

Defying All Odds to Deliver an Impressive First Half

Topline Growth Sustained Despite Decline in Subscriber Base

MTNN further built on its strong Q1:2021 performance to deliver a service revenue growth of 31.42% YoY in the second quarter, bringing the total service revenue for H1:2021 to NGN790.30bn (+24.06% YoY). The growth in revenue was spurred by an increase in revenue across segments, despite a decline in the active subscribers (-11.03% Ytd) to 68.9 million. Data revenue grew by 48.29% YoY, driven by increased usage by active data subscribers (data traffic was up by 83% YoY) and acceleration of the firm's 4G network (4G penetration reached 65.1%, from 60.1% in 2020FY). Similarly, fintech revenue advanced by 48.21% YoY, as the company's fintech customer base surged by 180.0% YoY to 6.1 million and transaction volume increased by 280.80% YoY to 55.6 million. Increase in usage by active SIMs pushed voice traffic up by 11.80% YoY, causing a 13.11% YoY growth in voice revenue. **We expect the increase in usage per active SIM coupled with the anticipated rebound in subscriber base during the second half of the year to drive voice revenue growth. We also have a positive outlook for data and fintech revenue, backed by the increased penetration of these services and the possible acquisition of a PSB license. We therefore expect revenue to settle at NGN1.51trn in 2021FY (vs NGN1.35bn in 2020FY).**

Reduced Cost of Borrowing Supports Earnings

The firm's operating expenses expanded by 20.27% YoY, resulting from growth in direct network operating cost and interconnect cost by 29.54% YoY and 15.28% YoY respectively. The increase in interconnect cost is attributable to increased voice traffic, while lease related expenses (+28.29% YoY) and network maintenance expenses (+28.99% YoY) drove the expansion in the firm's network operating cost. Notwithstanding, Cost to income ratio was lower at 47.27%, a 150bps decline from the prior period, reflecting the swifter growth in revenue relative to operating expense. Thus, EBITDA advanced by 27.56% YoY and EBITDA margin settled at 52.73% (vs 51.26% in the preceding period). Additionally, the firm recorded a 9.81% YoY decrease in net finance cost, resulting from a decline in its average cost of borrowing, due to debt refinancing. Subsequently, profit before tax and profit after tax both advanced by 54.13% YoY and 49.49% YoY respectively and net margin inched higher to 19.95% (vs 14.89% in H1:2020). **We expect costs to remain moderate for the rest of the year, due to the frontload in site roll outs during the first half of the year and decline in finance costs. We however note that increased interconnect costs and exceptional items such as the COVID donation can increase cost pressures. We therefore expect profit after tax to reach NGN291.49bn in 2021FY.**

Management Pursues Localization Drive

Management declared the intention of the MTN group to divest up to 14% of its holdings in MTNN to indigenous retail and institutional investors in the medium term. An equity shelf program was thus approved to that effect. The company also revealed its intention to participate in the Road Infrastructure Tax Credit (RITC) Scheme to rehabilitate road infrastructure in the country. **In our view, the steps taken will further improve the firms good will and strengthen collaboration with regulatory authorities. We also expect the financial impact of the RITC obligation to be offset by the tax incentive that will be received.**

Recommendation

We forecast a 2021 EPS of **14.32** and applied a **Target P/E** ratio of **13.50** to arrive at our target price of **NGN193.32**. This represents an upside potential of 12.40% from its current price, we therefore recommend a **BUY** on the counter.

Company	MTNN
Valuation	
Trailing EPS	12.39
BVPS	9.83
P/E	13.88x
P/BV	17.49x
Target PE	13.50
Dec-2021 Exp. EPS	14.32
Dec 2021 Target price	193.32
Current Price	172.00
Up/Downside Potential	12.40%
Ratings	BUY
Key metrics	
ROE	126.01%
ROA	11.62%
Net margin	17.92%
Asset Turnover	0.69
Leverage	10.85%
Yr Hi	182.90
Yr Lo	157.00
YTD return	+1.29
Beta	0.89
Adjusted Beta	0.93
Shares outstanding	20.35bn
Market cap [NGN]	3,500.96bn
Financial year end	Dec
Most Recent Period (MRP)	H1:2021

