

A Bright Spot Amid Miry Waters

Industry Outlook: Overweight

Executive Summary

In our 2021 telecommunications sector report ("Resilience through a COVID-led Recession"), our outlook depicted three major themes that would guide growth for the sector: favourable demographics, investment in network infrastructure expansion, and mobile money. Though the population growth was favourable, inching higher by c.2.6% to 211.4 million (World Bank), the NIN-SIM verification exercise initiated by the FGN through the NCC weighed on growth margins as we witnessed a 4.4% (c.9.1 million) decline in subscriber base. Meanwhile, there was a significant increase in investment level to over \$70.0bn as of 2021 from \$38.0bn in 2015. We believe these investments played a major role in deploying network infrastructure and improving service.

While the impact of mobile money has been significant in other African countries, helping to bridge the financial inclusion gap, creating healthy competition, alternate revenue stream, and job opportunities, Nigeria is yet to get involved (ex. Globacom and 9mobile). However, in November 2021, MTN Nigeria and Airtel Africa received approval in principle to operate as Payment Service Banks, with the privilege to provide banking services to the public. Upon final approval, we posit this would aid the CBN's goal of onboarding 95.0% of the bankable adults into financial services by 2024 while increasing the profit margins of the Mobile Network Operators (MNOs). Noteworthy, by April 2022, MTNN has received full approval.

Additionally, the sector faced other headwinds which include weak consumer purchasing power, multiple taxations, vandalism, FX devaluation, poor power supply, and high cost of energy. On this backdrop, the GDP performance of the telecommunications sector paled as it grew 7.3% y/y - 863bps shy of 2020 level. On a quarterly basis, we observed that telecoms GDP grew 7.7% (Q1), 5.9% (Q2), 10.9% (Q3) and 5.3% (Q4). Notably, the GDP growth rate in Q4:2021 was the slowest in 14 quarters since Q1:2018. Nevertheless, the telecoms sector remained resilient, as its growth pace (2021: 7.3% y/y) continued to outperform the broader economy (2021: 3.4% y/y). Hence, our theme, "A Bright Spot Amid Miry Waters".

Our analysis of the telecommunications companies across selected BRICS and African markets revealed the undervaluation of Nigerian companies. Relative to the BRICS market (24.3x and 19.2x), the Nigerian telecoms sector trades at a P/E ratio and EV/EBITDA multiple of 14.0x (previously 14.5x) and 5.7x (previously 5.8x) respectively. Although Nigeria's P/E ratio is above the African market (12.5x), it is relatively attractive in terms of EV/EBITDA (6.4x). We believe there is a potential for strong returns over the next 12 months given the new business expansion drives of industry

Telecommunications Sector Update

April, 2022

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players and the modest economic growth outlook. Across the companies under our coverage, we issued a "BUY" rating on **MTNN** and a "SELL" rating on **Airtel Africa Plc**. The "SELL" recommendation on Airtel indicates that the stock is fully valued at the current market price of ₦1260.40 (as of April 8th, 2022), hence our model suggests limited headroom for potential capital appreciation in the short term and benefits from dividend.

In 2022, we posit the contribution and growth of the telecommunications sector to the Nigerian economy would further expand. This would be supported by increasing smartphone penetration, recovery in subscriber base, rapid investment in network infrastructure, grant of PSB license to MTNN and Airtel Africa, and deployment of 5G technology. Nevertheless, we think the NIN-SIM integration exercise tops downside risk factors.

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Telecommunications GDP Pales amid NIN-SIM Verification Exercise

While the pandemic in 2020 strained many sectors in the economy, the telecommunications sector proved to be the silver lining. The increased adoption of digital channels for telecommuting and social interactions during the lockdown was favorable for the sector, resulting in an expansion in subscriber base and broadband penetration. As a result, the sector recorded an impressive growth of 15.9% y/y which aided the economy's recovery in Q4:2020. This also supported one of the goals of the Federal Government of Nigeria (FGN) in the Nigerian National Broadband Plan (NNBP) 2020-2025, to increase broadband penetration to 70.0% by 2025. Nonetheless, in December 2020, the Nigerian Communications Commission (NCC) suspended the sale, registration, and activation of new Subscriber Identity Module (SIM) cards, while threatening to block all lines not linked with a National Identification Number (NIN) after the stipulated deadline.

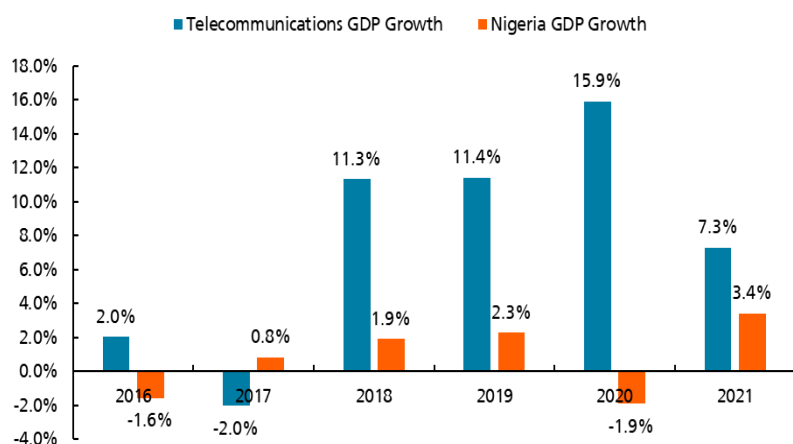
The resulting implication of the NIN-SIM verification exercise was a downtrend of 7.7% in the number of active subscribers from 204.1 million in December 2020 to 188.4 million at the end of April 2021, when the NCC lifted the ban on new sim purchases. Nonetheless, on the back of anticipated SIM deactivations for subscribers without valid NINs, the subscriber base further shrunk, threatening FGN's target of 70.0% broadband penetration among 90.0% of the country's population by 2025.

