MTN Nigeria Communications Plc

Unaudited Results for the Quarter Ended 31 March 2023

MTN NIGERIA RELEASES UNAUDITED RESULTS FOR THE QUARTER ENDED 31 MARCH 2023

Lagos | Nigeria: 27 April 2023

Today, MTN Nigeria Communications Plc (MTN Nigeria) announces its unaudited results for the quarter ended 31 March 2023.

Salient points:

- Mobile subscribers increased by 9.4% to 76.7 million
  - Added 1.1 million subscribers in Q1 2023
- Active data users increased by 14.7% to 41.2 million
  - Added 1.7 million active users in Q1 2023
- Active mobile money (MoMo PSB) wallets increased by 1.2 million in Q1 to 3.2 million
- Service revenue increased by 20.5% to N565.9 billion
- Earnings before interest, tax, depreciation and amortisation (EBITDA) grew by 17.7% to N302.7 billion
- EBITDA margin declined by 1.3 percentage points (pp) to 53.3%
- Profit before tax (PBT) grew by 8.5% to N155.8 billion
- Earnings per share (EPS) rose by 3.8% to N4.94 kobo
- Capital expenditure (Capex) declined by 25.8% to N120.5 billion (down 47.8% to N42.4 billion, excluding the right-of-use assets)

Unless otherwise stated, financial information is year-on-year (YoY, Q1 2022 versus Q1 2023).

MTN Nigeria CEO, Karl Toriola comments:

Navigating a challenging operating environment

"We continued to experience headwinds in our operating environment in the first quarter of 2023. The impacts of the ongoing global macroeconomic and geopolitical developments on energy, food and general inflation were exacerbated locally by petrol and cash shortages experienced during the period. This placed additional pressure on economic activity, consumers and businesses. The private sector experienced the deepest contraction in March 2023 since the recovery from the COVID-19 pandemic, driving down the PMI index to 42.3 points from 44.7 points in February 2023.

The inflation rate in Nigeria rose to a 17-year high of 22% in March 2023, representing the third consecutive month-on-month increase in 2023, with an average of 21.9% in the quarter. In addition, supply chains were compounded by exchange rate volatility and the availability of foreign currency needed for capex. To curb rising inflation, the Central Bank of Nigeria (CBN) *continued its monetary policy tightening, increasing the Monetary Policy Rate by 1.5pp to 18% in Q1.*

In October 2022, the CBN announced the redesign and introduction of new naira notes in N200, N500, and N1,000 denominations, effective 15 December 2022. The CBN indicated that the new and existing currencies will remain legal tender until 31 January 2023, when the existing currencies cease to be legal tender. Banks' customers were encouraged to pay the existing currencies into their bank accounts to enable them to withdraw the new banknotes once circulation began. The limited availability of the new notes resulted in cash shortages, which impacted our customers' ability to recharge through physical airtime vouchers (affecting mostly customers who did not have access to digital recharge channels) and over-the-counter (OTC) transactions within our MoMo agent network. The cash shortages affected the broader macroeconomy, with a consequent significant impact on the private sector.

Against this backdrop, we continued to manage the business and invest in the resilience of our networks, expanding coverage and capacity with a focus on cost efficiencies and disciplined capital allocation. This underscored our strong commercial momentum and financial performance in line with our medium-term guidance.

Creating shared value for our stakeholders

We continued progressing on our Environmental, Social and Governance (ESG) journey as it remains at the core of everything we do. Regarding progress towards our net zero target, we will build on the work done in 2022, which reduced our Scope 1 and 2 emissions by 25%. This was achieved by leveraging the latest technologies and service partnerships to deliver greater energy efficiencies.

In furtherance of our work to build sustainable societies, we continue striving towards 50% women representation in the workplace by 2030, reaching 36.2%, up 0.8pp from December 2022. In addition, we continued to expand broadband access to drive digital inclusion.

