

MTNN Earnings Review 9M 2019

Strong Operations but Leverage Casts a Shadow

- Increased revenues by 12.0% y/y growth
- Jump in net finance costs by 113.4% y/y
- Solid performance, good buy

Data revenue surge as voice remains sturdy

In its recently released 9M 2019 financials, MTNN reported a 12.0% y/y growth in Revenue to N856.5bn in 9M 2019 from N764.5bn in 9M 2018. The growth in Revenue was driven by double digit growth in both voice (up 10.1% y/y) and data Revenue (up 34.9% y/y). The growth in data was driven by recent data bundle repricing and improved 4G coverage. Furthermore, the company added 1.6m smartphones to its internet coverage while active data subscribers grew 7.6% to 22.3m subscribers driving data traffic growth of 68.9%. Voice Revenue climbed higher on the back of 0.2% q/q growth in voice subscriber base to 61.6m subscribers.

Best in class EBITDA margin

MTNN's 9M 2019 performance saw it take the title of the most efficient company by EBITDA margin listed on the Nigerian Stock Exchange. MTNN posted EBITDA margin of 53.7% in 9M 2019, a 10.5ppts rise from 9M 2018's 43.2%. EBITDA grew 39.3% y/y to N460.1bn in 9M 2019 from N330.2bn in 9M 2018. The growth in EBITDA came on the back of slower growth in Operating Expenses (up 8.7% y/y to N396.4bn in 9M 2019) compared to the growth in Revenue. Markedly, Direct Network Costs declined 21.7% y/y to N177.9bn due to a steep 29.2% y/y decline in BTS (Base Transceiver Station) lease payments. Other expense line items that declined include Value Added Service Costs (down 36.8% y/y) and Roaming Costs (down 13.4% y/y). On the other hand, we observed steep increase in Cost of Handsets and other accessories (up 70.9% y/y) as the company continues to roll out smartphones in bid to drive up smartphone penetration which stood at 41.7% according to the company.

Bump in finance costs; the sticking point

MTNN recorded a 113.4% y/y jump in Net Finance Costs to N74.2bn in 9M 2019 from N34.8bn in 9M 2018. This was driven by weaker Finance Income (down 3.8% y/y) and a significant rise in Finance Costs (up 72.8% y/y). We observed the company took on a new lease on which it made interest payments of N51.2bn in 9M 2019. This caused the unexpected deterioration in leverage position. Consequently, Profit before Tax grew at a slower pace compared to EBITDA, growing by 24.0% y/y to N212.0bn in 9M 2019 from N171.0bn in 9M 2018. A lower effective tax rate of 30.0% drove slower growth in Tax expense and consequently, Net Income climbed 28.9% y/y to N148.3bn for 9M 2019. Earnings per Share printed at N7.29/s in 9M 2019 compared to N5.65/s in 9M 2018.

Overall view – solid operations; good buy but leverage is a key drag

Overall, the company's performance continues to echo more optimism with all key performance indicators trending higher. The company's improving efficiency would continue to sustain growth going forward while underlying market potential would continue to boost Revenue. Nevertheless, we remain uncomfortable with the increased leverage taken on by the company through the lease. We expect this to sustain slower growth in bottom line relative to EBITDA and Operating Profit growth. Overall, solid company; good buy.

MTN Nigeria PLC Earnings Highlights 9M 2019

N'm	9M 2019	9M 2018	y/y	Q3 2019	Q2 2018	q/q
Revenue	856,477	764,455	12.0%	289,531	258,788	11.9%
Other Income	72	70	3.9%	24	24	0.0%
Direct Network Operating Costs	(177,935)	(227,301)	-21.7%	(60,158)	(77,897)	-22.8%
Value Added Service Costs	(8,939)	(14,152)	-36.8%	(2,927)	(3,826)	-23.5%
Costs of Handsets & Other Accessories	(8,568)	(5,013)	70.9%	(3,177)	(1,451)	119.0%
Interconnect Costs	(78,602)	(70,462)	11.6%	(26,244)	(23,693)	10.8%
Roaming Costs	(2,936)	(3,391)	-13.4%	(1,203)	(851)	41.5%
Transmission Costs	(4,127)	(4,192)	-1.5%	(1,305)	(1,455)	-10.3%
Employee Benefits	(25,058)	(19,060)	21.0%	(8,078)	(6,639)	21.7%
Discounts & Commissions	(41,376)	(37,757)	9.6%	(13,931)	(12,734)	9.4%
Advertisements, Sponsorships & Sales						
Promotions	(13,629)	(12,317)	10.6%	(5,114)	(4,313)	18.6%
Other Operating Expenses	(37,279)	(40,677)	-8.4%	(12,184)	(13,489)	-9.7%
EBITDA	460,102	330,204	39.3%	155,233	112,465	38.0%
Depreciation of PPE	(110,395)	(104,737)	5.4%	(37,785)	(36,396)	3.8%
Depreciation of ROUA	(41,469)	-	n/a	(14,091)	-	n/a
Amortisation of Intangible Assets	(21,987)	(19,636)	12.0%	(7,510)	(6,608)	13.7%
Operating Profit	268,250	205,831	39.1%	95,847	69,462	38.0%
Finance Income	17,733	18,426	-3.8%	7,538	9,867	-23.6%
Finance Costs	(91,978)	(53,221)	72.8%	(33,177)	(16,516)	100.9%
Net Finance Income/(Cost)	(74,245)	(34,795)	113.4%	(25,639)	(6,649)	285.6%
Profit before Tax	212,005	171,036	24.0%	70,208	62,813	11.8%
Income Tax (Expense)/Credit	(63,682)	(56,002)	13.7%	(20,815)	(21,042)	-1.1%
	148,324	115,034	28.9%	49,393	41,771	18.2%
	-30.0%	-32.7%				
Profit for the period attributable to:						
Owners of the Company	148,324	115,034	28.9%	49,393	41,771	18.2%
Non-Controlling Interests	-	-	n/a	-	-	n/a
	148,324	115,034	28.9%	49,393	41,771	18.2%

Other Key Inputs	9M 2019	9M 2018	y/y	Q3 2019	Q3 2018	q/q
Earnings Per Share	7.29	5.65	28.9%	2.43	2.05	18.2%
EBITDA	460,102	330,204	39.3%	155,233	112,465	38.0%

Margins	9M 2019	9M 2018	y/y	Q3 2019	Q3 2018	q/q
EBITDA Margin	53.7%	43.2%	10.5ppts	53.6%	43.5%	10.2ppts
Operating Margin	33.4%	26.9%	6.5ppts	33.1%	26.8%	6.3ppts
Net Margin	17.3%	15.0%	2.3ppts	17.1%	16.1%	0.9ppts
No of Outstanding Shares	20,355	20,355		20,355	20,355	

Source: Company Financials, FSDH Research

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