



MTN Nigeria

Listing on the Nigerian Stock Exchange

Listing by introduction

MTN Nigeria is to be listed today by introduction to the Nigerian Stock Exchange (NGSE). This is not an initial public offering; no capital is being raised; no commitment has been made by existing shareholders to sell down shares. Liquidity, therefore, is uncertain. This is a pity. MTN Nigeria will be the NGSE's only listed mobile telecom company and will be one of the NGSE's biggest by market capitalisation.

A growth industry

Nigeria's GSM industry has four players: MTN Nigeria, Globacom, Airtel, and gmobile (the last three unlisted). GSM penetration, at close to 88%, suggests moderate rather than explosive future growth. Total market GSM subscribers grew at a CAGR of 5.2% from Q1 2015 to Q1 2019. The mobile internet subscriber CAGR was 8.0% over the same period, and we think there is significant upside in mobile internet revenues going forward.

A growing company

MTN Nigeria is emerging from a period of turbulence stemming from a regulatory fine imposed in 2015. Now, however, we believe that MTN Nigeria has entered into a period of renewed growth 2019f-22f, not so much backed by GSM growth but by internet subscriber growth and by Data and Mobile Financial Services (MFS).

We model Data subscribers growing at a CAGR 2018e-22f of 5.0% with average revenues per data subscriber growing at a CAGR of 8.5% over the same period. We see total Data revenues growing at a 15.5% CAGR 2018e-22f as a key driver in our forecast of total revenues at a CAGR of 6.2% 2018e-22f.

We forecast positive free cash flows (operating cash flow minus capex) to grow at a CAGR of 9.2% 2018e-22f, leading to a positive net cash position by 2021f. We forecast EBITDA margins trending in a range of 43.0%-44.0% over the forecast period and Net Profits growing at a CAGR of 26.0% 2018e-22f.

Valuation

We value MTN Nigeria using a combination of spot multiple comparisons and a discounted cash flow valuation (DCF). Comparing the EV/EBITDA of MTN Nigeria with emerging market peers brings us a target price of N107.1/share. Our DCF valuation generates a value of N110.1/share. We take as our target price the simple average of N108.6/share. Given a listing price of Ngo.0/share this implies 20.7% potential upside.

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By reading this report the reader assents to the terms of the disclaimer and disclosures which appear at the end of the report and which form an integral part of it.

This report relates to the listing of MTN Nigeria on the Nigerian Stock Exchange (NSE) and is not for distribution outside the Federal Republic of Nigeria.

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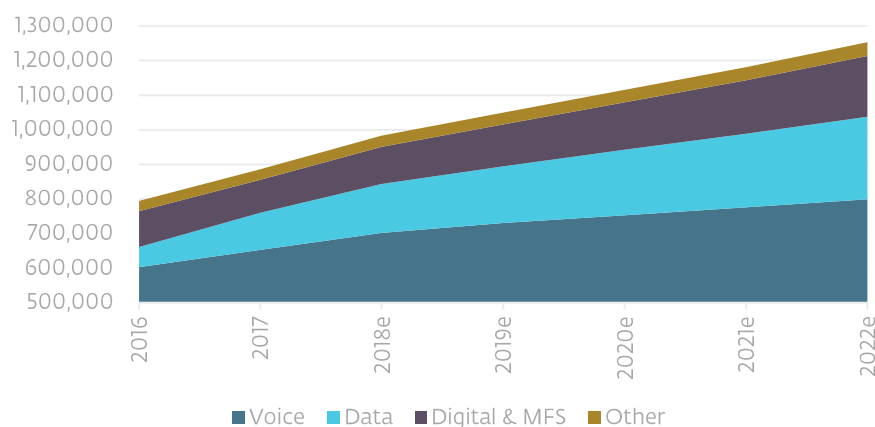
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Forecast Profit & Loss 2018e-22f

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We forecast MTN Nigeria's revenues 2018e-22f principally driven by the categories Data and Digital & MFS (Mobile Financial Services). We forecast revenue CAGRs 2018e-22f of: from Data, 15.5%; from Digital & MFS, 9.7%; from Voice Services, 3.6%. Overall, given the weight of Voice Services in the revenue mix, we see total revenues growing at a CAGR of 6.2% 2018e-22f.

