

March 12, 2025



Earnings Note

Event

MTN Nigeria Plc (“the Group”) faced significant challenges during the fiscal year, particularly in H1 2024, when it grappled with high inflation, impact of NIN-sim linkage directive on customer base expansion, Naira devaluation affecting foreign obligations, and energy price volatility. Amid these challenges, tariff price remained unchanged, hence, protecting margins became increasingly difficult.

While these challenges persisted throughout the year, the Group saw some relief in H2 2024, returning to a net profit position as it implemented strategic measures. Key actions included resolving uncertainties regarding the N74.00 billion outstanding USSD debt with the support of regulator, recovered N19 billion in interconnect debt through the regulatory intervention, and renegotiation of tower lease agreements with IHS Towers. However, the improved performance in H2 2024 (net profit of N118.62 billion) was insufficient to offset H1 2024 net loss of N519.06 billion.

Strong Revenue Growth Across Segments.

Revenue surged by 36% to N3.36 trillion (FY 2023: N2.47 trillion), driven by broad-based segmental growth, and a one-off USSD revenue recognition related to outstanding USSD debt owed by deposit money banks. Stripping out the USSD revenue recognition, the total revenue growth would have been 33% year-on-year. Despite the challenges posed by NCC’s NIN-SIM linkage directive, the Group’s subscribers base expanded by 2%, bringing total users to 80.90 million.

Data revenue remained the largest contributor to the Group’s total revenue, accounting for 47% of total revenue. This segment revenue grew by 49% year-on-year to N1.59 trillion. The growth was fueled by a 7% rise in active data users to 47.70 million, alongside a 34% surge in average data consumption per subscriber to 11.20 GB in 2024. Additionally, improved smartphone adoption, with penetration jumping 270 basis points to 58% drove further demand for high-speed connectivity.

Voice revenue (33% contribution to total revenue) delivered a 15% growth, driven by higher usage and expanding user base.

Value-added services which includes fintech, airtime lending, and other offerings rose by 27%. Notably, the fintech segment underwent significant changes, with a revamped customer acquisition strategy and sales force optimisation. While these changes led to a 47% decline in active wallets, 77% decline in agents, and 79% in merchants, MoMo transaction volume grew by 4%, indicating improved quality of wallet base and underlying demand in the ecosystem. Overall, the shift in this segment indicates a focus on sustainable, high-value users, positioning the fintech segment for more stable long-term growth.

Lastly, digital revenue skyrocketed by 83% year-on-year, fueled by rising adoption of media services and improvements to the user journey experience.

BUY

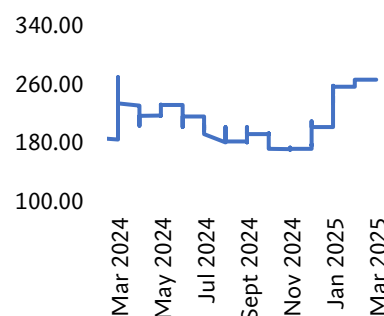
Fair Value Estimate:
N338.57

Total Return: +38%

Stock Data

Current price (N)	245.00
Shares Outstanding (mn)	20,996
Market Cap (N'mn)	5,143,912
52-week high (N)	267.80
52-week low (N)	169.00
Trailing EPS (N)	-19.07
Forward EPS (N)	22.75
Forward PE (X)	10.77
Justified PE Multiple (X)	14.89

Price Movement



Stock Data	FY 2023	FY 2024	FY 2025F
P/E	N/A	N/A	10.77x
P/BV	N/A	N/A	263.20x
PBT Margin	-7%	-16%	15%
PAT Margin	-6%	-12%	10%
RoE	-124%	161%	-299%
Dividend Yield	2%	0%	0%

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Costs Pressures Weigh on Margin Despite Lease Renegotiation

Operating costs took a hit, rising by 62% year-on-year, as direct network operating costs soared by 89%, while other costs grew by 32%. This increase, driven by high inflation, elevated energy costs, and Naira depreciation, weighed heavily on EBITDA margin.

To mitigate these pressures, the Group took cost optimisation efforts, including successful renegotiation of tower leases contracts with IHS towers in August 2024. This move reduced the US dollar-indexed component of the leases linked to a discounted US consumer price index (CPI), making the leases majority Naira based. According to management, this measure resulted in N113.80 billion in opex savings, and improved EBITDA margin in Q4 2024 (46% vs Q4 2023: 42%).

However, on a full year basis, EBITDA margin declined by 963 basis points to 39% (FY 2023: 49%), reflecting persistent cost pressure for most of the year.

Lease Liabilities Drove Total Borrowings up

The Group's total borrowings fell by 17% to N972.92 billion (2023: N1.18 trillion), primarily driven by a 92% reduction in outstanding letter of credits (LC) obligations to N32.32 billion (2023: N402.73 billion). The significant drop in letter of credits obligations indicates that the Group cleared a substantial portion of its foreign-denominated commitments, likely benefiting from improved liquidity conditions in the foreign exchange (FX) market.