Though the NIN-SIM linkage policy was the major challenge in 2021, there were other headwinds which impacted the MNOs negatively. These include weak consumer purchasing power, multiple taxations, vandalism, FX devaluation, poor power supply, and high energy cost. Furthermore,

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Chart 1: Real GDP Growth in Telecommunications Sector vs Nigeria (2016 – 2021)



Source: NBS, Afrinvest Research

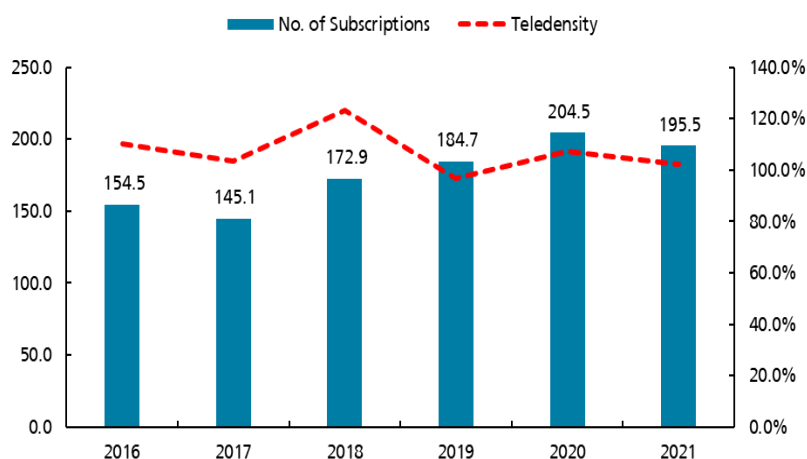
there was a 5.7% moderation in voice revenue driven by an increase in face to face communication as business activities normalized, though data revenue remained upbeat. On this backdrop, the GDP performance of the telecommunications sector paled as it grew 7.3% y/y - 863bps shy of 2020 level. On a quarterly basis, we observed that telecom GDP grew 7.7% (Q1), 5.9% (Q2), 10.9% (Q3) and 5.3% (Q4). Notably, the GDP growth rate in Q4:2021 was the slowest in 14 quarters since Q1:2018.

For 2022, we posit the contribution and growth of the telecommunications sector to the Nigerian economy would expand. This would be supported by increasing smartphone penetration, recovery in subscriber base, rapid investment in network infrastructure, grant of PSB license to MTNN and Airtel Africa, and deployment of 5G technology. Nevertheless, we think the NIN-SIM integration exercise could weigh down prospects in the sector given the directive of NCC to Mobile Network Operators (MNOs) to bar over 71 million (December 2021) unlinked SIM cards.

NIN-SIM Exercise Ripples through Subscriber Base

According to data published by the NCC, the number of active subscribers on the network settled at 195.5m in 2021, a 4.4% (c.9.1m) decline from the prior year. We attribute the downtrend to the strain caused by the NIN-SIM verification exercise. Specifically, there was an 8.6% decline in subscriber base from 204.5m in December 2020 to 187.0m in May 2021. However, by June, the subscriber base gained slightly by 0.3% to 187.6m. This increase was further sustained throughout the year, indicating a 4.5% recovery in subscriber base to 195.5m. Similarly, the teledensity which stood at 107.2% in the previous year, fell to 102.4% by December

Chart 2: Subscribers and Teledensity Trajectory (2016 – 2021)



Source: NCC, Afrinvest Research

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2021. In terms of broadband, number of subscribers fell 9.2% to 78.0m from 85.9m in 2020 while penetration declined to 40.9% from 45.0%, dampening the NNBP prospects. Furthermore, we observed an 8.7% decline in internet subscription from 154.3m to 142.0m in 2021.

Given that Mobile Network Operators (MNOs) started reporting positive net additions in Q4:2021 in line with data from NCC, we posit a recovery across the industry subscriber base in 2022, although at a slow pace.

MTNN Maintains Market Leadership Despite Declining Subscriber Base

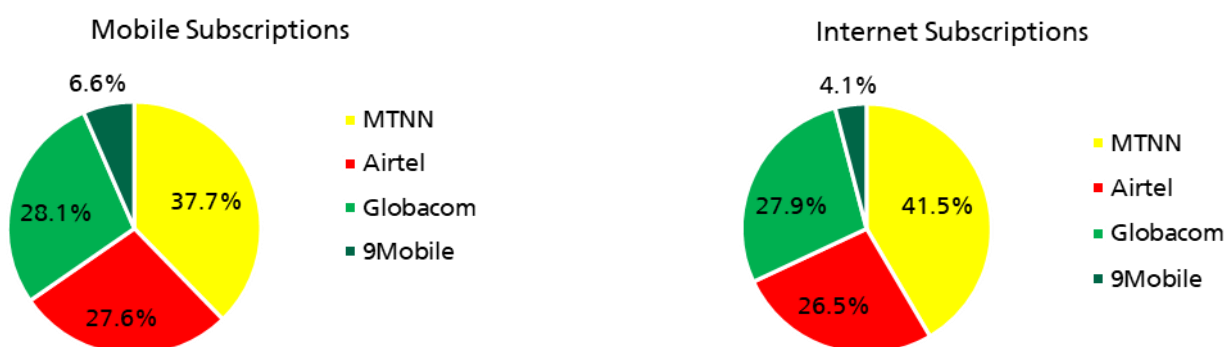
According to the NCC, the market structure in the telecoms sector remained oligopolistic with four major players. As of December 2021, MTNN retained its position as the largest MNO with 73.6m subscribers (37.7% market share), despite an 8.9% y/y decline in subscriber base. Notably, out of the 9.1m subscriber base lost by the industry in 2021, MTNN accounted for 78.8%. Meanwhile, Globacom displaced Airtel Africa to emerge as the second largest MNO with 54.8 subscribers, translating to a 28.1% market share relative to 26.9% in 2020. We believe Globacom's affordable data bundles (relative to other industry players) and consistent improvement in services were the major attraction to consumers. Furthermore, Globacom recorded the least subscriber base loss of 0.3% in 2021. With 53.9m subscribers and 27.6% market share, Airtel Africa came in third while 9mobile subscriber base stood at 12.8m which translates to a 6.6% share of the market.

In terms of internet subscriptions, MTNN maintained the lead with 58.8m subscribers and a 41.5% market share. Following, Globacom had 39.5m subscribers (27.9% market share), Airtel Africa had 37.5m subscribers (26.5% market share), while 9mobile controlled 5.8m subscriber base

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Chart 3: Market Share of Mobile Network Operators (December 2021)



Source: NCC, Afrinvest Research

(4.1% market share). In a similar fashion to the overall subscriber base, MTNN at 53.4% accounted for the largest decline, losing 6.5m subscribers while Airtel lost 3.8m, 9mobile lost 1.4m and Globacom lost 0.6m. In terms of market share by technology, GSM held the largest market share as of December 2021 with 99.75%, followed by voice over internet protocol (VoIP) (0.24%) and fixed wired (0.01%).

Sector Outlook

Payment Service Banking Licence... A Means to End Financial Exclusion?

