

AIRTEL AFRICA Plc

Recalibrating growth trajectory on operational performance

BLOOMBERG: AIRTELAFRI NL

BUY

Target Price: N5,818.43

Ref Price: N3,655.70

We have updated our views on Airtel Africa Plc (NGSE: AIRTELAFRI), supported by the company's impressive FY'25/26 performance and management guidance. This update included adjustments to our revenue outlook, driven by higher CAPEX outlays in key markets. It also accounted for sustained cost-optimisation strategies expected to slightly offset higher energy costs in the near term and leave the mean operating profit margin mostly flat at 33.3% over the next five years (vs 33.8% in prior forecasts). We also made adjustments to valuation metrics, particularly the equity risk premium (ERP) and equity beta, which moved from 13.8% and 1.11 to 12.6% and 1.28, respectively, reflecting macro improvements and relative changes in returns. Overall, we maintain a positive outlook on the ticker, supported by robust demand, sustained network investments, and a reduction in business risk, attributable to the moderation in net debt excluding leases. We have kept our BUY recommendation unchanged and updated our 12-month Target Price ("TP") to N5,818.43/share from N3,904.82 previously.

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Market Data

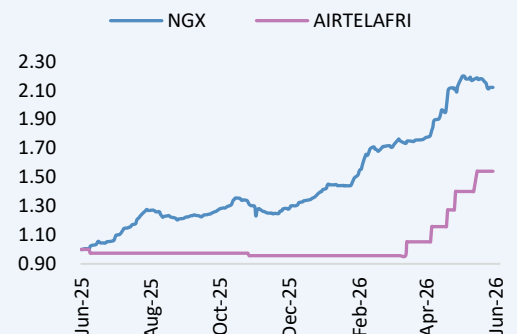
Market Cap (N'trillion)	13.3
Last close price (N)	3,655.70
52-week high-low price (N)	4,021.20/ 2,270.00
Avg 3M daily volume	20,423.73

Revenue momentum remains structurally strong

AIRTELAFRI reported a 29.4% YoY surge in revenue in FY'25/26 (compared to a 0.5% YoY decline in FY'24/25). The rebound in topline was primarily driven by tariff increases in Nigeria, faster smartphone penetration, increased data consumption, and higher mobile money usage across its footprint. Going forward, with AIRTELAFRI structurally positioned to benefit from Africa's digital and financial inclusion opportunities, Group revenue momentum is likely to persist in the near-to medium-term (i.e., rising to \$7.8 billion in FY'26/27 and to \$9.2 billion in FY'27/28).

In Nigeria, underlying demand conditions remained encouragingly solid in FY'25/26, underpinned by economic stability, favourable inflation, and lower interest rates. Most crucially, the quality of growth improved, with smartphone penetration up 5.3ppts to 54.9% and smartphone usage per customer jumping to 13.7GB/month from 11.1GB previously, leading to a 63.6% gain in data income in the review period. We believe this supports the fundamental shift to a more data-centric earnings mix, which aligns with customer behaviour and preferences.

1-year price performance (rebased)



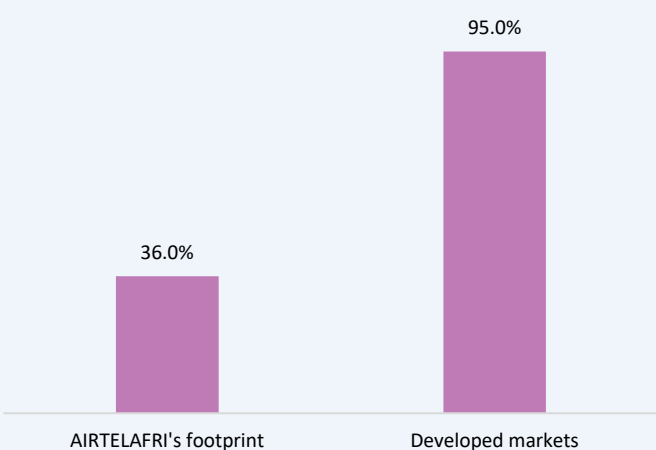
Source: Bloomberg, Cardinalstone Research

