

Conference call transcript

28 July 2022

Q1'23 RESULTS

Operator

Good day, ladies and gentlemen, and welcome to the Airtel Africa Q1 conference call. All participants will be in listen only mode. There will be an opportunity to ask questions later during the conference. If you should need assistance during the call, please signal for an operator by pressing * then 0. Please note that this call is being recorded. I would now like to turn the conference over to Segun Ogunsanya. Please go ahead, sir.

Segun Ogunsanya

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're going to be answering your questions, but first I would like to provide a brief overview of our first quarter. We have posted very decent growth overall with group revenues reaching \$1.257 billion, giving us a year-on-year constant currency growth rate of over 15%. When accounting for the specific challenges from call barring in Nigeria and the loss of tower sharing revenues from portfolios that we sold last year, the organic underlying growth is actually closer to 19%. Despite the inflationary challenges, we continue to improve our EBITDA margin to 48.8%, giving us an EBITDA for the quarter of \$614 million, which is up 15% year on year.

Before I give the segment performance, I'd like to share about the performance in each of our three regions with you. Total revenues across both mobile services and mobile money in our largest segment, Nigeria, grew by 18.3%, and by 14.1% in East Africa, and by 11.7% in Francophone Africa. This year we began reporting our business performance through four operational segments. All our mobile money activities are now reported as a separate unit with the performance of our mobile services continuing to be reported through our traditional regional segments of Nigeria, East Africa and Francophone Africa. But these now exclude our mobile money activities.

We have delivered very strong revenue growth and profit progression across each of these reporting segments despite the headwinds around call banning and tower sharing revenues previously mentioned.

Mobile services revenue across the group grew by 14.2% and all of our regional segments for mobile services posted double-digit revenue growth rates. Nigeria did 18.3% year on year for this quarter. East Africa grew by 11.1%, and Francophone Africa grew by 10.6%. Let me share the performance of our key mobile services with you.

Across the group voice revenues grew by 11.3%, data revenues grew by 19.8%, and other revenues grew by 10.4%. I will add some flavour to this in a moment. Mobile money revenue grew by 26.5%, driven by growth of 26.9% in East Africa and 25.4% in Francophone Africa. We are just starting the mobile money business in Nigeria, so no figures to report for now. Our total customer growth rates are increasing steadily. They are up by almost 9% year on year to 131.6 million customers. We added a total of 3.1 million customers across the group in this quarter. This is one of our best sequential customer growth rates for some time with the majority of the growth coming in Nigeria and East Africa.

Our group voice revenue growth of 11.3% reflected year on year customer growth of 8.9% and the voice ARPU growth of 51.8%. We remain very confident that the low unique customer penetration levels across our footprint in our 14 countries, combined with still very low minutes of usage means there remains a very long runway for voice revenue to continue to grow.

On data, our group data revenue growth of 19.8% was a function of good customer growth rate of 9.7% supported by data ARPU growth of 5%. This is slightly lower than recent historical growth levels. Compared to recent quarters, our current data revenue growth is slightly lower largely due to a slowdown in the growth of data usage per customer as well as higher churn rates due to the NIN issues we are facing in Nigeria as well as lower ARPU in a couple of countries.

Other revenues grew by 10.4%. This is in spite of the sale of our towers in a few countries where we stopped accounting for \$7 million in tower sharing revenues.

Now on mobile money. We posted solid metrics. Our Q1 revenue growth of 26.5% year on year. In terms of the transaction growth of 26.1%, and active customer base growth of 19.7%, with ARPU growth of 5.9%. While still strong, this quarterly growth rate remained slightly impacted by the reduced usage effect of levies in Tanzania sometime last year, middle of July last year. Ultimately the effect of this is now over.

We continued our revenue growth through margin improvement reaching 48.8% this quarter, which is up 17 basis points over Q1 of last year. Inflationary effects, particularly on fuel, are having an effect. But our focus on cost reduction and operating efficiencies is certainly supporting margin resilience.

