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## **Airtel Africa Q1'21 Results**

Raghunath Mandava

*Chief Executive Officer, Airtel Africa*

### **Welcome**

Thank you for joining today's call. For those who may not know, I am Raghunath Mandava, the CEO of Airtel Africa. The whole world has been going through unprecedented times due to this pandemic. The Covid-19 pandemic arrived in Africa a little later than other parts of the world and the governments and people have handled the situation very well within the constraints of the resources at their disposal. This has helped slow down the Covid-19 infections. We as Airtel have worked with governments, regulators, partners, and suppliers to keep customers and businesses connected, as well as supporting economies and communities.

Internally we adapted to remote working during this period and we focused on maintaining and expanding our network to ensure it could cope with the shifting and increasing demand. We kept our distribution up and running by increasing the penetration of digital recharges and also increased stock levels in the supply chain. We expanded our home broadband solutions to ensure customers could work and access entertainment remotely.

During the quarter we partnered with governments to provide free P2P transfers on mobile money and some of the transactions within our mobile money data. We also created a partnership with UNICEF to provide children with access to remote learning and enable access to cash assistance for people via our free mobile transfer. We donated PPE equipment and cash to the nations we operate in to help the fight against Covid-19. In addition to this, our employees also made contributions to this cause which was equally matched by the Company.

### **Covid-19 Impact on Operations**

I would now like to give you some visibility on how Covid-19 has impacted our operations over the last few months. During the last quarter, our business was impacted by the Covid-19 pandemic as restrictions on the movement of people and ways of socialising were introduced to contain the spread of infection. We saw an impact on customer usage patterns, particularly during the month of April as the slowdown in economic growth resulted in lower available disposable income. This was pronounced in markets where the lockdown was stringent. However, in May and June we can see customer usage returned to being broadly consistent with pre-Covid-19 trends. As a result, the business saw revenue growth picking up in May and June. The business reported growth across all segments, voice, data and mobile money and we are also glad to announce this was recorded across all the regions, in Nigeria, East Africa and Francophone Africa.

### **Key highlights**

We delivered against our strategy with continued constant currency growth across voice, data and mobile money. We ended the quarter with 13% revenue growth and an EBITDA margin of 44.1%. This is a 61 basis point expansion. Our customer base grew by 11.8% to 111.5 million. Constant currency-voice, revenue grew by 2.2%. This was largely driven by the fact that the double-digit customer base growth was partially offset by a drop in voice ARPU, due to a decrease in interconnect usage charges across key markets in East Africa and Francophone Africa and also by a drop in roaming and international calling revenues. We have continued to

strengthen our data networks through the further rollout of 4G data. Our data revenue grew at 35.7% in constant currency. Currently 33.2% of our total customers are data users. Data usage doubled as compared to the previous period last year.

Mobile money, along with data, is a critical growth driver for our business. Mobile money customers have grown to 18.5 million which is almost 27% growth over the period. Reported mobile money revenue was at \$81 million for the quarter with a constant currency growth of 26.3%. This slowdown in mobile money revenue growth during the quarter was due to the varying of some charges, as explained earlier, in the earlier part of the quarter. Data and mobile money are a key growth driver and are growing in line with our vision of digital devices and enhancing financial inclusion in the countries in which we operate. These two together contribute almost 41% of our revenue and are growing well over 30%.

Our underlying EBITDA grew to \$375 million for the quarter. This is an increase of 14.6% on a constant currency basis with the EBITDA margin for the quarter being 44.1%. Our strategy to invest in 4G ahead of the curve has helped to grow our operations. We are building a unique infrastructure of cashing in/cashing out locations for mobile money in the market and increasing our distribution. We continue to expand the range and depth of our Airtel Money offering through more partnerships, like the recent one with World Remit and Mukuru amongst others.

### **Balance sheet**

At the period end our leverage ratio was 2.2x at the end of June 2020. In the three months period we generated free cash amounting to \$96 million, up by 53% versus last year, largely due to higher underlying EBITDA of \$27 million, reduced interest payments from lower debt by \$8 million and a lower capex of \$33 million, which was offset by some increase in cashbacks. This resilient performance is due to the criticality of voice, data and mobile money in people's lives and the heightened pressure that Covid-19 has placed on mobile solutions.

### **Outlook**

The outlook remains uncertain. However, these results are further evidence of the growth opportunities in our market, the effectiveness of our strategy to focus on winning customers whilst investing in our network and continuing to expand our voice, data and mobile money businesses.

I am joined by the CFO, Jaideep Paul and Pier Falcione, Deputy CFO and Head of IR to answer any questions you may have.

## **Q&A**

**Donald Reid (Millennium Capital):** Morning gents, thanks for the call, just a couple of questions. The first one is, can you give us any colour on where Nigeria is with the mobile money licence process? I know initial expectations were that this would be done by the beginning of the year and it seems to have gone very quiet.