However, lease extension and renewals, led to recognition of additional lease liabilities and right-of-use (ROU) assets amounting to N901.33 billion, pushing total lease obligations up by 127% to N2.28 trillion (FY 2023: 1.00 trillion). Consequently, total liabilities grew by 44% to N4.65 trillion (2023: N3.23 trillion), with borrowing and leases accounting for 70% of the rise.

High Finance Costs and FX losses sustained Net loss Position

Despite the paydown of debt obligations, finance cost surged by 82% to N431.65 billion (FY 2023: N236.93 billion), on the back of higher interest payment on leases (145% year-on-year) and borrowings (+37% year-on-year). The rise in lease-related interest was influenced by new lease agreements, as well as the depreciation of the Naira, which inflated the cost of dollar-denominated lease obligations. Furthermore, borrowing costs jumped as the Group raised capital in a high-interest-rate environment, reflecting the broader impact of elevated monetary policy rates on debt servicing costs. Overall, net finance cost grew by 91% to N403.21 billion from N211.11 billion in 2023.

Foreign exchange losses rose by 25% to N925.36 billion (FY 2023: N740.43 billion), with 61% of the losses realised, and 39% unrealised. Notably, payments related to letter of credits accounted for about 86% of the realised FX losses.

The combined impact of FX losses and rising finance costs severely weakened the Group's profitability. As a result, net loss worsened by 192% to N400.44 billion (FY 2023: N137.02 billion), placing further strain on the Group's financial health. This deterioration pushed shareholders' funds further into negative territory, with a loss position of N458.01 billion (FY 2023: N40.84 billion loss)

Dividend Information

Due to the weak financial performance, the Group did not declare both interim and final dividend for 2024.

Outlook

After years of tariff stagnation, the Nigerian Communication Commission (NCC) approved a 50% tariff hike for telecommunication operators in February 2025. This long overdue approval provides MTN Nigeria Plc with the much needed relief to counter rising operational costs and potentially ensure sustained investments in network infrastructure and service quality.

Additionally, with the NIN-sim linkage exercise now in the rearview mirror, we anticipate improved growth in subscriber base, as MTN Nigeria is well-positioned to benefit from the expected growth of data adoption in Nigeria. On the back of these expectations, we project a revenue growth of 43% to N4.81 trillion for 2025.

The Group's strategy to reduce its US-dollar obligations and renegotiation of lease agreements is a critical to mitigate future financial risk associated with the depreciation of Naira. These proactive measures is expected to improve margins and protect costs, ultimately driving a return to profitability in 2025, with a projected net profit of N378.96 billion. This anticipated turnaround is poised to have positive impact on the Group's net assets, potentially leading to significant improvement in net assets in the near term.

Valuation

We retain our BUY recommendation for the stock with a revised fair value of N338.57. This valuation reflects our optimism for the Group's prospect for 2025 and was derived using a blend of discounted cash flow (DCF), discounted dividend model (DDM), residual income (RIM), and enterprise valuation (EV/EBITDA) methodologies.

At the current price of N245.00, our fair value offers a total return of 38%. This underscores MTN Nigeria's attractiveness as an investment opportunity, supported by improving earnings outlook, cost optimisation strategies, and regulatory tailwinds.

FY 2024 Financial Performance

Income Statement (N'mn)	FY 2024	FY 2023	Growth (%)
Revenue	3,360,830	2,468,847	36%
Direct networking cost	(1,232,120)	(655,203)	88%
Value added services cost	(33,743)	(23,668)	43%
Costs of starter packs	(48,630)	(30,296)	61%
Interconnect costs	(192,819)	(159,542)	21%
Roaming costs	(12,344)	(8,855)	39%
Transmission costs	(29,164)	(11,120)	162%
Discounts and commissions	(154,577)	(121,846)	27%
Advertisements, sponsorships and sales promotion	(45,129)	(50,902)	-11%
Employee benefits	(91,919)	(65,002)	41%
Impairment of financial assets	(6,752)	(756)	793%
Other operating expenses	(200,234)	(139,128)	44%
Total operating expenses	(2,047,431)	(1,266,318)	62%
EBITDA	1,313,399	1,202,529	9%
Depreciation of PPE	(259,748)	(231,540)	12%
Depreciation on RoU assets	(184,723)	(118,296)	56%
Amortisation of intangible assets	(90,684)	(79,033)	15%
Operating profit	778,244	773,660	1%
Non-operating profit/(loss)	(1,328,569)	(951,546)	40%
Finance income	28,440	25,815	10%
Finance cost	(431,648)	(236,927)	82%
FX loss	(925,361)	(740,434)	25%
Profit before tax	(550,325)	(177,886)	209%
Income tax	149,890	40,865	267%
Profit after tax	(400,435)	(137,021)	192%
Balance Sheet (N'mn)	FY 2024	FY 2023	Growth (%)
Assets			
PP & E	1,248,304	1,095,111	14%
Intangible assets	408,783	447,599	-9%
RoU assets	1,382,580	478,826	189%
Inventories	6,971	6,027	16%
Trade and other receivables	367,713	215,414	71%
Cash	253,377	345,074	-27%
Others	529,263	600,776	-12%
Total Assets	4,196,991	3,188,827	32%
Liabilities			
Loans & borrowings	972,915	1,177,169	-17%
Leases	2,283,424	1,004,411	127%
Trade payables	1,191,416	699,520	70%
Others	207,243	348,571	-41%
Total Liabilities	4,654,998	3,229,671	44%
Net Assets	(458,007)	(40,844)	1021%

