

MTN

Communication services

Company Update Report


Hold

MTN leverages on Nigerian tariff adjustments to drive service revenue

Analyst recommendation

Counter	Share price	Intrinsic value	Upside
MTN-ZA	R121.7	R111	-9% downside

As of 20 March 2025

Executive summary

- Top line met management expectations; but cost inflation was elevated in this period from various Opcos weighing in on margins which were impacted by currency volatility and conflict in Sudan.
 - Blended inflation averaged 14.5% in 2024 compared to 16.7% in 2023.
 - Group EBITDA decreased by 33.5%. The EBITDA margin declined by 8.9 percentage points (pp) to 32.0%
- The balance sheet remains strong, with Group net debt/EBITDA at the holding company (Holdco) level steady at 0.7x as of 31 December 2024, compared to 0.4x on 31 December 2023.
 - Up streamed cash of R14.0 billion from MTN operating companies compared to R 13.4 billion FY23.
 - Despite encountering challenges, MTN maintains a strong liquidity position of R39.1 billion as of 31 December 2024, down from R50.1 billion in December 2023.
 - The board declared a dividend of 345 cents per share for FY24 which is a 4.5% increase from FY23.
 - MTN has successfully concluded the sale of MTN Guinea-Bissau and MTN Guinea-Conakry. The exit was driven by low market scale, profitability challenges and currency risks.
- Intrinsic value of R111.
 - a. The intrinsic value saw a 21% increase from the previous intrinsic value, driven by MTN's 50% tariff adjustment hike, successful renegotiation of tower leases, and a reduction in USD exposure.
 - b. Our bull case is still supported by the inherent valuation in the Fintech business, and we saw a glimpse of that in the recent Mastercard offer.