In East Africa, the business remained resilient despite strong competition, with robust growth driven by higher data consumption, stronger smartphone penetration, and overall customer growth. Mobile money continues to be a major growth driver in the region, with client growth of 15.8% and new use cases driving a 26.1% increase in mobile money income. We believe this traction will continue to be supported by AIRTELAFRI's strong capacity to cross-sell and achieve better wallet share across its telecom customer base. Elsewhere, Francophone Africa delivered a solid performance once again, aided by record net additions, a positive macro environment, and ongoing investment in the network. Data income grew 37.9%, and data traffic jumped 62.2%, driven by subscriber growth and higher usage intensity.

At the Group level, subscribers grew to 183.5 million (+10.5% YoY), while smartphone penetration rose to 49.5% from 42.5%. Data sales increased by 40.3% and became the single largest contributor to Group revenue, further supporting AIRTELAFRI's long-term investment strategy in network development and scaling of digital infrastructure. On other fronts, Airtel Money is well-positioned for significant underlying growth, aided by cross-selling. The scope for cross-selling is underlined by management's communication that only 30.0% of its customers currently utilise mobile money services, underscoring further runway for financial inclusion-led growth in this segment.

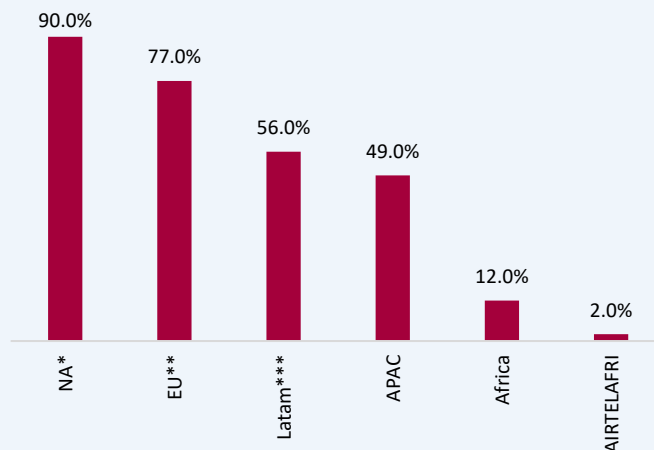
Overall, we expect the combination of growing smartphone adoption, rising data consumption intensity, and increasing fintech penetration to continue to underpin strong topline growth.

Figure 1: Number of adults with bank accounts in AIRTELAFRI's footprint indicates low financial inclusion



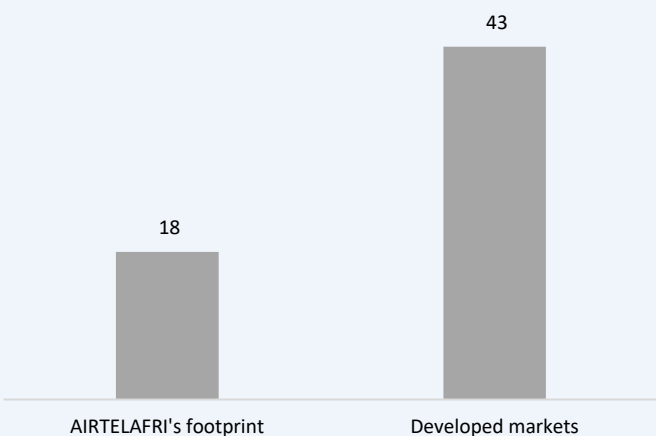
Source: Company Financials, CardinalStone Research

Figure 2: Fixed home broadband penetration



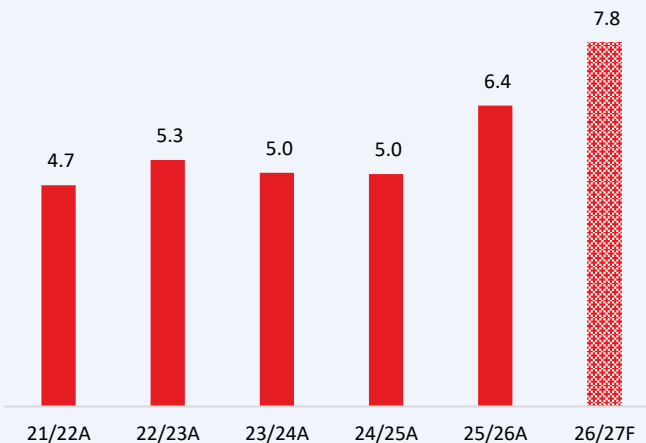
* North America
 ** European Union
 *** Latin America

