

## Poised for a Stellar Year

### Growth Across Operating Segments Boosts Topline

MTNN started the year on an impressive note, as the telco giant recorded a 22.23% YoY revenue growth (to NGN470.98bn) in Q1:2022. The growth in revenue was driven by an increase across its revenue segments. Most notable was the increase in data (+53.96% YoY), voice (+5.78% YoY) and fintech (46.46%YoY) revenues. The growth in voice revenue was due to higher usage from the firm's active voice subscribers. Meanwhile data revenue thrived on the increased data traffic (+84.80% YoY), caused by the firm's continuous 4G network expansion (which now covers 71.70% of the population, from 70.30% last year). Similarly, the firm's fintech revenue benefitted from the expansion in agent network (c. 78% YoY). Although mobile subscribers declined by 1.82% YoY, due to the regulation on registration of new SIM cards during the first half of last year, there was a positive net addition of 1.7mn new subscribers during the quarter. **We maintain a positive outlook for MTNN's revenue for the rest of the year, anchored majorly on the continued growth of its data revenue. We expect data revenue to be further supported by the aggressive 4G rollout and increased smartphone penetration. Also, we envisage growth in fintech revenue, as the firm has commenced its Payment Service Bank operations (PSB) in the country. Therefore, we project revenue of NGN2,009.97bn in 2022FY.**

### Earnings Remain Unfettered Despite Cost Pressures

The firm's OPEX increased by 15.72% YoY, caused by an increase in direct network operating costs (+16.17% YoY) and interconnect costs (+13.99% YoY). The surge in direct network operating costs was majorly due to the increase in lease-related costs (+19.19% YoY), triggered by the acceleration of site rollout. Notwithstanding, cost to income ratio was lower at 45.40% (vs. 46.91% in the prior period), reflecting the firm's expense efficiency program. Accordingly, the firm's EBITDA margin was slightly higher than the prior period (54.60% vs. 53.09% in Q1:2021). There was an increase of 18.66% YoY in net finance cost, due to the increase in cost of debt relative to Q1:2021. However, profit before tax increased and profit after tax increased by 39.42% YoY and 31.28% YoY respectively. Thus, Net margin expanded by 142bps to 20.56%. **We expect power and maintenance costs to remain elevated following the further roll-out of sites during the rest of the year. We also anticipate cost pressures, relating to the rollout of the firm's PSB operations. We however expect the firm's margin to remain strong due to the strong revenue growth and frontload of capital expenditure.**

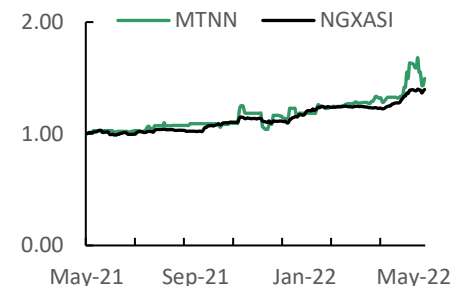
### Bright Outlook Plagued by Regulation

After several postponements of the deadline for integration of SIM cards and National Identity Numbers (NIN), the National Communications Commission on the 4<sup>th</sup> of April announced a restriction on outgoing calls on SIM cards yet to be linked with NIN. MTNN, however, achieved considerable progress with the integration prior to the restriction (having collected the NIN of about 85% of its customer base). Thus, the affected customers represent c. 8% of the company's revenue. **In our opinion, the company's effort toward mass integration of its customers through its enrolment points (presently above 4,000) is expected to help hasten the integration and limit the effect on the firm. Thus, we expect the impact of the recent restriction on the firm's revenue (in Q2:2022) to be marginal.**

### Recommendation

We forecasted a 2022FY EPS of **18.28** and applied a target PE of 13.00x to arrive at our target price of **NGN237.64**. This represents an upside potential of **3.21%** based on the closing price on 31<sup>st</sup> May 2022. Thus, we recommend **HOLD** on the counter.