**Raghunath Mandava:** Thank you, Donald. As we told you last time, we have applied to the government. The government has issued a decision late last year-end to license two of its telco operators, the smaller ones. Both us and the leading operator have not got it. We are in continuous discussions with them and we believe during the current Covid-19 situation they could come to see a little more sense on this. However, while we are still hopeful, ultimately, I

do not have a timeline for that. The way I would look at it is it has not been rejected and it is still in process.

**Donald Reid:** Have you had any feedback from the Nigerian government why it has been delayed as long as it has been?

**Raghunath Mandava:** No, we have not had any feedback yet.

**Donald Reid:** Okay, thank you. Then I had one technical question. In your cash flow statement, you have got a cash flow from operations from mobile money. I do not have the actual information in front of me. Can you explain that? Is that third party cash flow or is that your own cash flow? Sorry, the exact line is increase in mobile money wallet balance, in your cash flow statement which is a \$55 million increase. That mobile money wallet balance, is that your own cash flow or is that third party money?

**Jaideep Paul (CFO, Airtel Africa):** Good morning. This is third-party customers balance. This is not our money. This is the money which is lying in the trust bank account.

**Donald Reid:** Okay, alright, perfect. Then the last question from my side, your capex decreased in the last quarter because of Covid-19. Can you give a sense of what you think your capex numbers will look like for the balance of the year and for the next couple of quarters, given that I would imagine you would have some catchup spending that you need to do?

**Jaideep Paul:** If the situation remains normal, we would expect \$625-650 million of capex for the full year but we are closely watching the current situation. Depending on how things move in the subsequent quarters, we will let you know in appropriate time. However, as it stands today it will be between \$625 million and \$650 million.

**Donald Reid:** Perfect, thank you very much.

**Tunde Abidoye (FBNQuest Capital):** Hi guys, good morning. I have a couple of questions and the first one is on your tower site count. The last time I think you mentioned that your site count was around 22,900. What is it now? Can you also give us a split in terms of 2G, 3G and 4G sites? What proportion of the sites have 2G, 3G and 4G? Also, can you give us an indication of your site count in Nigeria or what proportion of those sites are in Nigeria? Then, what is your expected revenue per minute? What do you see? Lastly, out of the \$625 million of capex that you have guided to, what proportion of that is going to Nigeria? That is all for now, thank you.

**Raghunath Mandava:** Nigeria we have about 9,802 sites, 69-70% of them are on 4G. Africa overall is also on a similar ratio on 4G, maybe a shade lower at 67% on 4G. We have about 23,471 sites. In the last one year we have rolled out almost 2,000 sites, of which 1,200 - a big proportion - came towards Nigeria. However, overall our capex should be in line with our revenue mix. We have more or less covered very good markets. We are moving more and more towards full 4G coverage. Three of our countries have 100% of their sites on 4G. We are working towards building the same in the rest of the markets and we will continue to invest towards that. The way I would look at capital allocation is about the design, how much we are rolling it out in each of these countries and how we are modernising these networks too. Both delivered the number of sites and capacity. It is critical to note this, for example, in Nigeria comparing back 18 months ago and today. We previously had only 10MHz of 4G in Nigeria. Today we are moving towards nearly 35MHz in key cities with the addition of, as I spoke last time, 20MHz of 2,600 and 10MHz of 900, of which 5MHz we are using for L900 or LTE. The key thing is how

much of this spectrum we are able to allocate for 4G and how much capacity we are able to place. These capacities are also dependent on the design and the hardware that you use and the design and eco-planning that our teams do. There is very careful work that is happening, and we are creating huge incremental capacity. By the nature of the design of our networks with single RAN network we can upgrade service without too much of an increase in cost. That is in line with our strategy.

**Tunde Abidoje:** Okay. Thank you very much. One last question, I would like to have a view on where you see 5G in Nigeria? Where are you in respect to that?

**Raghunath Mandava:** 5G availability is valued across the world and I have said before this is an area where we are very keen. Some of our networks are actually very well set up for 5G or surely 4.5G. We are planning ahead but the key question is, what instances do we run 5G on and what are the use cases? We still have not seen enough of these use cases or of conversion. 5G normally requires a huge broadband spectrum. Currently, the way we are operating with this, let's say we consider two uses. One, is for autonomous cars that everyone talks about, so for this the latency is very low. That latency is the amount of time you can take a decision between getting a signal and coming back. That has to be low for autonomous cars and many such devices. Then, you need very high speeds both for broadband and others. Thanks to the 35 MHz of spectrum, 2,600 layer, 900 layer and a 1,800 layer, for example, in Nigeria we are able to run our full broadband, which is slowly picking up quite well. We sell routers and Wi-Fi devices and they are very attractively priced for large users at home. So, we are able to meet that requirement through the high spectrum that we have built up and started building on it. However, we will be actively looking at 5G but from a distance for the time being now.

