



APERTURE

INSIGHTFUL AND RELEVANT RESEARCH UPDATES

MTN Group FY 2023 Results

Share Price	R90.36
Fair Value	R111.83
Date	25 March 2024

RESULTS SUMMARY

Consistent with a tough macroeconomic backdrop in some of the group's key markets, MTN reported weak full year 2023 results. While group revenue for the period was up 6.8% to R221bn, this was below the blended rate of inflation (16.7%) across the markets MTN operates in. Service revenue, which excludes device and SIM card revenue, drove revenue growth, increasing by 6.9% during the period. Earnings before interest tax and depreciation (EBITDA) for the group fell 0.5% to R90.4bn. This was despite MTN's expense efficiency programme, which delivered R2.6bn in savings for the year, ahead of the targeted R1.5bn. Consequently, the group's EBITDA margin fell 3% to 40.9%, with reported headline earnings decreasing to R3.10 (-72%). The significant weakness in the Nigerian Naira during the period was a key contributor to MTN's weak performance. In constant currency, the group's results were commendable, with service revenue up 13.0% and adjusted headline earnings falling 9.5% to R12.03. Furthermore, MTN managed to increase total and active data subscribers by 2% and 9.3%, respectively, highlighting the group's continued operational resilience despite a tough macro environment.

During the period, MTN announced the signing of definitive agreements with Mastercard for a minority investment of US\$200m in MTN's Fintech segment at a valuation of US\$5.2bn. This segment includes the group's mobile money, insurance, airtime lending and e-commerce businesses. Over the medium-term, this segment is expected to grow by approximately 30% per annum, highlighting the opportunity for this to become a meaningful contributor to group profit. At the transaction valuation of US\$5.2bn, the fintech segment makes up almost 60% of MTN's current market capitalisation, which suggests that the market has yet to fully account for this future opportunity. Given MTN's recent share price weakness, the company is trading below our estimate of fair value.

OUR LONG-TERM INVESTMENT VIEW

- The MTN Group is the largest mobile operator across the African continent, with leading market shares in most of the regions within which the group operates. In addition to improving the group's balance sheet to levels we have not seen in many years, the management team have proven themselves adept at growing the business within an environment of changing regulation and evolving consumer preferences.
- The long-term shift from voice to data is well underway and MTN is well positioned to continue benefitting from this across the continent. We expect the license that was granted in Nigeria to provide banking payment services as a catalyst that will increase MTN's revenue contribution from this faster-growing segment of the market. Management's targets, which seem reasonable to us, include growing the fintech segment within the range of high 20% to low 30% over the medium term.
- MTN's management has de-risked the business significantly over the last few years resulting in a more attractive business mix and geographic exposure. Given the apparent benefits of scale within the telco industry, we believe MTN is well placed to either grow or defend its market share in key regions, where it already has leading positions. Growth drivers such as mobile banking, insurance and fibre rollout will further support growth.

UNPACKING THE FY 2023 RESULTS

High level numbers

- **Revenue** was up 13% in constant currency to R221bn(+6.8% reported terms).
- **Group service revenue** grew 13.5%, underpinned by growth in data (+23%), fintech (+21.8%) and wholesale revenue (+20.6%). Voice revenue grew by a respectable 3.3% despite data increasingly overtaking voice as a means of communicating. Excluding the South African market, which is a more mature voice market, MTN Group's voice revenue increased by 6.3%. The ex-SA voice revenue growth highlights the significant opportunity in many African markets, where high margin voice revenue continues to rise.
- The voice revenue growth in Nigeria of 10.2% highlights the sizeable opportunity that still exists within the market for this high margin segment. Revenue in this segment was supported by the increase in the number of subscribers and higher average revenue per user.
- Data revenue growth (+38.6%) was driven by an increase in the number of smartphone users as well as a revamp in the data bundle offering. Smartphone penetration in the region increased by 4.1% to 55.6%, with only 11.3% of the population covered with 5G network. This once again points to the significant runway that exists for MTN Nigeria.