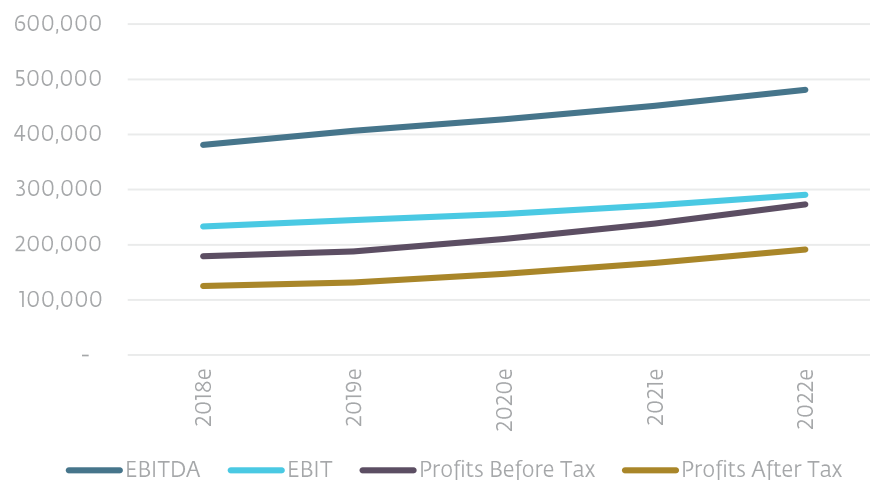
MTN Nigeria: key components of revenues, Naira millions, 2016-22f



Source: MTN Nigeria (historic), Coronation Research (forecasts)

On the cost side, we see Operating Expenses growing at a CAGR of 5.8% 2018e-22f. We see the roll-out of Data, Digital & MFS as a cost-effective route to incremental revenues.

MTN Nigeria: key Profit & Loss elements, Naira millions, 2016-22f



Source: MTN Nigeria, Coronation Research

We see the following CAGRs 2018e-2022f: 6.0% in EBITDA; 5.6% in EBIT; 25.0% in Profits Before Tax (PBT); and 26.0% in Net Profits. Although we do not have a great deal of visibility on net finance charges, we estimate that the combination of cash generation, with the potential to bring down gearing 2018e-22f, and moderating interest rates, are set to bring down net finance charges significantly over the forecast period 2018e-22f.

MTN Nigeria Regulatory Fine

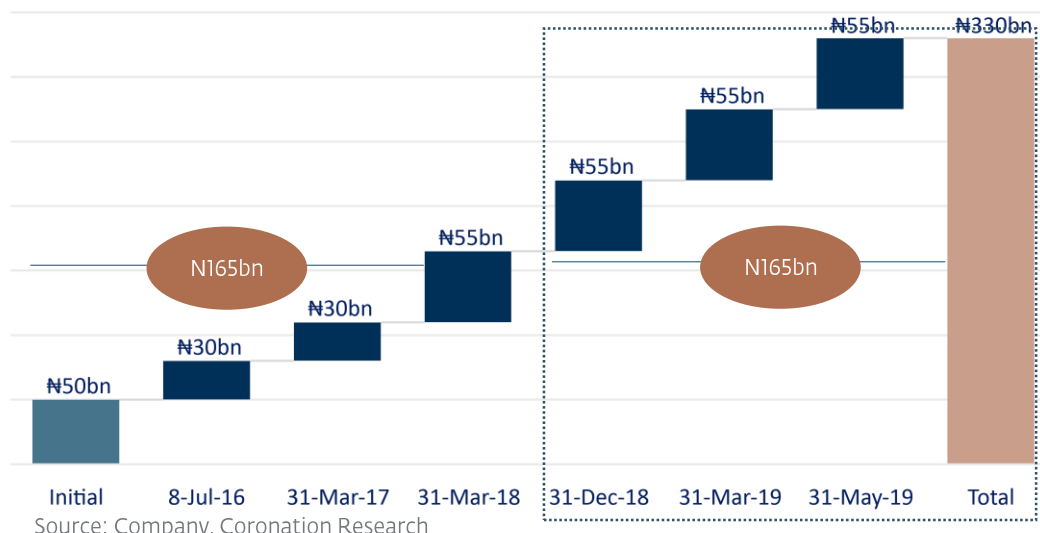
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In October 2015, the Nigerian Communications Commission (NCC), enforcing the provisions of Section 20 (1) of the Registration of Telephone Subscribers Regulation of 2011, levied a fine of US\$5.2bn against MTN Nigeria for failing to deactivate 5.2million Subscriber Identification Modules (SIMs) flagged by the regulator as activated, but with improper registration.

