

August 28, 2024



Earnings Note

## Event

Once more, MTN Nigeria Communications Plc (“the Group”) achieved a 33% year-on-year revenue growth, consistent with the growth in Q1 2024. The revenue reported in this quarter was N786.14bn from N590.60bn in Q2 2023. The jump was supported by a strong growth trajectory in all revenue segments.

The Group delivered a strong revenue growth in the data segment, driven by expansion in user base and strong demand for data. This was also supported by enhancement in service quality and price optimisation implemented across some data bundle offering. Overall, revenue grew by 56% year-on-year to N377.56bn from N242.06bn in Q2 2023, while active data users increased by 11% to 45.60mn. Additionally, MTN's 4G network coverage expanded to 82% of the population, while 5G coverage grew to 13%.

Voice revenue saw a 14% year-on-year jump, climbing to N273.77bn from N239.61bn in Q2 2023. This growth was driven by higher user activity and an expanding subscriber base, supported by customer value management initiatives, improved service quality, and revamped voice offerings. The Group’s subscribers base grew by 3% year-on-year to 79.40mn.

Digital revenue saw a significant increase of 94% year-on-year, reaching N17.07bn from N8.79bn in Q2 2023. The management attributed this growth to the increased adoption of digital products and expanded partnerships with content creators. The segment also gained traction due to revamped digital offers, and a growing digital customer base. This led to a rise in the active user base of digital services (which include media subscriptions and Ayoba) to 19.60mn. Ayoba, accounts for 47% of total digital users, recording 9.21mn active monthly users.

On the back of higher inflationary pressures, higher energy cost and persistent naira depreciation, direct network operating cost grew by 136% to N333.96bn from N141.53bn in Q2 2023, while other operating expenses grew by 47% year-on-year to N201.43bn from N137.27bn from Q2 2023. Consequently, EBITDA declined by 20% year-on-year to N250.73bn from N311.80bn in Q2 2023, while EBITDA margin shrunk to 32% from 53% in Q2 2023.

Net finance cost declined by 38% year-on-year to N306.07bn from N496.77bn in Q2 2023. The decline was driven by the appreciation seen in FX loss during the quarter. For context, FX loss closed at N231.32bn from N450.17bn in Q2 2023. The improvement was on the back of the Group’s ability to manage its FX-denominated Letter of Credit (LC) obligations by offsetting significant outstanding balance to \$100.00mn from \$416.60mn following improved forex liquidity in the market.

Consequently, loss before and after tax improved to N175.60bn and N126.36bn from N282.35bn and N194.03bn, respectively.

# BUY

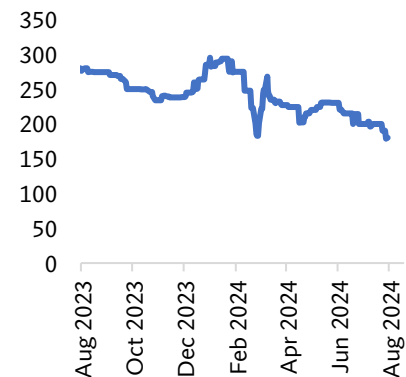
**Fair Value Estimate:**  
**N240.92**

Total Return: **+31%**

## Stock Data

Current price (N)	184.00
Shares Outstanding (mn)	20,996
Market Cap (N'mn)	3,863,183
52-week high (N)	319.80
52-week low (N)	175.00
Trailing EPS (N)	(6.53)
Forward EPS (N)	(14.56)
Forward PE (X)	N/A
Justified PE Multiple (X)	(16.55)

## Price Movement



## Stock Data

Stock Data	FY 2022	FY 2023	FY 2024F
P/E	12.30x	N/A	N/A
P/BV	15.98x	N/A	N/A
PBT Margin	26%	-7%	-15%
PAT Margin	17%	-6%	-10%
RoE	132%	-124%	158%
Dividend Yield	8%	3%	0%

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## Q2 2024 Financial Performance

