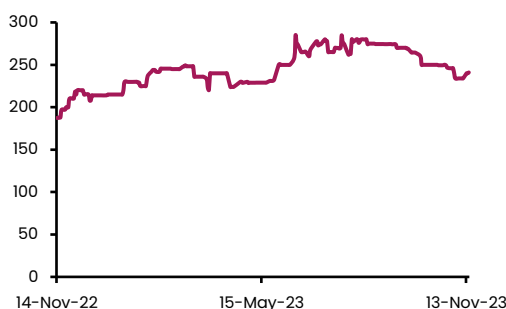




MTNN | ICT | Q3:2023

Price	NGN240.00
52-week range	NGN187.4– NGN290
TP	NGN326.50
Rating	STRONG BUY
Market Cap	NGN5.04trn



Analyst

Moyosore Taiwo

Moyosore.taiwo@arm.com.ng**(MTNN): Resilient Performance amidst Macro Headwinds****Earnings Note: Q3:2023****Data Revenue Supports Revenue Growth**

In its recently released Q3:2023 financial result, MTN Nigeria Communications Plc (MTNN) noted increased revenue, exceeding its growth from a year ago. Topline grew by 21.76% YoY to NGN1.77trn in Q3:2023 (vs. 20.71% YoY in Q3:2022). This improvement is underpinned by a modest expansion in Voice Revenue (11.80% YoY to NGN700.63bn), strong Data Revenue (36.25% YoY NGN748.30bn) and an uptick in Other Revenues (15.61% YoY to NGN324.02bn). Despite the upsurge in revenue, higher operating costs limited the pass-through to EBIT. Operating costs rose by 34.44% YoY to NGN493.15bn in Q3:2023 (vs. 13.56% YoY in Q3:2022), largely driven by higher Direct Network Operating Costs (34.04% YoY to NGN447.60bn). The impact of higher operating expenses on MTNN's profitability was further exacerbated by higher Net Finance Costs in Q3:2023 (174.41% YoY to NGN375.96bn). This surge is underpinned by a net foreign exchange loss of NGN101.38bn recorded during the third quarter. As a result, MTNN's Profit before Taxes declined by 41.98% to NGN232.47bn in Q3:2023 (vs. +24.68% YoY in Q3:2023).

MTNN's market leader position continues to bear fruit with strong double digit revenue growth figures. However, macroeconomic challenges such as rising prices, FX pressures etc., negatively influence its expenses, and hinder profitability.

Data Revenue Leads the Pack, Shores Resilient Growth

In Q3:2023, data revenue was the largest contributor to MTNN's overall revenue, constituting 42.21% of its overall sales, compared to 39.52% of voice revenue. This is likely underpinned by the growing internet penetration in Nigeria, following the introduction of its 5G services and a wider network reach enabled by its expanding capital expenditure. Data revenue was higher by 36.25% YoY to NGN748.30bn in Q3:2023 (vs. 49.98% YoY in Q3:2022). Voice and other revenue also increased by 11.80% and 15.61%, YoY (vs. 3.17% and 20.46%, YoY in Q3:2022) to NGN700.63bn and NGN324.02bn, respectively. As of 9M:2023, mobile subscriber count increased by 4.80% to 77.60mn and active data users surged by 13.30% to 43.10mn, supporting revenue growth.

Operating Profit: Higher Lease Costs Persist

Slower growth in Operating Profit was observed in Q3:2023, following an upsurge in operating expenses. Operating expenses increased by 29.63% YoY to NGN879.87bn (vs. 14.00% YoY in Q3:2022), underscored by increases in Direct Network Operating Costs (34.04% YoY to NGN447.60bn) and Depreciation and Amortization (23.31% YoY to NGN299.50bn). The uptick recorded in Direct Network Operating Costs may be attributed to the rise in cost of Built-to-Suit leases (40.00% YoY to NGN339.54bn) 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 profit noted a slower growth of 13.16% YoY to NGN608.43bn in Q3:2023 (vs. 28.52% YoY in Q3:2022).

We expect higher operating costs to continue to rein bottom line growth in Q4:2023, as the full impact of the FX policy in June 2023 is reflected in the company's performance.

The Bane of Finance Costs – Profitability Dwindles

Net Finance Cost was significantly higher in Q3:2023, growing by 174.41% YoY to NGN375.96bn (vs. 41.25% YoY in Q3:2022). This was driven by higher Finance Costs (173.43% YoY to NGN397.08bn) which was partially offset by an increase in Finance Income (157.13% YoY to NGN21.12bn). The increase in Finance Costs may be attested to the remeasurement of MTNN's FX denominated trade lines setup to finance capex expenditure in Nigeria. These remeasurements, undertaken at higher exchange rates relative to the previous quarter, contributed to the total unrealized foreign exchange loss of NGN101.38bn in Q3:2023. As a result, MTNN's Profit before Taxes fell by 41.98% YoY to NGN232.47bn in Q3:2023 (vs. +24.68% YoY in Q3:2022).

After considering the factors outlined, we maintain our bullish stance on MTN Nigeria Communications Plc. and retain a "STRONG BUY" recommendation, with a revised target price of NGN326.50 (36.04% upside potential as of November 14th, 2023). Our positive outlook is predicated on operational resilience and strong topline growth amidst the prevailing macroeconomic challenges. We expect the full effect of FX revaluations on operating costs to moderate in the next quarter, barring any significant currency pressures. We opine the business will remain vulnerable to FX volatility, which may negatively impact performance in the event of a sustained market downturn. We believe that excluding any further shocks, MTNN is positioned to post solid performance over the next quarter, with the successful implementation of its "Ambition 2025" strategy to provide ample opportunities for growth.

Overview of Financials Q3:2023

Item Lines (Millions of Naira)	Q3 2023	Q3 2022	% Change
Revenue	1,772,949	1,456,135	21.76%
Cost of Sales (adj.)	(284,657)	(239,697)	18.76%
Gross Profit	1,488,292	1,216,438	22.35%
Operating Expenses (adj.)	(879,866)	(678,759)	29.63%
EBITDA	907,926	780,565	16.32%
Depreciation and Amortization	(299,500)	(242,886)	23.31%
EBIT	608,426	537,679	13.16%
Finance Cost (Net)	(375,957)	(137,006)	174.41%
Profit Before Tax	232,469	400,673	-41.98%
Tax Expense	(85,105)	(131,634)	-35.35%
Profit After Tax	147,364	269,039	-45.23%

Balance Sheet Extract (Millions of Naira)	Q3 2023	Q3 2022	% Change
Total Asset	3,078,927	2,417,170	27.38%
Shareholders Fund	309,367	242,051	27.81%
Long-term Liability	1,194,018	1,065,336	12.08%
Short-term Liability	1,574,824	1,108,363	42.09%

Ratios	Q3 2023	Q3 2022	% Change
Gross Margin	83.94%	83.54%	0.41%
EBITDA Margin	51.21%	53.61%	-2.40%
Operating Margin	34.32%	36.93%	-2.61%
Net Margin	8.31%	18.48%	-10.16%
Return on Asset	4.79%	11.13%	-6.34%
Return on Equity	47.63%	111.15%	-63.52%
Basic EPS (NGN)	7.06	12.89	-45.23%

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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