MTN Nigeria acknowledged its infraction and sought an amenable resolution, employing diplomatic and legal channels to broker a softer penalty. After initial negotiations between MTN Nigeria and the Federal Government of Nigeria (FGN), the penalty, was reduced to N674bn.

MTN Nigeria contested the reduced amount in court in a bid to secure better terms and cushion the effect of the penalty on its profits and cashflow. After exploring litigation, MTN Nigeria resolved to reach an out of court settlement with the NCC, making a \$250m (N50bn at the time) advance payment in February 2016, to the regulator as a show of good faith, before the terms of the revised fine was determined.

Payment Schedule showing amortization of NGN330bn fine over three years



Following extensive negotiations, a compromise with the regulator was reached, reducing the penalty to the presently agreed fine of NGN330bn. The fine represented 4.22x the total equity of MTN Nigeria (NGN78.17bn) as at December 2016 and 32.16% of total assets for the same period.

MTN Nigeria structured a six-instalment payment plan spanning three years to fully amortize the fine. The amount to be amortized is net of the initial Naira 50 billion payment, bringing the outstanding fine to Naira 280 billion as at Q1 2016. According to the NCC, MTN Nigeria had made a total payment of Naira 165 billion as at Q1 2018 towards the settlement of the fine. This is in line with the terms of the agreed payment schedule.

The FGN also extracted a firm commitment from the MTN Group (not covered) to list its Nigerian subsidiary on the Nigerian Stock Exchange when "commercially and legally possible".

MTN Nigeria Regulatory Fine

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Fine treatment

On the accounting treatment of the fine MTN Nigeria had, in 2015, prudently set aside provisions for the contingent liability.

A breakdown of MTN Nigeria's financials shows the company in 2015 had made an initial provision recognition of N275bn for the fine. This provision was remeasured in 2016 resulting in a writeback of N20bn.

We are not entirely clear on the accounting of payments to the NCC going forward. We understand that a portion of provisions had been made in 2015 (with some writeback in 2016). We also understand, according to management, that all payments to the NCC, going forward, are only cashflow items and do not impact the P&L. We have reflected this in our cashflow forecasts.

The Nigerian GSM market 2014-18

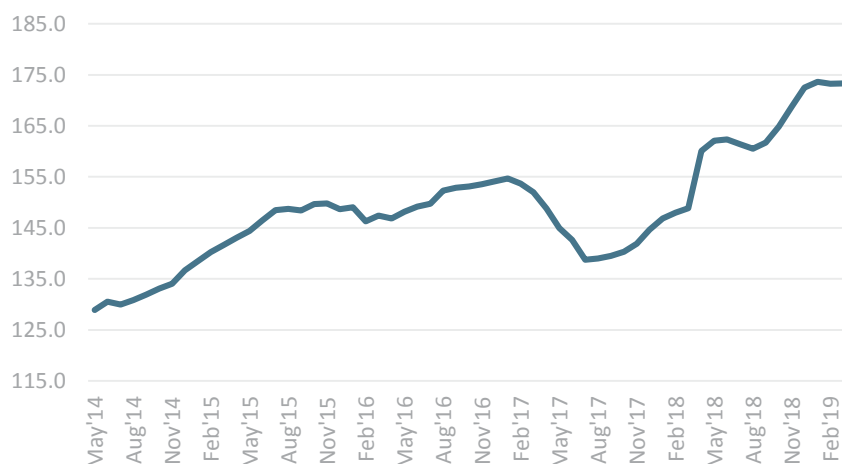
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What is a subscriber?

To comprehend Nigerian GSM subscriber numbers, it is important to understand that a 'subscriber' in Nigeria is not a subscriber in the sense used in developed markets. Much, if not most, GSM charges in Nigeria are pre-paid. And, among affluent customers, possession of two, three or more devices, each with its own SIM, is common. This helps explain, in our view, penetration rates (around 88%) and recent (2017) volatility in subscriber data as companies like MTN Nigeria cleaned up subscriber lists by removing inactive subscribers.

