

Marginal Growth in Earnings Despite Impressive Top-line

Impressive Top-line Growth in an Unprecedented Year

MTN Nigeria (MTNN) ended the year on a strong note, delivering an impressive topline performance, slightly above our forecast (+1.61%). Service revenue grew by 14.69% YoY to NGN1,339.03bn, led by growth in data (+51.49% YoY) and voice (+5.64% YoY), further complemented by a surge in fintech revenue (+27.18% YoY). The company shrugged off the early impact of the suspension of new SIM registration in late December, as it added 12.2 million customers in 2020, bringing its total customer base to 76.5 million. As we rightly expected, the strong growth in data revenue was prompted by the COVID-19 lockdown, which led to a combination of increased active data users (+29.37% YoY) and data usage per user. The company supported this increased demand by expanding its network capacity, 4G penetration and coverage in rural areas, with the company's 4G population coverage now at 60% (compared to 44% in 2019FY). We like the growth in the company's Fintech segment, as revenue rose by 27.18% YoY. The company expanded its MoMo agent network, registering over 280,000 (+159.26% YoY) sub-agents during the year. Fintech subscribers increased to 4.7 million from about 1 million in the prior period, while transaction volume rose to 51.5 million (+134.09% YoY). **We expect growth in revenue to continue to be led by mobile data and fintech revenue, driven by a robust subscriber base, continuous 4G network rollouts and increased rural connectivity. Nonetheless, we view the current suspension of new subscriber additions as a dampener on topline expectations, particularly if the stalemate prolongs beyond the first half of the year.**

Increased Operating Expenses Weigh Down Margins

There was an 8.52% growth in operating profit, on the back of a 9.71% increase in EBITDA. The growth in EBITDA reflects the company's strong cash generation, delivering a healthy free cash flow of NGN387.1bn (ex IFRS 16 adjustments). However, EBITDA margin dipped by 250bps to 50.93%, largely due to heightened cost pressures. Operating expenses grew by 21.28% YoY, attributable to the roll out of new sites, the 23.86% adjustment in the official exchange rate which triggered higher lease rental costs, and a 2.5% increase in VAT. Other factors that impacted OPEX are the change in treatment of non-recoverable VAT on lease payment, and other one-off items – such as the donation to the coalition against COVID-19 in April 2020 and costs of Personal Protective Equipment (PPE). **While we expect to see OPEX threatened by additional site rollouts and the effect of further devaluation on leases, Management has guided at ongoing efforts towards optimization of its cost structure, supported by a non-recurrence of one-off cost items in 2021, which should help preserve margins.**

Higher Finance Costs Add to Bottomline Pressures

The company's CAPEX for the year recovered from a slow start to settle at NGN298.63bn (+43.37% YoY), with CAPEX intensity increasing by 80bps to 22.18%. The company supported this with additional borrowings of NGN143.68bn, raising its stock of debt by 26.33% to NGN521.15bn. This triggered an increase in net finance cost by 25.40% to NGN127.84bn, which added further pressure on net margins. As a result, net margin dipped by 613bps to 15.24%, with PBT and PAT increasing by only 2.61% YoY and 0.95% YoY, to NGN298.87bn and NGN205.21bn, respectively. **Management has expressed ongoing plans at tapping the debt markets in 2021, which should help diversify funding sources and lower funding costs. Also, the rebounding yield environment should support interest income.**

Recommendation

While we expect top-line performance to remain robust, we continue to keep an eye on the bottom line and the possible threats to bottom line. We forecasted a **2021 EPS of 11.15** and applied a **Target P/E ratio of 17.20x** to arrive at our **Target Price of NGN191.73**. This represents an upside potential of upside from its current price, we therefore recommend a **BUY** on the counter.

