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## MTN courts strategic investors as fintech earnings grow

Experience in the financial services sector wanted, not just capital, says CEO Ralph Mupita

**BL PREMIUM**

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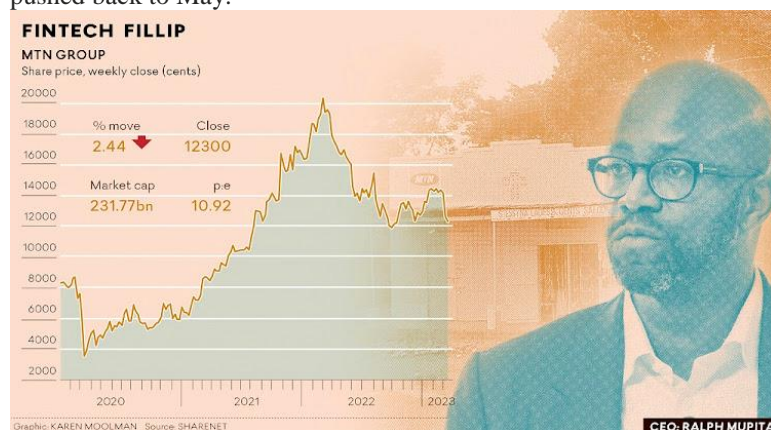
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MTN's financial services unit appears to be on track to double in size over the next two years and to contribute a fifth to the overall pie, according to Old Mutual.

Africa's largest mobile operator confirmed last week that it had received a number of bids for investment in the unit, with negotiations continuing. The group has been working on a plan to unlock value from its various businesses, including a separation of the financial technology (fintech) unit, its fastest-growing new area of business.

MTN is looking for a strategic investor. Unlike a financial investor that would only bring in capital, the group is hoping to partner with an investor that has experience in the financial services sector and can assist with implementing plans to expand its suite of digital payments and lending products.

The company had expected the process to be completed in the first quarter of 2023, but this has since been pushed back to May.



"We've always been very specific that we're looking for strategic investors to help us to scale the verticals, not financial investors," group CEO Ralph Mupita said in an interview.

“Where we need scaling up is in some of the verticals that are fast growing. As you can see from our results: bank tech has been growing, remittances, payments and e-commerce, and insuretech. We want partners with skills and capabilities in those particular verticals who can help us accelerate that growth.”

This would imply investors/partners such as Visa and MasterCard, the industry’s largest players, who have huge payment networks and an international presence. Another candidate could be US payments operator Stripe, which has made inroads on the continent, particularly in countries such as Nigeria where MTN is the largest mobile company.

China’s Tencent — as one of the world’s largest mobile payments providers through its WeChat super app — could also be a good fit.

MTN has already partnered with Sanlam — Africa’s largest nonbank financial services group — on the insurance part of the fintech offering, having formed a \$100m (R1.8bn) joint venture. The 50-50 business sees the two JSE-listed giants roll out insurance and savings products to the continent’s rapidly expanding consumer market.

### **New revenue lines**

Earlier in March, the group reported the number of customers in its fintech business was up 21.4% year on year to 69-million for the year to end-December, while fintech transaction volumes rose to 13.4-billion, up 33.9%. The unit increased its turnover 14.3% to R17.2bn.

Victor Mupunga, head of research at Old Mutual Wealth Private Client Securities, said the group is likely to achieve its goal of having this business making up a fifth of earnings by 2025.

“The long-term shift from voice to data is well under way, and MTN is well positioned to continue benefiting from this across the continent. We expect the recently granted licence 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 fintech contribution to group revenue from the current 9% to over 20% by 2025.”

As voice revenues fall and margins shrink in mobile data services, MTN has been on a mission to grow new lines of business, including financial services on the continent where many regions are underbanked.

But the group has long argued that the value of the financial services division is not truly reflected in its share price, which at R123 gives it a market cap of R232bn, prompting Mupita to set a break-up plan in motion.

But as mobile money has grown, regulators have started devising ways to control or tax transactions from these platforms. MTN has highlighted that it is dealing with new mobile money taxes in Ghana, Benin and Cameroon where it has operations, while Vodacom is feeling the effects of such moves in Tanzania.

### **Valuations**

At last count, estimates by JPMorgan analysts pegged MTN’s fintech arm at more than \$4bn in 2021. Other analysts put the value at more than \$5bn. Estimates for M-Pesa — the best-known mobile payment business in Africa — vary, with analysts pegging the unit’s value at \$3bn-\$10bn.

Nedbank Corporate and Investment Bank said at the time that M-Pesa is likely to be responsible for half of Safaricom’s \$15.3bn market capitalisation, implying a value of \$7.5bn.

In an environment of falling technology valuation due to higher interest rates that have made capital more expensive, thereby reducing investing activity, MTN says it is concerned more with finding the right strategic partner.

“It is fundamentally important to distinguish that the financial services business we have right now is already profitable. It’s generating decent margins and cash flow. It’s not a fintech start-up that needs working capital,” said Mupita.