Income Statement (N'mn)	Q2 2024	Q2 2023	Growth (%)
<b>Revenue</b>	<b>786,136</b>	<b>590,603</b>	<b>33%</b>
Direct networking cost	(333,975)	(141,530)	136%
Value added services cost	(6,002)	(3,931)	53%
Costs of starter packs	(9,260)	(6,672)	39%
Interconnect costs	(47,420)	(39,791)	19%
Roaming costs	(2,526)	(2,342)	8%
Transmission costs	(7,527)	(2,755)	173%
Discounts and commissions	(36,511)	(28,596)	28%
Advertisements, sponsorships and sales promotion	(12,424)	(10,050)	24%
Employee benefits	(23,894)	(16,370)	46%
Other operating expenses	(55,863)	(26,766)	109%
<b>Total operating expenses</b>	<b>(535,402)</b>	<b>(278,803)</b>	<b>92%</b>
<b>EBITDA</b>	<b>250,734</b>	<b>311,800</b>	<b>-20%</b>
Depreciation of PPE	(61,839)	(48,633)	27%
Depreciation on RoU assets	(35,539)	(29,330)	21%
Amortisation of intangible assets	(22,889)	(19,414)	18%
<b>Operating profit</b>	<b>130,467</b>	<b>214,423</b>	<b>-39%</b>
<b>Non-operating loss</b>	<b>(306,067)</b>	<b>(496,770)</b>	<b>-38%</b>
Finance income	9,596	9,761	-2%
Finance cost	(84,347)	(56,365)	50%
FX loss	(231,316)	(450,166)	-49%
<b>Loss before tax</b>	<b>(175,600)</b>	<b>(282,347)</b>	<b>-38%</b>
Income tax	49,236	88,320	-44%
<b>Loss after tax</b>	<b>(126,364)</b>	<b>(194,027)</b>	<b>-35%</b>

**Source:** Company Accounts, WSTC Securities

### Outlook

We slightly adjusted our revenue projection to N3.08trn from N3.01trn as we remain confident of the Group's increased investment in infrastructure and the ongoing shift of using digital channel as a means of communication.

Furthermore, the Group announced that they have successfully negotiated the binding commercial terms of existing infrastructure sharing and master lease agreement. We believe the revised terms will substantially reduce the US dollar-indexed component of the leases and will likely support margin recovery in the medium to long term. Nevertheless, we still expect the Group to close the year in a loss position.

We adjusted our fair value downward to N240.92 from N257.94, and our recommendation remains a **BUY** despite the stock price declining by 16% since our last report. We believe the current price is still a decent entry price.

## H1 2024 Financial Performance

Income Statement (N'mn)	H1 2024	H1 2023	Growth (%)
<b>Revenue</b>	<b>1,539,119</b>	<b>1,158,739</b>	<b>33%</b>
Direct networking cost	(586,798)	(276,958)	112%
Value added services cost	(14,849)	(11,036)	35%
Costs of starter packs	(22,175)	(12,983)	71%
Interconnect costs	(96,474)	(76,964)	25%
Roaming costs	(6,585)	(3,873)	70%
Transmission costs	(11,739)	(4,842)	142%
Discounts and commissions	(73,281)	(55,374)	32%
Advertisements, sponsorships and sales promotion	(25,450)	(19,417)	31%
Employee benefits	(43,549)	(28,471)	53%
Other operating expenses	(110,525)	(54,371)	103%
<b>Total operating expenses</b>	<b>(991,425)</b>	<b>(544,289)</b>	<b>82%</b>
<b>EBITDA</b>	<b>547,694</b>	<b>614,450</b>	<b>-11%</b>
Depreciation of PPE	(130,462)	(98,409)	33%
Depreciation on RoU assets	(69,979)	(58,378)	20%
Amortisation of intangible assets	(42,705)	(36,621)	17%
<b>Operating profit</b>	<b>304,548</b>	<b>421,042</b>	<b>-28%</b>
<b>Non-operating loss</b>	<b>(1,055,840)</b>	<b>(540,475)</b>	<b>95%</b>
Finance income	14,932	16,392	-9%
Finance cost	(183,088)	(102,202)	79%
FX loss	(887,684)	(454,665)	95%
<b>Loss before tax</b>	<b>(751,292)</b>	<b>(119,433)</b>	<b>529%</b>
Income tax	232,234	33,839	586%
<b>Loss after tax</b>	<b>(519,058)</b>	<b>(85,594)</b>	<b>506%</b>
<b>Balance Sheet (N'mn)</b>	<b>H1 2024</b>	<b>H1 2023</b>	<b>Growth (%)</b>
<b>Assets</b>			
PP & E	1,095,895	992,878	10%
Intangible assets	418,301	684,743	-39%
RoU assets	583,127	375,253	55%
Inventories	6,980	5,001	40%
Trade and other receivables	329,600	197,582	67%
Cash	201,756	499,288	-60%
Others	649,616	850,662	-24%
<b>Total Assets</b>	<b>3,285,275</b>	<b>3,137,844</b>	<b>5%</b>
<b>Liabilities</b>			
Loans & borrowings	2,419,024	1,609,046	50%
Trade payables	1,158,790	808,478	43%
Others	285,161	349,973	-19%
<b>Total Liabilities</b>	<b>3,862,975</b>	<b>2,878,027</b>	<b>34%</b>
<b>Net Assets</b>	<b>(577,700)</b>	<b>259,817</b>	<b>-322%</b>

