

## Flourishing in the Face of Regulatory Snags

### Unshaken Topline amidst Decline in Subscribers

The year started on a challenging note for telco operators as the regulatory ban on new SIM card registration lingered throughout Q1:2021. Notwithstanding, **MTNN** recorded an impressive performance across its revenue sources. Service revenue surged by 17.22% YoY, driven by the expansion in voice revenue (+7.52% YoY), data revenue (+42.83% YoY) and FinTech revenue (+28.54% YoY). Voice revenue shrugged off the decline (-5 million subscribers Ytd) in its customer base to 71.5 million, as the company witnessed increased usage by active SIM cards. We like that data revenue sustained its impressive streak, despite the decline in active data users to 32.5million (-71,000 Ytd). We highlight the expansion in its 4G network coverage (to 61.80% of the population), following the acquisition of additional 800MHz spectrum, and the increase in smartphone penetration (+3.49% YoY), as key enablers for the growth in Data revenue. Fintech revenues continue to rise due to the increased adoption of fintech services and the continued expansion of its agent network (54,000 new sub-agents were added during the quarter). **Our outlook for revenue in the near term remains favorable, as we expect the lifting of the ban on new SIM registration to result in subscriber growth. We however acknowledge that the run-rate of additions of new subscribers may be slower than usual in the short term, due to new process requirements. With the firm's focus its 4G network expansion and its growing fintech business, we believe more value remains to be unlocked in these areas.**

### Lease Related Expenses Pressure Costs

OPEX during the period expanded by 14.85% YoY, due to the growth in network operating costs (+30.17% YoY). This was driven by the growth in lease expenses (+27.75% YoY) and network maintenance fees (+35.74% YoY), arising from its increased number of sites and currency depreciation pressures. However, the increase in operating expense was partly mitigated by the comparatively moderate growth in cost of sales (+7.83% YoY), following the suspension of sale of new SIM cards. Accordingly, EBITDA increased by 19.08% YoY to settle at NGN204.55bn, with EBITDA margin rising by 91bps to 53.09% YoY, reflecting the firm's strong operating cash flow generation. **We expect cost pressures to remain suppressed, as we do not see any significant threat to the company's cost profile in the short term. Additionally, we note that the dialogue with commercial banks on the pricing regime for airtime sales commissions has the potential to amplify margins if seen through.**

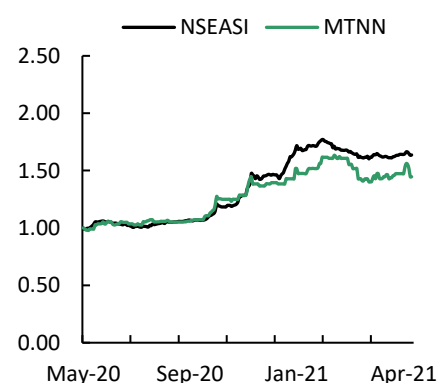
### Funding Diversification Efforts Yield Results

It is commendable that the company's effort at diversifying its funding sources and reducing cost of debt by tapping the debt market yielded results. The company achieved a decline in its cost of funding during the period, in spite of its higher borrowings, leading the firm's finance cost to decline by 20.38% YoY. The benefits from the reduction in finance cost was slightly offset by the contraction (-78.45% YoY) in finance income, bringing net finance costs to NGN30.12bn (-10.55% YoY). Notwithstanding, PBT and PAT increased by 33.92% YoY and 42.53% YoY respectively, aided by the 433bps decline in effective tax rate owing to the release of an overprovision in deferred tax in the prior year. Elsewhere, Capital expenditure for the quarter stood at NGN89.88bn (+19.31% YoY) due to an increase in site roll outs, while free cash flow expanded to NGN114.67bn (+18.91% YoY). **We expect the firm's aggressive site roll-out to keep its CAPEX elevated throughout the year.**

### Recommendation

We forecasted a 2021 **EPS** of **12.14** and applied a **Target P/E** ratio of **15.77x** to arrive at our target price of **NGN191.45**. This represents an upside potential of 19.66% from its current price, we therefore recommend a **BUY** on the counter.

Company	MTNN
<b>Valuation</b>	
EPS	11.16
BVPS	12.39
PE	14.51x
P/BV	13.08x
Target PE	15.77x
Dec-2021 Exp. EPS [NGN]	12.14
Target price	<b>191.45</b>
Current Price	160.00
Up/Downside Potential	<b>+19.66%</b>
<b>Ratings</b>	<b>BUY</b>
<b>Key metrics</b>	
ROE	90.12%
ROA	28.17%
Net margin	19.14%
Asset Turnover.	0.68x
Leverage	8.67x
Yr Hi	182.90
Yr Lo	157.00
YTD return	-5.83%
Beta	0.87
Adjusted Beta	0.91
52-wk average volume	3.09mn
Shares outstanding	20.35bn
Market cap [NGN]	3,297.43bn
Financial year end	Dec
Most Recent Period (MRP)	Q1:2021



**Chart 1: Sensitivity Analysis**

Sensitivity Analysis of Dec-2020 Target Price to key model inputs							Min	185.91
EPS							Max	197.19
		11.94	12.04	12.14	12.24	12.34		
Target PE	15.57x	185.91	187.46	189.02	190.58	192.13		
	15.67x	187.10	188.67	190.23	170.18	193.37		
	15.77x	188.29	189.87	191.45	175.74	194.60		
	15.87x	189.49	191.07	178.05	181.31	195.84		
	15.97x	190.80	192.40	194.00	195.60	197.19		

**Financial Highlights (NGN billion) Q1:2021 Financial result**

<i>Profit &amp; Loss Account</i>	Q1:2021	Q1:2020	y/y Growth
Revenue	385.11	328.54	17.22%
Network Operating Expenses	93.87	72.11	30.18%
Other Operating Expense	16.55	17.14	-3.44%
Operating Profit	133.10	110.58	20.37%
Finance Costs	31.35	39.37	-20.37%
Profit Before Tax	102.99	76.91	33.91%
Profit After Tax	73.75	51.74	42.53%
<i>Balance Sheet</i>	Q1:2021	2020FY	
Inventories	5.03	2.16	132.87%
Trade & Other Receivables	158.70	50.77	212.59%
Cash and Bank	348.06	275.20	26.48%
Right of Use Assets	633.29	595.75	6.30%
PPE	601.24	686.16	-12.38%
Other Assets	439.42	353.50	24.13%
<b>Total Assets</b>	<b>2,185.74</b>	<b>1,963.54</b>	<b>11.32%</b>
Shareholder's fund	252.13	178.39	41.34%
Trade Payables	366.62	303.98	20.61%
Lease Liabilities	684.32	641.79	6.63%
Borrowings	535.42	521.15	2.74%
Other Liabilities	347.25	318.24	9.12%
<b>Total Liabilities</b>	<b>1,933.61</b>	<b>1,785.16</b>	<b>8.32%</b>

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## Movements in Price Target

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**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
20-May-2021	160.00	191.73	191.45	BUY	BUY

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MTN Nigeria Plc	

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