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## Strong growth; Value add to Bharti

### Strong growth led by East Africa/Francophone

Airtel Africa posted a healthy performance in 2QFY23 with revenue/EBITDA growth of 4.1%/3.9% QoQ on reported basis; while on CC basis, revenue/EBITDA grew 6.7%/7.1% QoQ to USD1.4b/USD663m (5% above estimate), respectively. EBITDA margin improved 20bp to 48.9%. Reported PAT was down 15% QoQ to USD152m due to net finance cost of INR206m (+36% QoQ), higher tax rate and exceptional loss of USD21m. Adjusting for the exceptional loss, PAT declined 3% QoQ.

### ARPU and subs growth remains strong

Reported ARPU grew 6.9% QoQ to USD3.1, while subscriber base rose 3m to 135m (in line). Region-wise, East Africa's ARPU/Subs grew 5% QoQ each that supported revenue growth of 10% QoQ (in CC terms) to USD501m with healthy 8%/12% QoQ growth in voice/data revenue, respectively. EBITDA (in CC terms) rose 16.5% QoQ. Francophone Africa's (in CC terms) revenue/EBITDA rose 6.8%/18.8% QoQ to USD315m/USD158m fueled by 5%/8% increase in Voice/Data revenue QoQ, respectively. On the contrary, Nigeria reported healthy 3.8% QoQ revenue growth in CC terms, but EBITDA was down 2.6% QoQ.

### Rising 4G penetration to fuel growth

Airtel Africa continued to invest in 4G network to expand the breadth and depth of the network with ~USD170m spent towards 4G spectrum acquisition. It reached almost 99%/88% of 4G site coverage in Nigeria/East Africa, respectively, while 69% coverage was achieved for Francophone. However, the total 4G penetration of data customers was 45.2% in 1HFY23, a 14% rise over the last two years. Rising 4G penetration on coverage combined with transparent and affordable offerings would lead to growth.

### Operating FCF flat; gross debt declines

EBITDA improved sequentially to USD663m (from USD619m in 1QFY23); but due to higher tax rate and capex, the Operating FCF was flat at USD472m. Capex rose 20% QoQ to USD169m, in line with guidance, as the company continued to invest in technology upgrade. Airtel Africa acquired spectrum in key markets including DRC and Kenya. Its gross debt reduced to USD2b in 1HFY23 from USD2.3b in FY22; leverage ratio (Net Debt to EBITDA) remained at 1.3x QoQ.

**Highlights from the management commentary**

- Capex guidance (excluding Spectrum) stood at USD700-750m in FY23, of which USD310m already incurred. Further, it will continue to focus on: a) strengthening the balance sheet and b) maintaining its dividend distribution.
- Airtel Africa acquired spectrum in Kenya, DRC and the Seychelles with an investment of USD82m. Additionally, the company acquired spectrum in Zambia and Tanzania for USD89m.
- Nigeria's EBITDA margin dipped primarily due to the recently launched (Jun'22) mobile money service – Smartcash, which elevated the operating expenses.
- Early redemption of USD450m HoldCo bond prepayment in Jul'22 was made out of the internal accruals. The remaining debt at HoldCo now stands at USD550m.

**Valuation remains compelling, can add to Bharti's SOTP**

Airtel Africa is trading at 3.4x EV/EBITDA on 2QFY23 and 3.0x on FY24E. Further, if we exclude the ~11% stake sold in the Mobile Money business to MasterCard and TPG Group at an 11x valuation, the remainder of the Airtel Africa business (growing over 20% annually) is valued at 2.5x on 2QFY23 annualized number. Airtel Africa has consistently delivered strong earnings growth over the last 3–4 years, with a ~20% CAGR over FY19–22. A strong balance sheet with low leverage and healthy FCF further adds to the strong capabilities. On 5x multiple, it could offer 70% upside hereafter, implying 7-8% upside for Bharti. Our SOTP-based TP for Bharti stands at INR930, including INR102/share value from Airtel Africa at 5x EV/EBITDA for FY24E. Given the double-digit EBITDA growth, healthy FCF generation, and steady deleveraging, the current valuation should only improve going ahead.