Foreign Exchange rate changes had an impact of \$23 million on constant currency revenue and \$8 million on underlying EBITDA for the quarter. This is largely driven by the devaluations of the Central Africa Franc by 13.2%, the Nigerian Naira by 1.8%, the Kenya Shilling by 8% and the Malawian Kwacha by 11.2%, partially offset by appreciation in the Zambia Kwacha of 23.4%.

In terms of balance sheet and cash flow, at the end of June our leverage ratio was 1.3x underlying EBITDA with net debt lying at just over \$3 billion. And in Q1 we generated operating free cash flow of \$473 million, which is about \$44 million more than in Q1 of last year. This is largely due to the growth in EBITDA. After the quarter ended in July, we announced the settlement of a cash tender offer to redeem \$450 million of the \$1 billion of 5.35% senior notes that are due in 2024. We paid \$462.6 million out of our cash reserves to complete this early redemption. We continue to execute on our strategy to reduce our foreign currency debt at group level.

There are a couple of other strategic and operational announcements to highlight this quarter. Perhaps the most significant news item is the operationalisation of mobile money in Nigeria in this quarter. This follows the licences we received for both Payment Service Bank and Super Agency. We are now rolling out the service capability across Nigeria, and we are very encouraged by the progress we are making.

Still on Nigeria, the NIN-SIM linkage challenge, we have collected information for 40.7 million of active customers. Revenues for these active subscribers who have not yet linked their NIN with their SIM amounts to about 7% of total revenues for Nigeria and about 3% of total revenues for the group. As we expected, SIM registration has accelerated and we're seeing some SIM consolidation in response to the implementation of the policy of the Federal Government not to allow those with no NINs to make phone calls.

We have also made some additional spectrum acquisitions recently with 58 MHz in DRC and 16 MHz in Kenya. These additional spectrum licences provide significant capacity for continued strong data growth. It supports 4G expansion for both mobile data and fixed wireless broadband capability while allowing us

to roll out 5G in the future. As expected, we reported some moderation this quarter in the growth trends for both data and mobile money.

We remain mindful that the global inflationary impacts on our cost base. Nonetheless, we are very confident of sustaining healthy growth ahead of the market and of demonstrating EBITDA margin resilience this year. Longer term, and more fundamentally, the opportunities for sustainable profitable growth stem from our underpenetrated markets for mobile voice, data and mobile money services that remain very attractive. And we are confident of continuing to deliver on our growth strategy. And with that, I would like to open the line for questions for which I'm going to be joined by Jaideep and Pier. Operator, I now hand over to you to please open and manage the Q&A session. Thank you.

Operator

Thank you very much, sir. Ladies and gentlemen, if you would like to ask a question, please press * then 1 on your touchtone phone or on the keypad on your screen. If you decide to withdraw your question, please press * then 2 to remove yourself from the list. Again, if you would like to ask a question, please press * then 1. We will pause to see if we do have questions.

The first question comes from Jonathan Kennedy-Good from JP Morgan. Please proceed, Jonathan.

Jonathan Kennedy-Good

Good afternoon and thanks for the opportunity to ask questions. A couple from me just on Nigeria. Have you managed to extract cash or cash dividends from the country in support of the debt repayment you've just made? That's question one. And then question two is on the margin compression in Nigeria. Can you give us some colour as to what drove that? My sense would be that lower voice growth together with fuel prices passed on from the tower companies may have driven this. And I'm just wondering if there is any marketing cost associated with the mobile money launch in that number as well. And then finally, if you could give us a view on what a 10% move in the Naira and the fuel costs would do, and how those would impact margin. If you do know those metrics, that would be helpful.

Segun Ogunsanya

I will take the first two questions and Jaideep will talk about the 10% movement in the currency. In terms of cash extraction from Nigeria we managed to repatriate about \$150 million or \$160 million in the last quarter. We continue to find ways of taking money out of Nigeria wherever possible. But also remember

that we do have a very large requirement for Naira in the country. Nigeria is our largest market. We continue to invest in distribution. We continue to buy spectrum. So, whenever possible we do take money out, but we still have a very large requirement for Naira given that it is our largest market.

On the margin compression, it came mainly from fuel. That was the main driver. We have had increase in fuel from about ₦300 to about ₦700, more than 100% increase in price of fuel. That is a major driver of the compression we see in the margin for the group. And it is being driven by what is happening in Nigeria. Jaideep, do you want to explain the 10% movement in currency and the impact on results?

