

MTN Nigeria Communications

Q2 22 earnings strong despite revenue weakness, BUY maintained

Stock Rating: BUY

Price Target: N274.41

Price (29-Jul-2022): N200.10

Potential Upside / Downside: +37.1%

Tickers: MTNN NL / MTNN.LG

MTN Nigeria Communications (MTNN) released its H1 22 unaudited results after the close of trading on Friday (29 July). The group reported Q2 22 EPS of N4.16 (+24.2% y/y), culminating in H1 22 EPS of N8.92 (+28.0%). An interim dividend of N5.60/s (+23.1% y/y) was proposed (below our estimate), implying an interim dividend yield of 2.8% on the last closing price.

The achieved EPS, when annualised, is in line with consensus forecast for FY 22 but by 4.9%, owing to a negative surprise on the Net interest line.

Although earnings were in line with the market's expectation, we expect investor reaction to be buoyed by the increased dividend. Year-to-date, the stock is up 1.6%.

Chart 1: MTN Nigeria Communications H1 2022 results

Income Statement (Naira millions)	H1 2021	H1 2022	y/y	Q2 21	Q1 22	Q2 22	y/y	q/q
Revenue	791,263	950,086	20.1%	405,945	470,984	479,102	18.0%	1.7%
Expenses	(374,050)	(440,769)	17.8%	(193,282)	(213,836)	(226,933)	17.4%	6.1%
EBITDA	417,213	509,317	22.1%	212,663	257,148	252,169	18.6%	-1.9%
D&A	(143,504)	(157,005)	9.4%	(72,061)	(77,822)	(79,183)	9.9%	1.7%
EBIT	273,709	352,312	28.7%	140,602	179,326	172,986	23.0%	-3.5%
Net Interest	(58,593)	(83,677)	42.8%	(28,475)	(35,738)	(47,939)	68.4%	34.1%
PBT	215,116	268,635	24.9%	112,127	143,588	125,047	11.5%	-12.9%
Tax	(73,289)	(87,006)	18.7%	(44,048)	(46,768)	(40,238)	-8.6%	-14.0%
Net Income	141,827	181,629	28.1%	68,079	96,820	84,809	24.6%	-12.4%
EPS (N)	6.97	8.92	28.0%	3.35	4.76	4.16	24.2%	-12.6%
DPS (interim, naira)	4.55	5.60	23.1%					
Ratios	H1 2021	H1 2022	y/y	Q2 21	Q1 22	Q2 22	y/y	q/q
EBITDA Margin	52.7%	53.6%	88bps	52.4%	54.6%	52.6%	25bps	-196bps
EBIT Margin	34.6%	37.1%	249bps	34.6%	38.1%	36.1%	147bps	-197bps
Tax Rate	34.1%	32.4%	-168bps	39.3%	32.6%	32.2%	-711bps	-39bps
Net Profit Margin	17.9%	19.1%	119bps	16.8%	20.6%	17.7%	93bps	-286bps
ROAE	149.9%	135.9%	-1,396bps					
ROAA	13.7%	15.2%	145bps					
Net debt/Equity (x)	5.19	4.59						
Net debt/EBITDA (x)	1.24	1.21						
Operating KPIs	H1 2021	H1 2022	y/y	Q2 21	Q1 22	Q2 22	y/y	q/q
ARPU (Naira)	1,814	2,221	22.4%	1,928	2,264	2,213	14.8%	-2.2%
Mobile subscribers (000s)	68,900	74,100	7.5%	68,900	70,200	74,100	7.5%	5.6%
Active data users (000s)	32,500	36,800	13.2%	32,500	35,900	36,800	13.2%	2.5%
Active fintech subscribers (000s)	6,100	11,500	88.5%	6,100	10,700	11,500	88.5%	7.5%

Source: Company data, Coronation Research

Revenue growth slowed to five-quarter low

Service revenue grew by double-digits for the eighth successive quarter in Q2 22. However, like AIRTELAFRI's (SELL, TP: N1,051.07) performance last quarter, the pace of growth slowed to 18.0% y/y, a five-quarter low. Sequentially, revenue grew by just 1.7% q/q, the least since the start of the pandemic (Q2 20: -6.2% q/q). The revenue weakness was due to the restriction of outgoing calls for c.19m subscribers (when initially implemented) at the start of April, in line with the regulators directive. As a result, voice revenue (-2.9% y/y) declined for the first time since Q2-20.