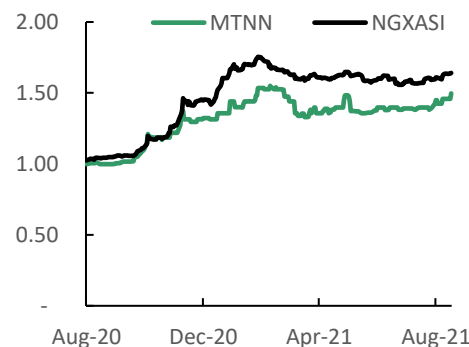


Chart 1: Sensitivity Analysis

Sensitivity Analysis of 2021 Target Price to key model inputs						Min	187.80
EPS						Max	198.92
Target PE		14.12	14.22	14.32	14.42	14.52	
	13.30x	187.80	189.13	190.46	191.79	193.12	
	13.40x	189.21	190.55	191.89	193.23	194.57	
	13.50x	190.62	191.97	193.32	194.67	196.02	
	13.60x	192.03	193.39	194.75	196.11	197.47	
	13.70x	193.44	194.81	196.18	197.55	198.92	

Financial Highlights and Forecasts (NGN billion)

Profit & Loss Account	H1:2020	H1:2021	2021F	2022F	2023F	2024F	2025F
Revenue	638.08	791,263	1,507,957	1,631,006	1,747,134	1,871,530	2,004,783
Cost of sales	148.55	192,429	346,830	375,131	401,841	411,737	441,052
Gross Profit	489.52	598,834	1,161,428	1,256,201	1,345,642	1,460,167	1,564,131
OPEX	162.28	181,621	367,941	402,859	447,266	469,754	507,210
Operating Profit	204.54	273,709	523,747	564,845	587,589	664,777	718,853
Finance Cost	72.55	64,270	129,733	134,883	134,088	139,811	140,555
PBT	139,570	215,116	422,450	456,060	476,117	547,592	601,423
PAT	94,877	141,827	291,491	314,681	333,282	388,790	427,010

Balance Sheet	2020A	H1:2021	2021F	2022F	2023F	2024F	2025F
Property, Plant and Equipment	686,157	715,411	762,871	834,299	887,290	927,590	977,694
Total Debt	1,162,940	1,267,922	1,191,881	1,184,094	1,182,915	1,189,494	1,203,407
Total Assets	1,963,543	2,170,346	2,052,375	2,121,046	2,199,594	2,281,891	2,386,708
Total Equity	178,386	200,121.00	222,170.59	269,372.79	319,365.11	377,683.64	441,735.20
Total Current Liabilities	743,912	884,484	732,606	747,618	783,385	791,867	810,866
Non-Current Liabilities	1,041,245	1,085,741	1,072,810	1,077,244	1,068,124	1,081,576	1,101,151
Total Liabilities	1,785,157	1,970,225	1,805,416	1,824,862	1,851,508	1,873,443	1,912,017

Financial Ratios	H1:2020	H1:2021	2021F	2022F	2023F	2024F	2025F
Gross Margin	76.72%	75.68%	77.02%	77.02%	77.02%	78.02%	78.02%
Operating Margin	41.78%	34.59%	34.73%	34.63%	33.63%	35.52%	35.86%
Net Margin	14.87%	17.92%	19.33%	19.29%	19.08%	20.77%	21.30%
Return on Asset	10.45%	11.62%	14.20%	14.84%	15.15%	17.04%	17.89%
Return on Equity	115.04%	126.01%	131.20	116.82%	104.36%	102.94%	96.67%
Return on Invested Capital	33.43%	34.03%	35.32%	35.10%	36.83%	38.08%	38.52%
Asset Turnover	0.69x	0.69x	0.73x	0.77x	0.79x	0.82x	0.84x
Financial Leverage	11.01x	10.85x	9.24x	7.87x	6.89x	6.04x	5.40x
Debt to Asset Ratio	0.27x	0.27x	0.27x	0.26x	0.25x	0.25x	0.24x
Debt to EBIT Ratio	1.22x	1.17x	1.08x	0.99x	0.95x	0.85x	0.80x
Current Ratio	0.70x	0.64x	0.67x	0.61x	0.57x	0.57x	0.56x
Quick Ratio	0.70x	0.63x	0.67x	0.61x	0.57x	0.57x	0.56x

Contact Information

Brokerage and Retail Services

topeoludimu@meristemng.com	(+234 905 569 0627)
olatunjifaniyi@meristemng.com	(+234 803 446 3118)
isaaconaolapo@meristemng.com	(+234 803 234 8275)
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)
info@meristemng.com	

Client Services

adefemitaiwo@meristemng.com	(+234 803 694 3034)
blessingogwuche@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: research.meristemng.com

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
20-May-2021	160.00	191.73	191.45	BUY	BUY
25-Aug-2021	172.00	191.45	193.32	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.