MTNN 9M 2019

Nigeria | Telecommunications | MTNN

8 November 2019

Equities

Operating performance still strong: Buy rating reiterated

MTN Nigeria sustained growth in earnings in Q3 as the telco firm reported a double-digit growth in Revenue (up 12% y/y to N856.5bn) on the back of growth in voice (+10.1% y/y) and data revenue (+35% y/y). Buoyed by the topline growth and the sub inflationary growth in Operating Expenses (up 6% y/y), Pre-tax Profit grew strongly, up 24% y/y to N212.0bn in 9M 2019. EPS also grew 29% y/y to N7.29 in 9M 2019 from N5.63 in 9M 2018.

Considering MTN's strong footing in the Nigerian telecoms market (market share of 37% as of September 2019) coupled with its aggressive efforts at retaining existing customers whilst also attracting new ones through improved technology, we believe the company is well positioned to benefit from further growth in mobile and data penetration in Nigeria's fast-growing telecommunications industry.

We have made minor revisions to our model. The overall impact is a marginal increase in our price target to N184.2/s from N182.6/s previously, hence we retain our BUY recommendation. Our revised target price implies an upside potential of 51% from the last closing price of N122.0/s. MTN is currently trading at a FY2019e P/E and EV/EBITDA of 12.3x and 4.2x respectively, a discount to EM peers average of 17.5x and 6.73x respectively. We arrived at our target price using Discounted Cash Flow (DCF) and Relative Valuation (RV), with a 60:40 weighting respectively.

MTNN 9M 2019 Nm

MTN Nigeria N'm	9M 2019	9M 2018	y/y
Revenue	856,477	764,455	12%
Direct Network Operating Costs	(177,935)	(227,301)	-22%
Profit after direct costs	**678,542**	**537,154**	**26%**
Total Operating Expenses	(218,513)	(207,020)	6%
EBITDA	**460,029**	**330,134**	**39%**
Depreciation	(151,864)	(104,737)	45%
Amortisation of Intangible Assets	(21,987)	(19,636)	12%
Operating Profit	**286,178**	**205,761**	**39%**
Other Income	72	70	4%
EBIT	**286,250**	**205,831**	**39%**
Finance Income	17,733	18,426	-4%
Finance Cost	(91,978)	(53,221)	73%
Profit/(Loss) before Tax	**212,005**	**171,036**	**24%**
Income Tax Expense	(63,682)	(56,002)	14%
Profit After Tax	**148,324**	**115,034**	**29%**
Net fair value loss on financial assets held at FVOCI	34	(458)	-107%
Total Comprehensive Income/(loss)	**148,357**	**114,575**	**29%**
Earnings Per Share	7.29	5.63	29%

Source: Company, CSL Research.

Recommendation	**Buy**
Target Price	**N184.2**
Closing Price	**N122.0**

*Price as at 8 Nov

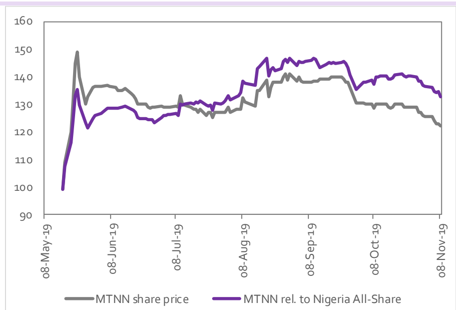
Key data

Year to December, Nbn

	2017	2018	2019e	2020e
Revenue	887.2	1,039.1	1,146.8	1,255.3
EBITDA	346.4	431.8	621.5	706.7
Net Profits	81.1	145.7	201.8	261.1
EPS, N	4.0	7.1	9.9	12.8
PE Ratio	30.6x	17.1x	12.3x	9.5x
EV/EBITDA	8.3x	6.7x	4.2x	3.6x
Dividend yield	2.5%	4.5%	6.5%	8.4%

Market cap.	N2.483bn (US$6.8bn)
Free float	N/A
Bloomberg	MTNN NL
Reuters	MTNN.LG

MTN vs NGSE Index



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Growth in Top line still impressive

The double-digit growth in Revenue (up 12% y/y) was driven by growth in voice (+10.1% y/y to N629.1bn) and data revenue (+35% y/y to N162.3bn). Management noted that the growth in Voice Revenue was supported by an increase in subscriber base (up 0.1million q/q to 61.6mn), relatively stable tariffs and its targeted segment offerings.