Figure 3: Median age estimate showcases long term data growth opportunity



Source: Company Financials, CardinalStone Research

Figure 4: Revenue (\$'billion) trend and projection



CAPEX commitments align with market opportunities

AIRTELAFRI expanded its capital deployment in FY'25/26, with CAPEX rising 31.9% YoY to \$884.0 million, driven by accelerated investments in network coverage, capacity development, distribution infrastructure, and new growth verticals. The Group rolled out over 3,250 locations throughout the year, 98.5% of which are now 4G equipped, while fibre infrastructure increased to 81,900km, up 3,200km. We believe these investments are becoming major revenue enhancers as expanding smartphone adoption and accelerating data consumption continue to drive network utilisation across key countries. More crucially, AIRTELAFRI seems to be moving beyond its typical connectivity business. The alliance with SpaceX is anticipated to increase coverage in underserved and rural areas, while home broadband, enterprise services, and data centres remain significant long-term growth drivers. We believe the Group's capital deployment is closely aligned with the large digital and financial inclusion opportunities across its footprint. Mostly retaining its allocation preferences, AIRTELAFRI communicated a FY'26/27 CAPEX guidance of c.\$1.1 billion (vs \$875.0-\$900.0 million in FY'25/26), but we have adopted a more conservative \$1.0 billion for FY'26/27 in our model.

Energy cost pressures to drive temporary margin weakness

In FY'25/26, AIRTELAFRI posted a 310bps increase in EBITDA margin to 49.3%, underpinned by cost-optimisation initiatives, strong operating leverage, and relative macroeconomic stability across its main regions. The cost optimisation strategies included connecting off-grid facilities to the power grid and expanding solar and storage solutions. In FY'26/27, however, we expect the company to face near-term cost pressures due to rising energy prices. Indeed, management identified rising gasoline prices as a key near-term risk to profitability, with the potential to impair the EBITDA margin by 2.5%–3.0% if current pricing conditions persist. In particular, a 10.0% increase in fuel costs is expected to add a cost impact of c. \$35.0-40.0 million. Consequently, we forecast EBITDA and PAT margins of 48.5% and 11.4%, respectively, for FY'26/27 (vs 49.3% and 12.7% in FY'25/26).

Looking ahead, the combination of increased adoption of renewable energy and the transition to on-grid power where available (to reduce diesel costs) should support margins over the medium term. We forecast an average EBITDA margin of 49.7% over FY'27/28-FY'30/31.

