



MTN

FINAL RESULTS



2021 | By Lesego Mthombothi

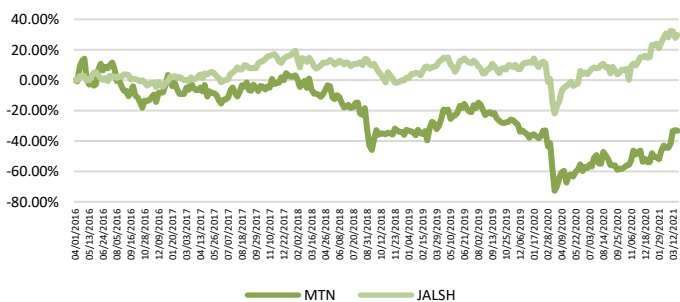
MTN Group Limited (MTN) delivers impressive earnings and cash flow growth but holds back dividends for FY'2020

MTN Group reported a strong set of final results for the full year ended 31 December 2020 on the 10th of March 2021, which reflected resilience with a pandemic, attributed to a surge in data traffic.

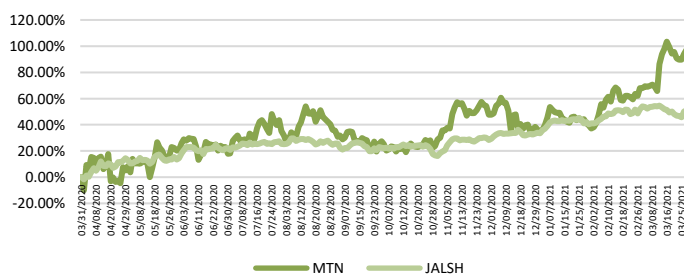
- Group revenue increased by 18.4% (up 10.9% in constant currencies (ccy)) to R179.4 billion, driven by growth in Nigeria (14.6%), Ghana (16.6%) and South Africa (1.6%),
- Group service revenue increased by 19.9% to R170 billion (+11.9% ccy),
- Group earnings before interest, tax, depreciation, and amortisation (EBITDA) increased by 21.9% (+13.4% ccy) to R81.3 billion, EBITDA margin increased by 2.9 percentage points to 45.3% (up 0.9 percentage points ccy),
- Group net-debt/EBITDA satisfactorily down to 0.8x from 1.2x,
- Achieved return on capital employed (ROCE) of 109%, adjusted return on equity rose by 4pp to 17% driven by strong underlying earnings growth.
- Headline earnings per share (HEPS) up almost 60% to 749 cents,
- No final dividend has been declared and MTN has suspended its existing dividend policy for FY'21.

MTN's revenue and EBITDA margin for FY'2020 were substantially higher at R179.4 billion and 45.3% respectively compared to the R151.46 billion and the 42.4% reported for FY'2019. MTN benefitted from a COVID-19 related surge in demand for data and added 29 million new customers, bringing its total number of subscribers to 279.6 million. This translated into a 52% increase in their adjusted HEPS and an impressive 117% increase in operating cash flow to R28.3 billion. MTN opted to suspend its full-year dividend as issues around repatriation of funds continue to linger and their US dollar-denominated debt at the holding company level remains relatively high.

Five Year MTN Return vs JALSH (31/03/16-31/03/21)



One Year MTN Return vs JALSH (31/03/20-31/03/21)



Source: Koynin

Stock Information

Sector	Telecommunications
Price (23/04/21)	R91.51
52-week range	R42.56-R97.13
Market Cap	R175 bn
Enterprise Value	R269 08bn
Issued Shares	1 884 269 758
1m Price Return	4.42%
3m Price Return	44.13%
6m Price Return	65.66%
Total Return (1-yr)	73.48%
Return YTD	52.04%
HEPS	749 c
Growth	60%
DPS	Nil
Growth	N/A
P/E	9.8x
Forward P/E	11.0x
Dividend Yield	-
Beta (5-year)	1.27
CEO	Ralph Mupita
Financial year-end	31 December

Source: Bloomberg, MoneyWeb and Company Financial Statements



MTN South Africa which contributes 21.7% to Group service revenue reported a 1.6% increase in service revenue to R37.0 billion, this was largely driven by a 15.3% increase in data service revenue and slightly offset by a 5.6% decline in voice revenue as more consumers move towards consuming more online content.

MTN Nigeria, which contributes almost 34% towards Group service revenue reported a stellar 14.6% increase in service revenue to R57.7 billion, largely driven by an approximate 52% and 5.6% increase in data and voice service revenue respectively.

The Group made inroads with their asset realisation programme (ARP) which includes the disposal of ATC Ghana and ATC Uganda tower joint ventures for R8.8 billion, and finalised their exit in their 18.9% Jumia investment for proceeds worth R2.3 billion and completed the exit from their 20% stake in telecommunication operator Belgacom International Carrier Services headquartered in Belgium for R1.8 billion.

As an emerging markets operator, MTN has grown exponentially over the years. Their ability to add 29 million subscribers in the past year indicates that there is still significant room for growth in their operating markets. Due to the global pandemic and severe lockdown measures, there has been an accelerated demand for connectivity and digital services which MTN is well-positioned to take advantage of. MTN has worked hard to strengthen its balance sheet at the Group level by cutting debt, they have sufficient liquidity and remain strongly cash generative. With its strong number one or two market share positions in all of the countries it operates in and low data and mobile financial services penetration rates in some markets, MTN seems attractive long-term.