Data Revenue growth on the other hand was supported by improved data subscribers (up 7.6% q/q to 22.3 million), downward adjustment in the prices of data bundles which boosted data volumes, greater data traffic (68.9% q/q in Q3 vs 67% q/q in Q2) and improved 4G coverage following the activation of 800MHz spectrum in Q2 2019. MTN Nigeria added 1.6 million smartphones to its network, which increased smartphone penetration for the firm to 41.7%. We believe the improved share of Data Revenue (18% in Q3 2019 vs.15% in Q3 2018) reflects the efforts of management in optimising data Revenue.

Faster growth in data revenue to offset slowing momentum in voice Revenue

The share of Voice Revenue however declined to 73% in 9M 2019 from 75% in 9M 2018. We believe this development reflects the evolving trends in the telecommunication sector- the growing use of social media platforms for communication. We believe the rising use of social networking sites particularly WhatsApp for communication will continue to reduce voice traffic with its attendant impact on voice Revenue. Consequently, we expect the growth in voice Revenue to moderate, driven further by lower voice prices as operators in the industry attempt to lure subscribers to make use of conventional airtime for calls.

Overall, we have revised slightly downwards our estimate for the growth in Voice Revenue to 7.5% (previously; 7.7%) in 2019e, which is still lower than growth of 18.7% y/y reported in 2018. We also estimate the contribution of Voice Revenue to overall Revenue will moderate to 73.4% (previously; 74.1%) in 2019e from 75.4% in 2018.

However, we believe the slowing momentum in Voice Revenue will be offset by faster growth in Non-Voice Revenue especially mobile data and Mobile Financial Services (MFS). Rising smartphone penetration along with increasing mobile broadband penetration, improving network quality and attractive data offerings, should spur a rapid growth in data usage and in turn improve Data Revenue. Following the roll out of 4G+ across Lagos, Abuja and Port Harcourt, management disclosed that 4G coverage is at over 35% in 64 cities in Nigeria. We believe the 4G+ which runs on 4G LTE technology will support accretion in data subscribers and accelerate growth in Data Revenue over the medium to long term.

We highlight that, the Minister of Communications and Digital Economy, Isa Pantami, recently directed the Management of the Nigerian Communications Commission (NCC) to re-evaluate the unauthorised deduction of data by network providers and review the high data prices charged by operators. Although, the mobile network operators (MNOs) are yet to respond, we do not expect a significant reduction in data prices given that they have already reviewed downwards their prices for data bundles. Our survey shows that, consumers paid lower prices in Q3-19 compared to Q1-19 for the same data bundle. MTN for instance slashed the price of 2GB monthly data plan from N2, 000 to N1,200 currently. Hence, we do not foresee significant decline in data prices in Q4 2019.

We have revised upwards our estimate for growth in data Revenue to 31% from 27% previously in 2019e and expect that the contribution of data Revenue to overall

Revenue will improve to 18.9% from 15.9% in 2018. All in, we project FY 2019 Revenue of N1.15trn, translating to a growth of 10.4% when compared with FY 2018.

First time adoption of IFRS 16 drives moderation in Network Operating Costs

Direct Network Operating Costs declined 22% y/y to N117.9bn owing to the marked decline in BTS (base transceiver station) leasing cost. Management however noted that the marked decline in Network Operating Costs was on the back of first-time adoption of IFRS 16- which required the reclassification of the Interest expenses associated with BTS leasing cost as part of Finance Cost. Supported by the moderation in Direct Network Operating Costs, Profit after direct costs grew (+26% y/y to N678.5bn).

Cost efficiencies remain supportive of healthy margins

MTN Nigeria reported a 39% y/y growth in EBITDA and EBITDA margin of 53.7% under IFRS 16, which is the new reporting standard the group has adopted. However, on an IAS 17 basis (the old reporting standard), the EBITDA margin grew 1.5ppts y/y to 44.7% (9M 2018; 43.2%), driven by the growth in Revenue and sub-inflationary growth in Operating Expenses (+9.3% y/y based on IAS 17). We like the sub inflationary growth in OPEX, reflecting efficiency in cost management. EBITDA (based on IAS 17) grew 16% y/y to N382.5bn in 9M 2019 from N330.2bn in 9M 2018. We have left our FY 2019e EBITDA margin unchanged at 54%.

