

Moderating Costs To Enhance Profitability Outlook

Data Gains Drive Revenue Growth

In H1:2024, MTN Nigeria Communications Plc (**MTNN**) achieved impressive revenue growth, +32.83% YoY to NGNNGN1.54trn (up from NGN1.16trn in H1:2023). This growth can be tied to expansions across all revenue streams—voice (+12.39% YoY), data (+54.75% YoY), fintech (+11.03% YoY), and digital services (+98.85% YoY). Unlike previous periods, the data segment emerged as the top revenue driver (accounting for 47.26% of total revenue vs. 40.56% in H1:2023), fueled by an 11.22% rise in active data subscribers (to 45.60mn from 41.00mn in H1:2023), greater data usage (+30.50% YoY), higher smartphone adoption, and broader 4G and 5G network coverage. As such, voice revenue became the second-largest contributor (41.09% vs. 48.56% in H1:2023) due to slower subscriber growth (+2.98% YoY to 79.4mn). Despite the challenges posed by the NIN-based KYC directive, which impacted around a million active wallets and affected the fintech segment's performance in Q1:2024, the segment rebounded strongly in Q2:2024, achieving 22.20% YoY growth, supported by an increase in active wallet users and greater adoption of MoMo services. Notably, active MoMo wallets surged by 36.39% to 5.50mn (up from 3.10mn in H1:2023).

A key downside to revenue performance during the period was the NCC – SIM directive, which resulted in the barring of approximately 8.60mn subscribers.

Going forward, we remain optimistic about the company's top-line performance in the second half of the year. This outlook is based on expectations of continued growth in data revenue, driven by efforts to expand data traffic, enhance network coverage, and boost the adoption and usage of 4G and 5G networks. Additionally, we anticipate the company's ongoing focus on expanding financial services access through increased MoMo adoption and a growing active user base to further accelerate fintech growth. The ongoing engagement with telco regulators to increase communication tariffs would also increase the revenue base going forward if successful. As a result, we project the group to close the year with a revenue of NGN3.18trn.

Soaring Costs Dampen MTNN's Earnings Despite Revenue Growth

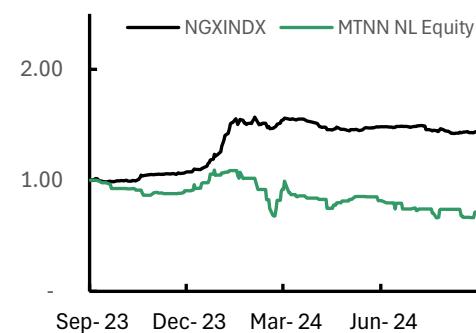
In H1:2024, **MTNN's** operating expenses increased by 67.35% YoY, outpacing revenue growth due to ongoing inflationary pressures, rising energy costs, and the Naira's depreciation. Direct network operating costs surged by 111.87% YoY, driven by higher BTS leases (+124.86% YoY) and network maintenance expenses (+108.99% YoY). Other operating expenses also rose sharply, up 103.28% YoY, largely due to significant hikes in software maintenance (+304.83% YoY) and professional fees (+122.18% YoY). As a result, EBITDA dropped by 10.86% YoY to NGN547.69bn from NGN614.45bn in H1:2023, with the EBITDA margin contracting to 35.58% (from 53.03% in H1:2023). Furthermore, **MTNN's** finance costs spiked by 79.14% YoY to NGN183.09bn (from NGN102.20bn in H1:2023), driven by higher interest expenses on leases (+83.66% YoY), borrowings (+28.98% YoY), and other finance charges (+905.15% YoY). While the Naira's depreciation led to an NGN87.30bn foreign exchange gain on foreign-denominated assets—trade receivables (+260.23% YoY) and current investments (+437.24% YoY)—the impact on foreign-denominated liabilities was far greater. The company recorded NGN974.98bn in foreign exchange losses, mainly from leases (+124.86% YoY), borrowings (+118.59% YoY), and trade payables (+117.43% YoY). Consequently, the company ended the period with a loss-before-tax and loss-after-tax of **NGN751.29bn** and **NGN519.06bn**, compared to **NGN119.43bn** and **NGN85.59bn** in H1:2023, with net margin deteriorating to **33.72%** from **7.39%** in H1:2023.

Looking ahead, we expect MTNN's operating costs to remain elevated in the short term, driven by persistent inflationary pressures and the Naira depreciation. However, we anticipate some relief in direct network operating costs due to the company's successful renegotiation of its tower lease contracts, a major source of FX exposure. Additionally, the company's plan to significantly reduce its debt could lead to lower finance costs in the near-to-mid term, improving its profitability outlook.

Cashflow Position Remains Positive Despite Negative Equity and Accumulated Loss

As a result of the accumulated losses, **MTNN's** equity position remained negative at **NGN577.70bn** (compared to **NGN40.84bn** in 2023FY). However, the company's total borrowings decreased by 19.68% YtD to NGN945.45bn as of H1:2023 (from NGN1.18trn in 2023FY), largely due to a 44.22%YtD reduction in current borrowings. Conversely, lease liabilities rose by 46.71% YtD to NGN1.47trn (from NGN1.00trn in 2023FY), driven by increases in both current and non-current lease balances. Notably, foreign exchange losses accounted for approximately 34.02% of borrowings and 29.43% of lease balances. Additionally, with a 13.21% YtD rise in current liabilities, liquidity ratios deteriorated, with the current ratio falling to 0.36x (from 0.51x in 2023FY) and the cash ratio dropping to 0.09x (from 0.18x in