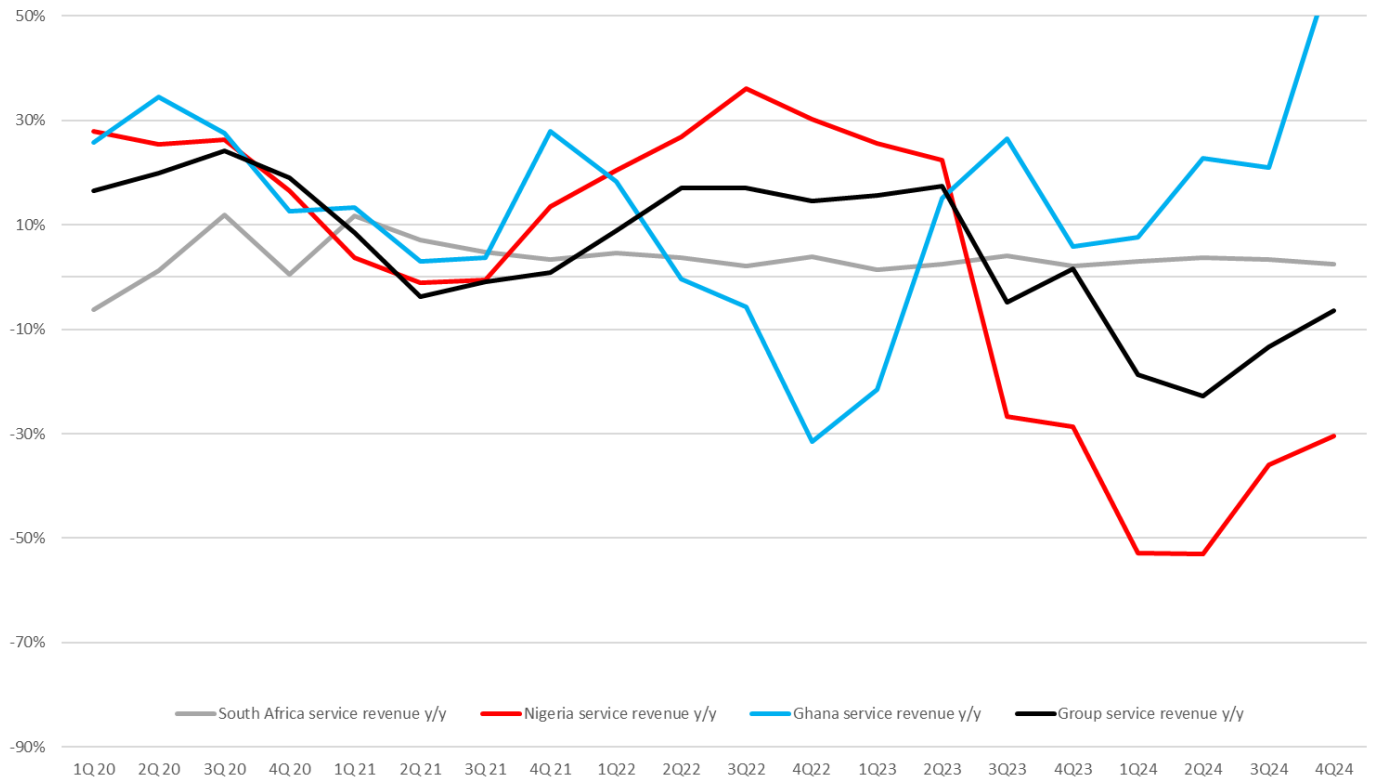
Analyst thesis

- The current price is discounting no value for MTN Nigeria (R27 of the R111 IV), previously was R18 resulting in our positive view on the asymmetric upside. Indeed, most of the WECA valuation is ignored by the market too.
- MTN's 50% tariff increase aims to protect its profit margins but may also lead to lower consumer spending. To sustain long-term growth and retain subscribers, MTN must carefully balance pricing with affordability to avoid significant customer losses.
- Due to the sharp devaluation of the naira, this ultimately results in a higher cost of doing business which affects the entire business model and makes it harder to drive margin recovery.
- Even though Nigeria offers potential advantages, the uncertainty or risk remains high, and there's no known trigger at this moment that would alleviate that risk perception.
- The asset realisation process needs to continue which should streamline the portfolio, reduce debt and risk, and enhance returns.
- A significant risk remains MTN's material exposure to forex. The sum of the parts (SOTP) valuation shows that 23% of the exposure comes from South Africa, and the rest is volatile currencies and inflation exposure.



Results

Graph 1: Major opcos service revenue (y/y %): South Africa (in rands)



Source: Company reports

Key trends:

In 2024, group service revenue decreased by 15.4% driven by currency devaluation and inflation. Recovery is expected as tariffs adjust.

- Group EBITDA decreased by 33.5%; up by 10.2% on a constant currency.
- Group EBITDA Margin decreased by (8.9pp) to 32.0%



Table 1: MTN FY24 vs SBG Securities

ZAR Mn (unless specified)	FY23 Actual	FY24 Actual	% YoY	FY24e (SBGS Estimate)	Actual vs SBGe
Service Revenue	210 139	177 756	-15%		
Service Revenue (excl hyperinflation)	205 441	173 195	-16%	171 745	1%
SA	41 882	43 175	3%	43 257	0%
Nigeria	73 853	40 755	-45%	39 742	3%
SEA	22 061	24 248	7%	24 346	0%
WECA	56 828	57 745	2%	58 188	-1%
MENA	6 089	1 271	-79%	1 008	26%
Revenue	221 056	188 201	-15%	-	-
Revenue (excl hyperinflation)	216 141	183 421	-15%	182 775	0%
EBITDA, adj. (excl. one-off items)	90 350	60 095	-33%	62 793	-4%
EBITDA, adj. Margin	40.90%	32%	-	34.4%	-
CODM EBITDA	89 808	70 066	-22%	67 201	4%
SA	18 623	19 653	6%	19 406	1%
Nigeria	36 916	15 969	-57%	14 585	9%
SEA	10 549	10 928	4%	10 956	0%
WECA	23 299	24 019	3%	23 458	2%
MENA	1 800	44	-98%	-83	-%
Bayobab	1 201	1 364	14%	1 182	15%
Head Office and Eliminations	-2 580	-1 911	26%	-2 302	-17%
Depreciation and Amortisation	-37 726	-32 106	-	-35 276	9%
Operating Profit, adj.	53 046	39 004	-26%	31 004	26%
Operating Profit, adj. Margin	24.50%	21%	-	17%	-
Headline Earnings	5 689	1 762	-	-131	-
Headline Earnings, adj.	21 739	14 760	-	11 338	-
EPS (cents per share)	227	-531	-	-	-
HEPS (cents per share)	315	98	-	-169	-30%
HEPS, adj. (cents per share)	1 203	816	-32%	628	-
Free Cash Flow	16 870	7 717	-54%	-1 357	-
Net Debt / EBITDA (excl Leases) (x)	0.4x	0.7x	-	0.7x	-
Holdco Net Debt / EBITDA (excl Leases) (x)	1.4x	1.4x	-27%	1.8x	-
Capex (ex Leases)	41 142	29 871		30 500	-2%
Capex Intensity (%)	18.60%	15.90%	-1%	16.70%	0%

