

**Airtel Africa plc**

**28 January 2020**

**9:30 a.m. UK**

OPERATOR: This is Conference #4395607

Operator: Ladies and gentlemen, welcome to the Q3 2020 results conference call of Airtel Africa. Today's speakers are Raghunath Mandava, Chief Executive Officer, Jaideep Paul, Chief Finance Officer.

All lines are not closed except for the speakers' line. If you would like to ask a question to the speakers, please press star one on your keypad to connect with the operator. Before we continue, I would present an important disclaimer.

This press release contains forward looking statements which by their very nature involved inherent risks and uncertainties. And risks exist that such forward looking statements will not be achieved. You are strongly advice to review the disclaimer page of the investor's press release available at <https://airtel.africa/investors> this conference call will be recorded, and the transcript will be posted on the website.

The first speaker today will be Mr. Raghunath Mandava. Please go-ahead sir.

Raghunath Mandava: Morning everyone. Thank you for joining today's call. For those who don't know my name is Raghunath Mandava I'm the CEO of Airtel Africa. I will in the next few minutes go over the results from the last quarter performance published today.

This is now the eighth consecutive quarter that we have delivered a double-digit revenue growth and then every time margin expansion and cost and constant currency terms. During the last quarter the revenue on cost and

currency basis has increased by 14.2 percent over last year taking the cumulative nine-month performance to a little over \$2.5 billion USD, which is at 12.4 percent growth over the previous year, same period.

The improved performance is a result of our recovery in rest of Africa and have continued strong performance in Nigeria and East Africa. In line with our strategy that I've shared in the past, we are seeing growth across voice, data and mobile money.

Our customers have grown 9.4 percent and have now reached 107 million. The voice revenue for the quarter based on this customer growth has now grown to 5.3 percent for the quarter. We have continued to strengthen our data networks through further rollout of 4G and also through acquisition of additional spectrum.

Data revenues grew by 41.3 percent in the last quarter. This is through a combination of data customers growing by 12.4 percent and data ARPU by 23.6 percent, the average data consumed per month by our data customers has risen to 1.9 GB per month per customer. This is compared to 1.2 GB per month a year back. We have now completed the launch of 4G across all market and are able to provide high-speed 4G networks across all the 14 countries.

Mobile money is a critical growth driver for our business. The mobile money customers have grown to 16.6 million, which is over a 20 percent growth over the previous year. The total transactions on Airtel Money have now reached USD 8.5 Bn for the last quarter, which is a 31.7 percent growth over last year.

This helped Airtel Money revenues grow by over 30 percent during quarter three. During the quarter we have entered into a number of exciting partnerships with MasterCard, Ecobank and Finabl. Just last week we have signed another partnership this time with Western Union.

These partnerships with the international money transfer companies are helping us enable our customers to directly get international money into their wallets. With MasterCard, we have launched a virtual card which will enable

our customers to have access to all of MasterCard merchant and especially the online payment.

One final point on mobile money, we are still waiting for approvals regarding our Nigeria payments bank license. We remain positive and are actively engaged in the ongoing discussions with all the relevant stakeholders in this process.

As you have seen above, data and mobile money has a key growth driver for our business. Together they contribute 37 percent of our overall revenues and together they're growing at about 38.4 percent. From an operating perspective our underlying EBITDA is now at \$399 million for the quarter and this is a jump of over 18.9 percent on a constant currency basis, taking the EBITDA margin for the quarter to 45.2 percent.

Now let me talk to you about the performance of our three markets Nigeria, East Africa, and Rest of Africa. Nigeria continue to deliver impressive performance with a growth in revenues of 23.9 percent during the quarter demonstrating the huge growth opportunity voice revenue grew at over 15 percent.

Data revenue well over 70 percent. Data revenues contribute 32.5 percent of our revenue. That's almost a third of our revenues come from data, and this, as I told you before, is growing at almost 73 percent. Data customers grew by 12.2 percent, while the overall revenues grew at 23.9 EBITDA grew faster at 35.6 percent taking the EBITDA margin to 54.7 percent for the quarter.

Now let me come to East Africa. East Africa revenues grew by 13.6 percent driven by growth in both data and mobile money. Voice revenues also supported by growing at 4.3 percent while customer base grew at 11.4 percent. Data revenues now contribute 25.8 percent of our revenues and mobile money contributes almost 18 percent.