| Company | MTNN |
|--------------------------|---------------|
| Valuation | |
| Trailing EPS | 10.08 |
| BVPS | 8.76x |
| PE | 16.86x |
| P/BV | 19.40x |
| Target PE | 17.20x |
| Dec-2021 Exp. EPS | 11.15 |
| Target price | 191.73 |
| Current Price | 170.00 |
| Up/Downside Potential | +12.78% |
| Ratings | BUY |
| Key metrics | |
| ROE | 127.04% |
| ROA | 16.79% |
| Net margin | 15.24% |
| Asset Turnover | 0.69x |
| Leverage | 11.01x |
| Yr Hi | 182.90 |
| Yr Lo | 165.00 |
| YTD return | 2.41% |
| Beta | 0.99 |
| Adjusted Beta | 0.99 |
| Shares outstanding | 20.35bn |
| Market cap [NGN] | 3,541.69bn |
| Financial year end | Dec |
| Most Recent Period (MRP) | 2020FY |

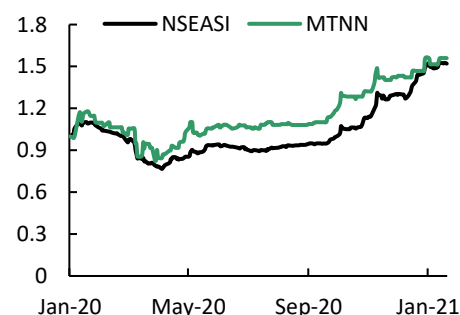


Chart 1: Sensitivity Analysis

| Sensitivity Analysis of Dec-2021 Target Price to key model inputs | | | | | | | Min | 183.96 |
|---|--------|--------|--------|---------------|--------|--------|-----|--------|
| EPS | | | | | | | Max | 199.76 |
| | | 10.95 | 11.05 | 11.15 | 11.25 | 11.35 | | |
| Target PE | 16.80x | 183.96 | 185.64 | 187.27 | 189.00 | 190.68 | | |
| | 17.00x | 186.15 | 187.85 | 189.50 | 191.25 | 192.95 | | |
| | 17.20x | 188.34 | 190.06 | 191.73 | 193.50 | 195.22 | | |
| | 17.40x | 190.53 | 192.27 | 193.96 | 195.75 | 197.49 | | |
| | 17.60x | 192.72 | 194.48 | 196.19 | 198.00 | 199.76 | | |

Financial Highlights (NGN million) 2020FY Financial result

| <i>Profit & Loss Account</i> | 2020FY | 2019FY | y/y Growth |
|----------------------------------|------------------|------------------|---------------|
| Revenue | 1,346.39 | 1,169.83 | 15.09% |
| Network Operating Expenses | 310,248 | 246,604 | 25.81% |
| Other Operating Expense | 66,591 | 50,989 | 30.60% |
| Operating Profit | 426,713 | 393,225 | 8.52% |
| Finance Costs | 143,687 | 122,080 | 17.70% |
| Profit Before Tax | 298,874 | 291,277 | 2.61% |
| Profit After Tax | 205,214 | 203,283 | 0.95% |
| <i>Balance Sheet</i> | 2020FY | 2019FY | |
| Inventories | 2,158 | 909 | 137.40% |
| Trade & Other Receivables | 50,766 | 52,824 | -3.90% |
| Cash and Bank | 275,198 | 116,278 | 136.67% |
| Right of Use Assets | 595,745 | 476,357 | 25.06% |
| PPE | 686,157 | 625,095 | 9.77% |
| Other Assets | 353,519 | 230,820 | 53.16% |
| Total Assets | 1,963,543 | 1,502,283 | 20.70% |
| Shareholder's fund | 178,386 | 145,857 | 22.30% |
| Trade Payables | 303,977 | 190,444 | 59.61% |
| Lease Liabilities | 641,790 | 492,073 | 30.43% |
| Borrowings | 521,150 | 412,542 | 26.33% |
| Other Liabilities | 318,240 | 261,367 | 21.76% |
| Total Liabilities | 1,785,157 | 1,356,426 | 31.61% |

Contact Information

Brokerage and Retail Services

topeoludimu@meristemng.com (+234 905 569 0627)
 olatunjifaniyi@meristemng.com (+234 803 446 3118)
 contact@meristemng.com

