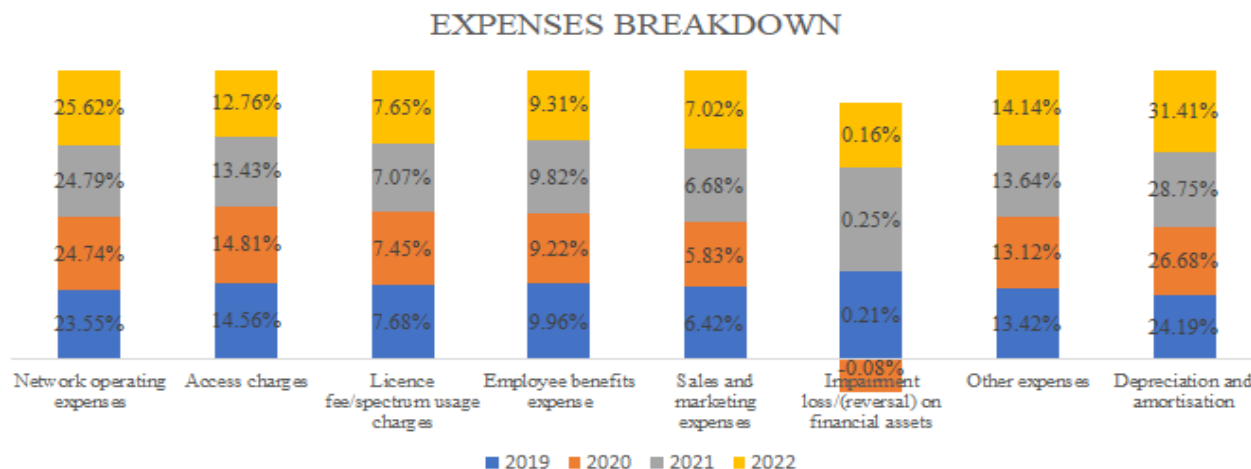
Return on Equity



A glance at two firms whose principal operations is Africa showed that MTN Group is the bigger of the two in terms of revenue. MTN group had approximately 3.0x the revenue of AirtelAfrica expressed in USD. In terms of subscriber base, MTN group which operates in 19 countries (17 of them in Africa while the remaining 2 are in the middle east) has 272 which is approximately 2.0x of AirtelAfrica's total subscriber base. Although AirtelAfrica is the smaller of the two the firm in terms of size, the firm performed better than MTN Group in two out of the three metrics used. AirtelAfrica has a higher Earnings Per Share (Expressed in US Cents) when compare with MTN Group. Its EPS is 1.8x of the MTN Group. Based on profitability, the firm had a better Return on Equity 43 basis point greater than its competitor while it only lagged its competitor by 40 basis point in terms of Return on Asset.

In our opinion, AirtelAfrica is quite competitive and still has a greater potential of expansion into other countries as well as consolidating on the current countries of operations.

Expenses



The main driver of AirtelAfrica's expenses is the direct cost of Network Operating Expenses which accounted for 24.62% of the total cost in 2022. Being the foremost relevant cost for the business, the cost has continued to remain well above 20% over the four periods. Access Charges payments which are made by long-distance carriers to local service providers for originating and terminating calls on telephone networks is another cost driver which contributed 12.76% in 2022. However, the cost has been on a steady decline for instance between 2020 and 2021, the expense declined YoY by 138 basis point and dipped even further in FY 2022 by 67 basis point. Employee benefits decline in 2022 by 51 basis point. Other cost includes sales and marketing which fell in 2020 as a result of the pandemic but increased in 2022 by 34 basis point.

Although, the firm uses straight line method of depreciation, the depreciation charge by the firm is quite substantial indicating that the firm is having a huge tax savings and by extension a higher available cashflow from operations. Other expenses which include Cost of sales, Repairs and maintenance, Charitable donations and Inventories recognized as an expense is another significant contributor to cost which was 14.14% in 2022 50 basis point higher than in 2021.