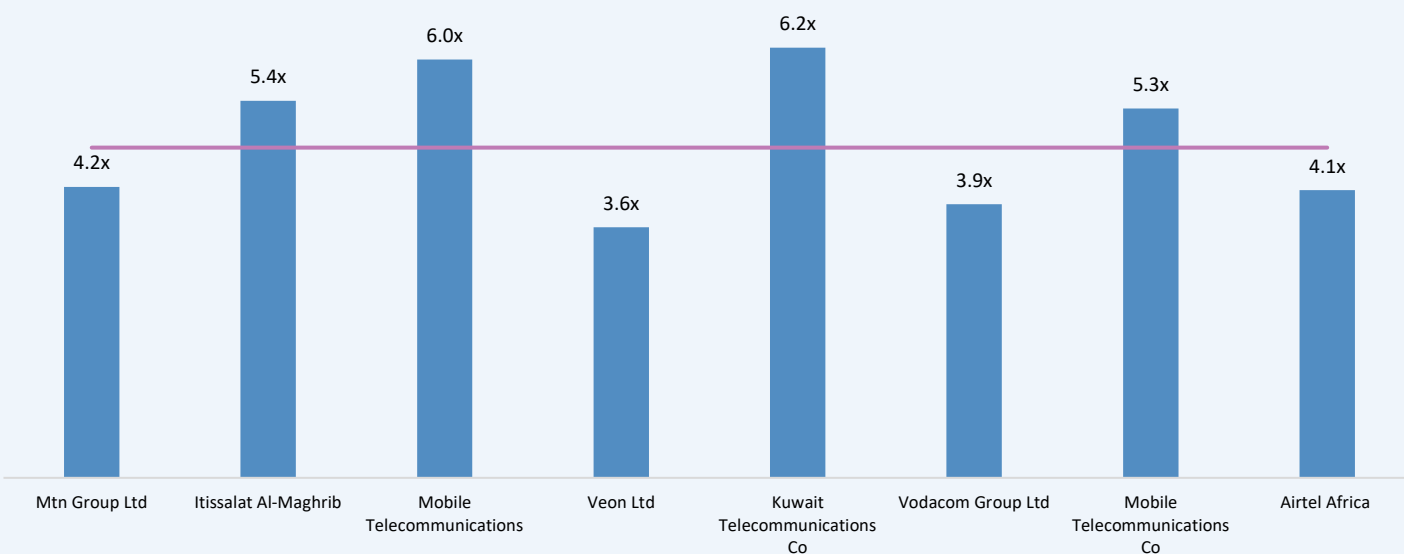
Valuation and recommendation

Following revisions to our model, we maintain our BUY rating on AIRTELAFRI and raise our 12-month TP to N5,818.43, which implies a potential upside of 59.2% from the current market price of N3,655.70. With a forward EV/EBITDA multiple of 4.1x, the stock trades at a discount to the MEA peer median of 4.8x. This discount highlights the ticker's relative value, with investors yet to fully price in future earnings growth.

Other key valuation-related adjustments include the following:

- ERP was reduced to 12.6% from 13.8% previously
- The 10-year Eurobond yield was updated to 7.15% from 7.68% previously
- A beta of 1.11 was deployed (vs 1.28 in the previous publication).

Figure 5: AIRTELAFRI trades at a discount to its MEA peer median forward EV/EBITDA