Initial adoption of IFRS 16 masks impact of improved debt mix on Finance Cost

Net Finance Cost grew 73% y/y to N48.6bn owing to an increase in Finance Cost (+73% y/y to N91.9bn) amidst a marginal decline in Finance Income (down 4% y/y to N17.7bn). The surge in Finance Cost was due to a first time Interest Expense of N51.2bn incurred on Leases in 9M 2019- Again, we note that this was due to the adoption of IFRS 16 which required the classification of Interest Expense on leases (previously classified as part of Direct Network Operating Cost) as part of Finance Cost. Excluding this item, Finance Cost would have moderated by 23% y/y to N40.7bn which would have reflected the improvement in its debt mix. Long term debt now accounts for 80% (compared to 18% in FY 2018) of total debt. Meanwhile, the mild decline in Finance Income was due to lower Interest Income on bank deposits (down 12% y/y despite the increase in cash from N53bn in FY 2018 to N102bn as of 9M 2019)- we think this is likely due to the moderation in fixed deposit rates given lower yields in 2019 when compared to 2018.

We have revised our estimates for Finance Cost upwards in line with the marked increase observed in 9M 2019. Hence, we project Finance Cost of N121.9bn in 2019e. Our estimate for Finance Income in 2019 has been reviewed upwards to N23.4bn from N20.5bn previously, considering the increase in the firm's cash balance in Q3.

Top line growth, cost efficiencies to buoy Profitability

Pre-tax Profit grew strongly, up 24% y/y to N212.0bn in 9M 2019 from N171.0bn in 9M 2018. A lower effective tax rate of 30% in 9M 2019 compared with 33% in 9M 2018 supported the higher growth in Profit after tax (up 29% to N148.3bn in 9M 2019). EPS also grew 29% y/y to N7.29 in 9M 2019 from N5.63 in 9M 2018.

Based on the revisions to our Revenue, Cost and Net Finance Cost, we have reviewed upwards our FY 2019e Pre-tax profit to N288.3bn (previously; N283bn), representing a growth of 30% when compared to N221bn in FY 2018. Our PAT forecast of N201.8bn translates to an EPS of N9.9 in 2019e. The firm declared an interim dividend of N2.95/s (a pay-out ratio of 60.7% based on H1 2019 EPS of N4.92).

Considering management guidance of historical pay-out of c.80%, we project a final dividend of N4.95, bringing FY 2019 DPS to N7.9.

Valuation

We have revised our price target slightly upwards to N184.2/s from N182.6/s previously, hence we maintain our BUY recommendation. Our target price his implies 51% potential upside from the last closing price of N122.0/s on 8 November. We arrived at our target price using a Discounted Cash Flow (DCF) and Relative Valuation methods, assigning a weighting of 60:40. Key inputs into our model include a risk-free rate of 13.7%, market risk premium of 6.5% and an adjusted beta of 0.9.

MTNN, Financials

MTN Nigeria

Nm (unless otherwise stated)

Income Statement	2016	2017	2018	2019E	2020E	2021E	2022E	2023E
Revenues	793,673	887,180	1,039,118	1,146,844	1,255,300	1,371,141	1,506,372	1,675,217
Direct network operating costs	(176,901)	(268,359)	(305,519)	(237,397)	(246,039)	(260,517)	(278,679)	(301,539)
Profit after direct netwok costs	**616,772**	**618,821**	**733,599**	**909,447**	**1,009,261**	**1,110,624**	**1,227,693**	**1,373,678**
Total Opex	(240,684)	(272,426)	(301,847)	(287,934)	(302,606)	(318,713)	(340,565)	(355,139)
EBITDA	**376,088**	**346,395**	**431,752**	**621,513**	**706,655**	**791,911**	**887,129**	**1,018,539**
Depreciation & Amortisation	(143,739)	(150,467)	(167,862)	(234,697)	(234,492)	(237,567)	(243,988)	(249,276)
Other Income	0	0	2,225	0	0	0	0	0
EBIT	**232,349**	**195,928**	**266,115**	**386,816**	**472,163**	**554,344**	**643,140**	**769,263**
Net Finance (cost)/ income	(105,699)	(88,039)	(44,771)	(98,543)	(99,179)	(97,846)	(97,937)	(98,953)
Exceptional Items	-	-	-	-	-	-	-	1
PBT	**126,650**	**107,889**	**221,344**	**288,272**	**372,984**	**456,498**	**545,204**	**670,310**
Taxation	(37,851)	(26,819)	(75,657)	(86,482)	(111,895)	(136,950)	(163,561)	(201,093)
Net Profits	**88,799**	**81,070**	**145,687**	**201,790**	**261,089**	**319,548**	**381,642**	**469,217**
EPS, N	4.38	3.99	7.13	9.91	12.83	15.70	18.75	23.05
DPS, N	3.50	3.19	5.71	7.93	10.26	12.56	15.00	18.44
Payout Ratio	80%	80%	80%	80%	80%	80%	80%	80%
Dividend Sum	71,300	64,993	116,157	161,433	208,872	255,639	305,314	375,374