We deployed N374.7 million into corporate social investment programmes in Q1 through the MTN Nigeria Foundation. These programmes included medical outreach to over 50,000 people in about 600 communities and the empowerment of 101 women through the Y'elloprenuer initiative. Furthermore, science laboratories in two public secondary schools were renovated and fully upgraded to aid the teaching and learning of science subjects.

At the Annual General Meeting held on 18 April 2023, the shareholders approved a final dividend of N10 per share (N203.5 billion). This brings the total dividend for FY 2022 to N15.6 (N317.5 billion), up 18.9% from 2021, demonstrating economic value added to our shareholders. The shareholders also approved a scrip dividend option as an alternative form of shareholder return to a cash dividend. Following the outcome of the scrip dividend election *exercise, 641,047,053 new ordinary shares representing 79.8% of the FY 2022 final dividend will be issued and allotted once all requisite regulatory approvals have been obtained.*

Solid commercial and financial momentum

Building on our momentum in Q4 2022, we delivered several key milestones as we grew our connectivity business and platforms. Our mobile subscriber net addition was 1.1 million in the quarter, demonstrating the effectiveness of our churn management initiatives and interventions to ramp up gross connections.

Active data subscribers rose by 1.7 million, benefitting from our efforts to drive data conversion in new and existing subscribers. During the quarter, we focused on enhancing the capacity and coverage of our 4G and 5G networks, which supported rising data traffic. Our total data traffic increased by 50.3%, while 4G traffic constitutes 81.6% (up by 5.5pp). In addition, we rolled out additional 170 5G sites in Q1, bringing the population coverage to 4% and expanding the network experience to more smartphone users.

We continued to progress in building our fintech ecosystem and executing its growth strategy by reopening the Nigerian Interbank Settlement System (NIBSS) interface for inbound and outbound transfers and strengthening our control systems, enabling us to accelerate full commercial activities and grow active wallets. As a result, active MoMo PSB wallets rose by 1.2 million in Q1 to 3.2 million, accounting for 43.2% of our fintech users. However, the impact of the cash shortages during the period slowed OTC transactions, resulting in a 31.1% reduction in our total fintech users to 7.4 million. However, our base began to recover towards the end of March as cash shortages eased.

Our strong commercial momentum underpinned the solid growth across all revenue lines. As a result, we recorded a 20.5% increase in service revenue in line with our medium-term growth guidance. We continued to unlock efficiencies and cushion the effect of the rising cost pressures through the disciplined execution of our expense efficiency programme. As a result, EBITDA grew by 17.7% while EBITDA margin declined by 1.3pp to 53.3% but remained within our medium-term guidance range.

As we manage the increased pressures in the macro economy and our business, we will continue to focus on extracting efficiencies and driving operating leverage to support growth in earnings, cash flow and returns over the medium term."

Key financial highlights

Items (in millions)	Q1 2023	Q1 2022	YoY
Total Revenue	**568,136**	**470,984**	**20.6%**
Service Revenue	565,937	469,819	20.5%
Voice	277,610	258,766	7.3%
Data	227,840	162,731	40.0%
Digital	7,211	5,108	41.2%
Fintech	22,689	20,893	8.6%
Other Service Revenue	30,586	22,322	37.0%
Expenses	265,486	213,836	24.2%
Cost of Sales	91,987	79,569	15.6%
Operating Expenses	173,499	134,267	29.2%
EBITDA	302,650	257,148	17.7%
EBITDA Margin	53.3%	54.6%	-1.3pp
Depreciation & Amortisation	96,031	77,821	23.4%
Net Finance Costs	50,835	35,738	42.2%
Profit Before Tax	155,784	143,588	8.5%
Taxation	54,481	46,769	16.5%
Profit After Tax	101,303	96,819	4.6%
Profit attributable to:			
Owners of the company	**100,491**	**96,819**	**3.8%**
Non-controlling interest	812	-	
	101,303	96,819	4.6%
Capital Expenditure	120,547	162,484	-25.8%
Capital Expenditure excluding Right of Use Assets	42,371	81,165	-47.8%
Capex Intensity	21.2%	34.5%	-13.3pp
Capex Intensity excluding Right of Use Assets	7.5%	17.2%	-9.8pp
Free Cash Flows	182,103	94,664	92.4%
Mobile Subscribers	76.7	70.2	9.4%
Data Subscribers	41.2	35.9	14.7%
Fintech Subscribers	7.4	10.7	-31.1%
Ayoba	6.7	3.4	100.1%