- **Group adjusted EBITDA** increased 9.8% in constant currency to R90.4bn. Nigeria's EBITDA was up 14.2% in constant currency terms, but down 10.2% when accounting for the impact of the weaker Naira. The group's EBITDA margin fell by 1.2% to 41.5% as the effects of higher inflation and currency devaluations took their toll. The adverse impact of the above factors was to some extent offset by management's expense efficiency programme, which resulted in savings of R2.6bn during the period.
- **Reported headline earnings per share (HEPS)** fell by 72% to R3.10. While this was in line with the recent trading update, it was materially lower than the prior year. After adjusting for the non-cash foreign currency impacts, adjusted HEPS was down 9.5% from the prior year at R12.03. This was above analysts' expectations of R11.64.
- MTN's **balance sheet** remains strong, with a group net-debt-to-EBITDA ratio of 0.4 times and interest cover of 6.4 times. During the period, the group received R13.4bn from its operating entities across various countries, with R5.4bn received in the last quarter of the year.

SA recovering from loadshedding

- Service revenue for the group's SA operations reported growth of 2.5% to R51.8bn. Data revenue (+7.4%) remained the primary driver of revenue growth and now accounts for 47.8% of the MTN SA's service revenue. Voice revenue declined by 12% over the period.
- EBITDA for the region fell by 4.4% and margins declined by 2.6% (to 35.9%) due to increased investment in power and other costs aimed at making the network more resilient to loadshedding. Looking ahead, the SA market is expected to remain tough and, as such, price increases have been implemented to help support margins.
- MTN SA deployed capital of R10.1bn during the year, with the bulk being allocated to improving network resiliency to offset the impact of loadshedding.

Macro headwinds take a toll in Nigeria

- Nigerian service revenue in constant currency was up 22.1%. Growth was driven by strong digital (+65.6%), data (+38.6%) and voice (+10.2%) revenues. EBITDA for the region grew by 14.8% to R36.9bn.

- The fintech segment reported a 3.3 million increase in mobile wallets to 5.3 million. This segment is in its early growth stages and the focus remains on increasing the number of active agents and merchants in the ecosystem. Transaction volumes rose by 49% during the period.
- EBITDA margin within the region decreased by 3.6% to 49.7% due to the Naira devaluation, higher inflation and energy costs. The margin was below the group's medium-term guidance range of between 53% - 55%.

Smaller markets show resilience

- The group's Southern and East Africa (SEA) region reported good service revenue growth (+17.4%) driven by data revenue(+24.3%).
- West and Central Africa (WECA) service revenue was up 13.5%, with data once again being the growth driver (+24.7%). Ghana, the largest country within this region, reported service revenue growth of 35% despite a challenging macro-environment.
- Middle East and North Africa (MENA) reported revenue growth of 8.7% while EBITDA margin fell 12.2% to 29.5% mainly due to the conflict in Sudan.

Looking ahead

Management are cautious in their outlook for the near term, pointing to inflation concerns and currency volatility in several key markets. MTN SA's improved network resiliency (post investment in alternative power sources) should underpin operations and make MTN more competitive in the local market. MTN Nigeria's focus will be to limit the impact of adverse currency moves on profitability as well as engaging with regulators for much needed tariff increases.

Notwithstanding the current challenging macro backdrop, we regard MTN as being well positioned to benefit from the continent's increasing connectivity. The group's balance sheet remains well capitalised with balance sheet liquidity of approximately R44.1bn. Our investment case for MTN remains intact, with the share continuing to trade below our fair value estimate.

Private Clients
by  Old Mutual Wealth

Private Clients by Old Mutual Wealth (Private Clients) is a division of Old Mutual Wealth Trust Company (Pty) Ltd ("OMWTC"), a licenced Financial Services Provider, Reg No: 1925/002721/07. Private Clients is authorised to provide financial services on the OMWTC licence.

To report unethical behaviour, call the Anonymous Reporting line 0800 222 117, email toahonline@tip-offs.com or visit www.tip-offs.com

4th Floor, Block A, Old Mutual Wealth, Mutualpark, Jan Smuts Drive, Pinelands, 7405 | Tel: +27 (0)21 524 4678 | Email: privateclients@omwealth.co.za