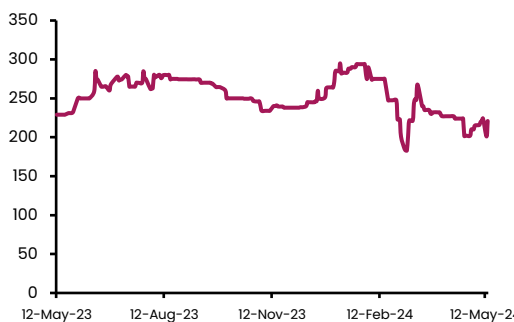




MTNN | ICT | Q1:2024

Price	NGN220.00
52-week range	NGN175– NGN319.8
TP	NGN270.16
Rating	STRONG BUY
Market Cap	NGN4.62trn



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MTNN: Foreign Exchange (FX) Losses Plague Bottom-line

Earnings Note: Q1:2024

Limited Pass-through for Stronger Revenues

In its recently released Q1:2024 financial result, MTN Nigeria Communications Plc (MTNN) recorded higher revenue figures on a Year-on-Year (YoY) basis, recording a 32.54% YoY growth to NGN752.98bn in Q1:2024. Topline growth was supported by a strong growth in Data Revenue (+53.34% YoY to NGN349.00bn), followed by an increase in Other Revenue (+28.70% YoY to NGN136.47bn) which consists of ancillary income streams such as rental income, digital revenue, etc. Voice revenue rose at a relatively faster rate by 14.08% YoY to NGN267.51bn in Q1:2024 (vs. +8.30% YoY in Q1:2023). The uptrend in Revenue growth was offset by higher total operating expenses¹ which went up by 65.49% YoY to NGN454.23bn in Q1:2024. Higher operating costs were majorly driven by higher Network Operating Costs (+85.02% YoY to NGN252.82bn in Q1:2024), reflecting the impact of the FX revaluation losses owing to the underlying Built-to-Suit (BTS) Leases and Maintenance Costs. For context, we saw the exchange rate move from NGN899.39/USD as of the end of December 2023 to NGN1330.26/USD by the last day of Q1:2024 (32.39% decline). The naira depreciation filtered into significantly higher net Finance Costs, which increased by 1374.91% YoY to NGN749.77bn in Q1:2024 (+42.24% YoY in Q1:2023). This significant growth can be attributed to large foreign exchange (FX) losses, to the tune of NGN656.37bn during the period (Q1:2023: NGN4.50bn). Consequently,

¹ adjusted

MTNN recorded a loss before tax of NGN575.69bn, down by 469.55% YoY in Q1:2024.

MTNN's strong topline growth was largely offset by its expanding costs. FX losses continue to pose a threat to the company's profitability, despite efforts to reduce its USD-denominated liabilities. Other headwinds such as inflation and regulatory constraints add increasing pressure on MTNN's cost basis, limiting the pass-through effect of stronger sales to the bottom-line.

Data Revenue Continues Bullish Run

In Q1:2024, Data Revenue continued its growth trajectory, contributing to 46.35% of total Revenue. Following closely was Voice Revenue (35.53%) and Other Revenue (18.12%). Higher Data Revenue (+53.34% YoY to NGN349.00bn) was supported by higher active data subscribers, which rose by 8.00% YoY to 44.50mn subscribers. Similarly, growth in total mobile subscribers by 1.30% YoY to 77.70mn subscribers led to higher Voice Revenue (+14.08% to NGN267.51bn) in Q1:2024. Despite YoY increases in subscriber base, we saw total subscribers fall by 2.57% QoQ from 79.7mn subscribers in Q4:2023, underpinning MTNN's compliance with the NIN-SIM directive.

Operating Profit: Operating Costs Note Upward Trend

Operating Profit remained in the positive territory in Q1:2024, albeit recording a double-digit decline YoY. MTNN's operating income fell by 15.75% YoY to NGN174.08bn in Q1:2024 (vs. +15.22% YoY to NGN206.62bn in Q1:2023). Higher operating costs were majorly driven by increased Direct Network Operating Costs (+85.02% YoY to NGN252.82bn) and Depreciation and Amortization (27.96% YoY to NGN122.88bn) in Q1:2024. The uptick recorded in Direct Network Operating Costs may be attributed to the rise in cost of Built-to-Suit leases (+93.34% YoY to NGN194.09bn), 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 85.70% YoY to NGN331.35bn in Q1:2024 (vs. 27.77% YoY in Q1:2023).