Company	MTNN
<b>Valuation (Trailing)</b>	
Trailing EPS	15.81
BVPS	13.02
P/E	14.99
P/BV	18.21
Target PE	13.00
Dec-2022 Exp. EPS	18.28
Dec 2022 Target price	<b>237.64</b>
Current Price	230.00
Up/Downside Potential	3.21%
<b>Ratings</b>	<b>HOLD</b>
<b>Key metrics</b>	
ROE	90.12%
ROA	13.10%
Net margin	20.56%
Asset Turnover	0.71
Leverage	6.88
Yr Hi	270.00
Yr Lo	185.50
YTD return	20.30%
Beta	0.85
Adjusted Beta	0.90
Shares outstanding	20.35bn
Market cap [NGN]	4376.22bn
Financial year end	December
Most Recent Period (MRP)	Q1:2022



Analyst  
**Abdullateef Grillo**  
[abdullateefgrillo@meristemng.com](mailto:abdullateefgrillo@meristemng.com)

+234 (701) 773 5494

Chart 1: Sensitivity Analysis

Sensitivity Analysis of 2022FY Target Price to key model inputs						Min	234.52
						Max	240.78
						EPS	
		18.18	18.23	18.28	18.33	18.38	
Target PE	12.90x	234.52	235.17	235.81	236.46	237.10	
	12.95x	235.43	236.08	236.73	237.37	238.02	
	13.00x	236.34	236.99	237.64	238.29	238.94	
	13.05x	237.25	237.90	238.55	239.21	239.86	
	13.10x	238.16	238.81	239.47	240.12	240.78	

Financial Highlights and Forecasts (NGN billion)

Profit & Loss Account	Q1:2021	Q1:2022	2022F	2023F	2024F	2025F	2026F
Revenue	385.32	470.98	2,009.97	2,466.45	2,984.40	3,476.17	3,912.09
Expenses	86.90	106.56	537.67	684.44	828.17	964.64	1,014.77
Operating profit	133.11	179.33	675.48	833.63	1,054.07	1,252.52	1,473.04
Finance cost	31.35	40.33	158.44	164.49	177.54	200.07	229.85
PBT	102.99	143.59	539.84	687.79	894.41	1,069.87	1,260.93
Taxation	29.24	46.77	167.35	206.34	268.32	310.26	365.67
<b>PAT</b>	73.75	96.82	372.49	481.45	626.09	759.61	895.26

Balance Sheet	Q1:2021	Q1:2022	2022F	2023F	2024F	2025F	2026F
Property, Plant and Equipment	601.24	821.74	921.85	1,095.35	1,266.95	1,437.65	1,626.98
Total Debt	324.72	324.54	335.20	367.44	415.96	503.95	503.95
<b>Total Assets</b>	2,185.74	2,455.75	2,403.41	2,752.81	3,216.78	3,799.27	4,253.61
<b>Total Equity</b>	252.13	365.98	339.48	435.77	560.99	712.91	891.96
<b>Total Current Liabilities</b>	860.29	987.98	962.47	1,119.30	1,306.57	1,517.15	1,646.25
<b>Non-Current Liabilities</b>	1,073.72	1,110.78	1,101.46	1,197.74	1,349.22	1,569.21	1,715.40
<b>Total Liabilities</b>	1,933.61	2,098.77	2,063.93	2,317.04	2,655.79	3,086.36	3,361.65

Financial Ratios	Q1:2021	Q1:2022	2022F	2023F	2024F	2025F	2026F
EBIDTA Margin	53.09%	54.60%	50.25%	49.25%	49.25%	49.25%	51.06%
Operating Margin	34.54%	38.07%	33.61%	33.80%	35.32%	36.03%	37.65%
Net Margin	19.14%	20.56%	18.53%	19.52%	20.98%	21.85%	22.88%
Return on Asset	10.40%	13.10%	15.98%	18.67%	20.98%	21.65%	22.23%
Return on Equity	90.12%	90.12%	123.25%	124.21%	125.62%	119.26%	111.57%
Asset Turnover	0.64x	0.71x	0.86x	0.96x	1.00x	0.99x	0.97x
Financial Leverage	8.67x	6.88x	7.08x	6.32x	5.73x	5.33x	4.77x
Current Ratio	0.79x	0.60x	0.52x	0.57x	0.64x	0.71x	0.70x
Quick Ratio	0.60x	0.47x	0.52x	0.57x	0.63x	0.70x	0.70x

## Contact Information

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### Brokerage and Retail Services

topeoludimu@meristemng.com (+234 905 569 0627)  
 isaacnaolapo@meristemng.com (+234 803 234 8275)  
 contact@meristemng.com

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### Investment Banking/Corporate Finance

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

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### Wealth Management

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

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### 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)  
 trustees@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)  
 car@meristemng.com

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### Investment Research

[damilareojo@meristemng.com](mailto:damilareojo@meristemng.com) (+234 816 890 2771)  
[praiseihansekhien@meristemng.com](mailto:praiseihansekhien@meristemng.com) (+234 817 007 1512)  
 research@meristemng.com

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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.

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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
1-June-2022	230.00	237.64	237.64	BUY	HOLD
16-Feb-2022	200.00	193.32	237.64	BUY	BUY

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Company	Disclosure
MTN Nigeria Plc	

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