Operational and financial review

Service revenue grew by 20.5% on solid voice, data, fintech and digital services growth. This was supported by the increased subscriber base and usage of our services. Our mobile subscriber base rose 9.4% to 76.7 million, the highest level since our operations commenced in 2001. However, the cash shortages experienced during the period impacted customers' ability to recharge through physical vouchers. It also resulted in migration to digital recharge platforms, mitigating the impact. Consequently, **voice** revenue rose 7.3% on increased usage supported by our revamped voice proposition, customer value management (CVM) initiatives and rural coverage.

Data revenue rose by 40.0% on the sustained growth of our active data users and increased data usage. This was enabled by our sustained investment in our networks to drive 4G and 5G coverage and enhance the quality and capacity of the network to support the rising data traffic. As a result, our 4G network now covers 79.3% of the population, up from 79.1% in December 2022, and data usage (GB per user) grew by 31.3% to 7.8GB. In addition, we added over 804k new smartphones to our network in Q1, bringing smartphone penetration to 52.7%.

We continued to advance our home broadband penetration by adding 169k users in Q1, bringing our user base to 1.4 million. This was supported by deploying our 5G fixed wireless access devices, mobile broadband solutions and fibre-to-the-home connectivity.

Fintech revenue increased by 8.6%. Growth was led by revenue from our core fintech services (wallet and super-agent business, up 63.8%) but moderated by the impact of the cash shortages, which affected Xtratime (our airtime advance product, up 5.3%). The cash shortages also impacted transactions on our OTC platform.

Having successfully reopened the NIBSS interface for both inbound and outbound transfers and strengthened our control systems, we are well-positioned to drive the growth of active wallets and merchant ecosystem as consumer education and commercial activities progress. We expanded our MoMo agent network further by adding over 40k active agents, bringing the total number to approximately 264k. Our agent network is pivotal in our MoMo ecosystem, bringing the service closer to our customers.

Digital revenue grew by 41.2% as the adoption of our digital products continues to grow with user journey optimisation and the growth of the active base, up 58.4% to 11.7 million. Revenue growth was driven mainly by rich media services, supported by mobile advertising and content VAS. We continued to expand our rich media services portfolio with our recent partnerships with Amazon and Apple to bring Amazon Prime Video and Apple Music, respectively, to our customers.

In addition, our instant messaging platform, Ayoba, continued to gain traction with the addition of over 1.5 million users. This brought the monthly active users to 6.7 million in Q1. Furthermore, service revenue from **the enterprise business** rose by 57.1%, led by the mobile and fixed connectivity services and underpinned by onboarding new customers across all segments.

On expenses, the continued impact of foreign exchange availability, naira depreciation and higher consumer price index (CPI) adjustments on lease rental costs, the new site rollouts, and rising energy costs exerted upward pressure on **operating expenses** (Opex), resulting in a 29.2% increase. However, the impact of the higher Opex was moderated by the cost savings realised from our expense efficiency programmes and our disciplined approach to capital allocation. In addition, we achieved a reduction in the growth rate of cost of sales to 15.6%, resulting in a 24.2% increase in total expenses.

Overall, we delivered EBITDA growth of 17.7%, while the EBITDA margin declined by 1.3pp to 53.3% but remained within our medium-term guidance range of 53% - 55%.

Depreciation and amortisation rose by 23.4% due to the 5G spectrum licence cost amortisation, increased site rollout, naira depreciation, and higher CPI. Net finance costs increased by 42.2% due to higher borrowings and interest rates. It was also impacted by foreign exchange losses arising from naira depreciation.

