

MTNN Earnings Review H1 2020

Stock rating: BUY
Target Price: N173.25/s
Closing Price: N119.00/s
 (as at Aug.14)

Company Information	
TTM P/S (x)	2.0x
TTM P/B (x)	17.4x
TTM P/E (x)	12.3x
EV/EBITDA (x)	4.8x
Dividend Yield	5.9%
Free Float	14.3%
Market Cap (N'tn)	2.42

H1 2020: Revenue sustains uptrend but leverage concerns crystallise

- Revenue growth of 12.5% y/y
- H1 2020 EBITDA climbed 8.2% y/y despite pressure from devaluation
- Profit before tax declined by 2.0% y/y, slowed by high Finance Costs
- Net Income prints below forecast due to higher Effective Tax Rate and Finance Cost
- MTNN to pay interim dividend of N3.50/s

Revenue misses our forecast marginally

In its recently released H1 2020 result, MTNN reported a 12.5% y/y growth in Revenue to N638.1bn from N567.0bn in H1 2019. On a q/q basis, Revenue declined by 6.2% to N308.9bn in Q2 2020 from N329.2bn in Q1 2020. Across key Revenue lines, the Q1 2020 Revenue growth was driven by higher Data Revenue (+49.0% y/y to N154.0bn), Voice Revenue (+2.7% y/y to N368.6bn), Value Added Services (+33.5% y/y to N21.9bn) and Digital Revenue (+5.0% y/y to N17.8bn). On an annualised basis, reported Q1 Revenue missed our forecast by 1.5% due to slower Voice Revenue growth and a slump in SMS Revenue (-38.4% y/y to N4.3bn). The slump in SMS Revenue was due to the daily 10 free SMS promo granted to subscribers during the lockdown in April. Voice Revenue was affected by lower voice traffic due to reduced economic activity. On the other hand, Data Revenue beat our estimate, while Digital and Value Added Services Revenue continued to drive business growth. In addition, Mobile subscribers increased by 6.8m to 71.1m while Data subscribers increased by 3.8m to 29.0m.

Operating costs remain sticky upwards linked to devaluation concerns

Total Operating Expenses climbed by 17.5% y/y to N311.0bn in H1 2020 from N264.6bn in H1 2019, driven by higher Direct Network Operating Costs (+ 23.7% y/y), Discounts & Commissions (+14.6% y/y), Accessories Cost (+68.7% y/y) and Employee Benefits Cost (+28.4% y/y). According to the company, the recently implemented naira devaluation impacted significantly on its dollar cost (particularly tower contract costs, which reflected in the Direct Network Operating Costs). In addition, the increase in VAT and adjustment of accounting treatment for VAT added to cost pressures. Despite the growth in Operating Expenses, EBITDA grew by 8.2% y/y to N327.1bn in H1 2020 from N302.4bn in H1 2019. However, EBITDA margin was pressured lower, down 2.1ppts y/y to 51.3% in H1 2020. The company's Depreciation and Amortisation charge increased by 8.5% y/y to N122.5bn in H1 2020, but Operating Profit still grew by a modest 8.0% y/y to N204.5bn.

Finance cost jumps based on commercial paper issuance

MTNN recorded a 38.2% y/y jump in Net Finance Costs to N65.0bn in H1 2020 from N47.0bn in H1 2019. This was driven by weaker Finance Income (down 27.7% y/y to N7.6bn) and a significant rise in Finance Cost (up 26.2% y/y to N72.6bn). The growth in Finance Cost was driven by the combination of higher Interest Expense on borrowings (+61.1% y/y) and Foreign Exchange loss (+632.8% y/y). The spike in Interest Expense on borrowings arose in turn from two factors: (i) devaluation which impacted the company's interest payments on its FCY loans, and (ii) increase in short-term loans due to the commercial paper (CP) issuance. Against this backdrop, Pre-tax Profits declined by 2.0% y/y to N139.6bn in H1 2020 from N142.4bn in H1 2019. An increase in Effective Tax Rate (H1 2020 – 32.0% vs. H1 2019 – 30.1%) placed further strain on Net Income, which declined by 4.7% y/y to N94.8bn in H1 2020 from N99.5bn in H1 2019. Earnings per Share printed at N4.66/s for H1 2020 as against N4.89/s in H1 2019. Annualised H1 2020 EPS of N9.32/s prints below our forecast of N11.12/s for 2020e due to higher than expected Interest Expense and Effective Tax Rate.

MTNN to pay interim dividend of N3.50/s

MTNN announced payment of an interim dividend of N3.50/s to shareholders, implying an annualised dividend yield of 5.9% to Friday's closing price of N119.0/s.