Nonetheless, overall growth was driven by mainly data revenue (+50.6% y/y). Growth in data, which contributed 38.6% (Q2 21: 30.3%) to revenue, was delivered through a combination of increased active data subscribers (Q2 net additions: +0.9 million), increased

usage (average MB per user rose by 61.8%) and traffic (+79.3% y/y), all supported by increased network capacity and 4G penetration. Notably, 4G population coverage increased to 77.9%, up from 71.7% in Q1 22.

Rising costs dampen EBITDA margin expansion

During the quarter, total expenses grew by 17.6% y/y, owing to the continued effects of Naira depreciation on lease rental costs, accelerated site rollout, and rising energy costs. We also note that the surge in Maintenance costs (+26.4% y/y) and the new Information technology development levy (N1.31bn) contributed substantially to cost growth. According to management, the escalation of diesel prices in Nigeria contributed to the 10.1% increase in direct network operating costs with a 0.3ppt EBITDA margin impact.

However, due to the larger growth in Revenue, EBITDA (+18.6% y/y) grew, with the EBITDA margin printing 52.6% (vs 52.4% in Q2 21 and 54.6% in Q1 22).

Seven successive quarters of double-digit earnings growth

Net finance costs (+68.4% y/y) rose in Q2 22, following increased interest expense on borrowings – the group raised N127.0bn through a commercial paper issuance in April 2022. Overall, Q2 PBT grew 11.5% y/y, and PAT grew 24.6% y/y. Notably, the group's PAT has grown by strong double-digits for seven successive quarters. The effective tax for the quarter was 32.2%, compared with 39.3% in Q2 21 and 32.6% in Q1 22.

Conclusion

Despite the revenue weakness, MTNN's operational performance in Q2 22 was in line with our expectations. According to management, there has been a steady recovery in voice revenue since April 2022 as more customers were reactivated following NIN verification. Thus, we expect a pickup in revenue growth in Q3 22. Management expects EBITDA margin for FY22 to be slightly lower than the medium-term target 53%-55% (Coronation Research forecast: 53.2% in FY 22) due to the impact of the NIN-SIM linkage directive and a more aggressive rollout on the Payment Service Bank (PSB) than originally planned.

Nevertheless, we maintain our BUY recommendation on the stock. On our estimates, the stock is trading on 2022F P/E and EV/EBITDA multiples of 10.7x and 4.8x, a discount to emerging market peer multiples of 13.3x and 6.1x.

Management call today, 1 Aug 2022, at 3.00 pm Nigerian time. Click [here](#) to register.

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Ratings and Price Target History

	Date	Recommendation	Date	Recommendation	Date	Recommendation	Target price, Naira/s
Zenith	08-May-19	Buy	08-Jan-20	Buy	15-Jun-21	Buy	30.86
GT Holdco	08-May-19	Hold	08-Jan-20	Buy	15-Jun-21	Buy	36.63
Access	08-May-19	Buy	08-Jan-20	Buy	15-Jun-21	Buy	12.88
FBNH	08-May-19	Buy	08-Jan-20	Buy	15-Jun-21	Sell	7.80
UBA	08-May-19	Buy	08-Jan-20	Buy	15-Jun-21	Buy	9.95
Stanbic IBTC	08-May-19	Buy	08-Jan-20	Buy	15-Jun-21	Buy	51.72

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Sell	33.3%
Hold	0%
Under Review	0%

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