

# Conference call transcript

2 February 2023

## 9M 2023 RESULTS

### Operator

Good day, ladies and gentlemen, and welcome to the Airtel Africa nine month results call. All participants are currently in listen only mode and there will be an opportunity for you to ask questions later during the conference. If you should need assistance during the call, please signal an operator by pressing \* and then 0. Also note that this event is being recorded. I will now hand the conference over to the CEO, Segun Ogunsanya. Please go ahead, sir.

### Segun Ogunsanya

Thank you. Thank you for joining us on today's call. I'm joined on the line by our CFO, Jaideep, and our deputy CFO and Head of Investor Relations, Pier. We will be shortly answering your questions. But first, I'd like to provide you with a very brief overview of the performance in the last nine months.

Over the period, we have reported a strong set of results despite the global macroeconomic backdrop. Revenues went up to \$3.9 billion with a 17.3% growth in constant currency terms. Adjusting this for Nigerian voice call barring and sale of our towers, the organic revenue growth was 20.6% over the period. In Q3, the quarter ended December, our constant currency revenue growth was 18%.

Despite the inflationary challenges, we have delivered on our mission to maintain stable margins as our EBITDA margin slightly increased to 49%, giving us an EBITDA for the period of \$1.9 billion, an increase in constant currency terms of over 17%. It is important to highlight that while we did see some FX headwinds over the period, we continued to report double digit growth of both revenues and EBITDA in reported currency.

Before discussing our performance across our two main reporting segments, I'd like to highlight our performance on a regional basis, our three regions, including both mobile services and mobile money. In Nigeria, we continued to see strong trends with constant currency growth of almost 21% in the period, and 23.1% in Q3. In East Africa, we reported more than 16% revenue growth in constant currency, with the Francophone region growing 12.7% in constant currency as well. Let me begin by focusing on the performance of the mobile services segment. The strong demand for services across our 14 countries combined with our very attractive consumer focused proposition and distribution infrastructure drove a 10% increase in the customer base with quarterly net additions at the highest level in over eight quarters. ARPU growth of 5.9% and the customer base increase supported mobile services revenue growth of 15.9%. We remain confident that the very low unique SIM penetration levels across our footprint combined with very low usage levels means there remains a long runway for both voice and data revenues to grow across all the three regions.

In Nigeria, mobile services revenue grew 21% over the period, while in East Africa and Francophone markets saw almost 12% growth in constant currency. Let me follow up on the performance of the mobile services segment between voice and data. For voice services, revenue growth of 12.7% was supported by growth in customer numbers alongside a further increase in voice ARPU, as a result of increasing usage by customers, supporting our view that usage levels across African countries remains very low compared to our global peers. For data services, the penetration of service remain very low across the 14 markets as well. This combined with our sustained focus on network coverage and capacity, as contributed to a 13.6% growth in data customers. Together data customer and data ARPU growth contributed to a constant currency revenue growth of over 22%. Only 17% of our total customers and 46% of our data customers are using 4G, highlighting the opportunity for sustained growth in data services going forward.

As a result of very strong revenue performance and despite the financial pressures on our cost base, particularly when it comes to Nigeria, mobile services EBITDA had a very encouraging growth of almost 15% in constant currency with continued margin resilience at 49%. The mobile money business continued to see very strong performance with almost 30% constant currency revenue growth in the period. It is the fastest growing mobile money business across the continent. We continue to see expansion of our customer base, which increased by 22% as the principal driver of growth.

Outside of Nigeria, which is very early in the mobile money journey, the penetration of customer base increased almost 35%. With increased use cases and continued customer engagement, transaction volume per customer increased by 10%, resulting in Q3 analysed transaction value of almost \$100 billion. Following the PSB launch in Nigeria, we continued to focus on building the brand. And we invest in technology and platforms to develop trust and confidence in our consumer propositions. We remain of the view that investing in tech platforms and systems ahead of revenues is the best strategy for long term value creation.

Overall, for the group we continue to see major resilience despite the very challenging operating environment in many of our markets. We have continued to focus on cost reduction and operating efficiencies to limit the impact of inflationary pressures on our cost base, resulting in a 20 basis point margin increase over the year in reported currency. Over the year, foreign exchange changes have had an adverse impact on our reported financials. The biggest drivers of FX weakness related to devaluation impact in Nigeria, our largest market, Central African Franc, Malawi, Kenya and Uganda. This is partly offset by the appreciation in the Zambia Kwacha. Adjusting for the FX losses within our finance cost line, our EPS before exceptional items increased 21.6% over the year, reflecting our strong operational execution across the 14 countries in the group.

