

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

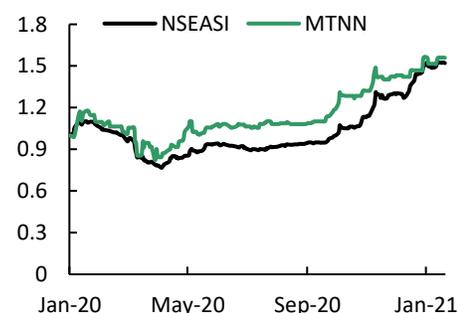


Chart 1: Sensitivity Analysis

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%

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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

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Company	Disclosure
MTN Nigeria Plc	

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