Source: Company Accounts, WSTC Research

Financial Projections

Income Statement (N'mn)	FY 2023	FY 2024	FY 2025F	FY 2026F	FY 2027F	FY 2028F	FY 2029F	FY 2030F
Revenue	2,468,847	3,358,461	4,776,932	5,950,030	7,358,928	8,916,261	10,482,235	11,897,861
EBITDA	1,202,529	1,313,399	1,891,107	2,397,251	2,834,218	3,454,326	4,048,587	4,465,414
EBIT	773,660	778,244	1,235,244	1,742,747	2,076,249	2,442,330	2,934,069	3,224,097
Profit before tax	(177,886)	(550,325)	702,280	1,181,542	1,475,174	1,860,069	2,360,381	2,626,127
Net profit	(137,021)	(400,435)	477,550	803,448	1,003,118	1,264,847	1,605,059	1,785,767
EPS (N)	(6.53)	(19.07)	22.75	38.27	47.78	60.24	76.45	85.05
DPS(N)	5.60	0.00	0.00	15.31	21.50	30.12	38.22	42.53
Balance Sheet (N'mn)	FY 2023	FY 2024	FY 2025F	FY 2026F	FY 2027F	FY 2028F	FY 2029F	FY 2030F
Current assets	975,781	791,336	1,644,956	2,615,497	3,445,615	3,886,282	4,905,900	6,086,655
Non-current assets	2,213,046	3,405,655	3,583,742	3,693,105	3,834,667	3,906,095	3,965,782	4,073,608
Total assets	3,188,827	4,196,991	5,228,698	6,308,602	7,280,282	7,792,377	8,871,682	10,160,263
Current liabilities	1,893,419	1,988,318	2,024,034	2,158,161	2,346,341	2,689,218	2,749,437	3,087,780
Non-current liabilities	1,336,252	2,666,680	3,185,121	3,423,863	3,564,631	2,974,712	3,072,194	3,066,301
Shareholders' equity	(40,844)	(458,007)	19,543	726,578	1,369,310	2,128,447	3,050,051	4,006,182
Book value per share (N)	(2.01)	(21.81)	0.93	35.70	67.27	104.57	149.85	196.82
Cash flow statement (N'mn)	FY 2023	FY 2024	FY 2025F	FY 2026F	FY 2027F	FY 2028F	FY 2029F	FY 2030F
Cash from operating activities	1,004,243	868,901	1,589,978	2,078,071	2,350,121	2,989,582	3,409,611	3,873,913
Cash from investing activities	(783,272)	(238,399)	(834,117)	(783,259)	(929,958)	(1,115,909)	(1,204,345)	(1,373,412)
Cash from financing activities	(147,255)	(736,840)	11,773	(357,765)	(700,167)	(1,510,442)	(1,199,817)	(1,308,886)
Net increase/(decrease) in cash	73,716	(106,338)	767,634	937,047	719,996	363,231	1,005,449	1,191,616
Ratio analysis (%)	FY 2023	FY 2024	FY 2025F	FY 2026F	FY 2027F	FY 2028F	FY 2029F	FY 2030F
EBITDA margin	49%	39%	40%	40%	39%	39%	39%	38%
Operating margin	31%	23%	26%	29%	28%	27%	28%	27%
ROE	-124%	161%	-218%	215%	96%	72%	62%	51%
ROA	-5%	-11%	10%	14%	15%	17%	19%	19%
Dividend payout ratio	-86%	0%	0%	40%	45%	50%	50%	50%

Source: Company Accounts, WSTC Research

Disclaimer & Disclosures

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Investment Recommendation

WSTC uses a 3-tier recommendation system for stocks under coverage: Buy, Hold, and Sell.

- Buy Rating: estimated fair value is $\geq 20\%$ above current market price.
- Hold Rating: estimated change in price is between -10% and 19% of current market price.
- Sell Rating: estimated change in price is $\leq -10\%$ of current market price.

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