Source: Company Accounts, WSTC Securities

## Financial Projections

Income Statement (N'mn)	FY 2022	FY 2023	FY 2024F	FY 2025F	FY 2026F	FY 2027F	FY 2028F	FY 2029F
Revenue	2,012,272	2,468,847	3,076,220	3,653,260	4,174,365	4,710,669	5,262,972	5,838,217
EBITDA	1,070,366	1,202,529	1,320,035	1,613,262	1,790,187	2,043,129	2,261,963	2,511,928
EBIT	734,164	773,660	754,342	957,811	1,051,319	1,210,449	1,324,326	1,466,617
Profit before tax	518,823	(177,886)	(456,247)	35,332	227,625	448,493	391,704	469,038
Net profit	348,727	(137,021)	(305,686)	23,673	152,509	300,490	262,442	314,256
EPS (N)	16.61	-6.53	-14.56	1.13	7.26	14.31	12.50	14.97
DPS(N)	15.60	5.60	0.00	0.68	4.36	8.59	11.00	13.17
Balance Sheet (N'mn)	FY 2022	FY 2023	FY 2024F	FY 2025F	FY 2026F	FY 2027F	FY 2028F	FY 2029F
Current assets	761,044	975,781	885,511	1,197,265	1,595,276	1,673,834	2,046,161	2,224,516
Non-current assets	1,778,325	2,213,046	2,423,916	2,496,081	2,551,333	2,634,983	2,709,496	2,793,099
Total assets	2,539,369	3,188,827	3,309,427	3,693,346	4,146,609	4,308,817	4,755,657	5,017,615
Current liabilities	1,169,157	1,900,412	2,015,020	2,125,232	2,424,889	2,697,989	2,999,962	3,303,491
Non-current liabilities	1,103,661	1,329,259	1,640,937	1,890,970	1,906,272	1,676,542	1,764,589	1,662,509
Shareholders' equity	262,542	-40,844	-346,530	-322,857	-184,552	-65,714	-8,894	51,615
Book value per share (N)	12.90	(2.01)	(16.50)	(15.38)	(9.07)	(3.23)	(0.44)	2.54
Cash flow statement (N'mn)	FY 2022	FY 2023	FY 2024F	FY 2025F	FY 2026F	FY 2027F	FY 2028F	FY 2029F
Cash from operating activities	863,663	996,903	1,700,748	1,551,083	1,837,200	2,005,934	2,255,965	2,481,070
Cash from investing activities	(485,978)	(765,981)	(627,253)	(808,531)	(764,575)	(934,937)	(990,601)	(1,116,606)
Cash from financing activities	(270,083)	(147,255)	(1,152,358)	(590,592)	(760,931)	(1,117,650)	(1,001,378)	(1,310,592)
Net increase/(decrease) in cash	107,602	83,667	(78,863)	151,960	311,694	(46,654)	263,986	53,873
Ratio analysis (%)	FY 2022	FY 2023	FY 2024F	FY 2025F	FY 2026F	FY 2027F	FY 2028F	FY 2029F
EBITDA margin	53%	49%	43%	44%	43%	43%	43%	43%
Operating margin	36%	31%	25%	26%	25%	26%	25%	25%
ROE	132%	-124%	158%	-7%	-60%	-240%	-704%	1471%
ROA	15%	-5%	-9%	1%	4%	7%	6%	6%
Dividend payout ratio	94%	-86%	0%	60%	60%	60%	88%	88%

Source: Company Accounts, WSTC Research

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### Investment Recommendation

WSTC uses a 3-tier recommendation system for stocks under coverage: Buy, Hold, and Sell.

- Buy Rating: estimated fair value is  $\geq 20\%$  above current market price.
- Hold Rating: estimated change in price is between  $-10\%$  and  $19\%$  of current market price.
- Sell Rating: estimated change in price is  $\leq -10\%$  of current market price.

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