Outlook: Higher leverage dents outlook

Revenue growth expected to remain impressive

We cut our Revenue forecast to N1.3tn, reflecting the slower than trend growth recorded in Q2 2020 due to the free SMS promo and lower Voice Revenue. However, we expect Voice Revenue to recover in Q3 and Q4 with the return of economic activity. In addition, we expect SMS Revenue to normalize with the end of the free SMS promo in Q2. Furthermore, Data, Digital and Value Added Services are expected to remain strong drivers of Revenue growth.

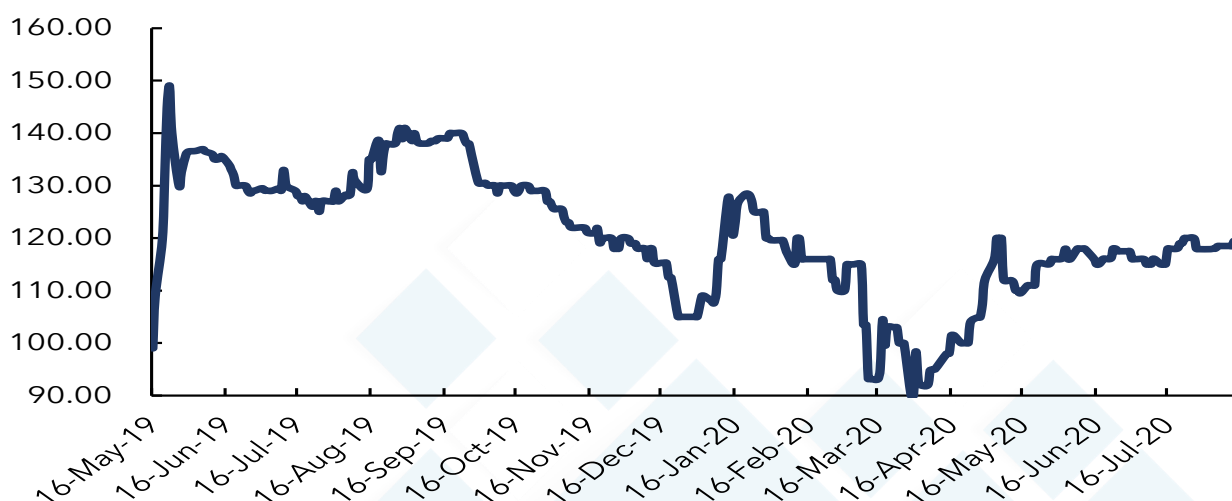
Devaluation and leverage risk crystallise: Profit lines adjusted lower

In our last note, we stated that devaluation and increasing leverage remained a significant risk to profit lines. In Q2 2020, these risks have crystallised, as evident in the spike in Operating Costs and Finance Costs. As a result, we model a higher Opex/Sales ratio at 48.9%, as against 47.2% previously. This implies a 16.4% y/y increase in Total Operating Costs to N628.2bn for FY 2020e. That said, we forecast a modest EBITDA growth of 4.2% to N656.5bn, while EBITDA margin is expected to be pressured lower to 51.1%. With respect to Finance Cost, we adjusted our model to reflect the new CP issuance in June as well as the increase in naira cost to finance FCY loans. This raises our Finance Cost by 17.0% to N145.7bn. We also raise our Effective Tax Rate by 2.0ppts, which we expect to strain Net Income further. We lower our Net Income forecast to N190.3bn for FY 2020e from N226.3bn previously. Our new Net Income forecast implies a 5.8% y/y decline from FY 2019 Net Income.

Target price cut but BUY rating retained

We lowered our target price to N173.25/s from N177.11/s previously, reflecting the downward adjustments made to our profit forecasts for FY 2020e. Nevertheless, MTNN has strong fundamentals among its peers with respect to EBITDA margin, Revenue growth, Net Income growth and ROE. Despite this, MTNN trades at a 28.6% discount to our peer average TTM PE multiple of 15.8x. Our target price of N173.25/s implies an upside potential of 45.6% to Friday's closing price of N119.0/s. Thus, we maintain our BUY recommendation on the stock.