Briefly, in terms of the balance sheet and cash flow, at the end of December, our leverage ratio was 1.4x EBITDA, with net debt of \$3.6 billion. The leverage ratio has increased slightly from 1.3x at the end of September 2023, reflecting the recent acquisition of spectrum, particularly 5G spectrum in Nigeria. Our capital allocation policy remains unchanged. Our priority is to continue to invest in business to ensure we future proof our operations for sustained growth. And we therefore reiterate our previous guidance of between \$700 million and \$750 million for the current financial year. We also remain committed to further

strengthen our balance sheet by reducing foreign currency debt while continuing to push debt down to the OpCo level. Earlier this year, we redeemed \$450 million of HoldCo debt in advance, and we continue to focus on reducing this debt further as we continue to upstream cash from our various OpCos.

Over the last nine months, we have prioritised the investment in our network to enhance coverage and network quality. Almost 90% of our capex is targeted towards growth initiatives. In addition, we have also announced a spectrum footprint across a number of key markets. In particular, in January, we announced the acquisition of 3.5 or 2.6 GHz spectrum in Nigeria, which will be used for 5G rollout and increased 4G capacity. This spectrum and other acquisitions in Kenya, DRC, Tanzania and Zambia will provide significant capacity, first to accommodate continuous from data growth by supporting both 5G rollout and 4G expansion.

Before we open the Q&A, I thought I would highlight that what we see to be the five reasons why the opportunity at Airtel Africa is so attractive. Number one is the very strong growth outlook. Our markets across Africa continue to show significant opportunity for growth, which is reflected in the rapid uptake of both voice and data services. This overlaid with the significant mobile money opportunity, including the rollout of PSB in Nigeria, gives us significant confidence on the sustainability of growth in the coming years. Secondly, our relentless focus on efficiencies and returns will ensure that the flow through of revenues will continue to drive profitable growth. Despite the macro environment, we will continue to deliver margin resilience across the group in the short term.

Thirdly, our confidence has focused our attention on future proofing the network. And our recent investment in spectrum will ensure network reliability, further improve customer experience and enhance our brand, which will be key to monetising this growth opportunity. And number four, our robust risk management framework and corporate governance strategy is aimed at mitigating risk which we're exposed to. Our track record speaks for itself, and we maintain this rigorous approach to drive continued shareholder value. And finally, our sustainability agenda, which is based on our very strong belief that profitability and sustainability are not mutually exclusive. And with that, I would now like to open the line for questions, for which I'm going to be joined by Jaideep and Pier. Operator, I hand over to you to start the Q&A session.

### **Operator**

Thank you very much, sir. Ladies and gentlemen, if you do wish to ask a question, please press \* and then 1 on your touchtone phone or on the keypad on your screen. You will hear a confirmation tone that you have joined the queue. If you wish to withdraw your question, please press \* and then 2 to remove yourself from the queue. Our first question is from Jonathan Kennedy-Good of JP Morgan. Please go ahead.

### **Jonathan Kennedy-Good**

Good afternoon, and thanks for the opportunity to ask questions. First question is on the Nigerian mobile money rollout. I know you gave some colour in the release around a focus on Lagos for the moment and some discussion around security protocols, etc. I just wanted to get the sense on how far we are away from launching a product that looks like your product across Africa and starts to generate revenue growth

there. And then question number two. Can you provide us with some insight on the pace of 5G rollout? It seems as though one of your major competitors is talking more to their 5G aspirations, particularly in Nigeria. So, I just wanted to get a sense of potential investment in 5G. And then finally, just any heads up that you can give us on further spectrum acquisition. I know it's been a busy year, but I just wanted to know if there was anything obvious that is coming through in the next year. Thank you.