In November 2021, the Central Bank of Nigeria (CBN) issued an approval in principle (AIP) to two of the largest telecommunication companies in Nigeria, MTN Nigeria (MoMo) and Airtel Africa (SMARTCASH), to operate as Payment Service Banks (PSBs). Upon final approval, this would increase the total number of PSB licenced companies to five (5): Hope PSB (a subsidiary of Unified Payment), Money Master PSB (a subsidiary of Global telecommunications) and 9PSB (a subsidiary of 9Mobile Telecommunications). The AIP is the first step towards a final approval contingent on the duo meeting certain conditions, and a step towards closing the financial inclusion gap to achieve economic development, raise living standards, and reduce poverty and inequality. As of April 2022, the CBN has granted MTNN (MoMo) the full approval to commence as a PSB while we expect further information regarding Airtel's progress.

Recall, in 2012, the CBN in collaboration with stakeholders launched the National Financial Inclusion Strategy (NFIS), with the aim of reducing the exclusion rate to 20.0% by 2020. However, in 2018, the CBN reported that despite taking sundry measures, including the introduction of Micro Finance Banking, Agency Banking, Tiered Know-Your-Customer Requirements and Mobile Money Operation (MMO), in pursuit of the objective, the progress was underwhelming. As a result, the CBN along with other stakeholders introduced the PSBs given that telcos have a wider reach and a more robust network than all the banks. Under the CBN guidelines, PSBs are allowed to offer banking services such as cash deposit, remittances, payments processing and mobile wallets. However, PSBs cannot grant any form of loans, advances, and guarantees to customers (directly or indirectly), accept foreign currency deposits or deal in the foreign exchange market, and provide insurance underwriting services.

With MTNN and Airtel entering the financial service space, we think the CBN's goal of onboarding 95.0% of the bankable adults into financial services by 2025 have received a major boost. Although many postulate heightened competition between telcos and traditional banking especially around fees and commission, we do not foresee that. Our

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position is hinged on the success of mobile money operations in countries such as Kenya, Ghana, among others, without negatively impacting on bank's performance. Also, since PSBs licence were issued to Globacom's Money Master, 9Mobile's 9PSB and Hope PSB, there have been no record pointing to a negative impact on the traditional banking system. While MTNN and Airtel are bigger in size relative to their peers, we believe any existing competition would help drive efficiency and boost the economy.

Fifth Generation (5G) Technology Deployment... A Game Changer?

Given the vast adoption of 5G technology globally and the increasing demand of internet-based services domestically, it is not surprising that the FGN finally auctioned two slots of 100-megahertz (MHz) in the 3.5 gigahertz (GHz) spectrum for the deployment of 5G technology to support the delivery of ubiquitous broadband services in Nigeria. In December 2021, three companies namely MTNN, Airtel Africa and Mafab Communications Limited, qualified for the auction, having met the requirements stipulated in the Information Memorandum (IM). After the auction, MTNN and Mafab Communications Ltd emerged as provisional licence winners with a bid price of \$273.6 million each.

The 5G technology offers significant advantages over current technologies, some of which include lower latency, higher bandwidth, greater device density, longer battery life for nodes, and greater network flexibility. More importantly, the insatiable demand for mobile data service coupled with the new wave of wireless broadband such as remote object manipulation, industrial automation, virtual and augmented reality, and next-generation connectivity for vehicles, would be catered for. However, poor electricity infrastructure and lack of adequate fibre cable for backhauling are potential downside risks to the 5G network deployment. Unfortunately, the power issue is a general economic challenge, which the NCC cannot resolve singlehandedly. On inadequate infrastructure, the NCC intends to re-plan its Open Access Model Policy to redistribute players to other bands to make enough spectrum bands available for 5G.

Operational and Financial Performance of the Telecommunications Sector

For the purpose of this report, the operational and financial performance of the sector is focused on publicly listed companies, MTNN and Airtel Africa plc. It is important to highlight that Airtel Africa Plc financial year runs from April to March. Therefore, Airtel Africa's full year result represents estimates and not actual.

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Topline Growth Weathers NIN-SIM Linkage Strain... Data Revenue to the Rescue

Despite the NIN-SIM verification exercise which affected industry subscriber base, industry topline growth was impressive at 26.4% y/y vs. 11.5% Afrinvest forecast, to print at ₦3.6tn from ₦2.9tn in the prior year. The growth was supported by the increasing shift in consumer preference for data-driven services, expansion in subscriber base (in Airtel Africa's operational countries) and rising Average Revenue Per User (ARPU). In the last decade, we observed a steady decline in voice revenue which accounted for c.50.0% of industry's total revenue (MTNN: 49.6%; Airtel Africa: 50.0%) in 2021. Nonetheless, the increasing adoption of smartphones, expansion of network infrastructure especially 4G, and ongoing telecommuting led to an impressive data revenue performance. In FY:2021, MTNN delivered a 55.3% growth in data revenue while Airtel Africa posted an annualised growth of 33.9% in FY:2021/22. We observed subscriber base mildly grew 0.7% to 196.1m from 194.7m while ARPU, on average, increased by 16.7%.

Cost Moderation on Improved Efficiency

Considering the efforts delivered by MNOs in achieving operating efficiencies, we saw industry's total costs to revenue moderate by 1.2ppts to 50.6% (₦1.8tn) from 51.8% (₦1.5tn) in the prior period. A breakdown shows cost to sales ratio moderated by 1.0ppts to 15.5% while OPEX margin slowed by 0.2ppts to 35.1%. Notwithstanding, the sector's COGS and OPEX rose 18.7% and 25.8% y/y respectively to ₦559.6bn and ₦1.3tn. We attribute the increase to exchange rate devaluation pass-through, deployment of network infrastructure, and Covid-19 related expenditure. For context, MTNN's foreign exchange loss amounted to ₦22.0bn while Airtel Africa's revenue and EBITDA were affected to the tune of \$47.0m and \$23.0m respectively.

EBITDA Maintains Upward Trajectory

The industry's EBITDA grew 29.8% y/y vs. 13.3% Afrinvest forecast, to ₦1.8tn from ₦1.4tn in 2020, supported by an impressive topline performance and improvement in cost optimisation strategies. Similarly, there was a 1.3ppts increase in EBITDA margin to 49.6% from 48.3% in the prior period.

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Profitability Margin Soars

Despite the challenges that faced the telecoms sector in 2021, ranging from NIN-SIM exercise, FX devaluation issues, and poor power supply, we observed a significant growth in bottom-line. Industry's profit before tax (PBT) and profit after tax (PAT) surged 61.8% and 60.2% respectively vs. 40.9% and 40.3% Afrinvest forecast, to ₦920.4bn and ₦586.5bn.