MTNN Historical Price Movement



Source: Bloomberg, FSDH Research

MTN Nigeria Plc Earnings Highlight H1 2020

Nm	Q1 2020	Q1 2019	y/y	Q1 2020	Q4 2019	q/q
Revenue	638,075	566,994	12.5%	308,904	329,171	-6.2%
Other Income	-	-	n/a	-	-	n/a
Direct Network Operating Costs	(148,552)	(120,121)	23.7%	(80,088)	(70,364)	13.8%
Value Added Services Costs	(6,676)	(5,997)	11.3%	(2,970)	(3,706)	-19.9%
Costs of Handsets & Other Accessories	(9,085)	(5,387)	68.7%	(4,835)	(4,250)	13.8%
Interconnect Costs	(53,961)	(52,358)	3.1%	(25,943)	(28,019)	-7.4%
Roaming Costs	(1,381)	(1,732)	-20.3%	(513)	(868)	-40.9%
Transmission Costs	(3,063)	(2,822)	8.6%	(1,616)	(1,490)	8.4%
Employee Benefits	(19,239)	(14,980)	28.4%	(9,977)	(9,263)	7.7%
Discounts & Commissions	(31,462)	(27,449)	14.6%	(15,414)	(16,048)	-4.0%
Advertisements, Sponsorships & Sales Promotions	(6,755)	(8,514)	-20.7%	(2,244)	(4,510)	-50.2%
Other Operating Expenses	(30,839)	(25,266)	22.1%	(13,712)	(17,137)	-20.0%
EBITDA	327,061	302,368	8.2%	151,592	173,517	-12.6%
Depreciation of PPE	(74,463)	(72,611)	2.6%	(37,100)	(37,363)	-0.7%
Depreciation of ROUA	(30,657)	(25,880)	18.5%	(14,638)	(16,019)	-8.6%
Amortisation of Intangible Assets	(17,405)	(14,477)	20.2%	(8,569)	(8,837)	-3.0%
Operating Profit	204,536	189,400	8.0%	91,285	111,298	-18.0%
Finance Income	7,585	10,485	-27.7%	4,020	5,695	-29.4%
Finance Costs	(72,550)	(57,481)	26.2%	(32,970)	(40,685)	-19.0%
Net Finance Income/(Cost)	(64,966)	(46,996)	38.2%	(28,950)	(34,990)	-17.3%
Profit before Tax	139,570	142,404	-2.0%	62,335	76,308	-18.3%
Income Tax (Expense)/Credit	(44,693)	(42,866)	4.3%	(19,531)	(25,162)	-22.4%
Profit for the Period	94,877	99,537	-4.7%	42,805	51,146	-16.3%
Profit for the period attributable to:						
Owners of the Company	94,877	99,537	-4.7%	42,805	51,146	-16.3%
Non-Controlling Interests	-	-	n/a	-	-	n/a
	94,877	99,537	-4.7%	42,805	51,146	-16.3%
Other Key Inputs						
Earnings Per Share	4.66	4.89	-4.7%	2.10	2.51	-16.3%
EBITDA	327,061	302,368	8.2%	151,592	173,517	-12.6%
Margins						
EBITDA Margin	51.3%	53.3%	-2.1ppts	49.1%	52.7%	-3.6ppts
Operating Margin	32.1%	33.4%	-1.3ppts	29.6%	33.8%	-4.3ppts
Net Margin	14.9%	17.6%	-2.7ppts	13.9%	15.5%	-1.7ppts
No of Outstanding Shares	20,355	20,355		20,355	20,355	

Source: Company Financials, FSDH Research

Nm (unless otherwise stated)								
Income Statement	2017	2018	2019	2020E	2021E	2022E	2023E	2024E
Revenues	887,180	1,039,118	1,169,735	1,284,763	1,431,942	1,561,405	1,676,324	1,802,949
Operating Expenses	-540,785	-607,366	-539,912	-628,249	-703,800	-767,431	-823,913	-886,149
EBITDA	346,395	431,752	629,822	656,514	728,143	793,975	852,411	916,800
Depreciation & Amortisation	-150,467	-167,862	-234,622	-249,842	-281,491	-316,364	-354,084	-394,617
Operating Profit	195,928	263,890	395,200	406,672	446,651	477,611	498,327	522,182
Other Income	-	2,225	97	100	100	100	100	100
EBIT	195,928	266,115	395,297	406,772	446,751	477,711	498,427	522,282
Net Finance (cost)/ income	-88,039	-44,771	-105,193	-129,960	-103,600	-98,365	-94,899	-88,729
PBT	107,889	221,344	290,104	276,812	343,151	379,345	403,528	433,554
Taxation	-26,819	-75,657	-87,993	-88,580	-102,945	-113,804	-121,058	-130,066
Net Profits	81,070	145,687	202,111	188,232	240,206	265,542	282,470	303,488
EPS, N	3.98	7.16	9.93	9.25	11.80	13.05	13.88	14.91
DPS, N	-	-	7.92	7.40	9.44	10.44	11.10	11.93
Dividend Sum	-	-	161,208	150,586	192,164	212,433	225,976	242,790