Profit before tax increased by 8.5%, while **Profit after tax** (excluding non-controlling interest) increased by 3.8%, occasioned by the higher effective tax rate mainly due to an increase in the Tertiary education tax and a reduction in deferred tax assets recognised in 2022.

Our pace of **capex** accretion in Q1 was impacted mainly by the paucity of foreign exchange and supply chain challenges. This led to a 25.8% decline to N120.5 billion, off a high base in the prior year following an accelerated capex in Q1 2022. Despite this, we continued to expand our network coverage, focusing on the 4G and 5G networks and our rural telephony programme. As a result, core Capex, excluding the right-of-use assets, was down by 47.8% to N42.4 billion, and Capex intensity was 7.5%. Consequently, free cash flow was up by 92.4% to N182.1 billion. We anticipate a ramp-up in capex during the rest of the year as we pursue growth opportunities and strive to mitigate foreign exchange and supply chain risks.

Lastly, our funding and liquidity remain well-managed, supported by our healthy cash flows and approved facilities. Our foreign currency exposure remains within manageable limits, with about 90% of our total debts denominated in local currency, excluding short-term trade loans for letters of credit establishment. In addition, our debt metrics remain well within all our financial covenants, with a net debt to EBITDA ratio of 0.2 times. As a result, we can comfortably meet our operational, financial and capex investment obligations while maintaining dividend payouts to our shareholders in line with our policy.

Outlook

The first quarter of the year remained challenging due to the rising food and energy inflation, supply chain challenges, and local currency and foreign exchange availability. However, as the rest of the year unfolds, we will continue to invest to support the resilience and growth of our business, taking advantage of opportunities embedded within our connectivity and platform businesses such as fintech.

Our focus is to continue enhancing the capacity of our network, accelerating 4G and 5G coverage to accommodate the rising data traffic and expanding rural coverage. We will continue to drive our home broadband strategy leveraging our 5G fixed wireless access device penetration and increased fibre deployment in key clusters to capture a significant share of market growth.

We have commenced commercial activities to enable us to drive the uptake of our MoMo PSB wallets, providing more advanced services across our fintech verticals. We remain confident that the structures we have put in place will support the execution of our growth strategy and scale our fintech ecosystem in line with our Ambition 2025 strategy.

The business started to recover from the effects of the cash shortages at the end of March, with the normalisation of transaction activities expected to continue for the rest of the year. As we invest in our business to further strengthen our commercial operations, we will focus on expense efficiencies and disciplined capital allocation to support earnings and cash flow generation.

We will continue to monitor our trading environment as the year unfolds and manage the near-term effects of inflation and foreign exchange rates on the business. The extent of these factors, along with the ability to effect tariff increases, remain the key nearer-term risks to our medium-term guidance. Cognisant of these risks, we continue to target service revenue growth of "at least 20%" and EBITDA margin guidance range of 53-55% over the medium term. We continue to implement our commercial strategies to drive top-line growth, focus on our efficiency initiatives and engage the authorities in relation to necessary regulated tariff increases in the current high-inflation environment.

Finally, we remain committed to executing our Ambition 2025 strategy to sustain the growth and profitability of the business to the benefit of all our stakeholders.

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About MTN Nigeria

MTN Nigeria is one of Africa's largest providers of communications services, connecting over 76 million people in communities across the country with each other and the world. Guided by a belief that everybody deserves the benefits of a modern connected life, MTN Nigeria's leadership position in coverage, capacity and innovation has remained constant since its launch in 2001. MTN Nigeria is part of the MTN Group - a multinational telecommunications group which operates in 19 countries in Africa and the Middle East.

Visit www.mtn.ng for more information.