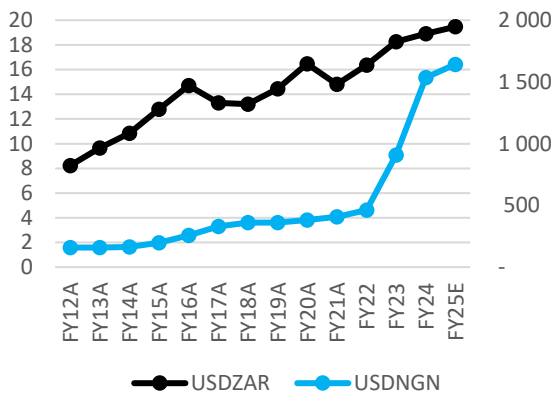
Source: Standard Bank report

MTN Nigeria

- The Naira averaged N 1508/US\$ in 2024, compared to N 598/US\$ in 2023, putting strain on business activities.
- MTN Nigeria's guidance is to drive margin recovery and strengthen its balance sheet.
- Fintech revenue grew by 21.6% spurred by XtraTime.
- Impact of naira devaluation and VAT on tower leases, exacerbated by ongoing inflationary pressures.
- It's worth noting that about 40% of the company's operating cost are US dollar tied.
- MTN has decreased its US dollar-denominated borrowings, increasing the share of naira-denominated debt to 72% as of 31 December 2024, a rise of 17 percentage points.
- In FY 2025, MTN anticipates service revenue growth of at least the mid-40% range as tariff adjustments come into effect.
- Inflation is also likely to remain elevated due to the fuel subsidy removal that could further put pressure on margins. This is before any cost savings or additional improvement to top line growth.



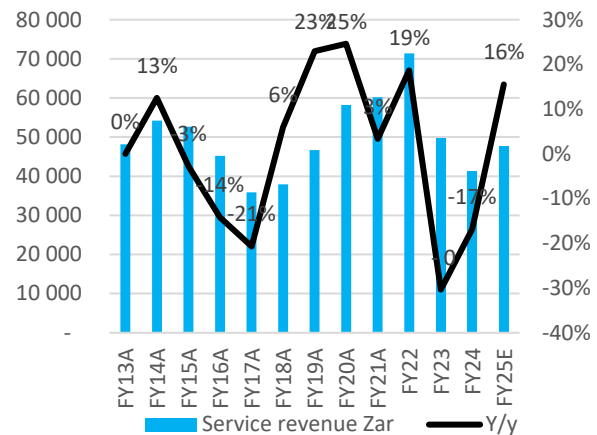
Graph 2: Naira (Rhs) versus USD and rand versus USD (Lhs)



Source: PSG Wealth

A = Actual, E = FactSet consensus expectation

Graph 3: Nigeria service revenue growth



Source: PSG Wealth

Fintech

- MTN has secured agreements with Mastercard for a minority investment of up to \$200 million in MTN Group Fintech, valued at \$5.2 billion on a cash and debt-free basis.
- The market cap of MTN is about R222.0 billion with an implied fintech value of R98 billion.
- This deal was less about cash and more about finding a strategic partner to scale up the business. Cited by the company, the partnership will support a number of verticals.
 - Issuance: Mastercard state-of-the-art technology & global network will enable MoMo users to create virtual cards linked to primary MoMo wallets.
 - Acceptance: will enable group fintech merchants to accept Mastercard payments as a trusted and universally recognised payment method.
 - Remittances: Accelerates group fintech's scale and scope as remittances player.

