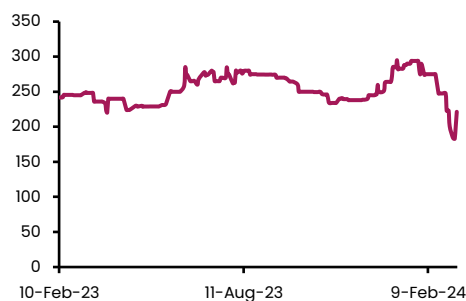




MTNN | ICT | 2023FY

Price	NGN221.40
52-week range	NGN175– NGN319.8
TP	NGN247.70
Rating	OVERWEIGHT
Market Cap	NGN4.65trn



Analyst

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Moyosore.taiwo@arm.com.ng**(MTNN): Foreign Exchange Losses Bite Deep****Earnings Note: 2023FY.****Strong Revenue Growth Offset by Higher Costs**

In its recently released 2023 full year (FY) financial result, MTN Nigeria Communications Plc (MTNN) observed higher revenue figures on a Year-on-Year (YoY) basis, recording a 22.69% YoY growth to NGN2.47trn in 2023FY. Topline growth was underpinned by a robust growth in Data Revenue (+39.90% YoY to NGN1.07trn), followed by an increase in Other Revenue (+16.01% YoY to NGN445.14bn) which consists of ancillary income streams such as rental income, digital revenue, etc. Voice revenue grew at a slightly faster pace by 10.45% YoY to NGN954.99bn (vs. +6.01% YoY in 2022FY). The upsurge in Revenue growth was partially offset by higher operating expenses which went up by 35.91% YoY to NGN1.28trn in 2023FY. Higher operating costs were majorly driven by higher Network Operating Costs (+41.71% to NGN650.50bn), which limited the impact of the strong revenue growth. More notably, the impact of higher net Finance Costs led to MTNN's first Loss after Taxes since 2015. Net finance costs increased by 377.38% YoY to NGN951.55bn in 2023FY. This significant growth can be attributed to large foreign exchange (FX) losses, to the tune of NGN740.43bn during the period. Consequently, MTNN recorded a loss after tax of NGN137.02bn, down by 137.90% YoY in 2023FY.

MTNN continues to post double digit revenue growth, however, severe macroeconomic challenges have plagued its performance in recent months. We may recall the FX liberalization policy enacted by the recently sworn in Nigerian Presidency in June 2023, which sought to unify parallel and official exchange rates. This policy led to a steep

depreciation of the Naira, with the currency losing over 40% of its value following the policy, during the remainder of 2023. The resulting loss after taxes wiped out the company's retained earnings, resulting in a negative equity position of NGN45.40bn in 2023FY.

Data Revenue Spearheads Growth Despite Macro Headwinds

In 2023FY, Data Revenue contributed to 43.29% of total Revenue. Following closely was Voice Revenue (38.68%) and Other Revenue (18.03%). Higher Data Revenue (+39.90% to NGN1.07bn) was supported by higher active data subscribers, which rose by 12.91% YoY to 44.60mn subscribers. Similarly, growth in total mobile subscribers by 5.42% YoY to 79.70mn subscribers led to higher Voice Revenue (+10.45% to NGN954.99bn) in 2023FY. These increases may be attributed to the expanding internet penetration in Nigeria, following the introduction of MTNN's 5G services and a wider 4G network reach enabled by higher capital expenditure (5-year CAGR of 14.33% to NGN393.00bn in 2023FY).

Operating Expenses: Lease Costs Bite Deeper

Operating Profit remained in the positive territory in 2023FY, albeit growing at a much slower pace. MTNN's Operating income rose by 5.38% YoY to NGN773.66bn in 2023FY, relative to a growth of 25.55% YoY to NGN743.16bn in 2022FY. Higher operating costs were fueled by increased Direct Network Operating Costs (+41.71% YoY to NGN650.50bn) and Depreciation and Amortization (27.56% YoY to NGN428.87bn). The uptick recorded in Direct Network Operating Costs may be attributed to the rise in cost of Built-to-Suit leases (+51.50% YoY to NGN502.75bn), which likely reflects foreign exchange (FX) losses following the quarterly repricing of the FX cost components built into the lease agreements. Subsequently, MTNN's operating costs noted a stronger growth of 35.91% YoY to NGN1.28trn in 2023FY (vs. 17.77% YoY in 2022FY).

We expect elevated operating costs to continue to limit bottom line growth in 2024FY, and this is hinged on less-than-optimal cost efficiency, persistent exchange rate volatility and inflationary pressures.