Condensed consolidated and separate statement of profit or loss

	Group		Company	
In millions of Nigerian Naira	3 months ended 31 March 2023	3 months ended 31 March 2022	3 months ended 31 March 2023	3 months ended 31 March 2022
Revenue	**568,136**	**470,984**	**567,677**	**470,691**
Direct network operating costs	(136,645)	(107,275)	(136,568)	(107,275)
Value added services costs	(5,888)	(5,712)	(5,888)	(5,712)
Costs of starter packs, handsets and accessories.	(6,311)	(3,977)	(6,311)	(3,977)
Interconnect costs	(37,173)	(35,539)	(37,173)	(35,539)
Roaming costs	(1,531)	(1,215)	(1,531)	(1,215)
Transmission costs	(2,087)	(2,007)	(2,087)	(2,007)
Discounts and commissions	(26,778)	(21,790)	(25,741)	(21,324)
Advertisements, sponsorships and sales	(9,367)	(5,951)	(6,720)	(5,726)
Employee costs	(12,101)	(10,997)	(10,852)	(10,782)
Other operating expenses	(27,605)	(19,373)	(36,782)	(18,177)
Depreciation of property and equipment	(49,776)	(40,979)	(49,776)	(40,979)
Depreciation of right of use assets	(29,048)	(24,566)	(29,048)	(24,566)
Amortisation of intangible assets	(17,207)	(12,277)	(15,877)	(10,947)
Operating profit	206,619	179,326	203,323	182,465
Finance income	7,214	4,587	6,767	4,543
Finance costs	(58,049)	(40,325)	(58,049)	(40,325)
Profit before taxation	155,784	143,588	152,041	146,683
Taxation	(54,481)	(46,768)	(53,166)	(47,697)
Profit for the period	**101,303**	**96,820**	**98,875**	**98,986**
Profit attributable to:				
Owners of the company	**100,491**	**96,820**	**98,875**	**98,986**
Non-controlling interest	812	-	-	-
	101,303	96,820	98,875	98,986
Basic/diluted to the owners of the company (N)	**4.94**	**4.76**	**4.86**	**4.87**

Condensed consolidated and separate statement of other comprehensive income

	Group		Company	
In millions of Nigerian Naira	**3 months ended 31 March 2023**	**3 months ended 31 March 2022**	**3 months ended 31 March 2023**	**3 months ended 31 March 2022**
Profit for the period	101,303	96,820	98,875	98,986
Items that may be reclassified to profit or loss				
Transfer of fair value reserve of investments designated at FVOCI*	(1,195)	52	(1,195)	52
Other comprehensive (loss)/income for the period net of taxation	(1,195)	52	(1,195)	52
Total comprehensive income for the period	**100,108**	**96,872**	**97,680**	**99,038**
Attributable to:				
Owners of the company	99,296	96,872	97,680	99,038
Non-controlling interest	812	-	-	-
	100,108	96,872	97,680	99,038

*Fair valuation gain on investments designated at fair value through other comprehensive income (FVOCI) is recognised on Federal Government treasury bills and bonds investments net of tax except for Federal Government bonds.