Data revenues which contribute 26 percent have grown by 24.4 percent. While mobile money has been growing at about 40 percent the rest of Africa has shown – the rest of Africa a considerable improvement with revenues coming

back from a negative growth into being broadly flat in the quarter on constant currency terms.

However, on nine-month basis we revenues are down by 1.9 percent compared to last year. EBITDA margin for the quarter was at 37.5 percent in rest of Africa and that's they're back the overall the business continues to show a positive momentum and in line with our belief. That due to the unique customer penetration at about 44 to 45 percent in our sub-Saharan markets, there is an opportunity to grow voice revenues.

Our strategy to invest in 4G has helped us grow data, our commitment to financial inclusion and for that building both a wide distribution for cash and float availability and the partnerships that we have tied up for increasing the use cases on mobile money have helped us grow mobile money business.

The growth across voice, data and mobile money underpins our medium-term aspirations for revenue and profitability growth. These results are the effect of our clear and simple strategy backed with focused execution and our unique position as a leading telecom player in the sun-Saharan market and our best in class talent. I will now handover to Jaideep Paul, a CFO to take you through.

Jaideep Paul: Thank you, Raghu and good morning everyone. Let me start by summarizing our overall financial performance in Q3 20 and run through our main markets. We had a strong and consistent set of results in this quarter. Our operational performance remains strong and we continue to grow at the key lines level in both value and volume as described earlier Raghu.

Sustaining our operational momentum allowed us to generate solid financial results. Reported revenue increased 12.8 percent while cost and currency revenue growth was 14.2 percent. For the past nine months the foreign exchange devaluation, which had an adverse impact of \$54.2 million on revenue and 21.8 million on underlying EBITDA.

Largely driven by the devaluation of the Zambian Kwacha and central African Franc. The currency exchange rates in other markets were broadly stable compared to the same period last year. Our blended ARPU increased by 3.5

percent data ARPU increased by 23.6 percent as more customers are adopting 4G and also the data usage per customer continued to grow.

Mobile money ARPU increased as well by 12.5 percent while voice ARPU declined by 4.6 percent. We continued to grow revenues but at the same time we remain focused on our cost. EBITDA in Q3 20 was \$399 million in reported currency resulting in EBITDA margin of 45.2 percent up 184 bps vis-à-vis last year on reported currency basis. An underlying EBITDA margin in Q3 20 expanded by 178 basis point in constant currency terms.

As a reminder, our effective tax rate for nine months before exceptional item was 41.7 percent marginal increase due to higher withholding tax on dividend from the subsidiaries and expected to be remain broadly the same. Our exceptional item in quarter ended December 2019 benefited from \$27 million of one of gain largely as a result of reassessment of the life of customers leading to deferment of customer acquisition cost.

Additionally, I would like to share with you some more information of our balance sheet. We have continued to deleverage and at the end of Q3'20 our leverage ratio remained at 2.2 times. As highlighted in H120 we have a transparent and balanced capital allocation policy between investment sustainable capital structure and cash distribution to the shareholders.

In nine months, period we generated free cash flow of \$391 million up 90.4 percent as compared to the last year. The increase in FCF, is contributed by underlying EBITDA increase lower interest costs due to lower debt and partially offset by increase in CapEx due to network modernisation as well as the rollout of additional sites. Capex at the end of nine months was \$396 million while the full year CapEx guidance remained \$650 to \$700 million.

Looking at Q4, I would like to remind all of you that our historical capital cycle is slightly skewed towards Q4. Due to this we may have a subdued EBITDA and FCF growth while both still delivering against our full year expectation.

That's all from my side back to you Raghu.

Raghunath Mandava: Thank you Jaideep. I now hand over back to the operator for the question and answer session. Jaideep Paul and Pier Head of Investor Relations at Airtel Africa joining me for questions please over to the operator.

Operator: Thank you sir. Ladies and gentlemen, we will now begin the question and answer session. If you wish to ask a question, please press star one on your telephone keypad and wait for your name to be announced. You can cancel your request at any time by pressing the hush key. And your first question comes from the line of Maurice Patrick of Barclays. Please go ahead. Your line is open.

