

MTNN's Net Margin Drops to its Lowest Level on Record

Revenue Sustains its Unwavering Ascendance

MTN Nigeria (MTNN) ended the first half of 2023 with a commendable topline performance as revenue grew by 21.96% YoY to NGN1.16trn (vs 0.95trn in H1:2022). The Telco giant recorded topline expansion across all its revenue segments. Data revenue expanded by 34.87%YoY, supported by the increase in active data users (+11.41% YoY to 41.00mn), data usage (+28.57% YoY), and 4G and 5G network coverage. Voice revenue also advanced by 12.12% YoY on the back of higher subscriber base (+4.05% YoY to 77.10mn from 74.10mn in H1:2022). Likewise, Fintech revenue expanded by 7.83% YoY despite the substantial decline in active fintech users (-53.69% to 6.90mn from 14.90m as of 2022FY) due to the negative impact of the cash crunch on OTC transactions in Q1:2023. Nonetheless, Active MoMo Wallets rose by 29.17% to reach 3.10m (vs 2.40m in H1:2022). Similar to H1:2023 results, all revenue segments recorded growth in Q2:2023 standalone, thus, topline increased by 23.27% to NGN590.61mn (vs NGN479.10mn in Q2:2022 and NGN568.13bn in Q1:2023).

Looking ahead, we maintain a positive outlook for the company's top line in the second half of the year. Our prognosis is hinged on anticipation of sustained growth in data revenue driven by the company's efforts to accelerate network coverage and increased adoption/usage of the 4G and 5G networks. In addition, we expect fintech revenue to rebound due to an improved cash situation and the company's exerted effort to grow wallets and the merchant ecosystem. Therefore, we project the firm to end the year with a revenue of NGN2.42trn.

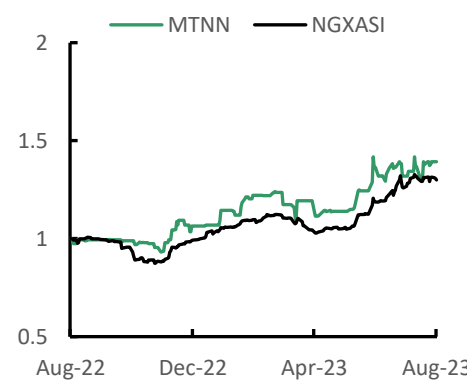
Profitability Margins Hit Record Lows

Owing to heightened inflationary pressures and devaluation of naira (NGN769.251.00 as of 30th of June), MTNN's operating expenses for the period grew by 23.49% YoY outpacing the growth in revenue. The increase in operating expenses is attributed to higher direct network operating costs (+28.33% YoY), discounts and commissions (+23.34% YoY), and other operating expenses (+21.08% YoY). Consequently, EBITDA grew at its slowest pace since H1:2020 (+20.64% YoY) and EBITDA margin declined by 58bps to 53.03%. Also, the firm's finance cost spiked significantly by 161.81% YoY (highest growth rate on record). The surge was as a result of increases in foreign exchange loss (+864.50%) and interest-bearing liabilities (+82.28%) due to the revaluation of USD-denominated borrowings. Debt ratios thus worsened: times interest cover (1.77x vs 3.88x in H1:2022 and 3.44x in 2022FY) and debt to equity ratio (6.58x vs 4.50x in 2022FY). Overall, profit before tax and profit after tax declined for the first time in 4 years by -25.40% YoY and -29.15% YoY to NGN200.39bn and NGN128.69bn, respectively. Consequently, profitability ratios: Net margin, trailing Return on asset and trailing shareholders' Returns on equity all declined to 11.11%, 9.61% and 116.03% (from 19.12%, 13.39% and 125.57% in H1:2022). Despite this setback, the group declared NGN5.60 interim dividend (same as H1:2022), maintaining its c.80% payout ratio at 88.47%. We expect MTNN's operating costs to remain elevated. Our outlook is anchored on the persisting inflationary pressures and foreign exchange uncertainties with no respite in sight. Also, we foresee a surge in direct network operating costs owing to the delayed impact of FX devaluation on lease contracts. Finance costs are also expected to surge further due to the devaluation. Ultimately, we forecast an after-tax profit of NGN338.67bn.

CAPEX Intensity to exceed Targeted Levels

The company has maintained an average capex intensity of 18.03% over the past three years with forward guidance of 18.00% aimed at capturing growth in the industry. In H1:2023, the capex intensity reduced to 15.20% due to hindrance on CAPEX deployment linked to the scarcity of forex. The company has expressed its intentions to prioritize network investments on capacity upgrades and advancement of the 4G and 5G coverage (which is currently at 80.00% and 5.50% respectively). Henceforth, we expect the CAPEX intensity to increase beyond its target of 18.00% in the subsequent half as c. 60% of the CAPEX component is denominated in USD. Thus, MTNN would need to raise more funds to meet the CAPEX needs of the firm. Consequently, we expect borrowings to surge, higher interest expenses, and a further strain on the firm's debt ratios.

| Company | MTNN |
|--------------------------|---------------|
| Valuation | |
| Trailing EPS | 14.81 |
| BVPS | 12.77 |
| P/E | 18.36x |
| P/BV | 21.30x |
| Target PE | 16.59 |
| Dec-2023 Exp. EPS | 16.79 |
| Dec 2023 Target price | 278.49 |
| Current Price | 275.00 |
| Up/Downside Potential | +1.27% |
| Ratings | HOLD |
| Key metrics | |
| ROE | 116.03% |
| ROA | 9.61% |
| Net margin | 14.19% |
| Asset Turnover | 0.68x |
| Leverage | 2.93x |
| Yr Hi | 284.90 |
| Yr Lo | 215.00 |
| YTD return | +27.63% |
| Beta | 1.14 |
| Adjusted Beta | 1.09 |
| Shares outstanding | 20.35bn |
| Market cap [NGN] | 5.60trn |
| Financial year end | Dec |
| Most Recent Period (MRP) | H1:2023 |



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Recommendation

We forecast a 2023FY EPS of **16.79** and applied a **Target P/E** ratio of **16.59x** to arrive at our target price of **NGN278.49**. This represents an upside potential of **+1.27%** from its current price, we therefore recommend a **HOLD** on the ticker.