Opportunities

- **Mobile money** - The Group's current revenue mix is approximately 90% core connectivity, 8% fintech, and 2% digital. With 114.3 million active data users and 46.4 million mobile money (MoMo) users, we think the Group's target to increase its fintech revenue contribution to 20% in the medium term is achievable. Considerably, approximately 800 million people in Sub-Saharan Africa (SSA) are not connected to mobile internet, which represents a significant opportunity. By 2025, mobile internet users and smartphone penetration in SSA is expected to grow to approximately 475 million and 65% from 272 million users and 50% in 2019 and 2020 respectively.
- **The lingering impact of COVID 19** - The COVID-19 pandemic has increased the need for internet accessibility as remote learning and work have become our new reality. The pandemic and subsequent lockdowns highlighted the utility-type nature of telecoms sales following a sharp increase in data traffic. Even in light of vaccination programmes being implemented changes in behaviour around work, i.e work-from-home appear to be rather permanent changes in certain industries. The pandemic also resulted in decreased usage of cash which represents an attractive growth opportunity for MTN's mobile money offering.
- **Network tower and infrastructure deals** - Group CEO, Ralph Mupita announced in December 2020 the Group's plan to extend its asset realisation programme to South Africa where they have 12 700 towers that they are interested in selling and leasing back. The Group has not confirmed the exact amount but the opportunity seems lucrative given the impressive returns already delivered in other geographies.

Risks

- **Government and regulatory risks** - The right to use certain radio frequencies (spectrum) is controlled by governments and has presented a risk to the industry for years. The South African government, in particular, has forced prices down resulting in decreased margins despite increased usage which requires greater investment in infrastructure which increases capital risk. As societies and governments alike begin to view some of the services offered by telecommunications as a basic human right that should be free, political intervention is prompted and puts long-term profitability at risk. For the immediate and near term, MTN appears to be managing this risk well, they were able to grow group EBITDA by 13.4%* despite these obstacles, reflecting good cost growth management and strong operating leverage.
- **Repatriation of funds** - MTN Nigeria remains a source of risk for the Group. During 2020, the Group could not extract R4.2 billion worth of profits from Nigeria, which has a foreign currency shortage. It is in particular due to this challenge and a large debt pile that the Group opted to suspend its dividend policy for FY2020. The Group is building up its cash reserves however by selling non-core assets.
- **Oil price** - MTN has significant exposure to frontier markets (countries that are more established than the least developed countries but too risky or illiquid to be considered emerging markets), particularly Nigeria, the largest oil-producing country on the continent. A significant shock to the price of oil poses a big risk for MTN. In early 2020, the oil price rout resulted in MTN's share price dropping to as low as R27 from mid R80s.
- **Currency risk** - MTN generates most of its revenues outside South Africa, which gives it significant currency risk, particularly dollar-based risk.



...Risks Continued

- **Strategic change execution risk-** The Group has a large geographical footprint with many inherent risks and recently has had issues with rising debt levels. This forced a change in strategy (Vision 2025) with new management presenting a high level of execution risk. In the interim, there has been a success as seen in the recent results but because of the size of the business, there may be further pitfalls in the future in implementing the strategy mainly the group-wide expense efficiency programme which will be instrumental in keeping operating margins consistent as growth decelerates in later reporting periods.

Valuation

MTN has underperformed the broader market and its closest peer Vodacom (VOD) for many years as its exposure to high growth yet volatile markets has made it one of the most undervalued companies on our market. MTNs market capitalisation of R164 billion is 30% lower than VODs of R213 billion, yet its revenues and operating profits are almost twice those of VOD. Over the past few years, VOD has been favoured by investors due to stable returns, operating as a regional player in Southern Africa whereas MTN operates in over 20 countries including risky Nigeria, Afghanistan, and Iran which have regularly been a source of trouble.

	MTN	VOD
EV/Sales	1.5x	2.7x
EV/EBITDA	3.4x	5.9x
P/E	9.7x	12.7x
P/E to growth	1.5x	1.8x

Source: Koyfin

In our opinion, MTN is ripe with optionality and represents higher rates of growth. Including opportunities listed above, the expected listing of IHS, a Nigerian tower company in which MTN holds a 29% stake valued at R27.2 billion (as of 31 December 2020), and possible listing of its mobile-money unit valued at approximately \$5 billion, can potentially unlock shareholder value.

We assign a one-year price target range of R121– R143 per share using a comparables approach from an EV/EBITDA perspective, a fairer metric of MTNs earnings growth. Investors disappointed by the suspension of the dividend could also be pleased by MTN possibly paying a special dividend or buying back shares if the Group can make progress in repatriating funds and delivering on its ARP objectives.

Company Overview

MTN is a telecommunications company with over 280 million customers in more than 21 markets such as South Africa, Nigeria, and countries in Southern and East Africa and Ghana; West and Central Africa; and the Middle East and North Africa. The Group offers mobile voice (54% of service revenue), data (28%), fintech (8%); digital (1.8%); wholesale (2.5%) and other (4.4%).

MTN Group Key Financial Metrics

	FY16	FY17	FY18	FY19	FY20
Revenue	R147 bn	R132 bn	R135 bn	R151 bn	R179 bn
EBITDA Margin	36.2%	34.22%	35.39%	39.38%	40.55%
Gross Margin	60.51%	57.81%	57.52%	63.99%	64.80%
Net Income Margin	(1.77%)	3.32%	6.48%	6.01%	9.49%
ROC	9.1%	8.2%	9.3%	11.3%	12.5%

Source: Company Financial Statement

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