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Analysis of result

A review of the AirtelAfrica's statement showed that firm witnessed a decline in its EPS in 2021 but paid more in dividend for the year with a payout of 44.44% up from 38.80% in 2020. This might be due to the reason for the higher payout with a lower EPS could be attributed to the company's base dividend policy of 4 cents as obtained from the statement which the company has never reneged on over the four years historical financials. However, with the 2022 result the firm's payout dropped even with a higher EPS indicating the firm is intentioned towards growth hence the reason of a higher retention rate. Invariably, the company will experience a high growth rate based on the Gordon's assumption. The following assumptions were adopted in the computation of the fair value:

Risk free rate	11.48%
Beta	2.143
Return on the Market	16.21%
Risk premium	4.73%
Required Rate of Return	21.62%
WACC	11.40%
Sustainable Growth Rate	10.10%

Another assumption taken in this analysis is the exchange rate. With the United States Dollars being the reported currency for the firm, we took some exchange rate assumptions. In this report, we use a conservative conversion exchange rate of N415.00/\$1 and R15.76/\$1.

Downside to Forecast

The major down to the forecast remains exchange rate volatility which affects the revenue, the depreciation and amortization schedule and the effective tax rate. Due to the multiple local currencies in countries of operations, the depreciation of local currencies will largely impact the revenue performance. For instance, Nigeria's which is the country's largest market has been experiencing high exchange rate volatility which has a negative impact on the reported currency.

MAY 2022

Income Statement	2019A	2020A	2021A	2022A	2023F	2024F	2025F	2026F
Revenue	3103	3439	3919	4724	5886	7034	8487	10338
Expenses								
Network operating expenses	558	628	694	817	910	1043	1194	1367
Access charges	345	376	376	407	434	467	502	540
Licence fee/spectrum usage charges	182	189	198	244	228	245	263	282
Employee benefits expense	236	234	275	297	341	380	423	470
Sales and marketing expenses	152	148	187	224	247	283	325	374
Impairment loss/(reversal) on financial assets	5	-2	7	5	0	0	0	0
Other expenses	318	333	382	451	485	547	617	695
Depreciation and amortisation	573	632	681	744	976	1278	1611	1976
Operating Profit	734	901	1119	1535	2264	2792	3554	4634
Finance Cost	394	440	432	415	414	414	414	414
Finance income	-32	-67	-9	-19	0	0	0	0
Non-operating income	0	-70	0	-111	0	0	0	0
Share of (profit)/loss of joint ventures and associate	24	0	-1	0	0	0	0	0
Profit Before Tax	348	598	697	1250	1849	2378	3140	4220
Tax expense/(credit)	-78	190	282	469	771	999	1328	1795
Profit After Tax	426	408	415	781	1079	1379	1812	2425
Statement of Financial Position								
Assets								
Non-current assets								
Property, plant and equipment	1597	1832	2066	2214	2778	3638	4584	5624
Capital work-in-progress	367	259	166	189	75	51	34	23
Right of use assets	655	639	799	1109	836	879	935	1003
Goodwill	4126	3943	3835	3827	3565	3437	3314	3195
Other intangible assets	349	456	558	632	645	658	671	684
Intangible assets under development	70	30	177	2	0	0	0	0
Investment in associate	3	3	4	6	4	4	4	4
Financial assets								
Investments	0	0	0	0	0	0	0	0
Derivative instruments	45	0	6	3	0	0	0	0
Security deposits	9	7	8	0	0	0	0	0
Others	0	1	9	7	9	9	9	9
Income tax assets (net)	31	39	33	22	22	22	22	22
Deferred tax assets (net)	346	333	314	222	167	125	94	70
Other non-current assets	87	112	112	134	112	112	112	112
	7685	7654	8087	8367	8213	8934	9778	10747
Current assets								
Inventories	3	3	7	3	7	7	7	7
Financial assets								
Derivative instruments	5	10	6	3	6	6	6	6
Trade receivables	121	132	113	123	208	249	300	366
Cash and cash equivalents	848	1010	813	638	781	677	358	272
Other bank balances	15	6	282	378	378	378	378	378
Balance held under mobile money trust	238	295	440	513	820	1120	1530	2089
Others	73	66	66	124	66	66	66	66
Other current assets	118	149	147	215	147	147	147	147
Assets of disposal group classified as held for sale	0	0	31	0	0	0	0	0
	1421	1671	1905	1997	2414	2650	2792	3331
	9106	9325	9992	10364	10626	11584	12570	14078
Current liabilities								
Financial liabilities								
Borrowings	625	235	342	786	718	649	581	512
Current maturities of long-term borrowings	559	429	1126	0	0	0	0	0
Lease liabilities	181	199	240	323	323	323	323	323
Derivative instruments	96	3	7	9	7	7	7	7
Trade payables	470	416	366	404	331	258	184	111
Mobile money wallet balance	238	292	432	496	826	1143	1581	2187
Others	580	461	448	428	428	428	428	428
Provisions	70	65	65	69	65	65	65	65
Deferred revenue	110	124	135	162	162	122	81	41
Current tax liabilities (net)	67	149	173	220	220	220	220	220
Other current liabilities	103	115	151	176	194	194	194	194
Liabilities of disposal group classified as held for sale	0	0	19	0	0	0	0	0
	3099	2488	3504	3073	3273	3408	3664	4088
Net Current Liabilities	-1678	-817	-1599	-1076	-860	-758	-872	-757
Non-current liabilities								
Financial liabilities								
Borrowings	2437	2446	1871	1486	1115	1449	1449	1449
Lease liabilities	1037	970	1037	1337	1337	1337	1337	1337
Derivative instruments	7	4	6	0	6	6	6	6
Others	7	15	91	88	91	91	91	91
Put Option				579	579	579	579	579
Provisions	22	23	25	20	25	25	25	25
Deferred tax liabilities (net)	33	69	81	114	104	69	35	0
Other non-current liabilities	34	29	24	18	18	18	18	18
	3577	3556	3135	3642	3274	3574	3539	3505
Total Liabilities	6676	6044	6639	6715	6548	6982	7203	7593
Net Asset	2430	3281	3353	3649	4079	4602	5367	6485
Equity								
Share capital	3082	3420	3420	3420	3420	3420	3420	3420
Share premium	470	0	0	0	0	0	0	0
Retained earnings	1688	2805	2975	3436	4127	5010	6171	7725
Other reserve	-2614	-2837	-2990	-3354	-3615	-3976	-4372	-4807
Equity attributable to owners of the company	2626	3388	3405	3502	3932	4455	5220	6338
Non-controlling interests (NCI)	-196	-107	-52	147	147	147	147	147
Total equity	2430	3281	3353	3649	4079	4602	5367	6485