## Key takeaways from the management interaction

### Key highlights

- Capex guidance (excluding Spectrum) stood at USD700-750m in FY23, of which USD310m already incurred. Further, it will continue to focus on: a) strengthening the balance sheet and b) maintaining its dividend distribution.
- Airtel Africa acquired spectrum in Kenya, DRC and the Seychelles with an investment of USD82m. Additionally, the company acquired spectrum in Zambia and Tanzania for USD89m.
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### Detailed highlights

#### 4G penetration may add to growth

- In Nigeria, almost 99% of the sites are 4G-enabled. About 88% of the sites in East Africa and 68.5% of total Francophone sites are 4G-enabled.
- However, the total 4G penetration of data customers was 45.2% in 1HFY23, a 14% rise over the last two years. Low 4G penetration and low ARPU cost will lead to growth.
- Airtel Africa continued to invest in 4G network to expand the breadth and depth of the network with ~USD170m spent towards 4G spectrum acquisition.
- Rising 4G penetration on coverage combined with transparent and affordable offerings would lead to growth going ahead.

#### Nigeria's PSB opportunity

- Nigeria is a market with over 200m people and GDP of USD400b, which has an estimated unbanked population of 55%. The company's strong presence in this market alongside the investments into distribution network positions it to maximize the opportunity available.

#### Operating performance

- **Spectrum:** Airtel Africa will target to increase the capex that would further lead to high RoCE. It spends nearly 90% of the capex towards growth initiatives such as spectrum, fiber layout and capacity additions. The company acquired spectrum in Kenya, DRC and the Seychelles with an investment of USD82m. Additionally, it acquired spectrum in Zambia and Tanzania for USD89m.
- **RoCE** of Airtel Africa improved 900bp/390bp in the last two years/one year, respectively, generating 23.5% RoCE in 1HFY23.
- **Forex and derivative loss:** 95% of revenue is in local currency in all 14 regions. Airtel Africa deals in various derivative instrument exposures for sourcing foreign currency (including swaps), for which it has to bear MTM losses.
- Higher forex and derivative losses of ~USD160m led to a decline in 1QFY23 EPS and in 1HFY23 the derivative and forex losses stood at USD4.3 cents/share.
- **Rising energy cost** increases operating cost and the company's 27% of operating cost consists of fuel cost. The 10% increase in fuel price led to 7% rise in the network cost of Airtel Africa.

- **De-risking of balance sheet** was done by continued localization of debt into the OpCos and reduction of debt at HoldCo, following the USD450m HoldCo bond prepayment in Jul'22. The remaining debt at HoldCo is now at USD550m. This early redemption was made out of the Group's cash reserves and is in line with the company's strategy to reduce external foreign currency debt at a group level.
- The company declared an **interim dividend** of USD2.18 cents/share.
- Nigeria's revenue grew 21% YoY supported by both customer base growth of 14.5% and growth of 6.8% despite (NIM-related) barring of voice outgoing calls. EBITDA margin for Nigeria was 422bp lower due to currency fluctuations and rising fuel prices.
- The drop in mobile money, EBITDA margin was primarily due to kicking in of expenditure in Nigeria and PSB operation including the Smartcash launch.
- Weighted average interest rate increased 6.4% v/s 5.5% in the prior period.

**Exhibit 1: Airtel Africa's consolidated performance (constant currency, USD m)**

Bharti Africa - In Constant Currency	1QFY23	2QFY23	YoY%	QoQ%	2QFY23E	v/s Est (%)
Revenue	1,270	1,355	18.5	6.7	1,301	4.1
Total Expenditure	652	697	17.3	6.9	669	4.2
EBITDA	619	663	19.0	7.1	633	4.8
EBITDA margin (%)	48.7%	48.9%	19.8	19	48.6%	32
Depreciation	191	195	6.6	2.1		
ARPU (USD)	2.9	3.1	10.7	6.9		
Subscriber base (000's)	132	135	9.8	2.4		

Source: MOFSL, Company

**Exhibit 2: Airtel Africa's consolidated performance (reported currency, USD m)**

Bharti Africa - In Reported Currency	2QY22	1QFY23	2QFY23	YoY%	QoQ%
Revenue	1,160	1,257	1,308	12.8	4.1
Total Expenditure	599	645	672	12.2	4.2
EBITDA	561	612	636	13.4	3.9
EBITDA margin (%)	48.4%	48.7%	48.6%	26.2	-6
Depreciation	184	189	195	6.0	3.2
Net Finance Cost	72	151	206	186.1	36.4
Other Income	3	2	5	66.7	150.0
PBT	308	276	240	-22.1	-13.0
Tax	116	98	88	-24.1	-10.2
PAT	192	178	152	-20.8	-14.6