We expect elevated operating costs to continue to limit bottom line growth in Q2:2024, and we attribute this to sustained exchange rate volatility and inflationary pressures.

FX Pressures Squeeze Profitability Metrics

FX pressures continue to be a bane of the performance of MTNN. During Q1:2024, we saw the average official exchange rate decline by 35.68% QoQ to NGN1307.31/USD. This led to huge FX revaluation losses by MTNN, with net finance costs rising by 1374.91% YoY to NGN749.77bn in Q1:2024. Higher net finance costs were underpinned by higher finance costs (+1200.81% YoY to NGN755.11bn) and lower finance income (26.03% YoY decline to NGN5.33bn). The increase in finance costs may be attributed to the remeasurement of MTNN's USD-denominated positions (e.g. borrowings, lease liabilities, trade payables, etc.) following the naira depreciation, leading to NGN656.37bn in FX losses during the quarter. As a result, MTNN's loss before tax amounted to NGN575.69bn in Q1:2024, down by 469.55% YoY (vs. +8.49% YoY in Q1:2023). Excluding the impact of the NGN656.37bn FX loss on finance costs, MTNN's would declare a profit before tax of NGN80.68bn in Q1:2024 (-49.67% YoY).

After considering the factors outlined, we posit a bullish stance on MTN Nigeria Communications Plc. and revise our recommendation to a "STRONG BUY", with an updated target price of NGN270.16 (22.80% upside potential as of May 14th, 2024). Our positive outlook can be attributed to MTNN's strong topline growth and its systemic importance to the Nigerian economy, amidst the prevailing macroeconomic challenges. However, we anticipate that currency volatility will continue to negatively affect the company's performance in Q2:2024, albeit to a lesser extent. Following the MTNN's Extraordinary General Meeting (EGM) held in April

2024 on plans to reverse its negative equity position, the firm's management posited three salient objectives. The first is tariff increases, lobbying the regulator to approve an upward adjustment to tariffs. Second is reducing USD trade lines – reducing USD-denominated liabilities and finally, operational efficiency by reducing capital expenditure intensity. While these objectives would likely reverse the negative equity position, tariff increases are not directly controlled by MTNN and would depend on the effectiveness of stakeholder engagement. Reducing dollar liabilities and effectively sweating current assets, on the other hand, are more concrete plans to optimize cost efficiencies and weather the storm. Overall, we opine that while FX vulnerabilities remain a central focal point to the performance of MTNN, its core business performance remains strong.

Overview of Financials Q1:2024

Item Lines (Millions of Naira)	Q1:2023	Q1:2024	% Change
Revenue	568,136	752,983	32.54%
Cost of Sales (adj.)	(87,048)	(124,671)	43.22%
Gross Profit	481,088	628,312	30.60%
Operating Expenses (adj.)	(178,438)	(331,352)	85.70%
EBITDA	302,650	296,960	-1.88%
Depreciation and Amortization	(96,031)	(122,879)	27.96%
EBIT	206,619	174,081	-15.75%
FX Losses	(4,499)	(656,368)	14489%
Finance Cost (Net)	(50,835)	(749,773)	1374.91%
Profit Before Tax	155,784	(575,692)	-469.55%
Tax Expense	40,865.	(172,440.)	-123.70%
Profit After Tax	101,303	(392,694)	-487.64%
Balance Sheet Extract (Millions of Naira)	Q1:2023	Q1:2024	% Change
Total Asset	3,017,616	3,459,070.	14.63%
Shareholders Fund	435,790	(434,724)	-199.76%
Long-term Liability	1,234,014	1,586,711	28.58%
Short-term Liability	1,347,812	2,307,083	71.17%
Ratios	Q1:2023	Q1:2024	% Change
Gross Margin	84.68%	83.44%	-1.24%
EBITDA Margin	53.27%	39.44%	-13.83%
Operating Margin	36.37%	23.12%	-13.25%
Net Margin	17.83%	-52.15%	-69.98%
Return on Asset	3.36%	-11.35%	-14.71%
Return on Equity	23.37%	90.33% ²	66.96%
Debt to Equity	3.55	(5.66)	-259.27%
Debt to Assets	0.51	0.71	38.60%
Basic EPS (NGN)	5.13	(18.63)	-463.16%

² Negative Net Profit and negative equity

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	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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