Source: Bloomberg, CardinalStone Research

¹ a unit in the Indian numbering system that denotes 10,000,000

Figure 6: Summary of financials

Income Statement (\$'million)					Cashflow Statement (\$'million)				
	24/25A	25/26F	26/27F	27/28F		24/25A	25/26F	26/27F	27/28F
Revenue	4,955.0	6,415.0	7,753.0	9,177.8	Cash flow from operating activities	2,266.0	3,195.0	3,227.4	3,724.1
COGS	(1,473.0)	(1,737.0)	(2,211.7)	(2,590.6)	o/w Depreciation & amortization	831.0	1,047.0	1,349.3	1,511.2
Gross profit	3,482.0	4,678.0	5,541.3	6,587.2	o/w Changes in working capital	287.0	401.0	188.7	231.8
Other income	22.0	27.0	27.0	27.0	Cash flow from investing activities	(562.0)	(986.0)	(2,407.1)	(2,693.5)
Operating Expenses	(1,216.0)	(1,543.0)	(1,807.1)	(2,130.0)	o/w Capital expenditure	(670.0)	(884.0)	(1,003.2)	(1,178.4)
EBITDA	2,288.0	3,162.0	3,761.3	4,484.2	as % of sales	13.5%	13.8%	12.9%	12.8%
D & A	(831.0)	(1,047.0)	(1,349.3)	(1,511.2)	Cash flow from financing activities	(1,543.0)	(1,591.0)	(1,158.6)	(954.5)
EBIT	1,457.0	2,115.0	2,412.0	2,973.1	o/w Dividends paid	(229.0)	(246.0)	(282.1)	(307.5)
Net Interest	(822.0)	(713.0)	(806.2)	(768.8)	o/w Debt issued/(repaid)	(1,400.0)	(1,164.0)	(900.1)	(766.1)
Net monetary gain	26.0	17.0	-	-	Net change in cash	161.0	618.0	(338.3)	76.2
PBT	661.0	1,419.0	1,605.8	2,204.3	Cash & cash equivalent at the beginning of the year	392.0	(80.0)	646.0	307.7
Tax	(333.0)	(606.0)	(722.6)	(991.9)	Effects of exchange rate on changes in cash	(1.0)	107.0	-	-
PAT	328.0	813.0	883.2	1,212.4	Cash & cash equivalent at the end of the year	552.0	645.0	307.7	383.8
Earnings attributable to parent	220.0	679.0	768.4	1,054.8					
EPS (\$)	0.06	0.19	0.21	0.29					
DPS (\$)	0.07	0.07	0.08	0.08					
Payout ratio	109.4%	38.3%	37.0%	29.4%					
Shares outstanding ('million)	3,703.07	3,663.77	3,663.77	3,663.77					
Balance Sheet (\$'million)					Ratio Analysis				
	24/25A	25/26F	26/27F	27/28F		24/25A	25/26F	26/27F	27/28F
Cash and cash equivalents	552.0	646.0	307.7	383.8	Gross Margin	70.3%	72.9%	71.5%	71.8%
Accounts receivable	203.0	193.0	190.8	188.1	EBITDA Margin	46.2%	49.3%	48.5%	48.9%
Balance held under mobile money trust	67.0	90.0	90.0	90.0	EBIT Margin	29.4%	33.0%	31.1%	32.4%
Other current assets	1,339.0	1,976.0	1,974.9	1,974.6	Net Profit Margin	6.6%	12.7%	11.4%	13.2%
Current assets	2,161.0	2,905.0	2,563.4	2,636.6	ROAE	12.9%	26.0%	23.3%	26.7%
PP&E	2,086.0	2,425.0	2,790.5	3,234.6	ROAA	3.0%	6.3%	6.2%	7.9%
Other intangible assets	810.0	871.0	1,149.5	1,457.4	OPEX/Sales	24.5%	24.1%	23.3%	23.2%
Other non-current assets	6,966.0	7,762.0	8,208.5	8,677.4	Debt/Equity (x)	2.16x	1.84x	1.56x	1.31x
Total assets	12,023.0	13,963.0	14,711.9	16,006.0	Debt/EBITDA (x)	2.61x	2.03x	1.69x	1.46x
Short-term borrowings	1,095.0	1,019.0	901.2	791.6	Sales/Assets (x)	0.41x	0.46x	0.53x	0.57x
Trade payable	485.0	612.0	797.4	1,026.3	Assets/Equity (x)	4.33x	4.00x	3.60x	3.21x
Other short-term liabilities	2,662.0	3,361.0	3,389.2	3,422.5	Interest cover (x)	2.20x	2.44x	2.88x	3.68x
Current liabilities	4,242.0	4,992.0	5,087.9	5,240.4	Effective tax rate	50.4%	42.7%	45.0%	45.0%
Long-term borrowings	1,226.0	1,169.0	886.7	730.1	Revenue YoY Growth	-0.5%	29.5%	20.9%	18.4%
Other long-term liabilities	3,780.0	4,314.0	4,648.2	5,041.5	EBITDA YoY Growth	-4.9%	38.2%	19.0%	19.2%
Total liabilities	9,248.0	10,475.0	10,622.8	11,012.0	EPS YoY Growth	NM	211.9%	13.2%	37.3%
Equity	2,775.0	3,488.0	4,089.1	4,994.0					
Total liabilities & equity	12,023.0	13,963.0	14,711.9	16,006.0					
BVPS	0.75	0.95	1.12	1.36					
y/y Growth	22.2%	27.0%	17.2%	22.1%					
Net debt	5,430.0	5,766.0	6,066.7	6,150.9	Valuation				
						24/25A	25/26F	26/27F	27/28F
					EV/EBITDA (x)	5.97x	7.88x	4.28x	3.61x
					Dividend Yield	4.6%	4.5%	2.9%	3.2%

Source: Company financials, CardinalStone Research

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AIRTEL AFRICA PLC	

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