Source: MOFSL, Company

**Exhibit 3: Segment-wise quarterly KPI**

Africa Consolidated (in CC USD m)	2QFY22	1QFY23	2QFY23	YoY%	QoQ%
<b>Segmental Revenue</b>					
Voice Revenue	569	617	642	12.8	4.1
Data Revenue	371	422	461	24.3	9.2
Mobile Money Revenue	129	160	177	37.2	10.6
<b>Segmental ARPUs</b>					
Voice ARPU	1.6	1.6	1.6	0.0	0.0
Data ARPU	2.9	3.0	3.2	10.3	6.7
Mobile Money ARPU	1.8	2.0	2.1	16.7	5.0
<b>Segmental Subscribers (m)</b>					
Voice Subscribers	123	132	135	9.8	2.4
Data Subscriber	44	47	49	10.7	4.5
Mobile Money Subscribers	24	28	30	24.3	7.6
<b>Segmental KPIs</b>					
Subscriber base (m)	123	132	134.7	9.8	2.4
Net adds (QoQ) (m)	1.9	3.1	3.1	63.2	0.0
Monthly Churn	4.3%	4.6%	4.2%	-2.3	-8.7
ARPU (blended)	2.8	2.9	3.1	10.7	6.9

Source: MOFSL, Company

**Exhibit 4: Consolidated segment-wise summary**

in Constant Currency USD m	2QFY22	1QFY23	2QFY23	YoY%	QoQ%
<b>Regional Revenue</b>					
Nigeria	446	520	540	21.1	3.8
East Africa	424	457	501	18.2	9.6
Rest of Africa	276	295	315	14.1	6.8
<b>Regional EBITDA</b>					
Nigeria	244	272	268	9.8	-1.5
East Africa	220	231	269	22.3	16.5
Rest of Africa	121	133	158	30.6	18.8
<b>Regional EBITDA Margins</b>					
Nigeria	54.7%	52.3%	49.6%	-508bps	-268bps
East Africa	51.9%	50.5%	53.7%	181bps	315bps
Rest of Africa	43.8%	45.1%	50.2%	632bps	507bps

**Exhibit 5: Airtel Africa's consolidated region-wise performance**

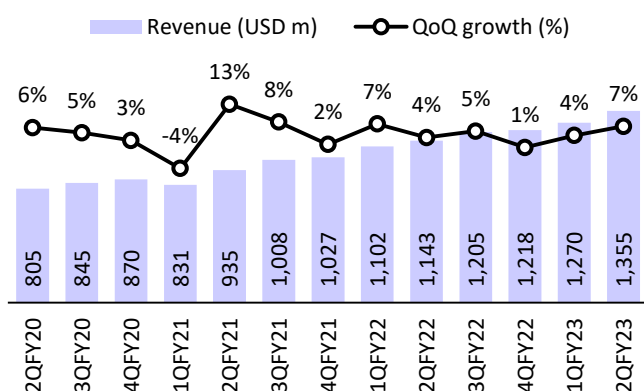
Region-wise Performance (in CC USD m)	2QFY22	1QFY23	2QFY23	YoY%	QoQ%
<b>Nigeria Segmental Performance</b>					
Voice Revenue	231	260	261	13.0	0.4
Voice ARPU	1.9	1.9	1.9	0.0	0.0
Voice Subscribers	40	46	46	14.6	0.7
Data Revenue	178	211	228	28.1	8.1
Data ARPU	3.4	3.4	3.7	8.8	8.8
Data Subscribers	18	21	21	13.2	0.5
<b>Other KPIs</b>					
Subscriber base (m)	40	46	46	14.6	0.7
Net adds (m)	0.0	0.0	0.0	-175.0	-81.3
Monthly Churn	2.5%	4.1%	3.9%	56.0	-4.9
ARPU (blended)	3.7	3.8	3.9	5.4	2.6
<b>East Africa Segmental Performance</b>					
Voice Revenue	196	205	222	13.3	8.3
Voice ARPU	1.1	1.2	1.2	9.1	0.0
Voice Subscribers (m)	57	59	61	8.1	5.0
Data Revenue	111	123	138	24.3	12.2
Data ARPU	2.0	2.2	2.4	20.0	9.1
Data Subscribers (m)	18	19	20	10.4	8.6
<b>Other KPIs</b>					
Subscriber base (m)	57	59	61	8.1	5.0
Net adds (m)	1.4	1.3	2.9	107.1	123.1
Monthly Churn	4.3%	4.2%	3.7%	-14.0	-11.9
ARPU (blended)	2.4	2.1	2.2	-8.3	4.8
<b>Rest of Africa Segmental Performance</b>					
Voice Revenue	143	152	160	11.9	5.3
Voice ARPU	2.0	1.9	2.0	0.0	5.3
Voice Subscribers (m)	25	27	27	5.9	-0.4
Data Revenue	83	88	95	14.5	8.0
Data ARPU	3.8	3.6	4.1	7.9	13.9
Data Subscribers (m)	25	27	27	5.9	-0.4
<b>Other KPIs</b>					
Subscriber base (m)	25	27	27	5.9	-0.4
Net adds (m)	0.9	0.2	-0.1	-111.1	-150.0
Monthly Churn	7.4%	6.4%	5.9%	-20.3	-7.8
ARPU (blended)	3.8	3.3	3.6	-5.3	9.1

