

Unprecedented FX Losses Drag MTNN to its First Loss on Record

Revenue Soared to New Peak

MTN Nigeria Communications Plc (**MTNN**) posted a laudable topline performance in 2023FY as its revenue grew by 22.69% YoY to reach NGN2.47trn, compared to NGN2.01trn in 2022FY. For the fourth consecutive year, the company recorded expansion across its key segments: Data (+39.78% YoY), Voice (+9.67% YoY), Fintech (+2.37% YoY), and Digital (+70.45% YoY). The optimization of data bundle offerings and network coverage expansion led to increased internet usage and a 13.42% YoY rise in internet subscriber base to 43.10mn. Despite the challenges posed by cash scarcity in H1:2023, voice revenue rose at its fastest pace since 2018FY, supported by the upgrade in voice propositions and an increment in total mobile subscriber base (5.42% YoY to 79.70mn). However, the contribution of voice revenue to topline declined to 46.33% (vs 51.68% in 2022FY and 5-yr avg. of 55%), while data accounted for 43.56% (vs 38.12% in 2022FY and 5-yr avg. of 31%). Thus, highlighting the increasing significance of data as a value driver for the company's overall performance. In its fintech business, **MTNN** added 3.030mn new active mobile money (MoMo PSB) wallets to reach 5.30mn, driving transaction volume upward (+49.20% YoY). **Looking ahead to 2024FY, MTNN is expected to continue its revenue growth trajectory, particularly in data revenue hinged on increased demand for connectivity, subscribers' adoption of more efficient networks (4G and 5G) and the likely upward review of tariffs. However, a reduction in subscriber base is anticipated following the National Communication Commission's (NCC) directive to disconnect subscribers over non-compliance with NIN/SIM linkage. Ultimately, we forecast a 2024FY revenue of NGN3.00trn.**

Bottomline Prints Red as Foreign Exchange Loss Escalates

The company's operating expenses (OPEX) grew at its fastest pace on record by 34.44% to NGN1.27trn (vs NGN0.94trn in 2022FY), attributed to increment in other operating expenses (+33.70% YoY), interconnect costs (+39.87% YoY) and direct network operating costs (+41.71% YoY). The primary catalysts were the Naira devaluation, elevated inflation levels, high energy costs, the newly introduced 7.50% VAT on tower leases and the NGN30.38bn provision for the ongoing FIRS VAT assessment. Consequently, the cost-to-income ratio spiked by 448bps to 51.30% (from 46.82% in 2022FY), and the EBITDA margin fell substantially to 12.35% (vs 22.04% in 2022FY). The company incurred additional borrowings (+70.69% YoY) and lease liabilities (+52.18% YoY) due to its commitment to investment in capital expenditure. This, coupled with the elevated interest rate environment, caused finance costs to spike by 60.86% YoY to NGN236.93bn. Also, the exchange rate depreciation led to the repricing of the company's foreign currency-denominated obligations and the revised treatment of dollar-indexed leases (where unrealized foreign losses have started to be recognized, unlike sole recognition of realized losses in previous years). As such, foreign exchange loss escalated by more than eightfold to NGN740.43bn. Eventually, the company recorded loss before tax and loss after tax of **NGN177.89bn** and **NGN137.02bn** (vs profit before tax of NGN518.82bn and profit after tax NGN348.73bn in 2022FY), respectively. As such, key profitability ratios turned negative: net margin and return on assets to **5.55%** and **4.78%** (vs 17.33% and 14.52% in 2022FY), respectively. **We expect continued pressure on operating expenses due to rising inflation and foreign exchange depreciation. Despite the company's efforts to optimize its lease contracts by changing the provider of some of its lease tenancies, we do not foresee the materialization of the impact in the near term. Given the freefall of Naira and the increase in domestic interest rates, we anticipate a surge in finance costs and further exposure to foreign exchange losses. Nonetheless, we expect the company to end 2024FY with an after-tax profit of NGN15.70bn.**

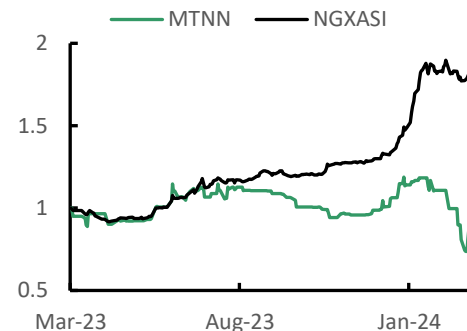
MTNN Liquidity Ratios Weaken Despite Strong Cash Position

The substantial loss incurred resulted in a negative shareholders' fund of **NGN40.84bn** in 2023FY. Given that only 14.11% of the foreign exchange loss was realized, **MTNN** maintained a positive operating cash flow of NGN996.903bn. Nonetheless, the jump in current liabilities (+61.99%) suppressed liquidity ratios: current ratio (0.51x vs 0.65x in 2022FY) and cash ratio (0.18x vs 0.30x in 2022FY), which suggests likely challenges in settling its short-term obligations. The major drivers of the increase in current liabilities (c.54% of total liabilities) are the NGN250bn commercial paper obligation (maturing in 2024), trade payables (related party loans & accruals) and lease liabilities.