Balance Sheet	2016	2017	2018	2019E	2020E	2021E	2022E	2023E
Fixed Assets	494,670	582,439	607,024	617,283	641,428	654,060	667,821	690,508
Intangible Assets	141,488	128,602	119,368	101,656	84,377	80,005	74,549	68,066
Other Non-current Assets	22,765	17,151	19,493	17,657	17,706	17,721	17,725	17,726
Non-Current Assets	**658,923**	**728,192**	**745,885**	**736,596**	**743,512**	**751,785**	**760,096**	**776,300**
Inventories	9,160	5,730	1,539	1,206	1,242	1,327	1,340	1,313
Trade & Other Receivables	39,550	33,425	38,617	50,300	46,840	44,518	47,370	46,794
Cash and Cash Equivalents	146,369	89,565	53,012	245,338	281,695	305,071	298,240	323,842
Other Current Assets	168,705	112,697	102,687	126,687	127,687	128,687	129,687	130,687
Current Assets	**363,784**	**241,417**	**195,855**	**423,531**	**457,463**	**479,602**	**476,637**	**502,636**
Total Assets	**1,022,707**	**969,609**	**941,740**	**1,160,126**	**1,200,975**	**1,231,388**	**1,236,733**	**1,278,936**
LIABILITIES								
Trade payables & Unearned revenue	255,568	245,991	213,715	320,009	308,225	303,108	265,562	252,894
Provisions	12,526	13,192	21,359	26,359	26,659	26,959	26,959	26,959
Taxation	52,807	25,997	54,131	69,131	69,131	69,131	69,131	69,131
Current Borrowings	100,054	119,820	143,876	143,876	172,672	177,423	182,958	189,407
Other Current Liabilities	67,347	136,651	147,866	45,739	45,839	45,939	46,039	46,139
Current Liabilities	**488,302**	**541,651**	**580,947**	**605,114**	**622,526**	**622,561**	**590,650**	**584,530**
Long term borrowings	189,783	135,545	31,438	231,438	202,642	169,095	130,013	84,482
Other non current liabilities	263,011	179,560	110,001	111,121	111,136	111,151	111,161	111,171
Non-current liabilities	**452,794**	**315,105**	**141,439**	**342,559**	**313,778**	**280,246**	**241,174**	**195,653**
Total Liabilities	**941,096**	**856,756**	**722,386**	**947,673**	**936,304**	**902,807**	**831,823**	**780,183**
Share capital	646	646	646	407	407	407	407	407
Share premium Account	64,498	64,498	64,498	17,216	17,216	17,216	17,216	17,216
Retained Profit	16,140	47,210	154,201	194,559	246,777	310,687	387,016	480,859
Other reserves	326	497	6	271	271	271	271	271
Shareholders' Funds	**81,610**	**112,851**	**219,351**	**212,453**	**264,671**	**328,581**	**404,910**	**498,753**
Total equity and liabilities	**1,022,706**	**969,607**	**941,737**	**1,160,126**	**1,200,975**	**1,231,388**	**1,236,733**	**1,278,936**