\*Blended ARPU includes Mobile Money ARPU as well

Source: Company

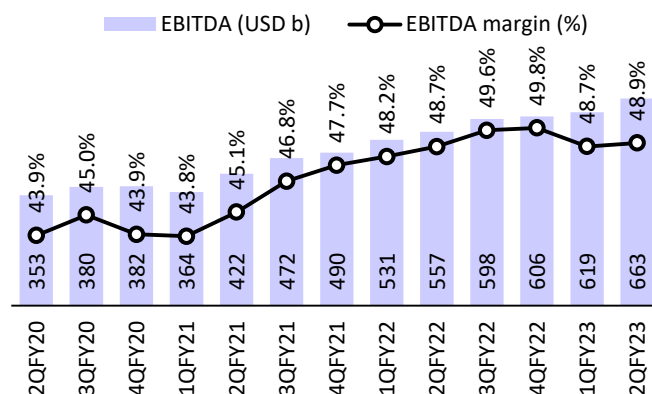
## Key exhibits

Exhibit 6: Africa revenue up 7% QoQ (CC terms)



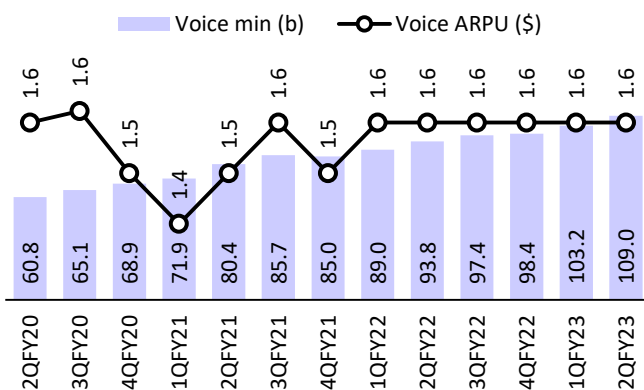
Source: MOFSL, Company

Exhibit 7: EBITDA margin stood at 48.9%



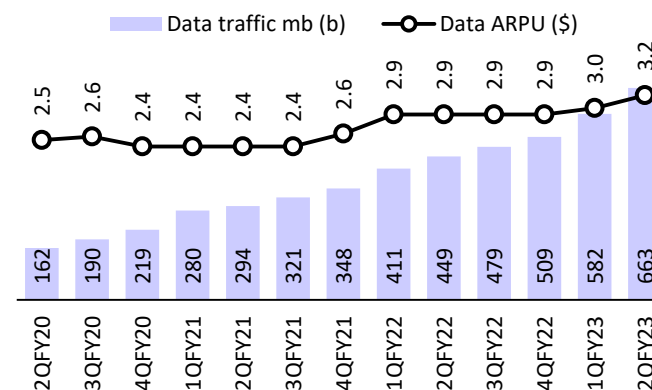
Source: MOFSL, Company

Exhibit 8: Voice ARPU stable at USD1.6



Source: MOFSL, Company

Exhibit 9: Data ARPU improved to USD3.2



Source: MOFSL, Company

## Exhibit 10: Valuation

## Valuation Summary (USDm)

	2QFY23	FY24
Price (GBX)	114	114
Currency conversion	1.2	1.2
Price (USD)	1.3	1.4
No of Shares (m)	3,755	3,755
Market Cap (USDm)	4,953	5,265
Net Debt (including lease liability)	3,278	3,278
Enterprise Value	8,231	8,543
EBITDA (USDm)	2,544	2,838
EV/EBITDA (x)	3.4	3.0
Airtel Money's stake sale valuation	2,650	2,650
EBITDA	84	84
EV/EBITDA (x)	7.9	7.9
Valuation (Ex of Mobile Money)		
EV (ex Airtel Money)	5,581	5,893
EBITDA (ex Airtel Money)	2228	2,502
EV/EBITDA (x)	2.5	2.4

Source: MOFSL, Company

NOTES



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SELL	< - 10%
NEUTRAL	< - 10 % to 15%
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NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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