Maurice Patrick: Morning guys, its Maurice Patrick from Barclays. A couple of questions from my side please. The first question on Nigeria, where clearly the very strong growth continues in the market. I was just curious as to how much of the growth is coming from new footprint areas rather than in footprints. I note that there's very strong growth in the towers.

Some of that presumably is rural expansion. Some is infilling a mix of what's new growth versus the existing footprint. And just secondly please on the outlook for spectrum costs. So, you paid I see \$70 million in Nigeria. Do you anticipate any other spectrum auctions or payments coming up in the next 12 months? Thank you.

Raghunath Mandava: Let me answer the first part and I'll request Jaideep to help me on the spectrum cost. What has been our strategy, if you see our strategy of our network roll-outs has been on doing a single brand network, which has 2G, 3G, 4G as we want to progress it by doing a software upgrade and rolling out networks.

The voice growth was 15 percent, which is a mixture of our customers in the current areas that we service and a few new areas. So, there is a mixture of both new areas and that's in the voice growth, how we're aligned to keep our data growth, which is coming due to 4G drive and which has grown at 70 percent come heavily from the existing large urban towns.

So, if you ask me, there is a mix of both largely as of now because it is more data-driven while there is also continuous growth on why that is happening. I

would say it's a reasonably good mixture between the two. As regards to the CapEx on the costs on, sorry, the cost on spectrum, I'll request Jaideep to take this on.

**Jaideep Paul:** As we have earlier that we have intention to buy 10 mega 900 spectrum at a \$74 million off a principle amount and plus there will be some regulatory fee attached to it. We filed our application for the spectrum buying with the regulator and it is yet to be approved.

So, once the regulator approves it, then we will make the necessary payment. So as of now, we have still haven't made the payment because we are waiting for the approval. As opportunity of spectrum we continue to look at this opportunity of buying spectrum either through auction or through the regulator process and that will continue, and we will see where we can buy additional spectrum in as we go forward.

**Maurice Patrick:** Very clear, thank you very much.

**Raghunath Mandava:** Thank you.

**Operator:** Thank you. Your next question comes from the line of JP Davids of JP Morgan. Please go ahead. Your line is open.

**JP Davids:** Thank you. And congrats on the results. Two questions from my side to start. Firstly, on Nigeria, in the introductory remarks on the PSB license, you said you remain positive and were in discussions with all stakeholders. Just wondering if you could provide us a timeline around when you expect that license to be issued? At the first half, you seemed fairly confident that that would be done by this sort of time of year?  
And then, switching gear to mobile money.

Growth rates are still very strong and 30 percent in the quarter, but it does look like that has slowed from the second quarter. And if there is a slowdown it, it looks like it is on the ARPU growth year on year at least in constant currency terms. So just wondering if anything sorts of changed or worrying you on the momentum in mobile money or is this just a base effect? Thank you.

Raghunath Mandava: I'll answer the first question and I'll request Jaideep to take you through the mobile money growth rates. Nigeria PSB agreed there has been a delay from what we had expected earlier, however our application is still fine and we are still waiting for the response. I might not be very clear of the timelines as to when we should be getting it, but we surely still remain hopeful and we are continuing to engage anyone. Over to you Jaideep.

Jaideep Paul: Thanks. So, on mobile money, mobile money is becoming a larger part of our business. As you see the contribution of mobile money continues to expand in the overall business. It is still growing at 30 percent, which is quite healthy growth rate and now contributes almost 10 percent of the growth.

In Q3'20 the year on year expansion compared to the same period of the prior period was slower due to the fact that last year we benefited from the extensive distribution rollout in markets like Zambia, Tanzania, and Gabon.

So, we got one-time significant change but as we progress it is of course coming to a steady state level. And therefore, you see that slow growth, having said so I reiterate that all the KPIs for the mobile money continues to be very, very healthy and on an upward sweep.

JP Davids: Thank you. That's very helpful.

Raghunath Mandava: Thank you.

Operator: Thank you. And your next question comes from the line of Jonathan Kennedy-Good of Standard Bank. Please go ahead. Your line is open.

Jonathan Kennedy-Good: Good morning. Thanks for taking my question. I just wanted to check with you, given the movement on potential licenses being issued in Ethiopia, whether Airtel Africa would participate in that? And if so, do you believe the balance sheet is strong enough to kind of roll out without raising further capital?