Likewise, return on equity (ROE) and return on assets (ROA) printed at 64.8% and 9.1% respectively, an improvement of 1.1ppts and 2.2ppts from the prior year.

Assessing performance using the Dupont analysis, there was a slight broad-base improvement. The industry's net profit margin grew by 3.4ppts to 16.4%, aided by a net margin of 18.1% and 14.7% in MTNN and Airtel respectively. Similarly, asset turnover printed at 0.59x, a 0.05x increase from prior year while the financial leverage declined by 1.46x to 5.54x. The decline was largely buoyed by MTNN as net assets (48.5% y/y) rose faster than total assets (15.1% y/y) due to a 53.4% y/y rise in retained earnings.

Market Pricing and Valuation of the Sector: Overweight

Analysis of telecommunications companies across selected BRICS and African markets shows the undervaluation of Nigerian companies. Relative to the BRICS market (24.3x and 19.2x), the Nigerian telecoms sector trades at a P/E ratio and EV/EBITDA multiple of 14.0x (previously 14.5x) and 5.7x (previously 5.8x) respectively. Although Nigeria's P/E ratio is above the African market (12.5x), it is relatively attractive in terms of EV/EBITDA (6.4x). This indicates a potential for strong returns over the next 12 months, given business expansion strides of industry players and our modest economic growth outlook of 2.9% in 2022. We believe the undervaluation points to the underlying issues that plague the sector, and we do not expect an immediate change in the near term, though a change in government and favourable policies by 2023 could bring about a quick turnaround.

Nevertheless, there is sufficient headroom for growth given the recovering subscriber base, increasing demand for data services, low smartphone penetration, deployment of 4G & 5G infrastructure, and the approval of the PBS licence. On a fundamental basis, our valuation models show elevated cost of equity across securities based on higher risk-free rate and risk premiums. We assumed a conservative sustainable growth rate across companies, in line with growth expectations for the Nigerian economy. On this backdrop, we issue a "BUY" rating on MTNN and a "SELL" rating on Airtel Africa Plc. The "SELL" recommendation on Airtel indicates that the stock is fully valued at the current market price of ₦1260.40 (as of April 8th, 2022), hence our model suggests limited

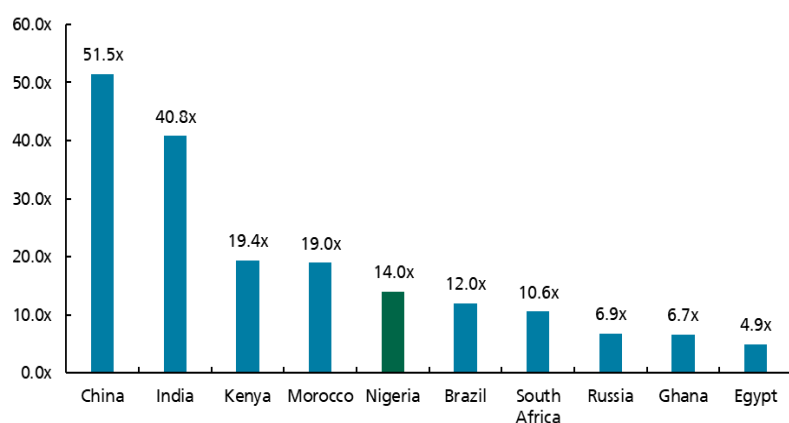
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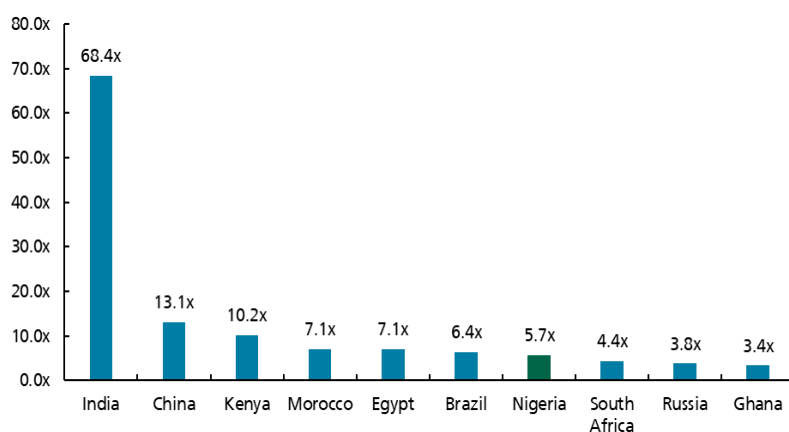
In Nigeria, we measured the price movements of the publicly traded companies in the sector, the AFR-ICT index and NGX All-Share index, and observed that stocks trended in line with the market. This is not surprising given that Airtel Africa is the most capitalized stock on the NGX at 18.7% (as of April 8th, 2022) while MTNN weighs 16.5%, the third most capitalized stock. The combined securities account for 35.2% and 99.8% of the NGX-ASI and AFR-ICT index respectively.

Chart 4: P/E Ratio Across Select BRICS and African Markets



Source: Bloomberg, Afrinvest Research

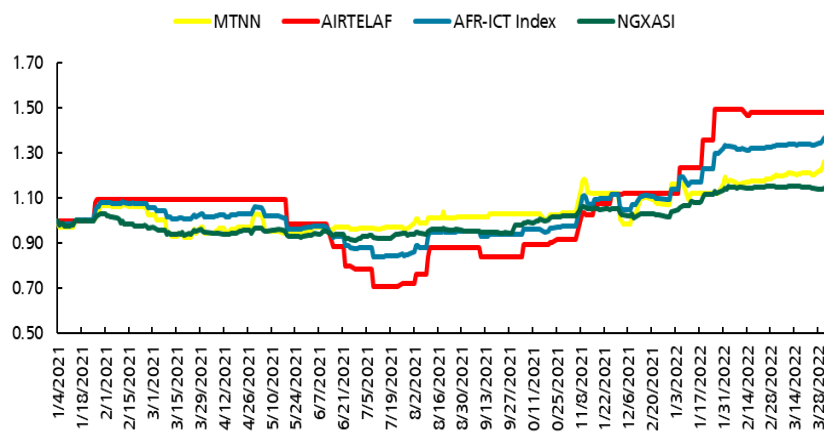
Chart 5: EV/EBITDA Ratio Across Select BRICS and African Markets



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Chart 6: Movement of Coverage Universe Share Price vs. Broad Sector & NGX-ASI (Jan 2021 – Mar 2022)



