

Profitability takes a Nosedive despite Topline Impressive Growth

Expansion Across All Revenue Segments Boost Topline Performance

MTN Nigeria Communications Plc (MTNN) sustained its strong topline performance in 9M:2023. Revenue expanded by 21.76% YoY to reach NGN1.77trn (vs NGN1.46trn in 9M:2022) as growth was witnessed across all revenue segments. Notably, data revenue's (+36.36% YoY) contribution to topline ticked to its highest on record – 42.28% (vs. 37.75% in 9M:2022) owed to increment in data usage (+29.10% YoY to 8.1gb per user), data traffic (+43.30% YoY) and data subscriber base (+13.42% YoY to 43.10mn). Meanwhile, voice revenue grew by +10.46% YoY due to the uptrend in total mobile subscriber base (+4.72% YoY to 77.60mn). Additionally, its FinTech revenue exhibited modest growth (+5.64% YoY) during the period as the positive stripes in active wallets (+53.10% YoY) and MoMo agents (+55.70% YoY) was subdued by the substantial decline in active FinTech subscriber base (-20.54% YoY to 8.9mn). The decline in subscriber base is attributed to the slowdown in activities on the OTC platform during the first half of the year caused by cash shortages. However, compared to the H1:2023 level, the active fintech subscribers increased as of 9M:2023 (+27.20% QoQ to 8.9mn users) as the cash situation in the country normalized. Similar to previous quarters, revenue in Q3:2023 grew by 21.37% YoY to NGN614.21bn (compared to NGN506.05bn in 9M:2022). Notably, data revenue's contribution to topline (c. 45%) outpaced voice revenue (c. 44%) for the first time on record. **Looking ahead to the year's final quarter, we expect data revenue to sustain its growth trajectory based on a larger user base and data usage, driven by the company's efforts to enhance the quality and coverage of its networks. Additionally, voice and fintech revenue are projected to continue growing as the company accelerates penetration of its service offerings. Ultimately, we forecast the firm to end the year with a revenue of NGN2.39trn.**

Finance Costs Remain Bottom-line's Biggest Threat

Due to the currency devaluation, soaring inflation levels and higher energy costs, MTNN's operating expenses rose by 28.04% YoY to NGN865.02bn (vs NGN675.57bn in 9M:2022). This growth was primarily driven by the trifecta upswings in direct network operating costs (+34.04% YoY), employee costs (+38.52% YoY) and other operating expenses (+26.28% YoY). As the cost-to-income ratio ticked up by 240bps to 48.79% (from 46.39% in 9M:2022), EBITDA grew at its slowest pace since 9M:2020 by 16.32% YoY to NGN907.93bn. Hence, EBITDA margin declined by 58bps to 51.03%. In a bid to sustain its CAPEX intensity, the company incurred additional borrowings (+50.46% YoY) while the continuous depreciation of naira coupled with the exclusion of Naira-denominated cash cover (*provided to banks for trade lines*) from its USD obligations resulted in foreign exchange loss of NGN232.83bn. Consequently, finance costs spiked by 170.76% YoY and interest cover ratio weakened to 1.55x (vs 3.44x in 9M:2022). Ultimately, both pre-tax and after-tax profits plunged drastically by 41.98% YoY and 45.23% YoY to NGN232.47bn and NGN147.36bn, respectively. As a result, key profitability ratios: net margin, return on assets and returns on equity all declined to 8.31%, 7.70% and 76.50% (compared to 18.48%, 14.36% and 142.68% in 9M:2022). **Despite the company's efforts to optimize lease contracts by shifting some lease tenancies to another TowerCo, there is an expectation of some pass-through impacts from foreign exchange depreciation and the newly introduced VAT on tower leases. Moreover, the volatility surrounding the naira and the redemption of commercial paper during the quarter will likely lead to a further spike in finance costs. In conclusion, our forecast points to 2023FY after-tax profit of NGN230.21bn.**