### **Segun Ogunsanya**

Sorry, the last question is about spectrum acquisition? Okay, let me take the PSB question first. We have spent the first few months on building a very strong distribution foundation. We also focussed on IT infrastructure, and the right business systems or processes to ensure that we can rely on the business model to build trust and confidence in the brand. We are almost at the end of this process. So, the next couple of quarters will now be devoted towards customer acquisition. We wanted to be very confident that the systems, especially the IT systems, are robust enough to prevent fraud and to deliver the customer propositions want to put out there. I'm slightly more confident that we are at that sweet spot now, where the focus returns to bringing customers on board and expanding our agent base. And over the next two quarters, that is what we're going to focus upon. But also, Nigeria is slightly different from any of our 14 countries. It is highly penetrated with a number of fintech companies, and the banks have their various digital propositions. Nevertheless, it's still a massive opportunity, and we just want to have the right foundation to capture this growth in the country.

On the 5G rollout, we've acquired spectrum in a number of countries. Tanzania, Zambia, Kenya, Nigeria, of course. We're going to do selective rollout of the 5G. I still believe that 5G is good in the medium term. In the short term our focus will continue to be on expanding our 4G footprint, and selectively launching 5G to capture opportunities in high income neighbourhoods. There is a very low footprint of fibre broadband in Africa. So, just let me summarise this. Yes, we've acquired spectrum in a number of countries. Yes, we plan to roll out. Now it's going to be selective rollout in key cities, where we recognise enough devices and enough purchasing power to really enjoy the benefits of 5G.

On your last question around spectrum. We keep looking for opportunity to purchase spectrum where it is available at commercially correct price. If the pricing is good, and the need is there, we would acquire spectrum. We spent about \$500 million or close to \$500 million in the last nine months in buying spectrum in a number of countries. Of course, Nigeria. We did buy in Kenya. We bought in Tanzania and Zambia. So, we're not spectrum shy. But the pricing must be right. It must be commensurate with the commercial opportunity available in the country before we decide to put money behind it.

### **Jonathan Kennedy-Good**

Great, thank you so much.

### **Operator**

The next question is from Dalal Darwish of Goldman Sachs. Please go ahead.

### **Faisal Al-Azmeh**

Hi, this is Faisal Al-Azmeh from Goldman Sachs. Just a quick question on the Nigerian market and how we think about the margins outlook next year. Obviously, this year has been quite exceptional in terms of inflation. How should we think about the margin profile of that particular segment in 2023? And maybe do you have further measures that you can undertake in order to mitigate any additional inflationary pressure? That's my first question. And then my second is just maybe a follow up on the spectrum question. How should we think about the capex profile generally next year? Are we peaking in 2022, and should we start to see some meaningful normalisation next year? And how does that play through the balance sheet? Thank you.

### **Segun Ogunsanya**

Well, let me start with the second question on next year's spectrum. We are going to see a small uptick. But that's going to be driven by two things. We're going to start investing behind the data centres. We want to build the number of data centres in a number of countries. We also plan to invest in a fibre infrastructure. That will then drive our capex up slightly. We're looking at between \$800 million and \$825 million for next year versus \$700 million to \$750 million for this year that is the planned. In terms of spectrum, which is your first question, once again, we are a telco, so we do need spectrum for expansion. We do need spectrum for quality. We do need spectrum for coverage. But the price has got to be right. We look for the right price. We look for the right spectrum. If both meet commercial expectation, we would put money behind it. But I don't expect the level to be as high as it has been in this current year. This year is very unusual. We bought 5G in Nigeria, close to \$300 million. We bought spectrum in Tanzania, in Kenya, in Zambia. It doesn't happen like this in many years that in four or five countries we are going to put money behind spectrum. And the Nigerian opportunity is a very special one. The 5G came in at almost \$280 million. And that's why the intangible capex went up significantly in this current financial year. I don't expect similar levels of spending in the next financial year behind spectrum.

### **Faisal Al-Azmeh**

Thank you. Maybe just the third one on the margins question related to Nigeria please.

### **Segun Ogunsanya**

The major driver of the margin challenge in Nigeria is around the fuel prices. And just to set the context, this time last year, a litre of diesel was about ₦320. As I speak now it is ₦800. And, unfortunately, energy and diesel is one of our cost drivers, compounded by the fact that grid availability in Nigeria is very small. So, we do run most of our sites using diesel power generators. Towers are owned by the TowerCo, but it is a pass through cost. So, that's been a major driver of pressure on EBITDA in Nigeria. What are we doing? We continue to work with the TowerCos. We've got two larger partners. We're working with ATC and I.H.S. We're looking for win-win situations whereby they progressively convert the energy they use for the site from diesel into lithium battery and solar power. This costs money. We're looking at various win-win propositions that would encourage them to invest more in such environmentally friendly energy sources and at the same time reduce the cost of power. And we look for ways to share the cost of this investment. We're talking to our two partners on now we can minimise the impact of fuel, especially diesel on our cost profile in our largest market where grid availability is unfortunately very low.