Source: Company, CSL estimates

MTNN, Ratios

Profitability Ratios	2016	2017	2018	2019E	2020E	2021E	2022E	2023E
Gross Profit Margin	77.7%	69.8%	70.6%	79.3%	80.4%	81.0%	81.5%	82.0%
Opex/Sales	30.3%	30.7%	29.0%	25.1%	24.1%	23.2%	22.6%	21.2%
EBITDA Margin	47.4%	39.0%	41.5%	54.2%	56.3%	57.8%	58.9%	60.8%
Operating Profit Margin	29.3%	22.1%	25.6%	33.7%	37.6%	40.4%	42.7%	45.9%
PBT Margin	16.0%	12.2%	21.3%	25.1%	29.7%	33.3%	36.2%	40.0%
Net Profit Margin	11.2%	9.1%	14.0%	17.6%	20.8%	23.3%	25.3%	28.0%
ROAA	8.8%	8.1%	15.2%	19.2%	22.1%	26.3%	30.9%	37.3%
ROCE	127.9%	84.2%	72.7%	108.6%	108.0%	109.6%	109.4%	111.8%
ROAE	251.4%	83.4%	87.7%	93.5%	109.4%	107.7%	104.1%	103.8%
Dividend Yield	2.7%	2.4%	4.3%	6.0%	7.8%	9.5%	11.4%	14.0%

Activity Ratios	2016	2017	2018	2019E	2020E	2021E	2022E	2023E
Inventory Turnover	0.59x	0.97x	1.70x	9.50x	9.50x	9.00x	9.00x	9.00x
Days of Inventory on Hand	623	377	214	38	38	41	41	41
Receivables Turnover	16.24x	24.31x	28.85x	25.80x	25.85x	30.02x	32.79x	35.58x
Days of Sales Outstanding	22	15	13	14	14	12	11	10
Payables Turnover	4.09x	3.54x	4.52x	4.30x	4.00x	4.49x	5.30x	6.46x
Payable Days	89	103	81	85	91	81	69	56

Operating Performance Ratios	2016	2017	2018	2019E	2020E	2021E	2022E	2023E
Total Asset Turnover	0.8x	0.9x	1.1x	1.1x	1.1x	1.1x	1.2x	1.3x
Fixed Asset Turnover	1.2x	1.3x	1.4x	1.5x	1.7x	1.8x	2.0x	2.2x
Current Asset Turnover	2.1x	2.9x	4.8x	3.7x	2.8x	2.9x	3.2x	3.4x
Inventory Turnover	0.6x	1.0x	1.7x	9.5x	9.5x	9.0x	9.0x	9.0x
Cash Turnover	4.6x	7.5x	14.6x	7.7x	4.8x	4.7x	5.0x	5.4x

Liquidity Ratios	2016	2017	2018	2019E	2020E	2021E	2022E	2023E
Current Ratio	0.7x	0.4x	0.3x	0.7x	0.7x	0.8x	0.8x	0.9x
Quick Ratio	0.7x	0.4x	0.3x	0.7x	0.7x	0.8x	0.8x	0.9x
Cash Ratio	0.4x	0.4x	0.6x	0.8x	1.0x	1.2x	1.3x	1.8x

Solvency Ratios	2016	2017	2018	2019E	2020E	2021E	2022E	2023E
Debt-to-Capital Ratio	1.6x	1.1x	0.5x	1.1x	0.9x	0.7x	0.5x	0.4x
Net Debt-to-Equity Ratio	1.8x	1.5x	0.6x	0.6x	0.4x	0.1x	0.0x	-0.1x
Debt-to-Equity Ratio	3.6x	2.3x	0.8x	1.8x	1.4x	1.1x	0.8x	0.5x
Debt-to-Assets Ratio	0.3x	0.3x	0.2x	0.3x	0.3x	0.3x	0.3x	0.2x
Financial Leverage	28.5x	10.2x	5.8x	4.9x	4.9x	4.1x	3.4x	2.8x

Investment Valuation Ratios	2016	2017	2018	2019E	2020E	2021E	2022E	2023E
Price-to-Earnings Ratio	30.1x	33.1x	18.5x	13.3x	10.3x	8.4x	7.0x	5.7x
Price-to-Book Ratio	2.6x	2.8x	2.9x	2.3x	2.2x	2.2x	2.2x	2.1x
Price-to-Sales Ratio	3.4x	3.0x	2.6x	2.3x	2.1x	2.0x	1.8x	1.6x
EV/EBITDA	7.5x	8.2x	6.5x	4.5x	3.9x	3.4x	3.0x	2.6x
EV/Sales	3.6x	3.2x	2.7x	2.5x	2.2x	2.0x	1.8x	1.6x
Free Cash Flow Yield	0.1x	0.0x	0.1x	0.1x	0.1x	0.1x	0.2x	0.2x