Source: NGX, Bloomberg, Afrinvest Research

Chart 7: Historical Trend in Revenue, OPEX, EBITDA and PAT vs. EBITDA and PAT Margins (Afrinvest Coverage Universe)

Financials	MTN Nigeria	Airtel Africa
Financial Highlights	FY:2021	FY:2021/22E
Revenue (₦'bn)	1,654.3	1,961.2
OPEX (₦'bn)	509.3	761.3
EBITDA (₦'bn)	877.1	914.4
PBT (₦'bn)	436.7	483.7
PAT (₦'bn)	298.7	287.8
Operating and Profitability Margins		
OPEX Margin	30.8%	38.8%
EBITDA Margin	53.0%	46.6%
PBT Margin	26.4%	24.7%
Dupont Analysis		
ROE	112.7%	16.8%
Net Margin	18.1%	14.7%
Leverage	8.53	2.55
Asset Turnover	0.73	0.45
Valuation Metrics		
Current TP	288.24	952.83
Previous TP	215.36	544.82
Rating	BUY	SELL
Current Price	206.00	1260.40
Upside/Downside Potential	39.9%	-24.4%
Valuation Assumptions		
Risk Free Rate	12.4%	12.4%
Beta	0.75	1.11
Cost of Equity	21.3%	22.4%
Sustainable Growth Rate	4.5%	4.0%
Market Pricing Metrics		
P/E	13.4	12.8
EV/EBITDA	7.2	4.7

Source: Company Filings, Afrinvest Research

MTN Nigeria Plc

Positioning into New Territories

Overview

MTN Nigeria (MTNN), a provider of communications services, is currently ranked as the largest MNO in Nigeria with over 69 million subscribers connected across the country. The company has maintained its leadership position in network coverage, capacity and innovation since it launched in 2001. In Nigeria, the company provides a wide range of products and services, including mobile voice, data and digital services, Fintech and business solutions with the 2G, 3G, 4G LTE technology, and soon 5G. MTNN operates a predominantly prepaid business with 99.2% of its customers on pre-paid plans. After acquiring one of the four licenses to operate GSM services from the NCC in 2001 as an industry pioneer, the company has recorded notable feats in the Nigerian telecommunications sector. Currently, MTNN ranks as the largest subsidiary within the MTN Group by revenue and EBITDA with a share of 33.1% and 39.9% in 2021, higher than South Africa at 26.8% and 23.8% respectively.

Operational and Financial Performance

Although the company returned to positive subscriber growth in Q4:2021, adding c.1m subscribers as it continues to deploy SIM registration and activation centers for customers to enroll, MTNN's customer base declined by 10.6% to 68.5m in 2021 due to the regulatory restrictions on new SIM sales and activations. Nonetheless, total revenue rose 22.9% y/y vs. 5.9% Afrinvest forecast as the company recorded growth across all revenue line items, mainly driven by voice, data and fintech services. Voice revenue grew 8.4% y/y due to higher usage in active SIM base, resulting in a 7.9% growth in minutes of use. Data revenue surged 55.3% y/y following the expansion of 4G coverage, quality and capacity enhancements, 62.7% growth in Average MB per user, and a 4.0ppts growth in smartphone penetration. Fintech revenue advanced 57.3% y/y due to sustained growth in the use of Xtratime product and broader fintech services.

On the cost side, cost of sales (CoS) grew 7.5% y/y on account of a 13.4% and 14.1% increase in interconnect costs and discounts & commissions. Despite the increase in CoS, gross margin grew 2.3ppts to 83.8% from 81.5% in 2020. Meanwhile, the company's expense efficiency programme realised cost savings worth ₦25.1bn, although operating expenses inched higher by 23.7% y/y to ₦509.3bn due to Naira devaluation on lease rental costs, acceleration in site rollout, and COVID-19 related expenditure. Consequently, OPEX margin slightly grew to 30.8% from 30.6% in 2020.

Company Analysis

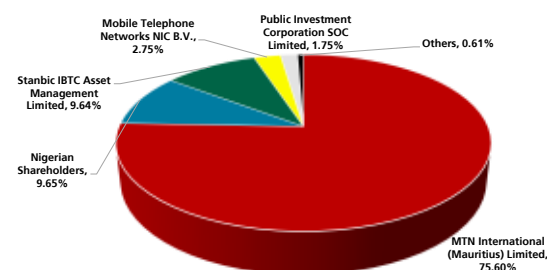
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Chart 8: MTNN's Stock Data and Valuation (04/08/2022)

Company Data	
Ticker (NGX)	MTNN
Ticker (Bloomberg)	MTNN NL EQUITY
Market Price (4/08/2022)	206.00
2022 Target Price (₦)	288.24
Rating	BUY
Upside Potential	39.9%
12-Month High (₦)	214.00
12-Month Low (₦)	160.00
Outstanding Shares (bn)	20.3
Market Cap (₦'tn)	4.2
Market Cap (\$US'bn)	0.01
6-Month Avg. Volume (mn)	2.0
6-Month Avg. Value (₦'m)	378.3
6-Month Avg. Value (\$US'mn)	0.91
Trailing EPS (₦)	14.68
Trailing P/E (x)	14.5
Forward P/E (x)	11.0

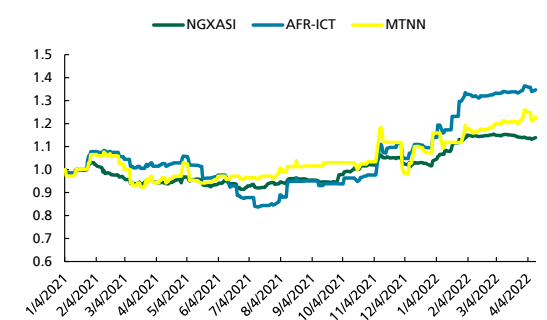
Source: NGX, Bloomberg, Afrinvest Research

Chart 9: MTNN's Ownership Structure



Source: Company Filings, Afrinvest Research

Chart 10: MTNN vs NGX ASI and AFR-ICT index



Source: NGX, Bloomberg, Afrinvest Research

EBITDA grew 27.9% y/y to ₦877.1bn from ₦685.6bn in 2020, while EBITDA margin expanded by 2.1ppts to 53.0% from 50.9%. We attribute the growth to the strong revenue performance and cost management initiatives. Furthermore, depreciation and amortisation rose 12.9% y/y to ₦292.3bn due to the impact of increased site rollout, while net finance cost grew by 15.8% y/y to ₦148.1bn arising from higher borrowings. On this backdrop, PBT and PAT surged 47.4% and 45.5% y/y (vs. 25.5% and 30.7% Afrinvest forecast) respectively to ₦436.7bn and ₦298.7bn.

