

Getting Set for a Solid Year

Data Revenues Lead Impressive Topline Performance

MTN Nigeria (**MTNN**) began the year on a strong note with an impressive performance across its core business offerings. Service revenue surged by 16.68% YoY to NGN329.17bn, driven largely by growth in data (+58.94% YoY) and voice (+6.14% YoY) revenue. The company added 4.2 million mobile subscribers during the period, bringing total subscribers to 68.5 million. Data revenues continue to impress due to the expansion of its 4G network coverage which supported growing traffic demand from data subscribers. At the end of Q1:2020, the company's 4G population coverage increased to 48% (compared to 44% in 2020FY), while active data subscribers grew by 1.7 million to 26.8 million. Across business segments, a larger portion of revenue growth was derived from its Consumer Business Unit (+18.26% YoY) which now accounts for 86.06% of total revenue, while its Wholesale and Enterprise Business Units also recorded YoY revenue increases of 14.93% and 5.73% respectively. **The near-term outlook holds promising results for revenue growth. While voice revenue growth is expected to slow down, topline performance will be driven by data revenue, fueled by a surge in data traffic as a result of the outbreak of the COVID-19 pandemic.**

Higher Finance Costs are a Sore Spot

EBITDA margin contracted slightly by 61bps on an IFRS 16 basis, due to a higher operating cost profile during the period. Most notably, direct network operating costs grew by 18.30%, on back of an increase in lease related expenses (+25.45% YoY), which the company attributes to its expanded 4G network sites. Nonetheless, EBITDA grew by 15.35% YoY to NGN173.52bn, reflecting the company's strong cashflow generation. Furthermore, net cashflow from operations were enhanced by the absence of regulatory fines, considering that the company concluded payments on its NGN330bn fine in the first half of last year. However, a spike in net finance costs (+47.19% YoY) meant that much of the double-digit growth in topline was not transmitted to bottom line as Profit Before Tax and Profit After Tax grew YoY by 8.86% and 5.58% respectively, while net margin contracted to 15.54% (vs 17.17% in Q1:2019). **In subsequent quarters, the company's margins are expected to be pressured by the negative impact of the Naira devaluation on network operating costs. Furthermore, funding costs are expected to remain elevated in the near term, due to the company's rising debt stock, which would increase pressure on bottom line performance.**

COVID-19 Induced Risks Appear Moderate

Capital expenditure in the first quarter dipped significantly by 53.90% YoY to NGN27.04bn, and management attributes this to supply chain disruptions caused by the COVID-19 pandemic. As such, it becomes imperative for the company to implement measures to ensure minimal disruptions to its network else, it could risk losing subscribers to competition. Potential liquidity risks stemming from the COVID-19 pandemic appear to be muted as the company possesses significant cash reserves totaling NGN178.99bn (c.11% of total assets). Also, the company has actively reduced its foreign debt obligations over the years, from 51.35% in 2018 to 8.00% at the end of Q1:2020, which helps to reduce the impact of currency devaluation on debt costs. **Management has indicated its intention to continue to explore alternative financing means in the near term, which would help to optimize funding costs and support further network expansion**

Recommendation

Although topline performance is expected to remain robust, we maintain a balanced outlook for bottom line due to rising cost pressures. We forecasted a 2020 EPS of 11.61 and applied a Target P/E ratio of 13.58x to arrive at our target price of NGN157.62. This represents an upside potential of 35.88% from its current price, hence we recommend a **BUY** on the counter

Company	MTNN
Valuation	
EPS	10.06
BVPS	9.61x
P/E	11.43x
P/BV	11.96x
Target PE	13.58x
Dec-2020 Exp. EPS	11.61
Dec 2020 Target price	157.62
Current Price	116.00
Up/Downside Potential	+35.88%
Ratings	BUY
Key metrics	
ROE	104.66%
ROA	12.55%
Net margin	15.54%
Asset Turnover	0.75x
Leverage	8.34x
Yr Hi	128.50
Yr Lo	90.00
YTD return	10.48%
Beta	1.28
Adjusted Beta	1.18
52-Week average volume	3,028,744
Shares outstanding	2.36bn
Market cap [NGN]	2,361.12bn
Financial year end	Dec
Most Recent Period (MRP)	Q1:2020

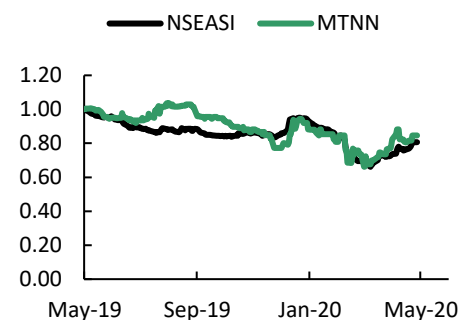


Chart 1: Sensitivity Analysis

Sensitivity Analysis of Dec-2020 Target Price to key model inputs						Min	141.02
						Max	175.11
						EPS	
		11.21	11.41	11.61	11.81	12.01	
Target PE	12.58x	141.02	143.54	146.05	148.57	151.09	
	13.08x	146.63	149.24	151.86	154.47	157.09	
	13.58x	152.23	154.95	157.66	160.38	163.10	
	14.08x	157.84	160.65	163.47	166.28	169.10	
	14.58x	163.44	166.36	169.27	172.19	175.11	

Financial Highlights (NGN million) Q1:2020 Financial result

<i>Profit & Loss Account</i>	Q1:2020	Q1:2019	y/y Growth
Revenue	329,171	282,117	16.68%
Direct Network Costs	70,364	59,479	18.30%
Gross Profit	399,536	341,596	16.96%
Operating Expenses	85,290	72,205	18.12%
EBITDA	173,517	150,432	15.35%
Finance Cost	40,685	32,465	25.32%
Profit Before Tax	76,308	70,096	8.86%
Profit After Tax	51,146	48,441	5.58%
<i>Balance Sheet</i>	Q1:2020	2019FY	
Inventories	736	910	-19.07%
Trade and other Receivables	63,075	52,400	20.37%
Cash and bank	178,985	116,278	53.93%
Right of Use Assets	534,651	500,068	6.92%
Property, Plant and Equipment	609,575	625,096	-2.48%
Other Assets	244,772	230,820	6.04%
Total Assets	1,631,794	1,525,571	6.96%
Shareholders' fund	195,700	144,686	35.26%
Trade and Other Payables	178,988	190,440	-6.01%
Lease Liabilities	558,422	516,534	8.11%
Borrowings	410,257	412,542	-0.55%
Other Liabilities	288,427	261,369	10.35%
Total Liabilities	1,436,094	1,380,885	4.00%

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Movements in Price Target

Company Name: MTN Nigeria Communications Plc.

Date	Price (N)	Previous Target Price(N)	New Target Price (N)	Previous Recommendation	New Recommendation
29-May-2020	116.00	159.18	157.62	BUY	BUY

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Company	Disclosure
MTN Nigeria Communications Plc.	

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