Jaideep Paul

The fuel price in Nigeria has an impact of margin reduction of approximately 1% at the overall Africa level. The impact is about 1%. In fact, what you see for Nigeria, the margin has gone down from about 54% / 55% to around 52%. And this entire impact is coming because of the fuel price increase. At an overall Africa level that impact is about 1%.

Segun Ogunsanya

Just to support what Jaideep has said, we continue to work with the tower companies to manage the impact of fuel on our business in Nigeria. We are working with them to move some of the energy sources from diesel to battery power and to solar power. We also worked out some sort of cost sharing arrangement with them that will help minimise the total impact of this on us in the spirit of partnership.

So, some of those are able to mitigate the full impact of the increase in the price of diesel on our business in Nigeria. Not only in Nigeria, by the way. A few other countries in East Africa do experience this increase in fuel cost. But fortunately, in those countries we are less dependent on diesel power than we are in Nigeria because the grid is quite available in those East African countries.

Jonathan Kennedy-Good

Great. Thank you. If I may follow on, the cash that you took out of Nigeria, what rate did you get that out at?

Segun Ogunsanya

The market rates. I mean those rates that our usual in the market.

Jonathan Kennedy-Good

Okay, so the central bank rate, around ₦420?

Pier Falcione

Given that it is a quarter reporting, we don't provide the market rates for specific structures that we use. But it is not the ₦420 market rate for the CBN.

Jonathan Kennedy-Good

Great. Thank you.

Operator

Thank you. The next question comes from Madhvendra Singh from HSBC. Please proceed, Madhvendra.

Madhvendra Singh

Hi. Thanks for taking my questions. I didn't hear the FX rate quite clearly. The line isn't that good. If you could repeat what was the average FX rate for the cash upstreamed from Nigeria? That's just a follow-up. Then my couple of questions. Firstly, on the Nigerian SIM-NIN registration issue, it seems like there is a bit of a slowdown in terms of registering those SIM cards. The exposure is still at 7% of the overall Nigerian revenues. That's the number I think we heard during the last announcement. So, if you can shed some light on whether there has been a slowdown in registering those unregistered SIM cards in the recent period. And what does that mean for the Nigerian revenue outlook? That's the first question.

And secondly, overall group data revenue growth of just shy of 20% in the latest quarter, what is your view on that? Are you happy with this growth rate in data revenues? And is there any specific reason why it has gone below 20%, and would you expect it to accelerate in the coming period? Thank you.

Segun Ogunsanya

Thank you. Let me start with the NIN issue in Nigeria. I'm now going to give you figures. We will now discuss what the figures mean. In terms of numbers, we barred about 13.6 million customers when the instruction came for us to stop them from making outgoing phone calls. They were still able to send SMS and have data sessions. So, 13.6 million was that. Out of the 13.6 million, about 5.3 million submitted the NIN subsequently. So, 8.3 million left that never gave us their NIN, so we have not been able to reconnect 8.3 million to full services.

Out of the 5.3 million customers who submitted the NIN we have reconnected about 2.5 million out of them. So, the balance when we did get the NIN, they were found not to be correct. This is not unique to us. I believe it's an industry problem. When the NIN is finally submitted, we are unable to verify the underlying NINs. So, only about 2.3 million customers out of 5.3 million who submitted the NINs we have finally unbarred for full services. That's where we are.

We have seen SIM consolidation across the country. Traditionally people have two or three SIM cards. I believe some customers are choosing to transfer usage to their primary SIM because. We have also seen an increase in ARPU coming from customers who transfer usage to our network anyway. We are going to watch this for the next quarter, and we would be able to come back with a more definitive answer as to whether we have been able to get these customers back or not. It is a very unfortunate situation. We are managing it. We recognise the need for this to be done by the government given security concerns. We continue to work with the regulators to make sure we are able to respond for everyone.