Moving forward, we expect revenue to grow by 12.2% y/y to ₦1.9tn in 2022. This would be driven by subscriber base growth of c.10.0%, increased data growth especially with the rollout of 4G & 5G services, and offering of payment banking services. We also expect MTNN to sustain its expense efficiency programme across the business and strengthen its operations and financial position to unlock efficiency and margins expansion. Consequently, we project a 23.2% y/y growth in bottom-line.

Valuation

In valuing MTNN, we utilized a blend of absolute (80.0%) valuation – Discounted Cash Flow (DCF), Dividend Discount Model (DDM), and Residual Income Model – and relative (20.0%) valuation (P/E and EV/EBITDA) methodologies. The assumptions underlining our valuations were cost of equity of 21.3% (a beta of 0.75, risk free rate of 12.4% & risk premium of 9.7%) and a sustainable growth rate of 4.5%. This was used to derive a blended 12-month target price (TP) of ₦288.24, a 33.8% increase from the previous TP of ₦215.36. This represents an upside of 39.9% from current price of ₦206.00 (04/08/2022). Hence, we issue a “BUY” rating for the shares of MTNN.

Company Analysis

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Chart 11: MTNN's Financial Highlights

	FY:2021A	FY:2022E	FY:2023F
Revenue (₦'Bn)	1,654.3	1,856.1	2,041.7
EBITDA (₦'Bn)	877.1	966.2	1,064.8
Pre-tax Income (₦'Bn)	436.7	514.5	602.2
Net Income (₦'Bn)	298.7	367.9	430.5
Total Assets (₦'Bn)	2,259.6	2,496.1	2,689.2
Shareholder Funds (₦'Bn)	20.4	20.4	20.4
OPEX Ratio (%)	30.8%	31.7%	31.8%
Cost of Sales Ratio (%)	16.2%	16.2%	16.0%
EBITDA Margin (%)	53.0%	52.1%	52.2%
PAT Margin (%)	18.1%	19.8%	21.1%
ROAE (%)	134.7%	121.9%	112.8%
ROAA (%)	14.1%	15.5%	16.6%
EPS (₦)	14.67	18.07	21.15
DPS (₦)	10.45	14.46	16.92
Earnings Yield (%)	7.4%	6.3%	7.2%
Dividend Yield (%)	5.3%	5.0%	5.7%

Source: Company Filings, Afrinvest Research

Chart 12: Valuation Summary

Valuation Methodologies		Weighting
Relative Valuation Methodology		
EV/EBITDA Valuation Methodology		20.0%
Average EV/EBITDA	8.06x	
Forecast EBITDA	966,186.82	
Enterprise Value	7,790,003.33	
Target Price (NGN)	384.12	
P/E Valuation Methodology		
Valuation P/E	15.90x	
Forecast EPS (NGN)	18.07	
Target Price (NGN)	287.37	
Absolute Valuation Methodology		
Valuation Metrics		80.0%
Risk Free Rate (%)	12.4%	
Beta	0.75	
Cost of Equity (%)	21.3%	
Sustainable Growth Rate (%)	4.5%	
Discounted Cash Flow (DCF)	241.99	
Dividend Discount Model (DDM)	101.95	
Residual Income Model (RIM)	94.35	
Blended Target Price		NGN 288.24
Upside/Downside Potentials		39.9%

Source: Afrinvest Research

Airtel Africa Plc

Soaring Ahead of the Competition

Overview

Currently ranked as the 2nd largest telecom operator in Africa (trailing the MTN Group) with operations in 14 countries, Airtel Africa Plc ("The Company" or "The Group"), a subsidiary of Bharti Airtel, offers substantial market potential across voice, data, and mobile money services. Its countries of operation boast of some of the highest projected population growth rates in the world, and these regions currently have low penetration levels of unique SIMs, data usage and traditional banking services. This creates an investment opportunity given the growth dynamics. As of December 2021, the company's customer base stood at 125.8m, up 5.8% from 118.9m December 2020. Additionally, the company's well-invested asset base, strong brand value, and effective distribution channels (both direct and indirect) afford them sustainable differentiation in the market.

Operational and Financial Performance

Following the release of the company's 9M:2022 result, we revised our FY:2022 earnings and valuation expectation. As of 9M:2022, excluding a one-time exceptional revenue of \$20.0m relating to a settlement in Niger, revenue grew 22.5% y/y (reported currency) and 24.8% y/y (constant currency) to \$3.5bn, supported by a 5.8% y/y customer base growth, and 14.9% (reported) and 17.1% (constant) y/y ARPU growth. Growth was also buoyed by a low base effect from the prior period during the peak of COVID-19 related restrictions across regions. The company maintained a strong double-digit growth across all key services. On a reported basis, voice revenue rose 13.6% y/y, data rose 33.9% y/y, mobile money grew 39.6% y/y, and other revenue grew 19.9% y/y.

Although there were significant improvements in operating efficiency across all regional segment, OPEX increased by 15.0% y/y (reported currency) to \$1.8bn. Nonetheless, OPEX margin improved, down 3.4% y/y to 51.5% from 54.8% in the prior period. Following the robust topline growth and improved operational efficiency, EBITDA rose 31.3% y/y to \$1.7bn while EBITDA margin improved to 48.8% from 45.5% in the prior period. Noteworthy, foreign exchange had an adverse impact of \$47.0m and \$23.0m on revenue and EBITDA respectively due to the devaluation of the Nigerian naira and the Malawian kwacha. There was an improvement in net finance costs, down 8.4% y/y to \$291.0m due to lower foreign exchange losses and a one-time \$12.0m gain in other finance charges due to the reversal of an interest provision in one of its operating entities. Resultantly, PBT rose 79.4% y/y to \$864.0m while PAT almost doubled to \$514.0m, an increase of 97.3% y/y.