Balance Sheet	2017	2018	2019	2020E	2021E	2022E	2023E	2024E
Property, Plant & Equipment	582,439	607,024	625,096	659,427	693,423	722,143	741,390	750,926
Right of Use Assets	-	-	500,068	505,405	511,310	516,205	518,751	518,931
Intangible Assets	128,602	119,368	120,947	107,660	94,135	79,858	64,391	47,692
Other Non-Current Assets	17,151	19,493	16,997	16,997	16,997	16,997	16,997	16,997
Non-Current Assets	728,192	745,885	1,263,107	1,289,489	1,315,865	1,335,203	1,341,529	1,334,546
Assets Held for Sale	1	-	-	-	-	-	-	-
Inventories	5,730	1,539	910	2,570	1,432	781	335	1,803
Trade & Other Receivables	33,425	38,617	52,400	51,391	42,958	54,649	58,671	50,483
Current Investments	71,078	65,468	54,827	54,827	54,827	54,827	54,827	54,827
Restricted Cash	41,618	37,219	38,050	38,050	38,050	38,050	38,050	38,050
Cash & Cash Equivalents	89,565	53,012	116,278	275,575	141,787	154,120	155,535	162,173
Current Assets	241,417	195,855	262,463	422,411	279,054	302,426	307,417	307,334
Total Assets	969,609	941,740	1,525,571	1,711,900	1,594,918	1,637,629	1,648,946	1,641,880
LIABILITIES								
Liabilities Associated with Assets	-	-	-	-	-	-	-	-
Held for Sale	-	-	-	-	-	-	-	-
Trade & Other Payables	245,991	213,715	190,440	219,887	246,330	268,601	247,174	221,537
Lease Liabilities	-	-	35,100	35,100	35,100	35,100	35,100	35,100
Unearned Revenue	-	-	-	-	-	-	-	-
Contract Liabilities	35,532	42,739	46,806	47,119	52,785	57,557	61,793	66,461
Regulatory Fine Liability	101,119	105,127	-	-	-	-	-	-
Provisions	13,192	21,359	27,269	27,269	27,269	27,269	27,269	27,269
Tax Liabilities	25,997	54,131	65,626	65,626	65,626	65,626	65,626	65,626
Borrowings	119,820	143,876	32,453	361,379	233,954	207,691	188,170	155,369
Current Liabilities	541,651	580,947	397,695	756,380	661,064	661,844	625,132	571,363
Borrowings - Long Term	135,545	31,438	380,089	170,061	100,266	89,011	80,644	66,587
Lease Liabilities	-	-	481,434	481,434	481,434	481,434	481,434	481,434
Other Non-Current Liabilities	179,560	110,001	121,667	121,693	121,782	121,859	121,761	121,824
Non-Current Liabilities	315,105	141,439	983,190	773,189	703,482	692,304	683,839	669,845
Total Liabilities	856,756	722,386	1,380,885	1,529,569	1,364,546	1,354,148	1,308,971	1,241,208
Share Capital	646	646	407	407	407	407	407	407
Share Premium	64,498	64,498	17,216	17,216	17,216	17,216	17,216	17,216
Retained Profit/Loss	47,210	154,201	126,541	164,187	212,229	265,337	321,831	382,528
Other Reserves	497	6	521	521	521	521	521	521
Shareholders' Funds	112,851	219,351	144,686	182,332	230,373	283,482	339,975	400,673
Total equity and liabilities	969,607	941,737	1,525,571	1,711,901	1,594,919	1,637,630	1,648,947	1,641,881

Cash Flow	2017	2018	2019	2020E	2021E	2022E	2023E	2024E
Operating Cash Flow	109,835	244,849	205,980	316,623	371,300	385,554	389,711	441,130
Investing Cash Flow	(111,467)	(203,610)	(196,990)	(276,224)	(307,868)	(335,702)	(360,410)	(387,634)
Financing Cash Flow	(56,373)	(79,937)	54,123	118,898	(197,220)	(37,518)	(27,888)	(46,858)
Free Cash Flow	(18,507)	153,849	346,442	232,580	257,185	312,001	376,335	400,056

Email: research@fsdhgroup.com • www.fsdhgroup.com

DISCLAIMER

This publication is produced by FSDH Merchant Bank Limited solely for the information of users who are expected to make their own investment decisions without undue reliance on any information or opinions contained herein. The opinions contained in the report should not be interpreted as an offer to sell, or a solicitation of any offer to buy any investment. FSDH Merchant Bank Limited may invest substantially in securities of companies using information contained herein and may also perform or seek to perform investment services for companies mentioned herein. Whilst every care has been taken in preparing this document, no responsibility or liability is accepted by any member of the FSDH Merchant Bank Limited for actions taken as a result of information provided in this publication.