Investment Banking/Corporate Finance

rasakisalawu@meristemng.com (+234 806 022 9889)
 seunlijofi@meristemng.com (+234 808 536 5766)

Wealth Management

funmilolaadekola-daramola@meristemng.com (+234 805 498 4522)
 crmwealth@meristemng.com
 Tel : +234 01 738 9948

Registrars

muboolasoko@meristemregistrars.com (+234 803 324 7996)
 martinaosague@meristemregistrars.com (+234 802 303 1783)
 www.meristemregistrars.com
 Tel: +23401-280 9250

Trust Services

damilolahassan@meristemng.com (+234 803 613 9123)
 crmwealth@meristemng.com

Group Business Development

saheedbashir@mersitemng.com (+234 802 454 6575)
 ifeomaogalue@meristemng.com (+234 802 3942967)
 emekaikpechukwu@meristemng.com (+234 803 791 5731)
 info@meristemng.com

Client Services

adefemitaiwo@meristemng.com (+234 803 694 3034)
 blessingogwuiche@meristemng.com (+234 706 896 5173)
 car@meristemng.com

Investment Research

ahmedjinad@meristemng.com (+234 809 183 9487)
 research@meristemng.com

Corporate websites: www.meristemng.com www.meristemwealth.com www.meristemregistrars.com

Meristem Research can also be accessed on the following platforms:

Meristem Research portal: meristem.com.ng/rhub

Bloomberg: MERI <GO>

Capital IQ: www.capitaliq.com

ISI Emerging Markets: www.securities.com/ch.html?pc=NG

Reuters: www.thomsonreuters.com

FactSet: www.factset.com

Analyst's Certification and Disclaimer

This research report has been prepared by the research analyst(s), whose name(s) appear(s) on the cover of this report. Each research analyst hereby certifies, with respect to each security or issuer covers in this research that:

- (1) all of the views expressed in this report accurately reflect his or her personal views about any and all of the subject securities or issuers (the Issuer); and
- (2) no part of any of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report. Research analysts' compensation is determined based upon activities and services intended to benefit the investor clients of Meristem Securities Limited (the Firm). Like all of the Firm's employees, research analysts receive compensation that is impacted by overall Firm profitability, which includes revenues from other business units within the Firm.
- (3) each research analyst and/or persons connected with any research analyst may have interacted with sales and trading personnel, or similar, for the purpose of gathering, synthesizing and interpreting non-material non-public or material public market information.

As at the date of this report, any ratings, forecasts, estimates, opinions or views herein constitute a judgment, and are not connected to research analysts' compensations. In the case of non-currency of the date of this report, the views and contents may not reflect the research analysts' current thinking. This document has been produced independently of the Issuer. While all reasonable care has been taken to ensure that the facts stated herein are accurate and that the ratings, forecasts, estimates, opinions and views contained herein are fair and reasonable, neither the research analysts, the Issuer, nor any of its directors, officers or employees, shall be in any way responsible for the contents hereof, and no reliance should be placed on the accuracy, fairness or completeness of the information contained in this document. No person accepts any liability whatsoever for any loss howsoever arising from any use of this document or its contents or otherwise arising in connection therewith.

Analysts' Compensation: The equity research analysts responsible for the preparation of this report receive compensation based upon various factors, including the quality and accuracy of research, client feedback, competitive factors, and overall firm revenues, which include revenues from, among other business units, Investment Banking.

Investment Ratings

Fair Value Estimate

We estimate stock's fair value by computing a weighted average of projected prices derived from discounted cash flow and relative valuation methodologies. The choice of relative valuation methodology (ies) usually depends on the firm's peculiar business model and what in the opinion of our analyst is considered as a key driver of the stock's value from a firm specific as well as an industry perspective. However, we attach the most weight to discounted cash flow valuation methodology.

Target Price Estimate

While we believe that the fair value is underpinned by the future benefits stream and growth outlooks, which are primary drivers of value, the market might not align to the fair value estimate within the estimated investment horizon. Thus, we do not derive our target price from the fair value but from a trading perspective using the year projected earnings or book value and the respective target multiples. Notwithstanding, we are of the opinion that the variance between the two should not be too significant.