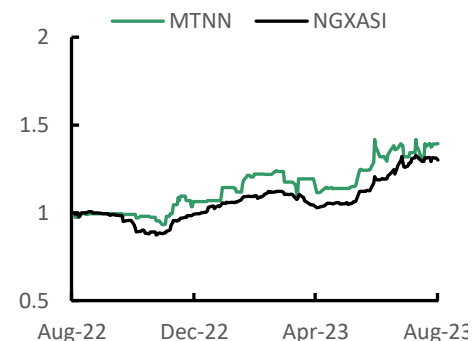
Cash Position Remains Strong Despite Deteriorating Liquidity Ratios

In 9M:2023, MTNN's interest-bearing liabilities surged by 22.54% Ytd to NGN1.74trn from NGN1.42trn in 2022FY, primarily credited to a 48.30% Ytd increase in borrowings (specifically a newly secured USD125mn trade facility from Access Bank UK and issuance of NGN125bn commercial paper during the period). Thus, the company's financial leverage and debt-to-equity ratios jumped to 9.93x and 5.49x (vs. 8.09x and 4.22x in 2022FY), respectively. Despite the deteriorating liquidity ratios (current ratio and cash ratio – 0.55x and 0.14x from 0.46x and 0.11x in 2022FY), the company maintained a positive operating cash flow of NGN500.81bn and an earning quality of 3.40x during the period, indicating strong cash generating ability.

Recommendation

Considering the dilution effect of the scrip dividend, we therefore forecast a 2023FY EPS of NGN11.41 and applied a Target P/E ratio of 20.68x to arrive at our target price of NGN235.99. This represents an upside potential of -1.67% from its current price of NGN240.00; thus, we recommend a **HOLD** on the ticker.

Company	MTNN
Valuation	
Trailing EPS	14.59
BVPS	12.39
P/E	16.45x
P/BV	19.37x
Target PE	20.68x
Dec-2023 Exp. EPS	11.41
Dec 2023 Target price	235.99
Current Price	240.00
Up/Downside Potential	-1.67%
Ratings	HOLD
Key metrics	
ROE	76.50%
ROA	7.70%
Net margin	8.31%
Asset Turnover	0.79x
Leverage	9.93x
Yr Hi	284.90
Yr Lo	215.00
YTD return	+11.63%
Beta	1.06
Adjusted Beta	1.04
Shares outstanding	20.99bn
Market cap [NGN]	5.21trn
Financial year end	Dec
Most Recent Period (MRP)	9M:2023



Analyst

Esther Otusanya

estherotusanya@meristemng.com

+234 (811) 111 4360

Chart 1: Sensitivity Analysis

Sensitivity Analysis of 2023 Target Price to Key Model Inputs							Min	220.19
EPS							Max	252.28
Target PE		10.91	11.16	11.41	11.66	11.91		
	20.18	220.19	225.24	230.28	235.32	240.37		
	20.43	222.92	228.03	233.13	238.24	243.35		
	20.68	225.65	230.82	235.99	241.16	246.33		
	20.93	228.37	233.61	238.84	244.07	249.30		
	21.18	231.10	236.40	241.69	246.99	252.28		

Financial Highlights and Forecasts (NGN'billion)

<i>Profit & Loss Account</i>	9M:2022	9M:2023	2023F	2024F	2025F	2026F	2027F
Revenue	1,456.14	1,772.95	2,392.26	2,810.29	3,336.44	3,902.15	4,593.99
Operating Expenses	675.57	865.02	1,201.66	1,395.32	1,632.94	1,909.76	2,248.52
EBITDA	780.57	907.93	1,190.61	1,414.97	1,703.50	1,992.39	2,345.47
Operating Profit	537.68	608.43	767.82	927.74	1,142.75	1,336.61	1,570.92
Finance Cost	146.66	397.08	447.37	492.64	549.20	575.47	693.44
PBT	400.67	232.48	341.05	456.34	619.14	792.14	912.97
Tax	131.63	85.11	110.84	148.31	201.22	257.45	296.71
PAT	269.04	147.36	230.21	308.03	417.92	534.70	616.25