And then also in the rest of Africa obviously seen some positive trajectory on the revenue side, just some color on how we should think about revenue

growth going forward there. And what are the major drivers of the recovery? What kind of pace of recovery we can expect?

Raghunath Mandava: Firstly, the way I would look at our portfolio is this, we have a few larger markets of where we see still a huge potential for growth and investments. Our growth organically has been healthy, and we see huge potential both on voice, which is a unique contribution of 44 percent and very big on data. There is also a mobile money opportunity across these countries.

We are also looking at opportunities like wireless, home broadband and the enterprise business for providing us the growth importance. At this stage we will not look very positively towards investing outside beyond these beyond our geographies. As regards to rest of Africa, if you notice while the rest of the East Africa and Nigeria first and East Africa started kicking into higher growth.

Rest of Africa did lag behind. Part of the reason is also the way we phased out our 4G investments. Quite a few countries have gotten into 4G only in the current earlier part of this current period like DRC, Niger and Chad and others. So, I do hope this 4G momentum will kick in and we should be looking at a reasonable growth in these places. However, we are not able to give any forward-looking statements on how much growth I would expect from rest of Africa at this stage.

Jonathan Kennedy-Good: Great. Thank you. That's very helpful.

Raghunath Mandava: Thank you.

Operator: Thank you. Once again, if you wish to ask a question, please press star one on your telephone keypad and wait for your name to be announced on your next question comes from the line of Dilya Ibragimova mover of Citibank. Please go ahead. Your line is open.

Dilya Ibragimova: Hi. Thanks very much for the opportunity and demonstrations on the results. I had a couple of questions please. First is on customer growth in Nigeria there seem to have been slowed down in a net customer position.

And the churn has been trending up in a quarter and we're just wondering whether there are any offs may be related to some of the biometric identification exercise that was ongoing last quarter. And whether you expect that to be to normalize and second on the customer growth in East Africa.

Whether you could give a few comments whether there's any geography in particular which is driving strong net adds in the region.

And last question is on Airtel TV. You mentioned that you've launched the service in a few countries and one of the countries is Nigeria. I was just wondering if you could give us a bit, maybe some anecdotal comments on what the customer perception is like, whether it's a popular product of what you've – whether that helps affiliation, maybe off data customer growth. Yes, any snippets on how the product is perceived would be great. Thanks.

Raghunath Mandava: First of Nigeria customer growth. Nigeria during the previous years we used to have a service called the voicemail, which we used to count in our customer numbers for having access to it when they receive a voicemail message.

However, we have corrected our system and stop this which was happening by default so that we took a one-time correction in customers and remote about two and a half million of them. So that is the sudden drop of two and a half, otherwise I like to like basis it would be up by two and a half million more.

That is the first reason why you're seeing a sudden slow down there. Otherwise I see them, the customer growth continuing there. In East Africa, I should say that we are quite pleased to say that it's more or less well spread outgrowth.

As I spoke before, the unique customer penetration is about 44 - 45 percent. That means there is a potential to grow at least in double digits and each of these markets, and I think what you are seeing in East Africa is about a 13 percent growth in customer numbers and I think that is steadily happening with a few points here and there across all these geographies.

So, we are seeing that very good steady growth across East. Now let me come back and this growth in customers is what is driving our voice revenue growth, Africa is in a unique situation, thanks to its unpenetrated smart phone use, where we are able to get growth in all three voice, data and mobile money. And I have spoken before this continues to get reflected in our results also.

Now let me step back and talk to you about the Airtel TV that we launched. The availability of data in most of Africa and why 4G has a big trust area is the following. Unlike in most of the Western world where there was a fixed line data available in housing homes and people use a mobile phone and the mobile network data only when they were traveling, this was data while being mobile. But in Africa, mobile data is the primary source of data available.

Second, entertainment sources are also firstly if someone wants to watch a movie in Nigeria, it could be through a TV that you would buy a few hundred naira or cable connections and others which are not very well spread. We believe that this entertainment has to spread. People should have access to start seeing this or the data networks.

So, we have is an Airtel TV app in which there is a whole lot of content which we are continuously expanding, which people can see free large amount of this content be able to see without any subscription charge. And this was just enabling and enhance data usage in these countries. So that was the flavor of this. Currently we have some then some content some Indian Bollywood content and various other music and also a large number of live TV channels. So that people can start using this wherever they are, and they have no other service off reaching of these media.

