

A new dawn for MTN?

In 1994, the dawn of South Africa's democracy, the first call was made on MTN's network. There were four million landlines in SA and only 1% of black South Africans owned a phone. Despite many bumps along the road, MTN is now the largest mobile network provider on the African continent and the 9th largest globally with 279.6 million subscribers. Although it is active in 21 countries, 32% of MTN's revenue comes from Nigeria where risks and rewards are finely balanced. This article will look at the current trends creating opportunities within sub-Saharan Africa (SSA) as well as MTN's new CEO, Ralph Mupita's, plans to drive a recovery.

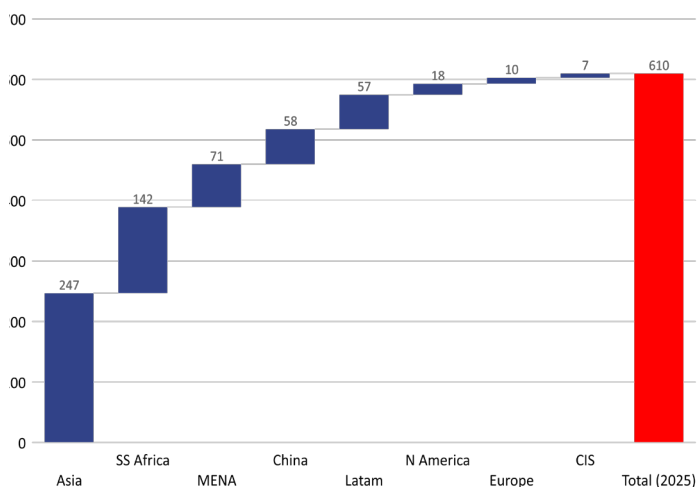


Nick Rogers

MTN has risen 52% so far in 2021 making it the best performer in the JSE Top 40, albeit off a very low base. After years of volatility post 2015 when it received a fine of \$3.2 billion from the Nigerian authorities, has the turnaround strategy finally begun to bear fruit? Whilst the demographic dividend of SSA will drive medium term growth, it is the huge acceleration of the adoption of digital technology, thanks in part to

COVID-19, along with certain strategic initiatives taken by the company, which are combining to create a potential tailwind for MTN. It is still early days but momentum is currently on its side.

GLOBAL MOBILE SUBSCRIBER GROWTH (MILLIONS)



The number of new mobile subscribers is expected to rise by almost 600 million over the next four years to 2025, largely driven by Asia and Sub-Saharan Africa.

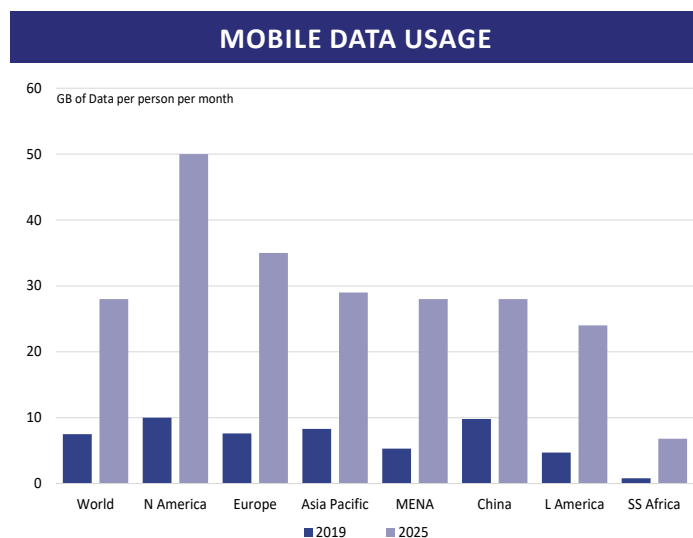
SPEED READ

- Average data usage across SSA is estimated to rise from 0.8 Gigabytes (GB) per subscriber per month to 6.8 GB by 2025, a twelvefold increase.
- MTN's asset realization plan aims to unlock capital of R25 billion over three to five years whilst its Fintech operations may be worth a further R33 to R45 per MTN share, both positive for the debt burden.
- Globally, the average time spent on a mobile device is set to increase to 155 minutes/day in 2021, 10.7% of the day!