### **Operator**



Thank you very much. The next question is from Rohit Modi of Citi. Please go ahead.

**Rohit Modi**

Mostly on the opex, is there an impact of Naira devaluation on your opex in Nigeria? And do you see a potential impact going forward, a potential devaluation will have a margin impact going forward? Can you give any more details on the mobile money side, what kind of agent network you have got so far, and are there any kinds of challenges that you're facing in terms of rolling out the mobile money services? Thirdly, apologies if it's already been reported, what kind of ARPU uplift do you see from 3G to 4G in Nigeria? And what percentage of your data subscribers are on 4G? Thank you.

**Segun Ogunsanya**

You're going to have to repeat the last question again. I didn't get the last question. I got one on FX and on PSB. But the last one on migration from 3G to 4G, what was it?

**Jaideep Paul**

You are cutting out. We are going to answer your questions, and then maybe you will come back with the third one.

**Segun Ogunsanya**

The question on FX, Jaideep, please give us colour. Then I will come back to the issue on the PSB. And I will take the first one on the 3G / 4G if you clarify your thoughts around it.

**Jaideep Paul**

Okay, so on your specific question with reference to the devaluation impacting the opex, if I understand it correctly. So, our opex, the composition of the US dollar component into opex is very minimal. It doesn't have too much impact in our margin as well as opex if devaluation happens. Now, we cannot predict the devaluation impact if it is linked to the fuel price or not because so far, we haven't seen that inflation established in Nigeria. But if, obviously, the fuel price further goes down that of course creates pressure on the margin. But otherwise, pure devaluation, we don't have too much impact in the opex because we have been able to bring down the foreign currency related opex to a very miniscule level over the past few years. Our main risk of devaluation is actually in the capex side because that's where maximum foreign currency vendors or foreign currency bills have to be paid. So, that's one element. The second element is on finance lease obligation. And the third element is on external debt, which is foreign currency debt, which is there at the OpCo level. So, these are the three areas where the devaluation really impacts. And that's what you see in the derivative and foreign exchange fluctuation cost, which is sitting as a part of finance cost.

**Segun Ogunsanya**

On the PSB, we don't have any external factor making it difficult for us to launch. We just follow a template that will work for us in all of our countries by being very deliberate on the IT infrastructure, being very deliberate on systems and distribution, to be sure that we're ready to offer customer propositions that would be risk proof. That is the only thing that is making it appear as if it's slowly rolling out. But I'm very confident that over the next two, three quarters, you're going to see very quick acceleration of our PSB

business in Nigeria. That is one. I believe your last question is around the 3G and 4G. Of course, we like to migrate a lot more customers from 3G to 4G. The average ARPU for a 3G customer is about \$2.90. And for a 4G customer is more than twice, about \$6.50, which is why we look for various things to encourage customers to migrate from 2G to 4G, from 3G to 4G. And we're also very conscious of the investment we put behind the further 3G expansion. I see in Africa maybe a big leap from 2G to 4G, not from 2G to 3G, which is why we work in a number of things to really encourage migration from 2G to 4G direct, rather than take an intermediate step of going from 2G to 3G given the wide difference between the 3G customer in terms of ARPU and a 4G customer.

### **Rohit Modi**

Thank you so much.

### **Operator**

Thank you. Ladies and gentlemen, just a reminder, if you wish to ask a question, please press \* and then 1. Our next question is from Madhvendra Singh of HSBC. Please go ahead.

### **Madhvendra Singh**

Yes. Hi, thanks for taking my question. Three questions, hopefully short. On your capex trend for the quarter, it seems like the run rate has fallen further. So, I'm wondering, why the capex is this low. And does this capex also include a spectrum payment, or this is purely the equipment capex? If you could give some colour there. The second question is around the FX in Nigeria. Have you been able to take any cash out of Nigeria recently in 2023 especially? And if you could give the rate at what you have been able to get it out? And finally, in Nigeria, how are your discussions going with the regulator around price increases? Is there any clarity on timeline around it? Should we expect something maybe after elections? Thank you.