In terms of the data revenue growth, yes, it is marginally lower than what we're used to. There are two clear reasons for this. One is NIN in Nigeria. We have had some churn given those customers that we barred from using voice services. They also stopped using data services. So that affected the data revenue. We also made some changes in pricing in the Franco countries to make the transactions more affordable. We adjusted the prices of some of our bundles. And finally, in a few countries in East Africa we responded to competitive pressure by lowering prices to maintain our franchise. Those are the three clear reasons why we saw slower growth in data revenue in this quarter.

Operator

Madhvendra, do you have any further questions?

Madhvendra Singh

I just wanted the clarification on the FX rate used for upstreaming the cash from Nigeria, if you could share the average rate?

Segun Ogunsanya

Jaideep, do you want to add?

Jaideep Paul

We mentioned in the previous question that we will not be able to give you the exact rate. Obviously, it is not the central bank rate. We have used many instruments and options for upstreaming the money. So, unfortunately, we will not be able to give you the exact average rate or any specific answer for that.

Madhvendra Singh

Okay. Thank you.

Operator

Thank you. The next question comes from Cesar Tiron from Bank of America. Please proceed, Cesar.

Cesar Tiron

Yes. Hi. Thanks for the call and the opportunity to ask questions. I have three questions please. The first one would be on the deceleration of revenue growth in Nigeria by about 600 basis points versus the previous quarter. How much of that deceleration do you attribute to the NIN registration, and why do you think you haven't seen a significant pickup in data growth to offset some of the issues with the voice blocking calls? That's the first question.

The second question would be on the margin pressure on Nigeria. Of course, you said that this is because of the fuel cost. I just wanted to understand, what level of fuel cost does your Q1 Nigerian margin price in? So, basically, another way to ask the question: how much delay is there from the tower operators passing on to the company that increase in fuel cost, and therefore is your Q2 margin going to be lower than the Q1 margin in Nigeria?

And then the third question. Sorry, I just have to go back on this FX rate that is used to upstream cash from Nigeria. I think we do need a little bit of guidance from you because I think the calculation is very easy, since you are seeing the number of Dollars that are being upstreamed from the country. And we can't guess this number. There is a parallel market rate which is close to ₦700 and a central bank rate which is very close to ₦420.

So, I think if you're not disclosing the number, we should probably then conclude that the number is very close to the parallel market rate. I do think we need a little bit of help from you on that. Thank you.

Segun Ogunsanya

In terms of the rate, it is not close to the parallel market rate. It is ₦700 or so today from what I've gathered. We don't watch the parallel market rate. But I can confidently say to you that we have not repatriated any money at the parallel market rate.

To your second question on the data revenue deceleration in Nigeria, we are still growing at 18.8% by the way. It's a decent growth rate. And if you normalise this with the loss of voice revenue, it is approximately \$10 million. That's what it is. \$10m per month. And that is the only reason why the growth rate went down to 18.8% from about 20% in the previous quarter. So, all the losses came from the voice revenue that we lost from the customers who couldn't make phone calls. Data revenue growth picks part of this up, but just wasn't sufficient to return us to the traditional 24% or 25% growth that we've seen in Nigeria.

On the fuel impact, we have two major partners for TowerCos in Nigeria. One of them has a delay of a quarter. The other is taken within the quarter. What we have done again is to work with these two partners to make sure the full impact is not passed on to us. Three things we have done with them. The first is to renegotiate how much of the fuel increase is going to be passed to us. And in return we offer some guaranteed additional operational sites that we've concluded with one of the partners.

The second thing we've done is to actively encourage the conversion of some of the new sites from diesel power to green power sources, to solar, and in some instances increase the level of battery power that is sufficient to cater for outages. Those are improvements we have done, and this minimises the impact of fuel on our bottom line. We also look at some auxiliary expenses that we've taken out. These are expenses that will not impact our quarter revenue. It's a tough one. It's just impossible to completely offset the impact of 150% increase in the price of fuel.

Cesar Tiron

Great. Thank you so much for your help.

Operator

Thank you. Ladies and gentlemen, just another reminder, if you'd like to ask a question, please press * then 1. If you'd like to ask a question, please press * then 1. The next question comes from Myuran Rajaratnam from MIBFA. Please proceed, sir.