Firstly, let's analyse the outlook for the global telecoms sector where COVID-19 has been a tailwind and accelerated digital transformation. At the start of 2020, 67% of the global population had subscribed to a mobile network. By 2025, it is estimated that there will be over 600 million new subscribers, bringing the total to 5.8 billion or 70% of the world's population (according to GSMA). Importantly, approximately 23% of those new subscribers will come from SSA, dominated by Nigeria. This still leaves 50% of SSA citizens without a mobile phone post 2025 - a massive opportunity for MTN.

As the world of technology plays a growing role in our lives, globally the 'Internet of Things' (IoT) will see connected devices double from 12 billion to 24 billion by 2025. These devices rely mainly on mobile data to "talk" to each other, for example "smart" homes, TVs, fridges, cars buildings, security etc. The graph below illustrates the exponential growth forecast globally with SSA average data usage set to rise from 0.8GB per subscriber/pm to 6.8GB. MTN's 2020 average data usage per subscriber soared by 60% to 4.4GB

per month. Historically, affordability has been a barrier to mobile adoption, however, things are changing rapidly. For instance, MTN SA has just announced a new deal - 20GB for R149 per month versus the current cost of R99 per 1GB of data. Higher data usage will also be driven by spending more time on our phones. The global average time spent on a mobile device is set to increase to 155 minutes/day in 2021 or put simply, we are likely to spend 10.7% of each day glued to our screens. No doubt there will be a price war as firms compete for market share. But this increased affordability and expected ramp-up in users will drive data usage – whether it's from streaming Netflix, working from home, or sending Whatsapp videos. This trend is permanent and MTN is well placed to benefit.

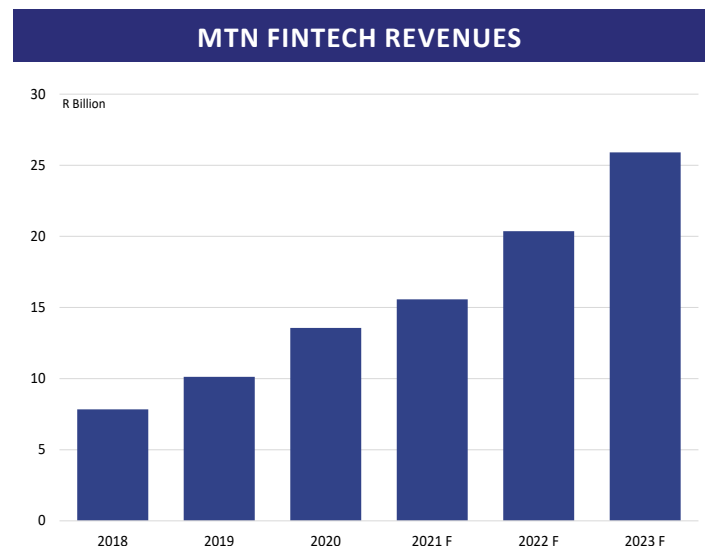


Mobile data usage is expected to rise fourfold over the next four years, but twelvefold in Sub-Saharan Africa.

By far the largest opportunity comes from SSA's unique demographic dividend where 50% of the population are under the age of 35. That translates into millions of potential new subscribers, as well as up to 500 million potential new mobile money accounts. Mobile money refers to digital bank accounts where no physical bank branch/ATM is required. Those new accounts, in turn, could translate into \$500 billion worth of digital commerce by 2030. In Africa, the mobile money agent, who is responsible for selling cellphone products into rural areas, is crucial since they have 7x the reach of ATMs and 20x the reach of physical bank branches! This is where MTN has been laying the groundwork. Its Fintech business is growing rapidly albeit off a small base.