Registration of subscribers has been a contentious issue (which in MTN Nigeria's case we explain in a separate section), and in the past resulted in excess subscriber onboarding, without the required registration, which was later reversed under regulatory pressure in 2015 and (in our opinion) 2016. MTN Nigeria was required to disconnect 5.2m subscribers.

Total GSM subscribers, millions, Nigeria 2014-Q1 2019



Source: Nigerian Communications Commission (NCC), Coronation Research

Overall growth in GSM subscribers took place at a CAGR of 5.2% from Q1 2015 to Q1 2019. This trend overcame the de-registrations in 2015 that were ordered by the regulator. The curious feature of this growth was the dramatic fall in subscriber numbers in the middle of this period.

Fall in subscriber numbers, 2017

Using NCC data, from January 2017 to July 2017 the total number of GSM subscribers in Nigeria fell by 15.9 million, or 10.3%, from 154.7 million to 138.7 million (see chart).

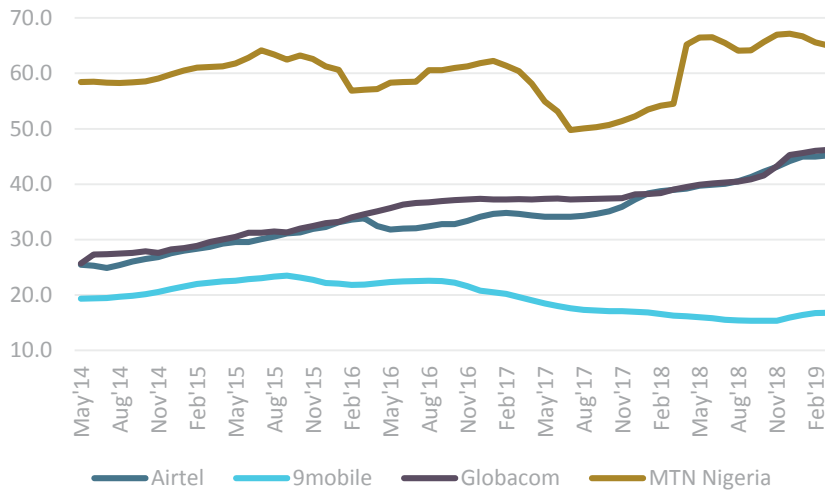
This was largely driven by MTN Nigeria which shed 12.5m subscribers (20.1% of its base using NCC data). Two other mobile telecom companies also lost subscribers during this period. Etisalat/9mobile lost 2.9 million subscribers (-14.2%), Airtel lost 0.6 million subscribers (-1.6%), while Globacom made a small gain of 20,000 subscribers (+0.1%).

The decline in subscriber numbers in 2017 was principally driven by a deliberate policy of removing inactive subscribers, as MTN Nigeria itself has described. The recession of 2016 may also have played a small part in this process.

Fall in subscribers, 2017

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GSM subscribers, millions, 2014-Q1 2019