**Tunde Abidoje:** Okay, thank you very much.

**Ramesh Babu (SBC):** Hi, my question is on mobile money. Can you please quantify what is the impact of free P2P transactions on mobile money or Airtel Group revenue? That is my first question and my second question is, data usage per customer increased by 68% year-on-year. Is your bandwidth sufficient to accommodate the higher data traffic growth or do you feel congestion in the network? Thank you.

**Raghunath Mandava:** Let me look at it like this. I will request Jaideep to give the detailed numbers. What happens when people do more P2P transactions? It is not only the P2P revenue that is impacted. Some part of the cash and casual volumes are also impacted I am afraid. This is the most comprehensive way of looking at things because customers want to benefit from that. I will request for Jaideep to pull out and share the exact numbers with you. In the meantime, I will answer the one on data customers. Our data usage per customer has grown by 68%. We are reasonably comfortable with this growth, except in one or two markets. How do you build this thing? Either you have larger and larger spectrum and bandwidth or to put it in the larger cities you have to build more and more Intel sites so that you can share that load among multiple number of towers. It is a constant balance that you will have to manage. Overall, we have been acquiring a lot of spectrum and building it but in specific pockets where we have this situation we have moved to invest in some Intel sites. I would not like to name the exact cities, but we have used both methods of solution. The Nigeria example is a spectrum example but in spite of that in specific locations we still have to put a lot of enterprise sites. We have done that in some sites where we were a little spectrum starved. However, we are overall very comfortable with the spectrum and we are continuously working with the governments for

increased spectrum. The governments are also very excited and very cooperative because they see us as a very strong partner investing in 4G ahead of everyone else and they are very sympathetic. They believe that we are also a partner to their development agenda.

**Jaideep Paul:** The impact is actually \$1.9 million for the quarter, the free P2P transfer charges. As you know, at the initial stage when the Covid lockdown started at the beginning of the quarter, in April and part of May. A large part of May was under this free P2P condition, but from June onwards for most of the countries the P2P charging started coming back because the normal situation is prevailing. The overall impact is roughly about \$1.9 million.

**Ramesh Babu:** Okay, this helps. Thank you.

**Question:** Hi, thank you for an excellent result. Please can you tell us what is driving your voice revenue build?

**Raghunath Mandava:** Let me come to the first thing. I have always been saying this. The first point we have to note in Africa is while there is a SIM card penetration of about 70%, which is the cumulative number of SIM cards of all operators to population, due to some deals we made, the unique customer penetration is still at 45%. As long as we can grow our network and make SIM cards and recharge available to people easily we will start seeing a lot more of this usage. Our customer growth, as I told you, is about 11.8%. When your number of customers grows by 11% and your revenue is 2% growth, that means my ARPU has dropped by closer to 8%. This is despite our minutes per subscriber growing by 17%. That means we are also being a lot more liberal at the lower end of our price collection wherever we have to stimulate demand to make it more affordable. Consistently, we have made mobile affordable and available, growing customers based on our distribution and our network rollouts. I genuinely believe that in Africa and I have been repeating this, unlike the rest of the world where voice has stopped growing, as the unique customer penetration is at 45% there is still a long road of growth in voice - if only we know how to reach them and service these customers properly.

I will take the liberty of adding two sentences. We are an essential service. There is a genuine latent demand for these services. People are wanting to become telco customers because it is an essential service and a need of theirs. How well we service them is a responsibility that we have. The better we do it the better we will see growth.

**Jaideep Paul:** Can I add one more point? What you see as a voice revenue drop is largely contributed by roaming and international incoming usage and therefore the revenue. If you look at our domestic voice, actually there is a growth in the voice revenue and voice usage but most impact is coming because of the roaming and interconnect charges of the international calls.

**Raghunath Mandava:** The current growth you are seeing at 2.2% is despite the drop you are seeing on roaming and international.

**Question:** Thank you very much. What is the blended ERM? I am saying effective revenue per minute.

**Raghunath Mandava:** To be honest, we do not look at price per minute. We actually work on ARPU. That is how most of our talk time is in the form of bundles so that people buy more and more and use more. Largely what we work on is ARPU and what is it per customer.

**Jaideep Paul:** I believe the question is on the customer rate. Is that correct?

**Question:** Yes, in terms of revenue per minute.

**Pier Falcione (Deputy CFO and Head of IR, Airtel Africa):** We do not publish revenue per minute. It is not a KPI that we disclose.

**Question:** That is fine, thank you very much.

**Raghunath Mandava:** Thank you all very much for your time today. As I said before, these are uncertain times and we are fully committed to the communities we are in. The last quarter has been a difficult period and yet we have been able to build what is a resilient performance for Airtel Africa in the wake of Covid-19. I look forward to talking to you all again at the half-year results. Thank you and do keep safe. Good day, all.