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It includes mobile money (MoMo) - which bypasses banks to allow subscribers to send and receive money and make payments using electronic wallets on their mobile handsets. Popular transactions include paying for insurance, buying and lending airtime, and e-commerce. Evidence of mobile money's popularity is that merchants accepting MTN's MoMo products increased by 115% last year to 440 000. Currently, Fintech only makes up 8% of Group revenues



Fintech is a fast-growing, and lucrative, part of MTN's business. African fintech businesses are also catching the eye of large global investors, giving MTN options to unlock value for current shareholders.

but MTN is targeting for this to rise to 20% over the next 5 years. Is this possible? Fintech revenue rose by 24% and the value of MoMo transactions was \$152 billion in 2020. This was achieved by processing 12,400 transactions per minute (up 35% from 9,200 in 2019).

Like so many of its peers, one of the biggest concerns over the years has been the company's large debt balance – currently R50 billion. Whilst at a Group level leverage remains very comfortable and net debt-to-EBITDA improved further to 0.8x, the devil is in the detail. Complicating the issue is the inability to repatriate R4.2 billion of accrued dividends from

Nigeria due to a lack of foreign exchange in that country. If that cash is excluded, Net Debt / EBITDA ratio rises to 2.2x, above MTN's internal targets. The recent rally in the oil price is positive for the Nigerian economy and may help to

increase the availability of foreign exchange given that oil is Nigeria's largest export. However, any material decrease in the oil price is negative for the region and MTN due to the correlation with GDP for countries such as Nigeria and Ghana (MTN's 3rd largest market.)

To address the debt issue, MTN announced a strategic initiative called "Ambition 2025" wherein it is looking to realise R25 billion of value by either selling or listing separately various assets within its sprawling empire - assets such as its fibre and fintech divisions. However, it has already made significant progress in its debt-reduction targets through other actions, including:

1. MTN cancelled its 2020 final dividend which saved the company R6.4 billion and has bolstered the balance sheet enormously. Whilst disappointing for shareholders, it has guided to a minimum 260cps dividend for 2021. In addition, the Board will consider returning further cash to shareholders in the form of special dividends or share repurchases if circumstances allow it.
2. The Asset Realisation Programme (ARP) aims to raise R25 billion by 2025 and a listing of its 29% stake in IHS Towers Group which is valued at R27 billion alone illustrates the potential. Further unlocking of value as mentioned above underscores the value that the company could unlock for its shareholders.

3. Exiting its entire Middle East businesses may take time but is positive for de-risking away from geopolitical hotspots.
4. After the successful listings of its Nigerian and Ghanaian businesses on the local exchanges, the listing of MTN

Rwanda is next, and will raise \$365 million. This is part of MTN's plan to promote local share ownership whilst also providing liquidity for existing shareholders. Local ownership should also reduce political meddling like we have seen in Nigeria over the years.

5. In South Africa, MTN launched 5G in June last year, and now has more than 150 active 5G sites across the main cities. It plans to invest approximately R29,1 billion in their network, fintech and digital services platforms in 2021 to support "Ambition 2025".

The share price has already reacted to some of these unfolding trends and provided a sorely needed boost to sentiment which has been missing for years. The turnaround strategy to pay down debt and focus on core businesses, started by former CEO, Rob Shuter, is definitely bearing fruit and the new CEO is a safe pair of hands. Doing business in Africa is not for the faint-hearted and the geopolitical risks are never far away. However, momentum is currently moving in the right direction as digital adoption globally takes centre stage.

"In South Africa MTN launched 5G in June last year and now has more than 150 active 5G sites "



The African growth potential is there for MTN provided they deliver on their strategic goals.



We are excited to announce the resumption of our seminar program in April. Our first seminar will remind investors of what we have endured over the past 12 months, and what lies ahead for the rest of 2021.

Please save the date below. Please note that due to Covid protocols, numbers are strictly limited to 100 per session, and only drinks (no food) will be served. Booking is therefore essential.



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Topic: **Exiting the Recession: what lies ahead?**

Natal Midlands

Date:	TBA
Venue:	Fernhill Hotel Midmar / Tweedie Road Howick
Morning Time:	10am for 10.30am
Evening Time:	5.30pm for 6pm

Johannesburg

Date:	06 May 2021
Venue:	Rosebank Union Church, Cnr William Nichol and St Andrews Road, Hurlingham
Time:	7am for 7.30am

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