### **Segun Ogunsanya**

I'm going to answer in reverse order. I'm going to start with the question on pricing. As I said in the last discussion, we had that our growth agenda is not based on pricing. We have a formula. We use customer base growth and usage growth to drive revenue. That's a lot more sustainable than pricing. Of course, if you do have opportunity to take pricing, we do. We did in December, and the regulator has backed the pricing we've done. So, that's why we've grown revenue in Q3 by almost 23%. It shows the resilience of our strategy of growing revenues by increasing the customer base and focusing on driving usage. Those are the two clear pillars that we use. And we have a variety of products at a variety of price points that ensure that we continue to drive usage by not focusing on a straight heavy price increase. That has worked for us. And we can see in Q3 performance in Nigeria, driving the growth that you see.

If I go to your second question about remittances from Nigeria, I don't want you to look at us as a Nigerian business. We operate in 14 countries. And we've actually upstreamed \$800 million in the first ten months of this financial year across the 14 countries where we operate. In Nigeria, we've been able to upstream about \$300 million. In East Africa, about \$270 million, and in French speaking Africa about \$210 million. So that's a very wide portfolio. It makes it easy for us to overcome challenges in any one country. That's the beauty of our portfolio, West Africa, East Africa, Nigeria, French speaking. I mean, are we overly

concerned about the fact that it's slightly more difficult to get money out of Nigeria? We are. Is it a disaster? No. Nigeria is our largest market. We do have need for investment in Nigeria. We just bought spectrum, 3.5 and 2.6. So, there's been a large appetite for Naira use in Nigeria as well. So, we're not too worried. Of course, a little more dollar availability will make it easier for our capex vendors to be paid, make it easier for dividend to be repatriated. But despite all these challenges like I mentioned, we've actually repatriated over \$300 million from Nigeria in the first nine months of a financial year. That shows the resilience of all the things we put in place to get the right level of remittances out of Nigeria and out of our other 13 countries.

**Jaideep Paul**

So, on the capex part of it, our capex guidance for the full year remains at the same level of between \$700 million and \$750 million. Lower spend in the current quarter, what you see is due to the phrasing of the material received. There is a lag time between the order placed, order receipt and deployment. So that sometimes gets distorted because of multiple reasons. But overall level capex will remain as per our earlier guidance.

**Madhvendra Singh**

And does that include the spectrum spend as well, that guidance?

**Jaideep Paul**

No, no. Spectrum is not part of this \$700 million to \$750 million. This is only we're talking about the tangible capex, the network capex, the IT capex, sales and distribution related capex. There is a little bit of real estate and all of those kinds of things. Spectrum is not part of this \$700 million to \$750 million guidance.

**Madhvendra Singh**

Right. And if I could also ask another question on the voice revenue trends during the quarter. 14% growth almost, that is very strong growth for the voice revenue. So, if you could give some colour on whether this is a sustainable rate, in your view.

**Segun Ogunsanya**

If you refer to my introductory remarks about the very low level of unique SIM penetration in our footprint in the 14 countries where we operate, it is a clear testimony of the very long runway available for us to grow voice revenue. That is one data point. The second data point is just the absolute minutes consumed by every customer in our footprint. It is still relatively small. This quarter, we took it to 279 minutes from 260 something in the last year. Comparatively, in India, it's over 600 minutes per person per month. I'm sure it must have gone much higher than that. We consider the long gap between where we are and where similar economies are. So, I firmly believe that we're going to continue to grow our voice revenue by expanding the customer, bringing a lot more people into the digital world, and at the same time driving usage and network expansion. Those are the things we're doing to continue to increase our voice revenue. And I'm very optimistic that we have still got a long runway to capture the growth potential in the 14 countries where we operator.



**Madhvendra Singh**

Thank you very much.

**Operator**

Thank you. Ladies and gentlemen, again, if you do wish to ask a question, please press \* and then 1 on your touchtone phone or on the keypad on your screen. We will pause a moment to see if we have any further questions. We do have a question from Cesar Tiron of the Bank of America. Please go ahead.