Company	MTNN
Valuation	
Trailing EPS	NGN27.18
BVPS	NGN27.52
P/E	7.07x
P/BV	6.98x
Target EV/EBITDA	4.46x
Dec-2024 Exp. EBITDA Per Share	NGN52.66
Dec 2024 Target Price	NGN234.86
Current Price	NGN192.20
Up/Downside Potential	22.20%
Ratings	BUY
Key metrics	
ROE	98.75%
ROA	17.37%
Net margin	20.02%
Asset Turnover	0.87
Leverage	5.69x
Yr Hi	295.00
Yr Lo	178.70
YTD return	27.20%
Beta	0.88
Adjusted Beta	0.92
Shares outstanding	20.99bn
Market cap [NGN]	4.04trn
Financial year end	Dec
Most Recent Period (MRP)	H1:2024



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2023FY), indicating potential challenges in meeting short-term obligations. However, since only around 41.45% of the net foreign exchange loss was realised, MTNN maintained a positive operating cash flow of NGN533.28bn (vs. NGN514.42bn in H1:2023). This contributed to improvements in cash flow ratios, with cash flow-to-capex and cash flow-to-debt ratios increasing to 2.87x and 0.56x, respectively, from 2.29x and 0.44x in H1:2023. Earnings quality remained negative at 1.03x owing to the company's loss position for the period.

Recommendation

We forecast a 2024FY EBITDA per share of 52.66 and applied a Target EV/EBITDA ratio of 4.46x to arrive at our target price of NGN234.86. This represents an upside potential of 22.20% from its current price. We therefore recommend a BUY on the ticker.

Chart 1: Sensitivity Analysis

Sensitivity Analysis of December 2024 Target Price to key input models							Min	206.55
EBITDA Per Share							Max	263.67
	44.30	52.16	52.41	52.66	52.91	53.16		
	3.96x	206.55	207.54	208.53	209.52	210.51		
	4.21x	219.59	220.65	221.70	222.75	223.80		
Target EV/EBITDA	4.46x	232.63	233.75	234.86	235.98	237.09		
	4.71x	245.67	246.85	248.03	249.21	250.38		
	4.96x	258.71	259.95	261.19	262.43	263.67		

Financial Highlights and Forecasts (NGN billion)

Profit & Loss Account	2022FY	2023FY	2024F	2025F	2026F	2027F	2028F
Revenue	2012.27	2468.85	3,182.90	4,085.23	5,161.06	6,174.50	7,224.25
Operating Expense	941.91	1266.32	2,077.27	2,252.70	2,806.34	3,449.10	4,081.35
EBITDA	1070.37	1202.53	1,105.63	1,832.53	2,354.71	2,725.41	3,142.90
Operating Profit	734.16	773.66	668.85	1,334.69	1,779.42	2,074.13	2,417.36
Finance Cost	147.29	236.93	317.86	360.72	384.51	383.10	392.77
Exchange Rate	81.82	740.43	712.00	157.32	84.86	90.11	63.28
PBT	518.82	-177.89	-309.53	862.23	1,375.05	1,683.09	2,050.57
Tax	-170.10	40.87	71.11	280.23	446.89	547.00	666.43
PAT	348.73	-137.02	-238.42	582.01	928.16	1,136.08	1,384.13

Balance Sheet	2022FY	2023FY	2024F	2025F	2026F	2027F	2028F
Property, Plant and Equipment	928.36	1,095.11	1,140.21	1,287.51	1,461.96	1,662.17	1,869.08
Total Debt	1,352.75	2,197.49	2,383.53	2,621.95	2,828.79	3,003.83	3,189.39
Total Assets	2,539.37	3,188.83	3,765.30	4,590.21	5,314.24	6,200.96	7,200.89
Total Equity	262.54	-40.84	-282.45	183.22	368.92	596.21	873.12
Total Current Liabilities	1,173.17	1,900.41	2,373.69	2,757.30	2,944.15	3,468.25	4,061.98
Non-Current Liabilities	1,103.66	1,329.26	1,674.07	1,649.69	2,001.17	2,136.50	2,265.79
Total Liabilities	2,276.83	3,229.67	4,047.76	4,406.99	4,945.32	5,604.74	6,327.77

Financial Ratios	2022FY	2023FY	2024F	2025F	2026F	2027F	2028F
EBITDA Margin	53.19%	48.71%	34.74%	44.86%	45.62%	44.14%	43.50%
Operating Margin	36.48%	31.34%	21.01%	32.67%	34.48%	33.59%	33.46%
Net Margin	17.33%	-5.55%	-7.49%	14.25%	17.98%	18.40%	19.16%
Return on Asset	14.52%	-4.78%	-6.86%	13.93%	18.74%	19.73%	20.66%
Return on Equity	133.56%	301.78%	83.98%	320.18%	252.58%	191.01%	158.79%
Asset Turnover	0.79x	0.77x	0.85x	0.89x	0.97x	1.00x	1.00x
Financial Leverage	9.73x	-70.23x	-13.26x	25.25x	14.46x	10.43x	8.26x
Current Ratio	0.65x	0.51x	0.53x	0.66x	0.74x	0.78x	0.81x
Quick Ratio	0.65x	0.51x	0.53x	0.66x	0.74x	0.77x	0.80x
Cash Ratio	0.30x	0.18x	0.21x	0.32x	0.35x	0.37x	0.40x

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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
13-Sept-2024	192.2	266.60	234.86	HOLD	BUY
15-Mar-2024	267.80	309.33	266.60	BUY	HOLD

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Company	Disclosure
MTN Nigeria Communications Plc	

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