Recommendation

For 2024FY, we forecast an **EBITDA per share** of NGN65.57 and a target **EV/EBITDA** of 4.07x to arrive at our **target price** of **NGN266.60**. This represents a downside potential of **-0.45%** from its current price of NGN267.80; thus, we recommend a **HOLD** on the ticker.

Company	MTNN
Valuation	
EPS	6.53
BVPS	1.95
PE	41.12x
P/BV	137.96x
Target EV/EBITDA	4.07x
Dec-2024 Exp. EBITDA	NGN65.57
Dec 2024 Target price	266.60
Current Price	267.80
Up/Downside Potential	0.45%
Ratings	HOLD
Key metrics	
ROE	-
ROA	-4.30%
Net margin	-5.55%
Asset Turnover	0.77x
Leverage	-78.07x
Yr Hi	295.00
Yr Lo	183.00
YTD return	1.44%
Beta	0.92
Adjusted Beta	0.95
Shares outstanding	20.99bn
Market cap [NGN]	5.22trn
Financial year end	Dec
Most Recent Period (MRP)	2023FY



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Chart 1: Sensitivity Analysis

Sensitivity Analysis of 2024 Target Price to Key Model Inputs						Min	232.30
EBITDA						Max	301.94
		65.07	65.32	65.57	65.82	66.07	
Target EV/EBITDA	3.57	232.30	233.19	234.08	234.98	235.87	
	3.82	248.57	249.52	250.48	251.43	252.39	
	4.07	264.83	265.85	266.60	267.89	268.90	
	4.32	281.10	282.18	283.26	284.34	285.42	
	4.57	297.37	298.51	299.65	300.80	301.94	

Financial Highlights and Forecasts (NGN'billion)							
<i>Profit & Loss Account</i>	2022FY	2023FY	2024FY	2025F	2026F	2027F	2028F
Revenue	2012.27	2468.85	3,001.72	3,560.43	4,062.34	4,652.72	5,208.23
Operating Expense	941.91	1266.32	1,625.08	1,824.31	2,049.62	2,368.43	2,641.55
EBITDA	1070.37	1202.53	1,376.64	1,736.12	2,012.72	2,284.29	2,566.68
Operating Profit	734.16	773.66	869.40	1,153.10	1,351.69	1,536.28	1,716.20
Finance Cost	147.29	236.93	355.30	416.44	460.68	474.64	509.24
Exchange Rate	81.82	740.43	539.38	183.34	100.83	110.92	81.34
PBT	518.82	177.89	23.26	593.05	841.35	1,012.64	1,189.96
Tax	170.10	-40.87	7.56	192.74	273.44	329.11	386.74
PAT	348.73	137.02	15.70	400.31	567.91	683.53	803.22

<i>Balance Sheet</i>	2022FY	2023FY	2024FY	2025F	2026F	2027F	2028F
Property, Plant and Equipment	928.36	1,095.11	1,314.13	1,576.96	1,860.81	2,195.76	2,591.00
Total Debt	1,352.75	2,197.49	2,644.04	3,055.59	3,361.15	3,697.26	4,092.61
Total Assets	2,539.37	3,188.83	3,887.66	4,614.99	5,179.11	5,915.63	6,726.15
Total Equity	262.54	40.84	37.75	82.41	196.06	332.84	493.57
Total Current Liabilities	1,173.17	1,900.41	2,382.07	2,687.76	2,662.47	3,030.23	3,424.86
Non-Current Liabilities	1,103.66	1,329.26	1,543.34	1,844.83	2,320.58	2,552.55	2,807.72
Total Liabilities	2,276.83	3,229.67	3,925.41	4,532.59	4,983.05	5,582.79	6,232.58

<i>Financial Ratios</i>	2022FY	2023FY	2024FY	2025F	2026F	2027F	2028F
EBITDA Margin	53.19%	48.71%	45.86%	48.76%	49.55%	49.10%	49.28%
Operating Margin	36.48%	31.34%	28.96%	32.39%	33.27%	33.02%	32.95%
Net Margin	17.33%	5.55%	0.52%	11.24%	13.98%	14.69%	15.42%
Return on Asset	14.52%	4.78%	0.44%	9.42%	11.60%	12.32%	12.71%
Return on Equity	133.56%	-	40.06%	494.45%	291.82%	206.26%	163.22%
Asset Turnover	0.79x	0.77x	0.77x	0.77x	0.78x	0.79x	0.77x
Financial Leverage	9.73x	70.23x	99.19x	57.00x	26.61x	17.85x	13.67x
Current Ratio	0.65x	0.51x	0.55x	0.62x	0.70x	0.71x	0.71x
Quick Ratio	0.65x	0.51x	0.55x	0.62x	0.69x	0.70x	0.71x
Cash Ratio	0.30x	0.18x	0.24x	0.28x	0.30x	0.29x	0.28x

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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
15-03-2024	267.80	309.33	266.60	BUY	HOLD
07-01-2024	285.00	-	309.33	-	BUY

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MTN Nigeria Communications Plc	

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