FX Pressures Result in First Loss since 2015

2023FY was a challenging year for businesses operating in Nigeria. The impact of the FX liberalization and the subsidy removal policy further exacerbated macroeconomic challenges during the year. The impact of the Naira depreciation was most notable on the performance of MTNN. In 2023FY, the average exchange rate fell by 34.47% YoY to NGN645.92/USD. Subsequently, Net Finance Cost was significantly higher in 2023FY, growing by 377.38% YoY to NGN951.55bn (vs. 34.63% YoY in 2022FY). This was driven by higher Finance Costs (+358.65% YoY to NGN977.36bn) which was partially offset by an increase in Finance Income (87.50% YoY to NGN25.82bn). The increase in Finance Costs may be majorly attributed to the remeasurement of MTNN's FX denominated liabilities relating to its credit lines, leases, and trade payables. As a result, MTNN's Loss after Taxes amounted to NGN137.02bn in 2023FY, down by 137.90% YoY (vs. +21.05% YoY in 2022FY).

After considering the factors outlined, we posit a less bullish stance on MTN Nigeria Communications Plc. but retain an "OVERWEIGHT" recommendation, with a revised target price of NGN247.70 (11.88% upside potential as of March 11th, 2024). Our positive outlook is predicated on MTNN's strong topline growth and systemic importance amidst the prevailing macroeconomic challenges. We expect the company's Q1:2024 performance to be limited by the steep naira devaluations (-44.64% decline to NGN1642.73/USD on March 8, 2024, from December 29, 2023). Additionally, the negative equity position at the end of 2023 preempted the company's zero dividend declaration for 2023FY. However, in the medium term, we expect the policies by the Central Bank

of Nigeria to support the local currency to bear fruit, and thus moderate FX volatility. While we believe a strong naira recovery will lead to outperformance of the ticker (85.89% of NGN740.43bn FX losses are unrealized), we opine the business will remain vulnerable to FX volatility, which may negatively impact performance in the event of a sustained market downturn.

Overview of Financials 2023FY

Item Lines (Millions of Naira)	2023FY	2022FY	% Change
Revenue	2,468,847	2,012,272	22.69%
Cost of Sales (adj.)	(410,932)	(333,168)	23.34%
Gross Profit	2,057,915.	1,679,104.	22.56%
Operating Expenses (adj.)	(1,284,255.)	(944,941.)	35.91%
EBITDA	1,202,529	1,070,365	12.35%
Depreciation and Amortization	(428,869.)	(336,202.)	27.56%
EBIT	773,660.	734,163.	5.38%
FX Losses	740,434	81,822	804.93%
Finance Cost (Net)	(951,546.)	(199,326.)	377.38%
Profit Before Tax	(177,886.)	533,972.	-133.31%
Tax Expense	40,865.	(172,440.)	-123.70%
Profit After Tax	(137,021.)	361,532.	-137.90%
Balance Sheet Extract (Millions of Naira)	2023FY	2022FY	% Change
Total Asset	3,188,827.	2,539,369.	25.58%
Shareholders Fund	(45,404.)	334,237.	-113.58%
Long-term Liability	1,333,819.	1,103,661.	20.85%
Short-term Liability	1,900,412.	1,173,166.	61.99%
Ratios	2023FY	2022FY	% Change
Gross Margin	83.36%	83.44%	-0.09%
EBITDA Margin	13.97%	19.78%	-5.81%
Operating Margin	31.34%	36.48%	-5.15%
Net Margin	-5.55%	17.97%	-23.52%
Return on Asset	-4.3%	14.2%	-18.5%
Return on Equity	301.8%	108.2%	193.6%
Basic EPS (NGN)	(6.53)	17.76	-136.74%

ARM ratings and recommendations

ARM now employs a two-tier rating system which is based on systemic importance of the security under review and the deviation of our target price for the stock from current market price. We characterize systemic importance as a function of a stock's ranking among the group of top 20 stocks by NSE market capitalization over a trailing 6-month period (minimum) to the review date. We adopt a 5-point rating system for this category of stocks and a 3-point rating system for stocks outside this group. The choice of top 20 stocks arises from the consideration that this group of stocks constitutes >75% of overall market capitalization and stocks outside this group are generally less liquid and individually account for <1% of market capitalization. For stocks in both categories, the basis for ratings subject to target price deviation is outlined below:

TOP 20		NON-TOP 20	
Rating	Deviation	Rating	Deviation
STRONG BUY	>20%	BUY	>20%
OVERWEIGHT	10% – 20 %	NEUTRAL	5% – 20 %
NEUTRAL	0% – 10 %	SELL	<5%
UNDERWEIGHT	-5% – 0%	N/A	
SELL	<-5%		

RECOMMENDATION KEY

Rating

Rating	Recommendation
BUY	Accumulate security to a substantial extent constrained only by portfolio diversification considerations
OVERWEIGHT	Accumulate security to an extent moderated by cognizance of its benchmark weight
NEUTRAL	Maintain status quo for security with respect to current holding—i.e. keep if already holding and don't otherwise—subject to reasonable portfolio constraints
UNDERWEIGHT	Minimize exposure to security taking cognizance of its index weighting
SELL	Sell-off security completely from portfolio

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