Balance sheet

- The group's net-debt-to-EBITDA of 0.7x as of 31 December 2024 (31 December 2023: 0.4x), remained well within covenant of 2.5x.
- Holdco leverage held firm at 1.4x (31 December 2024), supported by cash up streamed and localisation proceeds.
- Up streamed cash of R14.0 billion from our operating companies during the year.
- MTN remains on track to deliver cost savings of R 7 – 8 billion between 2024 to 2026.

Valuation

We have valued MTN Group Limited using a discounted cash flow (DCF) model combined with an EV/EBITDA multiple approach. In our valuation we have flexed our bear, base, and bull scenarios, each assigned with an equal probability weighting.

Scenarios	Intrinsic Value	Multiple	Upside/Downside	Scenarios prob
Bear case	R76	2.7	-37%	30%
Base case	R121	4.1	-1%	60%
Bull case	R150	5.0	23%	10%
Value per share				111
Share price				122
upside (downside)				-9%




Source: PSG Wealth research

Table 4: Qualitative summary

Factor review	Rating	Description
Growth		<ul style="list-style-type: none"> Key markets are affected by currency devaluation. MTN Rwanda affected by zero-termination rates. Impact of NIN-SIM regulations.
Valuation		We value the company on a forward EV/EBITDA multiple of 4.1x with a downside of 9%
Dividend yield		The dividend yield for MTN Group Limited is 2.9%.
Issuance		No issuance of additional shares over the past year.
Catalyst		<ul style="list-style-type: none"> Mastercard offer to leverage on Fintech business. Continued to leverage partnerships to scale platforms. MTN Nigeria regulator authorized 50% price adjustments. MTN's asset realization process and debt reduction strategy are aimed at optimizing its portfolio, reducing currency risk, and strengthening its balance sheet. MTN's Expense Efficiency Programme (EEF) focuses on reducing costs and improving operational efficiency.
Quality of earnings		<ul style="list-style-type: none"> Devaluation of the Naira causes a higher cost of doing business. Margins are affected due to intense market competition and increase in energy costs and rise of inflation. MTN operates in many African countries, and fluctuations in exchange rates affect profitability.
Moat		Moat: MTN operates mainly as a number one operator in key markets.
Management and governance		Group Board Director changes. Chairman of the Group Risk and Compliance will retire from the Group Board, effective 31 March 2025. His successor has been appointed to the board, effective 1 January 2025.
Balance sheet		<ul style="list-style-type: none"> Robust liquidity position of R41.3 billion. Group net-debt-to-EBITDA ratio of 0.7x
Risks		<ul style="list-style-type: none"> MTN has material exposure to forex. In the SOTP valuation, 23% of the exposure comes from South Africa and the rest is volatile currencies and inflation exposure e.g. the naira. Recently, we have seen growing levies on mobile money as telcos earned high margins. Cash repatriation from the various countries. Issues of currency reserves of hard currency. Increasing forecasting risk, currency volatilities major regions. Starlink poses a risk to telecommunications sector by offering alternative broadband service.
Regulation		The sector is heavily regulated—fines and penalties can be massive. Additionally, regulators have been an issue when it comes price increase implementation
ESG		MTN achieved a 46% reduction in Scope 1 and 2 emissions (tCO2e), exceeding our 2024 reduction target of 12.5%
Momentum price		Price momentum is positive.
Momentum earnings		In the last three months, earnings revision has been revised upwards by 877.3%.