Condensed consolidated and separate statement of financial position

In millions of Nigerian Naira	31 March 2023	31 December 2022	31 March 2023	31 December 2022
Assets				
Non-current assets				
Property and equipment	929,961	928,357	929,961	928,357
Intangible assets	367,853	335,599	348,268	314,684
Right-of-use assets	701,240	652,110	701,240	652,110
Investments in subsidiaries	-	-	74,328	74,328
Other investments	10,332	10,585	10,332	10,585
Other non current assets	16,672	17,287	16,672	17,287
Deferred tax	9,495	11,018	-	-
	2,035,553	**1,954,956**	**2,080,801**	**1,997,351**
Current assets				
Inventories	3,848	3,678	3,848	3,678
Trade and other receivables	154,597	191,496	171,109	212,232
Current investments	44,961	20,288	42,026	17,406
Restricted cash	213,665	196,082	206,774	194,622
Cash and cash equivalents	564,992	349,500	549,164	324,244
	982,063	**761,044**	**972,921**	**752,182**
Total assets	**3,017,616**	**2,716,000**	**3,053,722**	**2,749,533**
Equity and liabilities				
Equity				
Share capital	407	407	407	407
Share premium	17,216	17,216	17,216	17,216
Treasury shares	(4,869)	(4,869)	(4,869)	(4,869)
Other reserves	469	1,664	469	1,664
Retained profit	420,310	319,819	469,539	370,664
Equity attributable to owners of the company	433,533	334,237	482,762	385,082
Non-controlling interest	2,257	1,445	-	-
	435,790	**335,682**	**482,762**	**385,082**
Liabilities				
Non-current liabilities				
Borrowings	424,005	439,463	424,005	439,463
Lease liabilities	703,818	662,655	703,818	662,655
Deferred tax liability	89,363	93,596	87,018	90,851
Provisions	43	43	43	43
Employee benefits	6,627	6,835	6,627	6,835
Other non-current liabilities	10,158	8,569	10,158	8,569
	1,234,014	**1,211,161**	**1,231,669**	**1,208,416**
Current liabilities				
Trade and other payables	522,773	514,892	522,769	514,206
Current tax payable	257,157	199,959	256,693	199,687
Borrowings	355,908	250,210	355,908	250,210
Lease liabilities	64,370	64,829	64,370	64,829
Contract liabilities	96,133	92,861	95,751	92,479
Provisions	41,556	42,087	40,574	31,562
Deposit held for MoMo customers	6,689	1,257	-	-
Derivatives	3,226	3,062	3,226	3,062
	1,347,812	**1,169,157**	**1,339,291**	**1,156,035**
Total liabilities	**2,581,826**	**2,380,318**	**2,570,960**	**2,364,451**
Total equity and liabilities	**3,017,616**	**2,716,000**	**3,053,722**	**2,749,533**

Condensed consolidated and separate statement of cash flows

	Group		Company	
In millions of Nigerian Naira	3 months ended 31 March 2023	3 months ended 31 March 2022	3 months ended 31 March 2023	3 months ended 31 March 2022
Cash flows from operating activities				
Cash generated from operations	311,863	264,719	321,685	266,307
Interest paid	(51,903)	(40,135)	(51,903)	(40,135)
Interest received	6,724	4,146	6,277	4,102
Employee benefits payments	(221)	(176)	(221)	(176)
Share based payments	(67)	-	(67)	-
Provisions payments	(5,265)	(1,112)	(5,265)	(1,112)
Net cash generated from operating activities	**261,131**	**227,442**	**270,506**	**228,986**
Cash flows from investing activities				
Acquisition of property and equipment	(23,964)	(52,156)	(23,964)	(52,156)
Acquisition of right of use assets	(6,120)	(5,073)	(6,120)	(5,073)
Proceeds from disposal of property and equipment	226	3,176	226	3,176
Purchase of contract acquisition costs	(860)	(719)	(860)	(719)
Sale of investment in non-current FGN bonds	256	260	256	260
Acquisition of intangible assets	(6,567)	(141,529)	(6,567)	(141,529)
Sale of bonds, treasury bills and foreign deposits	22,284	38,221	22,284	38,221
Purchase of bonds, treasury bills and foreign deposits	(49,109)	(24,086)	(49,056)	(24,086)
Increase in restricted cash	(12,152)	(64,453)	(12,152)	(64,225)
Net cash flows used in investing activities	**(76,006)**	**(246,359)**	**(75,953)**	**(246,131)**
Cash flows from financing activities				
Proceeds from borrowings	129,320	-	129,320	-
Repayment of borrowings	(57,858)	(12,090)	(57,858)	(12,090)
Repayment on lease liabilities	(35,323)	(17,362)	(35,323)	(17,362)
Net cash flows generated from/(used in) financing activitie	**36,139**	**(29,452)**	**36,139**	**(29,452)**
Net increase/(decrease) in cash and cash equivalents	221,264	(48,369)	230,692	(46,597)
Cash at the beginning of the period	349,788	261,494	324,532	247,628
Exchange loss on cash and cash equivalents	(5,886)	(2,269)	(5,886)	(2,269)
Cash and cash equivalents at the end of the period	**565,166**	**210,856**	**549,338**	**198,762**