

22.4%

Revenue. Airtel 2025 results show data revenue overtook voice, reaching Shs1.10 trillion, up 22.4 percent year-on-year.

Payout ratio. Airtel's dividends are backed by cash generated from operations.

Airtel shows how high returns can co-exist with rapid growth

Airtel's 2025 results offer both reassurance and caution.

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A front view of an Airtel shop. PHOTO/FILE

Airtel Uganda posted full-year 2025 results that would usually boost a stock, but the market barely reacted.

On February 23, the telco reported a 41 percent jump in profit-after-tax to Shs446.9b. Earnings per share rose to Shs11.2, while revenue climbed 13.3 percent to Shs2.25 trillion, helped by a 13.9 percent increase in subscribers to 19.2 million.

For the first time, data revenue overtook voice, reaching Shs1.10 trillion, up 22.4 percent year-on-year. This shift reflects changing consumer habits as smartphones, digital services, and mobile money expand. In economic terms, demand is moving toward higher-value data services, placing Airtel in a more durable growth segment.

Scale is reinforcing performance. A larger subscriber base strengthens network effects and boosts operating leverage, turning revenue growth into faster profit growth, evident in the 41 percent surge in net income.

Shareholders received Shs11.15 per share in dividends, an 11 percent yield and a 41.7 percent increase from 2024.

Finance theory says valuation follows expected future cash flows. By that measure, rising profits, accelerating data growth, and higher cash payouts show stronger fundamentals.

By Wednesday, the stock was trading just above its initial public offering price of Shs101, which it first listed at in November 2023 at Shs100. This gap suggests markets are either discounting risk or slow to adjust to improved performance.

Airtel's numbers also challenge intuition: how can a company pay out 95–100 percent of earnings and still grow? Normally, a high payout ratio leaves little room for reinvestment. But between 2022 and 2025, profit after tax rose from Shs326b to Shs446.9b; roughly a 37 percent increase, even as the four-year average dividend payout stayed around 88 percent.

The answer is cash flow. In 2024, Airtel generated Shs879.9b in operating cash, spent Shs229.2b on capital expenditures for infrastructure, and paid Shs301b in dividends. In 2025, operating cash flow rose to Shs1.013 trillion, capital expenditure modestly increased to Shs238b, and dividends reached Shs404b.

Even after funding network expansion, the company produced hundreds

of billions in free cash flow, enough to cover dividends and reduce bank debt. This distinction is key: a high payout ratio is risky if financed through borrowing, but Airtel's dividends are backed by cash generated from operations.

As Gitta Expeditto, a financial markets analyst with a leaning toward equities, notes, the dividend policy "is supported by operating strength."

The result is a model where growth, investment, and shareholder returns co-exist because the business consistently generates more cash than it needs to sustain expansion.

"These numbers show that the high payout ratio is the outcome of a business whose operations produce the cash to fund both growth and dividends," Gitta explains.

Return on invested capital

Another lens to assess Airtel Uganda's performance is return on invested capital (ROIC), which measures how effec-

tively the company converts capital into profit.

In 2025, earnings before interest and taxes (EBIT) reached Shs849.2b, translating into a net operating profit after tax (NOPAT) of about Shs593b at a 30 percent effective tax rate. Calculating invested capital as equity plus bank debt minus cash initially paints an extraordinary picture: ROIC appears around 74 percent. This reflects a capital-light view, highlighting the efficiency of operations. However, when lease liabilities, covering towers and spectrum, are included, ROIC adjusts to

about 26 percent. While lower, this figure still signals a strong, scalable business, where returns are amplified through operating leverage embedded in long-term lease agreements rather than traditional debt. Lease obligations are sizeable and dynamic. At the end of 2025, Airtel held Shs1.26 trillion in lease liabilities versus Shs185b in equity and Shs190b in long-term bank debt.

Many leases feature inflation or foreign-exchange escalators, and finance costs in Uganda rose 18 percent in 2025 due to interest on new or extended tower agreements. Even so, compounded earnings comfortably outpaced these cost pressures, demonstrating that scale and pricing power can offset inflation and FX risk.