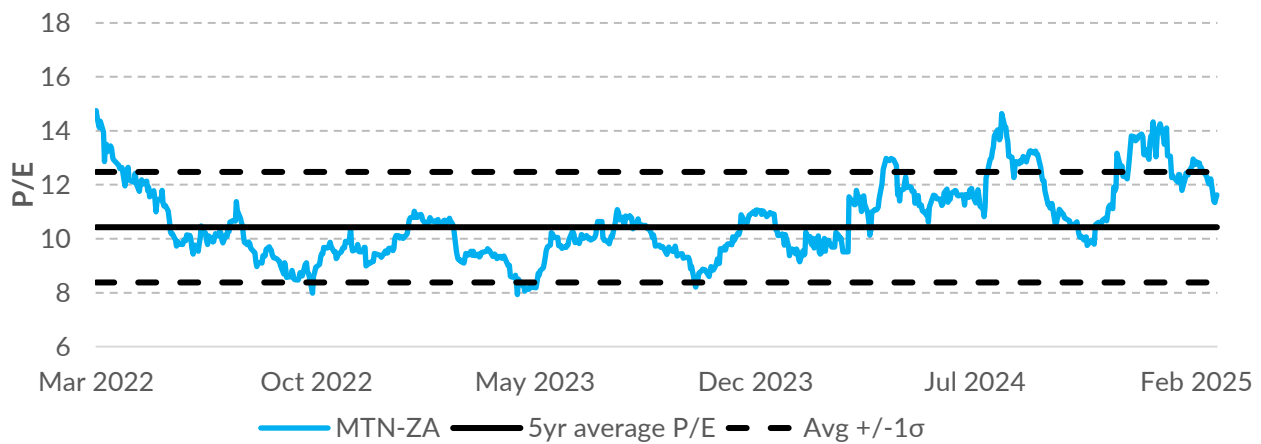
Piotroski score		Achieved an average score of 3.0.
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Source: PSG Wealth research

Table 5: Company data

52-week high	R124.16
52-week low	R70.43
Market value (bn)	R222.4
Price momentum	Positive
3m earnings revision	877.3%
Fiscal year end	2025/12/31

Graph 5: Price to earnings

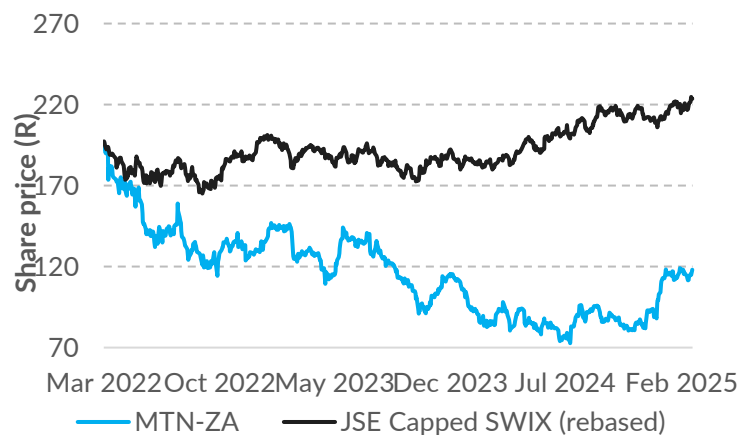


Source: FactSet

Table 6: Valuation multiples

Multiple	Latest: Mar-2025	Last note: Jul-2023
P/E	11.6x	10.0x
P/S	1.0x	1.1x
P/B	1.5x	1.7x
P/CF	2.6x	4.6x
EV/EBITDA	4.0x	3.4x
EV/EBIT	6.9x	5.6x
EV/SALES	1.6x	1.5x
Dividend yield	2.9%	2.7%
FCF yield	3.6%	11.1%

Graph 6: Share price history versus benchmark



Source: FactSet

Source: FactSet



Table 7: Performance versus benchmark

Period	YTD	MTD	3M	6M	1Y	2Y	3Y	5Y	10Y
MTN Group Limited	28.3%	-0.1%	44.2%	23.8%	30.6%	-7.4%	-38.3%	300.4%	-44.7%
JSE Capped SWIX	6.3%	4.1%	5.6%	5.3%	21.9%	19.5%	15.1%	127.9%	37.8%

Source: FactSet

Table 8: Key competitors

Company	Code	Price (local)	Market cap (Rbn)	Sales FY0 (Rbn)	EBIT FY0 (Rbn)	Net income FY0 (Rbn)	EV/EBIT	P/E	Price % (3mo)	Price % (1YR)
MTN Group Limited	MTN-ZA	118.1	222	188	23	-10	6.9x	11.6x	44.2%	30.6%
Telkom SA SOC Ltd.	TKG-ZA	36.0	18	43	4	2	7.2x	7.9x	5.6%	32.1%
Vodacom Group Limited	VOD-ZA	116.8	243	151	35	16	7.4x	10.6x	15.5%	20.6%

