

Spotlight Shines on Data Segment

Growth in Data and Voice Segments Bolster Topline

Despite the challenging regulatory environment faced during early part of 2021, **MTNN** delivered strong results, with revenue climbing up to NGN1.65trn in 2021FY (+22.87% YoY). The growth recorded in revenue was driven by growth across all segments with voice (58.72%) and data (31.20%) contributing the most. Voice revenue (+10.56% YoY) advanced due to higher average minutes of use (+9.6% YoY), notwithstanding the 10.46% YoY decline in subscriber base. On another hand, data revenue growth (+51.54% YoY) was supported by better 4G coverage (4G coverage increased to 70.3% vs. 60.1% in the prior period), which enhanced data traffic by 85.3% YoY. The company's fintech revenue also increased by 55.20% YoY as fintech subscriber base doubled to 9.4 million subscribers and the firm increased its MoMo agent network to 770,000 (+94.8% YoY). **For 2021, we had expected an ARPU of NGN1,825 but the company posted a positive surprise of NGN2,013. The surprise was due to the jump in average MB per user (+62.7% YoY) during the period. We expect this level of data usage to be sustained especially with the sustained rollout of 4G network, thereby fostering growth in the data segment. We also maintain a positive outlook for the subscriber base in 2022 (subscriber base returned to a net positive addition in Q4:2021), thus complementing the higher revenue earned per user. We therefore project a revenue of NGN2.01trn in 2022FY.**

Increased Sites Roll-Out Impacts OPEX

MTNN's operating expense increased by 17.63% YoY, majorly caused by an increase in direct network operating cost (+25.86% YoY). The increase in direct network operating expense was spurred by growth in lease related expenses (+28.04% YoY), as the firm continued the roll-out of sites and the impact of currency devaluation. Cost to income ratio however declined to 46.98% (vs. 49.08% in the prior period), reflecting increased cost efficiency. Consequently, EBITDA increased by 27.90% YoY and EBITDA margin was higher at 53.02% (+209 bps YoY). **MTNN's** net finance cost for the period was up by 15.82% YoY, due to increased borrowings and a surge in net foreign exchange loss (+190.08% YoY). Notwithstanding, pre-tax profit and net profit grew by 46.11% YoY and 45.53% YoY respectively. Thus, there was an improvement of 2.81% YoY in net margin. **We expect increased sites roll out and voice usage (interconnect) to pressure operating expenses in 2022. Nonetheless, the company's margins should remain strong, due to the swifter growth in revenue, minimal increase in finance costs and absence of non-recurring expenses such as COVID-19 related costs. As such, we revise our expectation of after-tax profit to NGN 372.09bn in 2022.**

Increasing Fintech Participation

In November 2021, the Central Bank of Nigeria (CBN) granted MoMo Payment Service Bank Limited (**MTNN's** fintech subsidiary) an approval in principle for a Payment Service Bank license. **This is expected to increase the scope of activities the firm carries out in its fintech segment and also the level of transactions. Thus, making the firm's fintech segment more crucial to the firm's overall operations.**

Recommendation

We revise our 2022 **EPS** forecast to **18.28 (vs 15.22 previously)**, due to the surprise in 2021 ARPU and our new expectation for ARPU in 2022. We thus applied a **Target P/E** ratio of **13.00** to arrive at our target price of **NGN237.64**. This represents an upside potential of 20.76% from its current price, we therefore recommend a **BUY** on the counter.