Leasing towers is a double-edged sword. It reduces upfront capital requirements and enables rapid network expansion, but it also magnifies structural risk: lease payments must be met regardless of market conditions.

As Gitta notes, "The long-run risk depends on how well profits keep outgrowing those fixed obligations. Any slowdown in data growth, price competition, or regulatory tightening could compress margins, forcing a reassessment of dividends or borrowing." From an operational perspective, Airtel Uganda separates passive and active infrastructure. David Birungi, the telco's communications officer, told *Business Outlook* in an email on Wednesday that "The assets you refer to are the right-of-use assets (towers) and they are only 45 percent of total capex spend in a tower. Tower companies concentrate on running passive equipment on the towers. The active equipment, like radios, and transmission, including microwave and fiber are Airtel assets that we operate to deliver the best for the customers and shareholders."

Operating leverage

The 2025 financial year also highlighted Airtel Uganda's operating leverage. While revenue rose 13.3 percent, operating profit climbed 35 percent, from Shs629.1b to Shs849.2b, and profit after tax increased 41 percent.

Growth at the top line translated into disproportionately larger gains at the bottom line, demonstrating how a largely fixed-cost network can amplify returns. Data remained the engine of expansion. Revenue from data surged to roughly Shs1.30 trillion, surpassing voice revenue of about Shs700b.

With much of the network already built, adding new subscribers and carrying more traffic required far less incremental capital than during earlier rollout years. This is classic operating leverage: additional usage spreads fixed costs over a larger base, boosting profit per

shilling of revenue.

Retained earnings, however, tell a complementary story. Between 2023 and 2025, retained earnings rose from Shs86.7b to Shs145.3b, but most were reinvested in fixed and right-of-use assets, spectrum licenses, towers, and network equipment. Year-end 2025 cash stood at just Shs27.2b.

As Gitta explains, "So the 'profits' you see in equity are mostly locked into long-term assets that can't easily be used to pay dividends."

This reinforces a key point mentioned earlier: dividend sustainability depends on operational efficiency and ongoing cash generation, not on static profits.

Airtel frames this as a capital-intensive but disciplined model: "We must invest ahead of time, which we have done. We are continuing to refine our go-to-market strategy and sweat the asset prudently. Ultimately, that delivers a good return on that capital," Birungi noted.

Taken together, these numbers reveal both the power and limits of operating leverage. The company can convert growing data traffic into higher profits without proportionally increasing capital expenditure, but most retained earnings remain tied up in network assets. Future dividends and growth, therefore, rely on continued operational efficiency, careful capital allocation, and sustained demand for data services.

Sustainable dividends?

Airtel Uganda's 2025 performance raises a central question for investors: can a 95 percent payout ratio be sustained over time? The answer, as Gitta notes, depends on several conditions. "It can keep paying out most of its profits because the business generates a lot of cash," he explains.

Mobile data is now the core engine, lifting both revenue and margins even as most earnings are distributed. The company's capital-intensive model underpins this. With most retained earnings reinvested in network assets rather than idle cash, dividends rely on ongoing operational efficiency and cash generation. As Gitta observes, "If operating cash flow falls, dividends would have to fall too. The company doesn't have big idle cash reserves or low leverage that it can run down for long."

In other words, today's cash flows, not past profits, determine what can be distributed. Sustainability hinges on how returns compare with long-term obligations. Tower leases stretch into the 2030s and include inflation-linked clauses.

As long as operating profit grows faster than these commitments, the model remains viable. But the risk is ever-present. Competition is the clearest threat. Aggressive pricing by new entrants like Lycamobile forces incumbents to respond.

While data consumption has risen sharply, prolonged price wars, the type that previously drove Warid Telecom out of Uganda, could compress margins and strain dividend capacity.

Airtel's 2025 results offer both reassurance and caution. They demonstrate how a telecom can grow rapidly while distributing nearly all profits, powered by data demand and disciplined cash management, but the equation must be continuously monitored and adjusted as conditions evolve.

THE NUMBERS

Shs446.9b

Net profit. In 2022 and 2025, Airtel's profit after tax increased from Shs326 billion to Shs446.9 billion.