Table 9: Key financials and ratios

Source: FactSet

Income statement (ZAR bn)	2017	2018	2019	2020	2021	2022	2023	2024	2025E
Sales	132.8	134.6	151.5	179.4	181.6	207	210.1	188.0	211.0
Y/y growth (%)	-	1.3	12.6	18.4	1.3	14	1.4	-10.5	12.2
EBITDA	44.9	48.2	64.1	81.3	79.4	89.9	88.8	59.3	83.3
Y/y growth (%)	-	7.4	32.8	26.9	-2.4	13.2	-1.2	-33.2	40.5
EBIT	20.6	23.6	31.6	45.7	43.8	54.9	46.5	22.8	47.5
Y/y growth (%)	-	14.7	34.2	44.3	-4.1	25.4	-15.2	-51.0	108.3
Net income	4.4	8.7	9	17	17.6	19.3	10.7	-9.6	19.1
Y/y growth (%)	-	97.5	2.8	89.9	3.4	9.8	-44.6	-	-
EPS	2.5	4.8	5.0	9.4	7.6	10.5	2.3	-5.3	9.6
Y/y growth (%)	-	92	4.2	88	19.1	38.2	-78	-	-

Balance sheet and cash flow (ZAR bn)	2017	2018	2019	2020	2021	2022	2023	2024	2025E
Capex	31.4	26.1	27	33	32.6	52.6	46.7	31.6	38.7
Cash from operations	36.3	31.7	36.3	58.5	59.5	68.1	55.7	54.4	61.1
Free cash flow	9.6	10.4	18.1	22.7	21.4	32.3	22.0	24.6	30.4
Y/y growth (%)	-	8.7	73.3	25.7	-6	51.1	-31.9	11.8	23.6
Cash and ST Investments	16	15.2	21.7	31.6	35.2	44.4	23.2	41.3	23.8
Total assets	242.4	244.6	302.3	348.9	359.3	391.9	405.7	430.9	415.9
ST debt	9.2	12.4	19.9	23.5	21.9	22.1	38.1	23.2	22.6
LT debt	71.2	73.2	120.7	122.2	106.9	118.3	110.3	132.5	51.8

Ratios (ZAR bn)	2017	2018	2019	2020	2021	2022	2023	2024	2025E
EBIT margin (%)	15.5	17.5	20.9	25.5	24.1	26.5	22.1	12.1	22.1

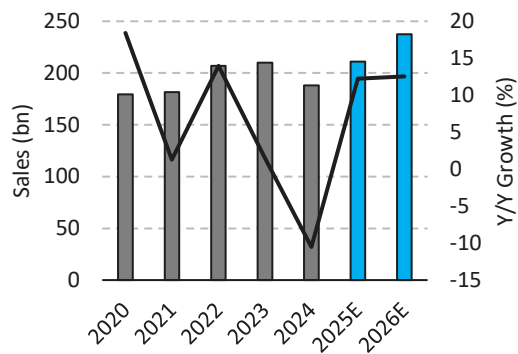


Net income margin (%)	3.3	6.5	5.9	9.5	9.7	9.3	5.1	-5.1	9.1
Current ratio	0.9	0.8	0.9	1	1	1	0.9	1.0	-
Total debt to equity	85.3	101	167.6	141.7	116	120.4	106.6	126.2	-
Total debt to assets	32.9	33.3	46.5	41.8	35.2	35.8	34.1	36.1	-
ROA (%)	1.7	3.5	3.3	5.2	3.8	5.1	1.0	-2.2	-
ROE (%)	4.5	9.7	10.8	18.2	12.9	17	3.2	-7.3	-