Ratings Specification

- BUY:** Target Price of the stock is above the current market price by at least **10 percent**
- HOLD:** Target Price of the stock ranges between **-10 percent and 10 percent** from the current market price.
- SELL:** Target Price of the stock is more than **10 percent** below the current market price.

Definitions

Price Targets: Price targets reflect in part the analyst's estimates for the company's earnings. The achievement of any price target may be impeded by general market and macroeconomic trends, and by other risks related to the company or market and may not occur if the company's earnings fall short of estimates.

Asset allocation: The recommended weighting for equities, cash and fixed income instrument is based on a number of metrics and does not relate to a particular size change in one variable.

Movements in Price Target

Company Name: MTN Nigeria Plc.

| Date | Price (N) | Previous Target Price(N) | New Target Price (N) | Previous Recommendation | New Recommendation |
|------------|-----------|--------------------------|----------------------|-------------------------|--------------------|
| 8-Mar-2021 | 174.00 | 157.62 | 191.73 | BUY | BUY |

Company disclosures

Meristem or the analyst(s) responsible for the coverage may have financial or beneficial interest in securities or related investments discussed in this report, which could, unintentionally, affect the objectivity of this report. Material interests, which Meristem or the analyst(s) have with companies or in securities discussed in this report, are disclosed below:

| Company | Disclosure |
|-----------------|------------|
| MTN Nigeria Plc | |
| | |

- a. The analyst(s) hold(s) personal positions (directly or indirectly) in a class of the common equity securities of the company.
- b. The analyst responsible for this report, as indicated on the front page, is a board member, officer or director of the company
- c. Meristem beneficially owns 1% or more of the equity securities of the company
- d. Meristem has been the lead manager or co-lead manager of any publicly disclosed offer of securities of the company over the past 12 months.
- e. Meristem beneficially holds a major interest in the debt of the company
- f. Meristem has received compensation for investment banking activities from the company within the last 12 months
- g. Meristem intends to seek, or anticipates receipt of compensation for investment banking services from the company in the next 3 months
- h. The content of this research report has been communicated with the company, following which this research has been materially amended before its distribution
- i. The company is a client of the stock broking division of the Meristem group.
- j. The company is a client of the investment banking division of the Meristem group.
- k. Meristem is the registrar to the company.
- l. The company owns more than 5% of the issued share capital of Meristem
- m. Meristem has other financial or other material interest in the company.

Conflict of Interest

It is the policy of Meristem Securities Limited and its subsidiaries and affiliates (Individually and collectively referred to as “Meristem”) that research analysts may not be involved in activities that suggest that they are representing the interests of Meristem in a way likely to appear to be inconsistent with providing independent investment research. In addition, research analysts’ reporting lines are structured so as to avoid any conflict of interests.

For example, research analysts are not subject to the supervision or control of anyone in Meristem’s Investment Banking or Sales and trading departments. However, such sales and trading departments may trade, as principal, on the basis of the research analysts’ published research. Therefore, the proprietary interests of those Sales and Trading departments may conflict with your interests.

Important Disclosure

For U.S. persons only: This research report is a product of Meristem Securities, which is the employer of the research analysts who has prepared the research report. The research analysts preparing the research report are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analysts are not subject to supervision by a U.S. broker-dealer, and are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Meristem Securities only to “Major Institutional Investors” as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

Legal entity disclosures

Meristem Securities Limited is a member of The Nigerian Stock Exchange and is authorized and regulated by the Securities and Exchange Commission to conduct investment banking and financial advisory business in Nigeria. However, the company through its subsidiaries carries out stock broking, wealth management, trustees and registrars businesses which are regulated by the SEC and ICMR.

Copyright 2021 Meristem Securities Limited. All rights reserved. This report or any portion hereof may not be reprinted, sold or redistributed without the written consent of Meristem Securities Limited.