We believe this will encourage you more viewing and more data consumption on our data networks as been the principle behind it. We've just launched it in mid-December. It's a little too early to give more anecdotes, but we are seeing good usage.

Dilya Ibragimova: And just to follow up on this one, thank you for the comment. Is there a cost associated with the content?

Raghunath Mandava: Yes, there is a cost associated but as far as possible, we would buy these content either on a fixed base or we would also take it on different basis but a large amount of live TV comes at a very nominal cost.

Dilya Ibragimova: Thank you.

Raghunath Mandava: Thank you.

Operator: Thank you. Once again, please press star one if you wish to ask a question and your next question comes from the line of Christen Kasemiire Nation Media. Please go ahead.

Christen Kasemiire: Hello. Thank you very much for the presentation. I just wanted to ask in Uganda, the licensing framework has been changed and a deadline that has been given to all telecoms to apply. I wanted to know has Airtel applied for a license and which type of license and how much is it likely to cost?

Raghunath Mandava: The Ugandan government has asked us to apply for the various licenses they are put up. One of them is called the national telecom operator license. There were the other licenses called the PSB, which is a public service broadcaster license, and the public service infrastructure license and many others.

There are about five licenses you could choose and apply for one of them, we as the leading, one of the leading players in Uganda are – we intend to apply for the national NTO license. The deadline for expressing of interest for these licenses is March 30th and sorry, January the 31st January my apologies.

We will be applying before that for the NTO license. As of now, we are still in discussions with the Government? and we have no clear indication of what it could cost.

Christen Kasemiire: OK, thanks very much.

Raghunath Mandava: Thank you.

Operator: Thank you. And your next question comes from the line of Dilya Ibragimova of Citibank. Please go ahead.

Dilya Ibragimova: Thanks. Just a quick follow-up on the conditional approval of the emergent in Kenya, was that you've made any comments whether you see those conditions as acceptable and whether – what's the timing that you think the transaction would be completed. Thank you.

Raghunath Mandava: The process for application has been on course we have received a preliminary approval from number of agencies? but however the final approvals have not been received.

We are also in discussions on certain criteria and conditions that have been applied. So, I guess as of now, I should say that the approval is still in process and it's very difficult for me to give a reasonable timeframe on this. Hopefully it should go through with all the relevant conditions being met.

Dilya Ibragimova: Thank you.

Raghunath Mandava: Thank you.

Operator: Thank you. The next question comes from the line of JP Davis of JP Morgan. Please go ahead.

JP Davids: Hi. Just following up with a couple of housekeeping questions please. On the cash flow statement your cash PP&E and cash intangibles gets quite close to \$600 million. The P&L CapEx is \$400 million. Should we expect those to converge in the full year results? So, cash and P&L similar or you expecting some big sort of spectrum numbers in there?

Jaideep Paul: Yes. So eventually this too will definitely converge but what happens is there is a timing difference for the cash CapEx and the actual CapEx go. And that difference technically at some point should be inaudible but this difference remains and that's the reason when we calculate the free cash flow, we take the full CapEx instead of cash CapEx so that the inaudible is factored in, in the free cash flow. What was the second – sorry, what is the second question? David, we seem to have missed, is there any other question?

Operator: JP Davids, please, could you press star one again? Thank you. I'll re-open your line. Please go ahead. We can hear you now.

JP Davids: There we go. Hi there. And then just a quick follow up on the Malawi IPO. Will those proceeds be received in the fourth quarter or have you already received them in the third quarter? Thank you.

Jaideep Paul: The IPO book closes by end of January, so once it goes through, the proceeds will come in quarter four.

JP Davids: Thank you.

Operator: Thank you. There are no further questions at this time. Once again, please press star one if you wish to ask a question.

Raghunath Mandava: As there are no more questions, thank you all for being on this call. I do hope we will once again catch up end of next quarter, which will also be the time when we will be announcing our annual results. Thank you. Still in January a very happy new year to all of you. Thank you and a good day please.

Operator: Thank you gentlemen. Ladies and gentlemen, that does complete your conference for today. Thank you for participating. And you may now disconnect.

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