Chart 1: Sensitivity Analysis

| Sensitivity Analysis of 2023 Target Price to key model inputs | | | | | | | Min | 262.05 |
|---|-------|--------|--------|---------------|--------|--------|-----|--------|
| | | | | | | | Max | 295.43 |
| | | | | | | | EPS | |
| | | 16.29 | 16.54 | 16.79 | 17.04 | 17.29 | | |
| Target PE | 16.09 | 262.05 | 266.08 | 270.10 | 274.12 | 278.14 | | |
| | 16.34 | 266.12 | 270.21 | 274.29 | 278.38 | 282.46 | | |
| | 16.59 | 270.21 | 274.34 | 278.49 | 282.64 | 286.79 | | |
| | 16.84 | 274.27 | 278.48 | 283.69 | 286.90 | 291.11 | | |
| | 17.09 | 278.34 | 282.61 | 286.88 | 291.16 | 295.43 | | |

Financial Highlights and Forecasts (NGN'billion)

| Profit & Loss Account | H1:2022 | H1:2023 | 2023F | 2024F | 2025F | 2026F | 2027F |
|-----------------------|---------|----------|----------|----------|----------|----------|----------|
| Revenue | 950.07 | 1,158.74 | 2,413.17 | 2,841.79 | 3,380.45 | 3,972.35 | 4,700.05 |
| Operating Expense | 440.77 | 544.29 | 1,167.97 | 1,375.43 | 1,636.14 | 1,922.62 | 2,274.82 |
| EBITDA | 503.32 | 614.45 | 1,245.25 | 1,466.41 | 1,744.36 | 2,049.78 | 2,425.28 |
| Operating Profit | 352.31 | 421.58 | 824.39 | 970.80 | 1,165.18 | 1,369.19 | 1,620.00 |
| Finance Cost | 90.74 | 237.58 | 346.82 | 384.65 | 349.58 | 421.24 | 507.60 |
| PBT | 268.64 | 200.39 | 501.70 | 614.57 | 849.40 | 987.67 | 1,159.40 |
| Tax | 87.01 | 71.70 | 163.05 | 199.74 | 276.06 | 320.99 | 376.81 |
| PAT | 181.63 | 128.69 | 338.65 | 414.84 | 573.35 | 666.68 | 782.60 |

Balance Sheet

| | | | | | | | |
|-------------------------------|----------|----------|----------|----------|----------|----------|----------|
| Property, Plant and Equipment | 890.35 | 992.88 | 1,093.97 | 1,288.28 | 1,532.47 | 1,800.80 | 2,130.69 |
| Total Assets | 2,527.14 | 3,137.84 | 3,217.56 | 3,789.05 | 4,507.27 | 5,296.47 | 6,266.73 |
| Total Equity | 269.54 | 259.82 | 403.36 | 486.66 | 601.79 | 735.66 | 892.81 |
| Total Current Liabilities | 1,161.35 | 1,623.57 | 1,318.65 | 1,484.70 | 1,719.12 | 1,934.04 | 2,215.19 |
| Non-Current Liabilities | 1,096.25 | 1,254.46 | 1,495.55 | 1,817.69 | 2,186.35 | 2,626.77 | 3,158.73 |
| Total Liabilities | 2,257.60 | 2,878.03 | 2,814.20 | 3,302.39 | 3,905.47 | 4,560.81 | 5,373.92 |

Financial Ratios

| | | | | | | | |
|--------------------|-------|--------|-------|-------|-------|-------|-------|
| EBITDA Margin | 54% | 53% | 52% | 52% | 52% | 52% | 52% |
| Operating Margin | 37% | 36% | 34% | 34% | 34% | 34% | 34% |
| Net Margin | 19% | 11% | 14% | 17% | 17% | 17% | 17% |
| Return on Asset | 14% | 13% | 26% | 26% | 26% | 26% | 26% |
| Return on Equity | 67% | 50% | 84% | 95% | 88% | 91% | 88% |
| Asset Turnover | 0.38x | 0.37x | 0.75x | 0.75x | 0.75x | 0.75x | 0.75x |
| Financial Leverage | 9.38x | 12.08x | 7.98x | 7.49x | 7.02x | 7.20x | 7.02x |
| Current Ratio | 0.51x | 0.64x | 0.70x | 0.77x | 0.83x | 0.81x | 0.83x |
| Quick Ratio | 0.14x | 0.31x | 0.40x | 0.40x | 0.43x | 0.42x | 0.43x |

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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 Communications Plc

| Date | Price (N) | Previous Target Price(N) | New Target Price (N) | Previous Recommendation | New Recommendation |
|------------|-----------|--------------------------|----------------------|-------------------------|--------------------|
| 07-07-2023 | 274 | - | 307.13 | BUY | BUY |
| 17-08-2023 | 275 | 307.13 | 278.49 | BUY | HOLD |

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|------------------------------------|------------|
| MTN Nigeria Communications Limited | |
| | |

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