Source: PSG Wealth research

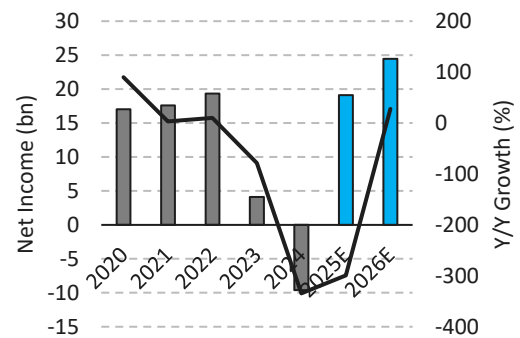
E = PSG Wealth research

Graph 7: Annual sales



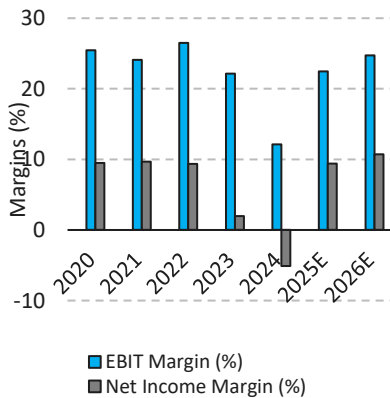
Source: FactSet

Graph 8: Annual net income



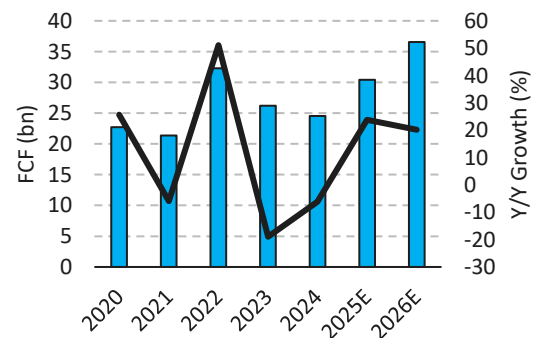
Source: FactSet

Graph 9: EBIT. net margins



Source: FactSet

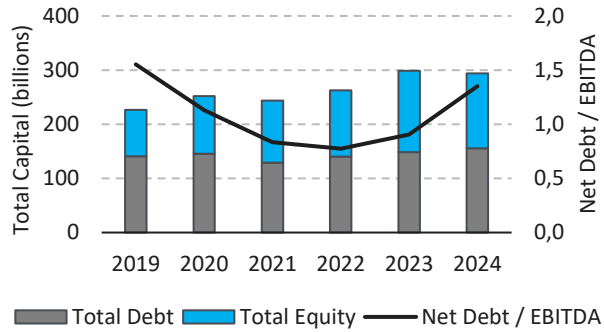
Graph 10: Free cash flow



Source: FactSet

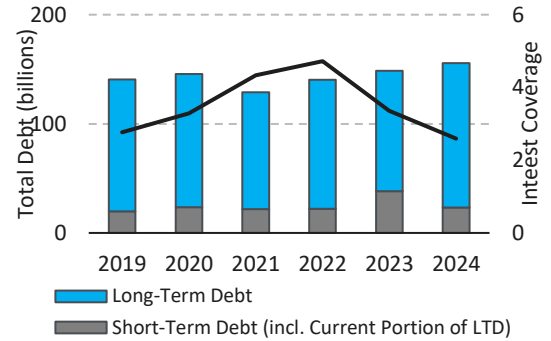