Y/y growth	2016	2017	2018	2019E	2020E	2021E	2022E	2023E
Revenues	-1.7%	11.8%	17.1%	10.4%	9.5%	9.2%	9.9%	11.2%
Gross Profit	-9.5%	0.3%	18.5%	24.0%	11.0%	10.0%	10.5%	11.9%
Total Opex	-54.0%	13.2%	10.8%	-4.6%	5.1%	5.3%	6.9%	4.3%
EBITDA	136.8%	-7.9%	24.6%	44.0%	13.7%	12.1%	12.0%	14.8%
EBIT	1160.1%	-15.7%	35.8%	45.4%	22.1%	17.4%	16.0%	19.6%
PBT	N/A	-14.8%	105.2%	30.2%	29.4%	22.4%	19.4%	22.9%
Net Profits	N/A	-8.7%	79.7%	38.5%	29.4%	22.4%	19.4%	22.9%
EPS	N/A	-8.8%	78.7%	39.0%	29.4%	22.4%	19.4%	22.9%
DPS	N/A	-8.8%	78.7%	39.0%	29.4%	22.4%	19.4%	22.9%

Source: Company, CSL estimates

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Important disclosures

Ratings and Target Price History

MTNN

Date	Price (N)	Old Target (N)	New Price Target (N)	Old recommendation	New recommendation
22-May-19	131.7	-	180.0	-	Buy
30-Jul-19	127.0	180.0	182.6	Buy	Buy
8-Nov-19	122.0	182.6	184.2	Buy	Buy

CSL Research Ratings Distribution

	BUY	HOLD	SELL	Not Rated	Total
Coverage universe	16	11	3	3	33
% distribution	48%	33%	9%	9%	
Investment banking clients	0	1	1	0	2
% distribution	0%	50%	50%	0%	

Explanation of CSL Research's equity research rating system

Buy: The analyst expects the stock to outperform the Benchmark over the next 12 months or the stated investment horizon.

Hold: The analyst expects the stock to perform in line with the Benchmark over the next 12 months or the stated investment horizon.

Sell: The analyst expects the stock to underperform the Benchmark over the next 12 months or the stated investment horizon.

Not Rated: The rating and price target have been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances including when FCMB Bank UK or the Group is acting in an advisory capacity in a merger or strategic transaction involving the company or due to factors which limits the analysts ability to provide forecasts for the company in question.

Benchmark: The benchmark is the trailing three year average yield of the 12 month T-Bill plus one standard deviation rounded to the nearest percent.

Price targets: Price targets, if discussed, reflect in part the analyst's estimates for the company's earnings. The achievement of any price target may be impeded by general market and macroeconomic trends, and by other risks related to the company or the market, and may not occur if the company's earnings fall short of estimates.

Asset allocation: Asset allocation is the responsibility of the strategy team. The recommended weight (Buy, Hold and Sell) for equities, cash and fixed income instruments is based on a number of metrics and does not relate to a particular size change in one variable.

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B. The company beneficially owns more than 5% in FCMB Bank UK or First City Group ("the Group").

C. CSL Stockbrokers Limited (CSLS) or the Group is a market maker in the publicly traded equity securities of the company.

D. CSL Stockbrokers Limited (CSLS) or the Group beneficially owns 1% or more of the equity securities of the company.

E. CSL Stockbrokers Limited (CSLS) or the Group beneficially holds a significant interest of the debt of the company.

F. CSL Stockbrokers Limited (CSLS) or the Group has been lead manager or co-lead manager over the previous 12 months of any publicly disclosed offer of securities of the company.

G. The company is a client of the investment banking division of the Group.

H. CSL Stockbrokers Limited (CSLS) or the Group has lead managed or co-lead managed a public offering of the securities of the company within the last 12 months.

I. CSL Stockbrokers Limited (CSLS) or the Group has received compensation for investment banking services from the company within the last 12 months.

J. CSL Stockbrokers Limited (CSLS) or the Group expects to receive, or intends to seek, compensation for investment banking services from the company during the next 3 months.

Companies from which CSL Stockbrokers Limited (CSLS) or the Group's investment banking division has received compensation in the last 12 months.

	Buy	Hold	Sell	Not Rated	Total
	0	0	1	0	1
% distribution	0%	0%	100%	0%	

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