For FY:2022, we expect a 21.5% y/y growth in topline driven by a combination of an 8.0% y/y growth in customer base and 10.7% y/y

Company Analysis

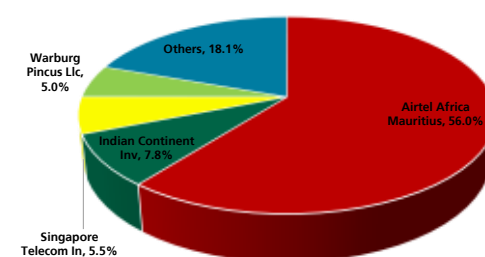
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Chart 13: Airtel Africa Stock Data and Valuation (04/08/2022)

Company Data	
Ticker (NGX)	AIRTELAF
Ticker (Bloomberg)	AIRTELAF NL EQUITY
Market Price (4/08/2022)	1260.40
2022 Target Price (₦)	952.83
Rating	SELL
Downside Potential	-24.4%
12-Month High (₦)	1271.00
12-Month Low (₦)	601.00
Outstanding Shares (bn)	3.8
Market Cap (₦'tn)	4.7
Market Cap (\$US'bn)	0.01
6-Month Avg. Volume (mn)	0.1
6-Month Avg. Value (₦'m)	80.8
6-Month Avg. Value (\$US'mn)	0.20
Trailing EPS (₦)	62.08
Trailing P/E (x)	12.8
Forward P/E (x)	16.2

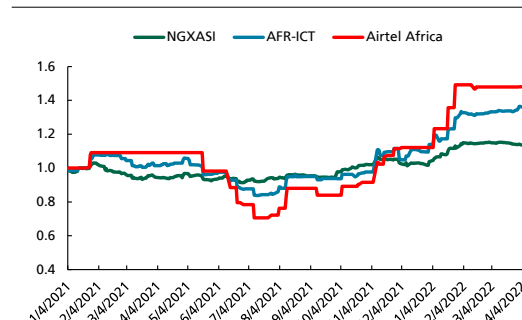
Source: NGX, Bloomberg, Afrinvest Research

Chart 14: Airtel Africa's Ownership Structure



Source: Company Filings, Afrinvest Research

Chart 15: Airtel Africa vs NGX ASI and AFR-ICT index



Source: NGX, Bloomberg, Afrinvest Research

growth in ARPU. We project PAT would rise by 45.9% y/y to \$606.0m due to a 33.7% increase in operating profit and a 5.3% moderation in net finance cost.

Valuation

In the valuation of Airtel Africa, we adopted a blend of absolute (50.0%) and relative (50.0%) valuation. Under the absolute valuation, we employed the Discounted Free Cash Flow method, Dividend Discount Model and Residual Income Method while we employed the Price to Earnings (P/E) Ratio and EV/EBITDA methodologies under the relative valuation in arriving at a target price for Airtel Africa. The assumptions underlining our valuations were cost of equity of 22.9% (a beta of 1.3x, risk free rate of 12.4% & risk premium of 9.7%) and a sustainable growth rate of 4.0%. This was used to derive a blended 12-month target price (TP) of ₦952.83, a 74.9% increase from the previous TP of ₦544.82. This represents a downside of 24.4% from current price of ₦1260.40 (04/08/2022). Hence, we issue a "SELL" rating for the shares of Airtel Africa.

Company Analysis

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Chart 16: Airtel Africa's Financial Highlights

	FY:2021A	FY:2022E	FY:2023F
Revenue (\$'Bn)	3.9	4.7	5.2
EBITDA (\$'Bn)	1.8	2.2	2.5
Pre-tax Income (\$'Bn)	0.7	1.1	1.2
Net Income (\$'Bn)	0.4	0.6	0.7
Total Assets (\$'Bn)	10.0	10.6	11.0
Shareholder Funds (\$'Bn)	3.8	3.8	3.8
OPEX Ratio (%)	54.2%	53.7%	52.2%
EBITDA Margin (%)	45.9%	46.1%	47.7%
PAT Margin (%)	8.7%	11.0%	11.1%
ROAE (%)	10.2%	14.0%	12.9%
ROAA (%)	3.5%	5.1%	5.3%
EPS (\$)	0.09	0.14	0.15
DPS (\$)	0.05	0.04	0.05
Earnings Yield (%)	3.8%	4.6%	6.7%
Dividend Yield (%)	2.0%	1.4%	2.2%

Source: Company Filings, Afrinvest Research

Chart 17: Valuation Summary

Valuation Methodologies		Weighting
Relative Valuation Methodology		
EV/EBITDA Valuation Methodology		50.0%
Average EV/EBITDA	6.94x	
Forecast EBITDA (\$'m)	2,191.5	
Enterprise Value (\$'m)	15,212.0	
Target Price (NGN)	1,385.07	
P/E Valuation Methodology		
Valuation P/E	18.68x	
Forecast EPS (\$)	0.14	
Target Price (NGN)	1,083.05	
Absolute Valuation Methodology		
Valuation Metrics		50.0%
Risk Free Rate (%)	12.4%	
Beta	1.26	
Cost of Equity (%)	22.9%	
Sustainable Growth Rate (%)	4.0%	
Discounted Cash Flow (DCF)	544.60	
Dividend Discount Model (DDM)	79.93	
Residual Income Model (RIM)	142.57	
Blended Target Price		NGN 952.83
Upside/Downside Potentials		-24.4%