Myuran Rajaratnam

Good afternoon. Thanks for the opportunity. I have one question. I'm looking at your data usage per customer in Nigeria, and you know that grew year on year about 19% to 4.6 GB per customer per month. I just want to understand a little bit more about this. You have a couple of moving parts in Nigeria. One is the SIM consolidation issue and the data usage dropping a little bit because people are consolidating their voice usage on the SIM as well as voice usage.

The second is obviously there is inflationary impacts and the affordability issue. The bit that I really want you to talk to is that in the past you've said that it's the heavy users at the higher end of the pyramid that are the intensive data users in Nigeria, whereas voice is more across the pyramid. These users may not be necessarily affected by inflationary impacts as well as the SIM consolidation issue and affordability issue. I just want to hear how you are seeing these high-intensive users. How are they behaving on the network given the conditions on the ground in Nigeria specifically? Thank you.

Segun Ogunsanya

The high usage customers, they are the ones who normally use the smartphones. And what we've seen is an increase in data usage per customer from those customers. The customers in the lower range, they are the folks in rural areas who don't have access to centres where they can register for NIN. Overall, if you look at the increase in data usage per customer, it is mainly driven by smartphone users. And traditionally smartphone users are the more affluent customers. Yes, we have seen an increase in usage mainly driven by the high end customers who consume data on smartphones. And we've seen an increased penetration of smartphones in the last quarter. That is one of the key drivers of the increase in usage you've seen. This is offset by some of the low-end customers that we lost from the NIN issue.

Myuran Rajaratnam

Sure. If I can just follow up on that, is it fair to say that these high-end users are not impacted by affordability issues? Their trends are similar to what you've seen in the past.

Jaideep Paul

I can give you some data points on that. For example, the 4G smartphone users, the data usage last quarter was approximately 6.4 GB / 6.5 GB, which has gone up to now 7.5 GB. So, for the high-end users who are using 4G, they have been constantly increasing their usage, specifically the 4G data usage.

Myuran Rajaratnam

Just to confirm, is it a quarter on quarter number that you quoted there?

Jaideep Paul

Yes. I'm saying Q4, which was January to March, that quarter the high-end users – which is the 4G user basically – they were using an average 6.4 GB. That has gone up in Q1, which is the current quarter, to 7.5 GB.

Myuran Rajaratnam

Excellent. Thank you so much. That answers it perfectly. Have a good day.

Operator

Thank you. Ladies and gentlemen, just one final reminder, if you would like to ask a question, please press * then 1. If you would like to ask a question, please press * then 1. The next question comes from Rohit Modi from Citi. Please proceed.

Rohit Modi

Hi. Thanks for the opportunity. Just two questions from my side, two follow-up questions. One is on NIN registrations. You mentioned 5.3 million subscribers actually submitted NIN and 2.5 million are connected. Does that mean the rest of the 3 million subscribers will be connected in the next quarter, or all the subscribers are gone, and you might not be reconnecting them again? Secondly, on margin evolution, I understand in the first quarter you have a deterioration in Nigeria and the other two regions offset the margin deterioration. How do we look at it for the rest of the year given there is a change in commentary in terms of how we expect margin to be for the rest of the year? Do we see the same kind of situation for the rest of the quarters where deterioration in Nigeria will be more than offset by other regions?

Segun Ogunsanya

Let me clarify the 5.3 million customers who submitted their NIN. Out of this, 2.3 million of them have been unbarred because the NIN numbers they submitted we were able to verify with the database of the government. The balance of 3 million we have not been able to verify the details with the information in the database of the government. What they normally do is to go back and re-register. We now continue

to check the details they have given us, whether they actually agree with the details in the NIN database. So, it's a continued thing. They are not completely lost. As of a few days ago, I think another 200,000 of these 3 million customers have been reconnected. So, the figures keep changing as customers go back, take new details, verify the database. Then we are able to reconnect them. So, the figures keep moving.

In terms of the view for the future, as you know we don't give guidance. But we remain encouraged by the fundamentals of our business. If you look at Nigeria, look at East Africa, look at Franco Africa, we still have a very large number of people who are not connected through any SIM card. Even when they are connected, the usage levels is still very low. In terms of our mobile money business the penetration levels are still extremely low. Yes, we have some headwinds coming from inflation, especially from fuel, but in terms of top line growth we're still very confident that there are huge opportunities in Africa for us to continue to grow our top line in double digits, very strong double digits, despite the headwinds that we had in this first quarter.