Graph 11: Capital structure and net debt/EBITDA



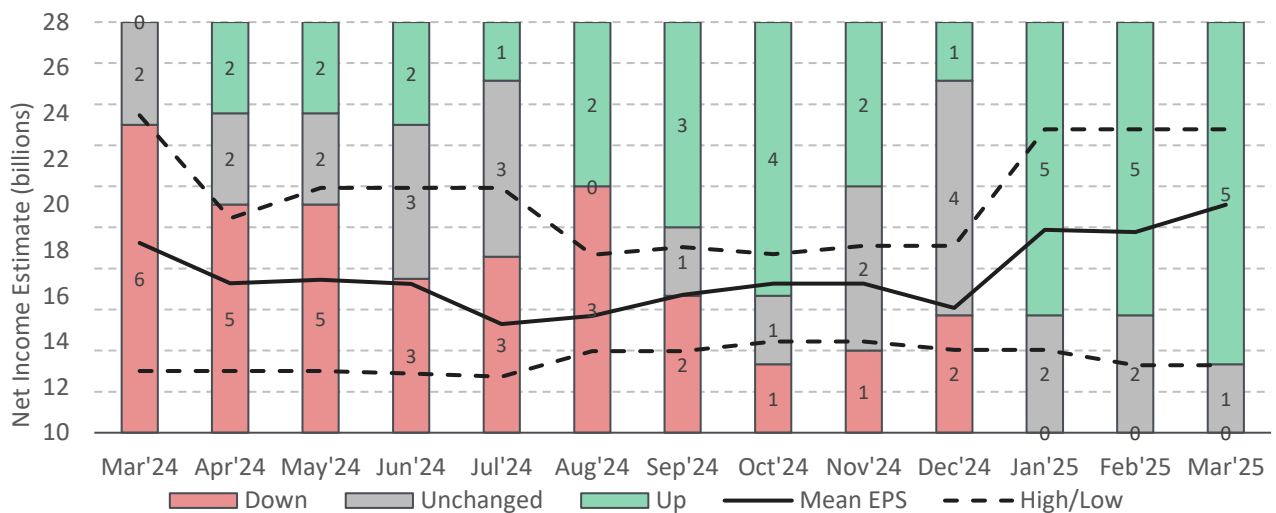
Source: FactSet

Graph 12: Total debt and interest coverage



Source: FactSet

Graph 13: Earnings revision

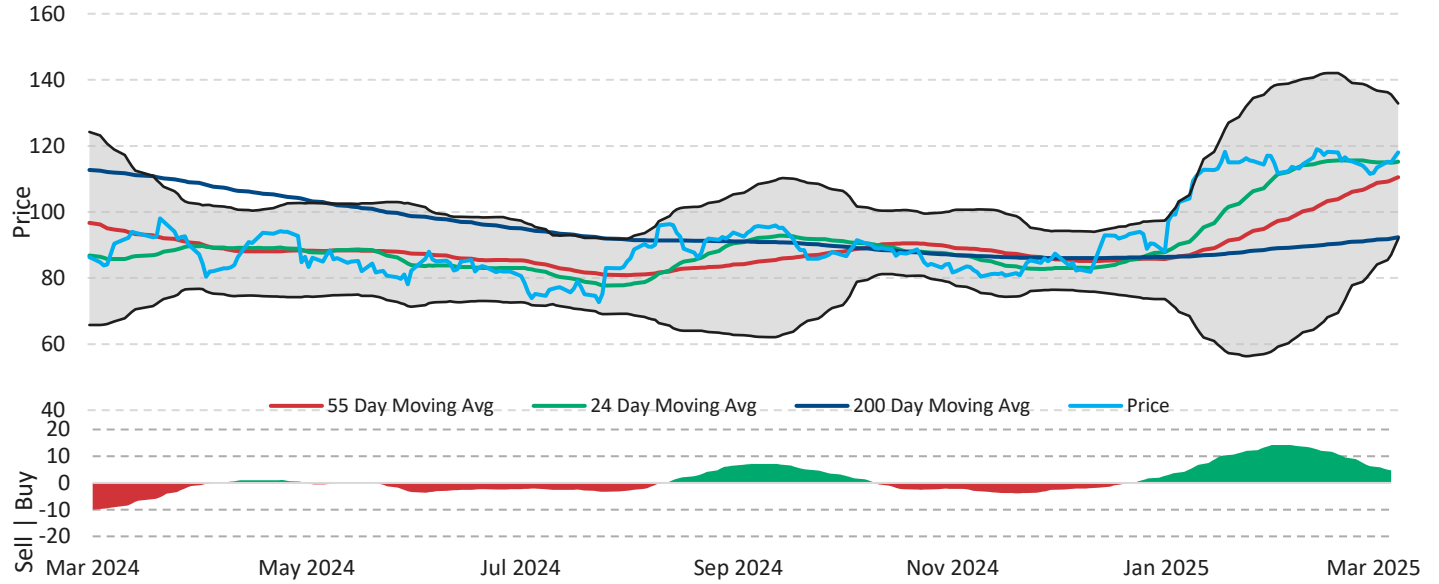


Source: FactSet



Graph 14: Price momentum

Last: 118.05 | Bollinger Bands: (50,3) [Upper/Lower]: 132.89/91.85



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