**Cesar Tiron**

Yes, good afternoon, everyone. Thanks for the call and the opportunity to ask questions. I just wanted to check on the cash upstreamed from all markets, not just from Nigeria. Can you please say how much it was for each of the past three quarters? Thank you so much. So not for nine months, but for each quarter. Thank you.

**Segun Ogunsanya**

Each quarter. We don't have the information for every quarter. What I've done is to give you a very top line view of \$800 million we've said in the last ten months. And this came from a variety of countries. It is spread between Nigeria where we took out about \$300 million, East Africa, I mentioned about \$267 million, and from French Franco territories around \$210 million. That's the top line spread between the three different regions and how much you've taken out in the last nine months. It is very clear how much we were able to repatriate out of Nigeria, being a single country region.

**Cesar Tiron**

Thanks. Do you disclose the information at least for nine months and for the H1, or not?

**Segun Ogunsanya**

Sorry, say that again please.

**Cesar Tiron**

Do you disclose the information for H1 and nine months? I just wanted to try and figure out how much cash you upstreamed from these markets in the past three months, please.

**Segun Ogunsanya**

Only for the last three months. You don't want for the nine months.

**Cesar Tiron**

Yes. Yes, please.

**Jaideep Paul**

Yeah. Just give a second. So, for example, this quarter it was roughly between \$150 million and \$160 million.

**Cesar Tiron**

Thank you so much. And the figure for nine months was \$900 million?

**Jaideep Paul**

\$800 million. \$800 million was for ten month and about \$300 million from Nigeria. And that means another \$500 million from the rest of the countries.

**Cesar Tiron**

Great. Thank you so much. That is really helpful. Thank you so much.

**Operator**

Thank you. The next question is from Mike Steere of Avior. Please go ahead.

**Mike Steere**

Hi, guys. Congrats on the results and thanks for the questions. Just focusing on Nigeria, I was wondering if you have any more information on your customer profile in Nigeria. Basically, the split between high income and low income customers? And then the second one is around tower contracts. My understanding is you have two general contracts. One is oil inclusive and the other one is the energy pass through. Are all your contracts energy pass through, or do you have a split between the two? And could you give us that split, if possible? Thanks.

**Segun Ogunsanya**

For the energy contracts, both of them are pass through. That will give you more flavour as to the differences between each of them. Both of them are pass through in terms of energy cost. For the profile of our customer base in Nigeria, if I use the type of handset they use as a proxy for either low or high end, as I speak now, about 25% of our customers use 4G phones, about 15% use 3G phones, and about 60% use 2G phones, mainly in the rural areas. So that's it split. A person with a 4G phone is slightly more affluent than a person with a 3G phone. And of course, the great majority of the population is still on 2G phones, around 60%. So, that's the broad categorisation of our customer base, and different ARPU comes out from different segments.

**Jaideep Paul**

So, on the TowerCo contract, we have the agreement of the contract which is fixed based on the consumption. So, consumption of grid power sites, non-grid power sites. There are multiple mix of profile on the sites, and based on that, the quantity or the fuel consumption is fixed. And this is also linked to the second tenancy, first tenant and so on and so forth. So, it is not a straightforward kind of thing that it is comparable. And the price is linked to the market price of the fuel. So, the base price which was fixed in the contract. And then there is an increment, which is linked to the fuel price rise.

So, that's the way this whole calculation happens. And therefore, effectively in a very simplified way if I explain, it is a pass through cost. And the only way it can get minimised is, as Segun mentioned in the beginning, that we are in touch with the TowerCo to see that all the future sites should come with an alternative source of energy, so that we can reduce the impact if a further increase in the diesel price happens. And also, we are looking at conversion of some of the existing sites, especially where the grid

power availability is quite poor. Those are the places we are first looking at if we can put up an alternative source of energy to bring down this cost.

**Operator**

Thank you very much. Ladies and gentlemen, we have no further questions in the queue. Sir, would you like to make some closing comments?

**Segun Ogunsanya**

Just to thank everyone for joining us this afternoon. I look forward to speaking to you again and hopefully meeting many of you later this year. Thank you. Have a good afternoon.

**Jaideep Paul**

Thank you.

**Operator**

Thank you very much, sir. Ladies and gentlemen, that then concludes today's event, and you may now disconnect your lines.

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