<i>Balance Sheet</i>	9M:2022	9M:2023	2023F	2024F	2025F	2026F	2027F
Property, Plant and Equipment	888.74	1,046.41	1,210,758	1,362,068	1,596,931	1,867,559	2,205,807
Total Debt	1,348.55	1,702.88	1,775,274	2,165,834	2,609,830	3,144,845	3,789,538
Total Assets	2,417.17	3,078.93	3,272.32	3,891.62	4,562.66	5,335.88	6,302.30
Total Equity	243.47	310.09	381.59	443.44	527.36	634.73	758.47
Total Current Liabilities	1,108.36	1,574.82	1,358.01	1,582.34	1,793.37	2,008.28	2,305.40
Non-Current Liabilities	1,065.34	1,194.02	1,532.72	1,865.85	2,241.93	2,692.88	3,238.43
Total Liabilities	2,173.70	2,768.84	2,890.73	3,448.18	4,035.30	4,701.16	5,543.83

<i>Financial Ratios</i>	9M:2022	9M:2023	2023F	2024F	2025F	2026F	2027F
EBITDA Margin	51.61%	51.03%	49.77%	50.35%	51.06%	51.06%	51.06%
Operating Margin	36.93%	34.32%	32.10%	33.01%	34.25%	34.25%	34.20%
Net Margin	18.48%	8.31%	9.62%	10.96%	12.53%	13.70%	13.41%
Return on Asset	14.36%	7.70%	23.46%	23.84%	25.05%	25.05%	24.93%
Return on Equity	142.68%	76.50%	60.33%	69.46%	79.25%	84.24%	81.25%
Asset Turnover	0.79x	0.76x	0.73x	0.72x	0.73x	0.73x	0.73x
Financial Leverage	9.93x	9.93x	8.58x	8.78x	8.65x	8.41x	8.31x
Current Ratio	0.46x	0.55x	0.66x	0.73x	0.78x	0.81x	0.83x
Quick Ratio	0.45x	0.54x	0.52x	0.58x	0.62x	0.65x	0.67x

Contact Information

Brokerage and Retail Services

saheedbashir@meristemng.com (+234 802 454 6575)
topeoludimu@meristemng.com (+234 905 569 0627)
 adaezeonyemachi@meristemng.com (+234 808 369 0213)
 contact@meristemng.com

Investment Banking/Corporate Finance

rasakisalawu@meristemng.com (+234 806 022 9889)
 davidadu@meristemng.com (+234 810 940 4836)

Wealth Management

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

Registrars

oluseyiowoturo@meristemregistrars.com (+234 802 321 0561)
 www.meristemregistrars.com
 Tel: +23401-280 9250

Trust Services

damilolahassan@meristemng.com (+234 803 613 9123)
trustees@meristemng.com

Finance

olasokomubo@meristemfinanceng.com (+234 803 324 7994)
matthewawotundun@meristemfinanceng.com (+234 802 390 6249)

Group Business Development

sulaimanadedokun@meristemng.com (+234 803 301 3331)
 ifeomaanyanwu@meristemng.com (+234 802 394 2967)
 info@meristemng.com

Client Services

adefemitaiwo@meristemng.com (+234 803 694 3034)
 car@meristemng.com

Investment Research

praiseihansekhien@meristemng.com (+234 817 007 1512)
 research@meristemng.com

Corporate websites: www.meristemng.com www.meristemwealth.com www.meristemregistrars.com

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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
15-11-2023	240.00	278.49	235.99	HOLD	HOLD
17-08-2023	275.00	307.13	278.49	BUY	HOLD
07-07-2023	274..40	-	307.13	BUY	BUY

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