Source: Afrinvest Research

MTN NIGERIA COMMUNICATIONS PLC

MTN Nigeria Communications Plc	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Financial Metrics (₦'million)										FORECAST HORIZON			
Turnover	824,807	807,449	793,673	887,180	1,039,118	1,169,832	1,346,390	1,654,299	1,856,123	2,041,736	2,200,991	2,324,247	2,403,271
Gross Profit	732,312	686,584	609,143	698,732	842,162	952,497	1,097,201	1,386,360	1,555,485	1,714,096	1,846,695	1,951,272	2,016,414
EBITDA	479,349	433,920	355,705	346,395	450,944	625,031	685,636	877,071	966,187	1,064,847	1,145,704	1,209,864	1,248,596
Operating Profit (EBIT)	328,930	18,439	232,350	195,929	263,889	393,225	426,609	584,747	639,452	723,466	785,111	834,179	859,187
Profit before Tax	290,606	-12,335	126,651	107,890	221,343	291,277	298,874	436,687	514,482	602,158	666,916	723,976	754,734
Profit After Tax	209,027	-80,290	88,800	81,070	145,686	203,283	205,214	298,654	367,854	430,543	476,845	517,643	539,635
Non-current Asset	633,564	695,431	796,009	785,587	795,626	1,282,077	1,573,602	1,707,594	1,784,051	1,870,756	1,944,548	2,006,368	2,056,953
Total Asset	977,077	992,889	1,026,806	969,608	941,740	1,502,283	1,963,543	2,259,555	2,496,140	2,689,193	2,870,054	3,065,192	3,175,795
Net Asset	171,162	-	10,957	78,169	112,852	219,352	145,857	178,386	264,981	338,552	424,660	520,029	623,558
Margins													
Cost to Sales Ratio	11.2%	15.0%	23.3%	21.2%	19.0%	18.6%	18.5%	16.2%	16.2%	16.0%	16.1%	16.0%	16.1%
Gross Profit Margin	88.8%	85.0%	76.7%	78.8%	81.0%	81.4%	81.5%	83.8%	83.8%	84.0%	83.9%	84.0%	83.9%
OPEX Margin	30.7%	31.3%	31.9%	39.7%	37.6%	28.0%	30.6%	31.7%	31.7%	31.8%	31.8%	31.9%	31.9%
EBITDA Margin	58.1%	53.7%	44.8%	39.0%	43.4%	53.4%	50.9%	53.0%	52.1%	52.2%	52.1%	52.1%	52.0%
EBIT Margin	39.9%	2.3%	29.3%	22.1%	25.4%	33.6%	31.7%	35.3%	34.5%	35.4%	35.7%	35.9%	35.8%
PBT Margin	35.2%	-1.5%	16.0%	12.2%	21.3%	24.9%	22.2%	26.4%	27.7%	29.5%	30.3%	31.1%	31.4%
PAT Margin	25.3%	-9.9%	11.2%	9.1%	14.0%	17.4%	15.2%	18.1%	19.8%	21.1%	21.7%	22.3%	22.5%
ROAE	112.3%	-100.2%	264.2%	84.9%	87.7%	111.3%	126.6%	134.7%	121.9%	112.8%	101.0%	90.5%	79.6%
ROAA	21.6%	-8.2%	8.8%	8.1%	15.2%	16.6%	11.8%	14.1%	15.5%	16.6%	17.2%	17.4%	17.3%
Liquidity													
Current Ratio (x)	1.18x	0.54x	0.64x	0.57x	0.44x	0.67x	0.78x	0.80x	1.08x	1.14x	1.20x	1.30x	1.35x
Quick Ratio (x)	1.17x	0.53x	0.62x	0.56x	0.44x	0.67x	0.78x	0.79x	1.08x	1.14x	1.20x	1.29x	1.34x
Cash ratio (x)	0.71x	0.36x	0.41x	0.28x	0.16x	0.35x	0.55x	0.38x	0.78x	0.74x	0.81x	0.88x	0.90x
Du-Pont Analysis													
ROE	122.1%	732.8%	113.6%	71.8%	66.4%	139.4%	115.0%	112.7%	108.7%	101.4%	91.7%	83.0%	73.8%
Net Margin	25.3%	-9.9%	11.2%	9.1%	14.0%	17.4%	15.2%	18.1%	19.8%	21.1%	21.7%	22.3%	22.5%
Asset Turnover (x)	0.84x	0.81x	0.77x	0.91x	1.10x	0.78x	0.69x	0.73x	0.74x	0.76x	0.77x	0.76x	0.76x
Leverage (x)	5.71x	-90.62x	13.14x	8.59x	4.29x	10.30x	11.01x	8.53x	7.37x	6.33x	5.52x	4.92x	4.34x

AIRTEL AFRICA PLC

Airtel Africa Plc	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Financial Metrics (\$'million)										
	FORECAST HORIZON									
Turnover	2,884	2,910	3,077	3,422	3,908	4,749	5,176	5,590	6,038	6,521
EBITDA	842	1,139	1,332	1,515	1,793	2,192	2,469	2,716	2,990	3,303
Adj. Operating Profit (EBIT)	195	599	796	905	1,133	1,501	1,648	1,763	1,840	1,891
Profit before Tax	-652	-9	348	598	697	1,052	1,195	1,310	1,380	1,426
Profit After Tax	-630	-138	388	370	339	523	574	604	606	592
Non-current Asset	7,931	7,547	7,685	7,654	8,087	7,929	8,144	8,303	8,494	8,689
Total Asset	8,602	8,506	9,106	9,325	9,992	10,553	11,013	11,409	11,838	12,303
Net Asset	-998	-1,317	2,430	3,281	3,353	4,140	4,782	5,084	5,415	5,876
Margins										
OPEX Margin	71.36%	61.79%	58.37%	55.70%	54.22%	53.69%	52.18%	51.30%	50.39%	49.29%
EBITDA Margin	29.20%	39.14%	43.29%	44.27%	45.88%	46.15%	47.69%	48.59%	49.53%	50.65%
EBIT Margin	6.76%	20.58%	25.87%	26.45%	28.99%	31.60%	31.84%	31.55%	30.47%	29.01%
PBT Margin	-22.6%	-0.3%	11.31%	17.48%	17.84%	22.16%	23.09%	23.43%	22.86%	21.87%
PAT Margin	-21.8%	-4.7%	12.61%	10.81%	8.67%	11.02%	11.10%	10.81%	10.04%	9.09%
ROAE	63.13%	11.92%	69.72%	12.96%	10.22%	13.96%	12.88%	12.25%	11.55%	10.49%
ROAA	-7.3%	-1.6%	4.41%	4.01%	3.51%	5.09%	5.33%	5.39%	5.22%	4.91%
Liquidity										
Current Ratio (x)	0.20x	0.20x	0.46x	0.67x	0.54x	0.85x	0.94x	1.01x	1.05x	1.16x
Quick Ratio (x)	0.20x	0.20x	0.46x	0.67x	0.54x	0.84x	0.93x	1.00x	1.05x	1.15x
Cash ratio (x)	0.15x	0.16x	0.45x	0.67x	0.46x	0.71x	0.79x	0.85x	0.88x	0.97x
Du-Pont Analysis										
ROE	63.13%	10.48%	15.97%	11.28%	10.11%	12.64%	12.01%	11.89%	11.20%	10.08%
Net Margin	-21.8%	-4.7%	12.61%	10.81%	8.67%	11.02%	11.10%	10.81%	10.04%	9.09%
Asset Turnover (x)	0.34x	0.34x	0.34x	0.37x	0.39x	0.45x	0.47x	0.49x	0.51x	0.53x
Leverage (x)	-8.62x	-6.46x	3.75x	2.84x	2.98x	2.55x	2.30x	2.24x	2.19x	2.09x



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For more details on company specific valuation methodologies, upside/downside risks to current valuation, contact the primary analyst or email research@afrinvest.com

	BUY	ACCUMULATE	HOLD	REDUCE	SELL	Total
Telecoms Universe	1	0	0	0	1	2
% distribution	50.0%	0.0%	0.0%	0.0%	50.0%	100.0%



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