Operator

Rohit, do you have any further questions?

Rohit Modi

Thank you. Just one more question. I just want to get more colour in terms of how you're seeing the mobile money launch in Nigeria panning out. What kind of traction do you see, and is there any kind of guidance you can give us in terms of subscriber base for this year?

Segun Ogunsanya

We did a soft launch in May in selected locations in the country. On the 28th of June we did a total country launch, and we are just about few days into July, early days. Once again, we are very confident about the ability to monetise the mobile money opportunity in Nigeria. We have created the infrastructure. We have the right distribution touch points. We have the right products. And I will be in a stronger position to explain what we're going to do in a couple of months. With just one month or so in, I don't want to give any guidance after one month of launching a new product.

Rohit Modi

Thank you.

Operator

Thank you. The next question comes from Mike Steere from Avior. Please go ahead, Mike.

Mike Steere

Hi guys. Thank you for your time today. Just focusing on Nigeria, could you please remind me of your spectrum holdings in each frequency band? And then a second question. How much capacity can your network hold in terms of data traffic, and how much of that capacity is being used? I'm just trying to assess how much runway data traffic has left to grow there.

Segun Ogunsanya

In terms of spectrum holdings, I will just give you the top level. We have spectrum about 15 MHz in 900. In 1800 we have 15 MHz. In 2600 we have 20 MHz. And in 2100 we've got about 10 MHz.

Mike Steere

Perfect. Thanks. And then just on the capacity side of the network.

Segun Ogunsanya

In terms of actual capacity, I'm unable to give that figure now. But I can share how much is being used to show the headroom we have. I think currently we're about 35% or 40% utilised in terms of capacity. Headroom is almost 60%. That gives us opportunity for future growth in customer usage.

Mike Steere

Cool. Thanks guys.

Operator

Thank you. Ladies and gentlemen, just one final call before we conclude, if you would like to ask a question, please press * then 1. If you would like to ask a question, please press * then 1. We will pause to see if there are any further questions. The next question comes from Ali Hussain from FIM Partners. Please proceed, Ali.

Ali Hussain

Thank you very much. This is a very basic question. Perhaps I'm not getting it right. When I look at your total subscribers in Nigeria, they have actually increased in the quarter. Yet, you had the NIN registration.

Is the total number reflective of active subscribers or not, or is there a difference in classification? I just want to clarify that.

Segun Ogunsanya

Remember that those customers are still able to use us for data. They are still able to send SMS. They are only unable to make phone calls. They are able to receive calls, by the way, but they cannot make phone calls. They are still active customers. We are still making some money from them. The loss I described is coming from outgoing voice revenue which has been barred.

Ali Hussain

So, if I were to look at that 46 million number, how many of those can actually make voice calls right now?

Segun Ogunsanya

About 37 million to 38 million of them are able to make phone calls. All of them are able to receive phone calls. All of them are able to do data sessions.

Ali Hussain

Okay, wonderful. Thanks.

Jaideep Paul

Just to add, Ali, the way we defined our active base, which is based on 30 days revenue generation activity, that means there has to be some revenue generating activity within a rolling 30 day period. That is the subscriber base. Whatever we have given is based on that definition. So, there is no change in the definition.

Ali Hussain

I see. All right. That makes sense. Thank you so much, guys.

Operator

Thank you. Segun, we have no further questions in the queue at this time. Do you have any closing remarks before we conclude?

Segun Ogunsanya

Thank you, everyone. I just want to assure everybody that the long-term opportunities for us remain very attractive. While we remain mindful of currency devaluation and repatriation risk, we continue to work actively to mitigate all of our material risk and deliver value to all of our stakeholders. Despite the increasing challenges from global inflationary pressures, we continue to target revenue growth way ahead of the market as we work on making our margin very resilient this financial yearfe. Thank you.

Operator

Thank you very much. Ladies and gentlemen, that does conclude today's conference. Thank you very much for joining us. You may now disconnect your lines.

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