OUTLOOK

As the mobile money business comes into full fruition in Nigeria coupled with the expected growth in subscriber acquisition in Nigeria. More still, the increasing demand for mobile data as well as the full re-opening of economies which will impact global business positively is also expected to impact the access charge income. In conclusion, the firm is poised to deliver solid performance into the foreseeable future.

VALAUATION

We computed the average growth rate in dividend payment between 2019-22 covered in this report and adopted the Discount Dividend Model to value the AirtelAfrica's using the \$1/N415 which revolves around the average official exchange rate between January 4 2022 and April 26 2022. We set a target price of N1,755.45 on the stock we and recommend a buy on the ticker.

MAY 2022

Analyst Certification, Important Disclosure and Disclaimer

Analyst Certification

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That all of the views expressed in this report articulate the research analyst(s) independent views/opinions regarding the companies, securities, industries or markets discussed in this report.

That the research analyst(s) compensation or remuneration is in no way connected (either directly or indirectly) to the specific recommendations, estimates or opinions expressed in this report.

Investment Rating Criteria and Disclosure

Arthur Steven Asset Management adopts a 3-tier recommendation system for assets under our coverage: Buy, Hold and Sell. These generic ratings are defined below;

Buy: Based on our valuation and subjective view (if any), the total return upside on the stock's current price is greater than our estimated cost of equity.

Hold: Based on our valuation and subjective view (if any), the total return upside on the stock's current price is less than the cost of equity, however, the expected total return on the stock is greater than or equal to the Standing Deposit Facility rate of the Central Bank of Nigeria (which is currently MPR – 11.5%). We consider this as the minimum return that may deserve our holding of a risk asset, like equity.

Sell: Based on our valuation and subjective view (if any), the total return upside on the stock's current price is less than the Standing Deposit Facility rate of the Central Bank of Nigeria (which is currently MPR – 11.5%). We consider this as the minimum return that may deserve our holding of a risk asset, like equity, especially as we consider the average 4.5% total transaction cost for an average retail investor.

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