Company	MTNN
Valuation	
EPS	14.67
BVPS	13.02
P/E	13.63
P/BV	15.36
Target PE	13.00
Dec-2022 Exp. EPS	18.28
Dec 2021 Target price	237.64
Current Price	197
Up/Downside Potential	18.82%
Ratings	BUY
Key metrics	
ROE	134.72%
ROA	14.14%
Net margin	18.05%
Asset Turnover	0.78
Leverage	8.53
Yr Hi	202.5
Yr Lo	185.5
YTD return	1.52%
Beta	0.77
Adjusted Beta	0.85
Shares outstanding	20.35bn
Market cap [NGN]	4,009.84bn
Financial year end	Dec
Most Recent Period (MRP)	2021FY

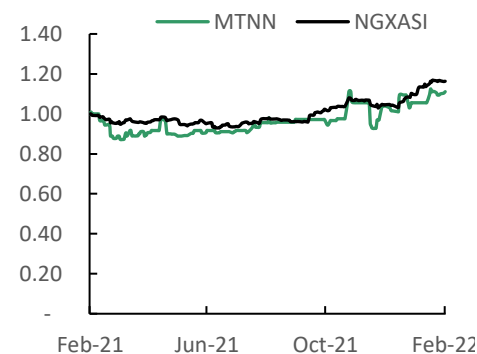


Chart 1: Sensitivity Analysis

Sensitivity Analysis of 2022 Target Price to key model inputs						Min	207.36
						Max	262.92
EPS							
		17.28	17.78	18.28	18.78	18.78	
Target PE	12.00x	207.36	213.36	219.36	225.36	225.36	
	12.50x	216.00	222.25	228.50	234.75	234.75	
	13.00x	224.64	231.14	237.64	244.14	244.14	
	13.50x	233.28	240.03	246.78	253.53	253.53	
	14.00x	241.92	248.92	255.92	262.92	262.92	

Financial Highlights and Forecasts (NGN billion)

<i>Profit & Loss Account</i>	2020A	2021A	2022F	2023F	2024F	2025F	2026F
Revenue	1,346	1,654	2,009	2,466	2,984	3,476	3,912
Cost of Sales	310	390	462	567	686	799	900
Gross Profit	1,036	1,264	1,547	1,899	2,297	2,676	3,013
OPEX	351	387	537	684	828	964	1015
Operating Profit	427	585	675	834	1054	1252	1473
Finance Cost	144	160	158	164	178	200	230
PBT	299	437	539	688	894	1070	1261
PAT	205	299	372	482	626	759	896

<i>Balance Sheet</i>	2020A	2021A	2022F	2023F	2024F	2025F	2026F
Property, Plant and Equipment	686	774	922	1095	1267	1437	1627
Total Debt	1,163	1,184	1,223	1,315	1,471	1,714	1,836
Total Assets	1,964	2,260	2,403	2,753	3,216	3,799	4,253
Total Equity	178	265	339	436	561	713	892
Total Current Liabilities	744	906	962	1119	1306	1517	1646
Non-Current Liabilities	1,041	1,089	1,101	1,198	1,349	1,569	1,715
Total Liabilities	1,785	1,994	2,063	2,317	2,655	3,086	3,361

<i>Financial Ratios</i>	2020A	2021A	2022F	2023F	2024F	2025F	2026F
Operating Margin	31.69%	35.35%	33.60%	33.80%	35.32%	36.03%	37.66%
Net Margin	15.24%	18.05%	18.52%	19.52%	20.98%	21.85%	22.89%
Return on Asset	11.84%	14.14%	15.96%	18.68%	20.97%	21.65%	22.24%
Return on Equity	126.58%	134.72%	123.13%	124.25%	125.60%	119.26%	111.62%
Asset Turnover	0.78	0.78	0.86	0.96	1.00	0.99	0.97
Financial Leverage	11.01x	8.53x	7.08x	6.32x	5.73x	5.33x	4.77x
Debt to Asset Ratio	0.59x	0.52x	0.51x	0.48x	0.46x	0.45x	0.43x
Debt to EBIT Ratio	2.73x	2.03x	1.81x	1.58x	1.40x	1.37x	1.25x
Current Ratio	0.70x	0.66x	0.52x	0.57x	0.64x	0.71x	0.70x
Quick Ratio	0.63x	0.52x	0.42x	0.47x	0.53x	0.60x	0.59x

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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
23-Aug-2021	172.00	191.45	193.32	BUY	BUY
16-Feb-2022	200.00	193.32	237.64	BUY	BUY

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Company	Disclosure
MTN Nigeria Plc	

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