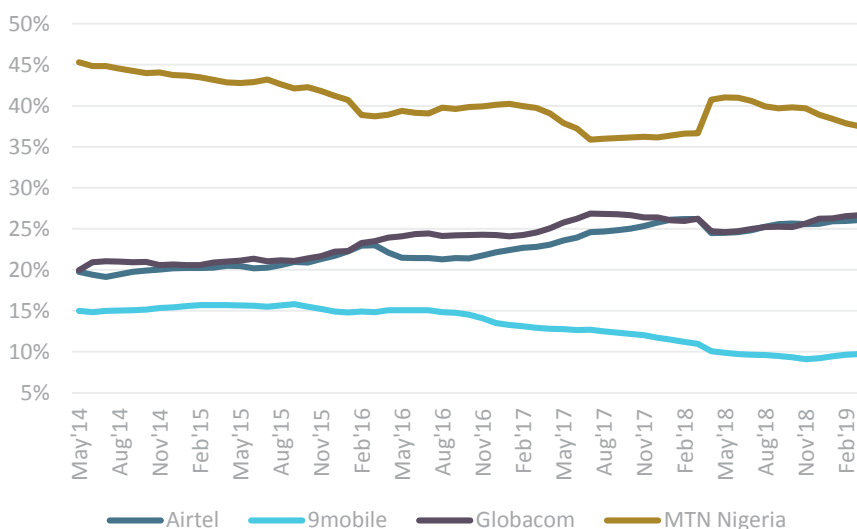


Source: NCC, Coronation Research

From the above, it follows that MTN Nigeria's loss of subscribers in 2017 did not result in significant transfers of business to its competitors. MTN Nigeria's subscriber losses can be considered as losses of excess and inactive subscribers, in our view.

MTN Nigeria's total revenues in fact grew by 11.5% year-on-year in 2017 (2017 average CPI: 16.6%), and within these revenue numbers, Voice Service revenues (excluding interconnect) grew by 9.3% year-on-year.

GSM subscriber market share, 2014- 2019



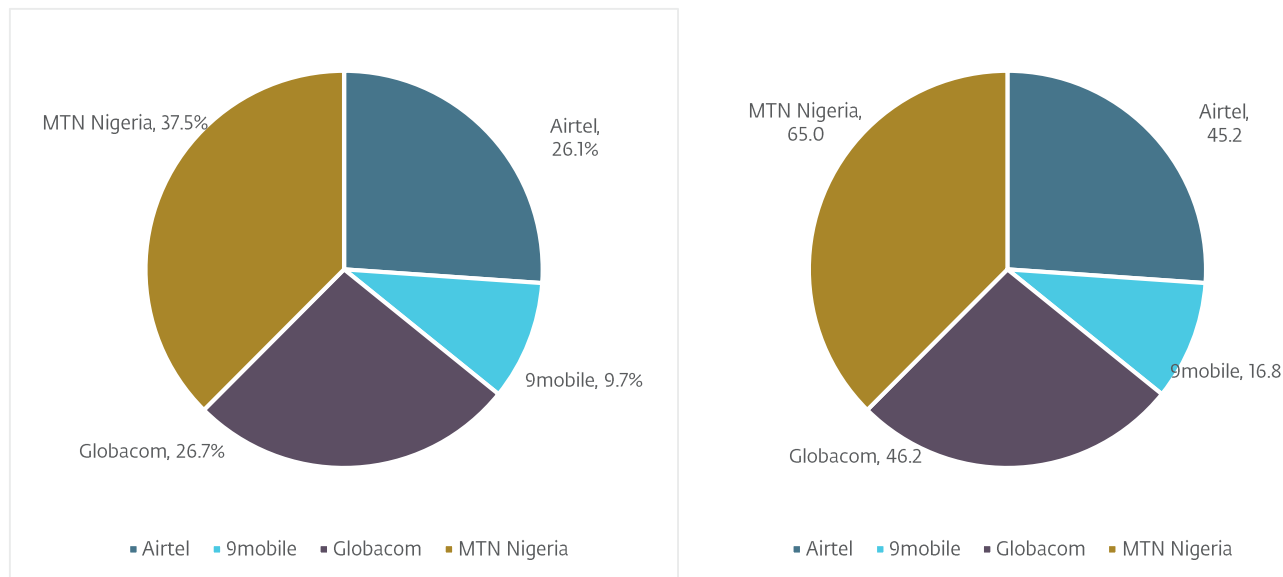
Source: NCC, Coronation Research

The Nigerian GSM market in 2019 and beyond

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MTN Nigeria's situation stabilised in H2 2017, in our view, and a re-bounce followed in 2018. MTN Nigeria remains the largest Nigerian mobile telecom company by subscribers, according to industry data for Q1 2019. (Revenue data for MTN Nigeria's competitors is not available.)

GSM market shares (left), and GSM subscribers, millions (right), Q1 2019



Source: NCC, Coronation Research

Our understanding of MTN Nigeria's situation by the middle of last year is as follows: MTN Nigeria had resolved the subscriber non-registration issue; the deliberate reduction in subscribers, which was a feature of 2017, was behind it; it enjoyed a short (by which we mean one year) period of recovery; and it has entered a period of renewed underlying growth, 2019f-22f.

Forecast period 2019f-22f

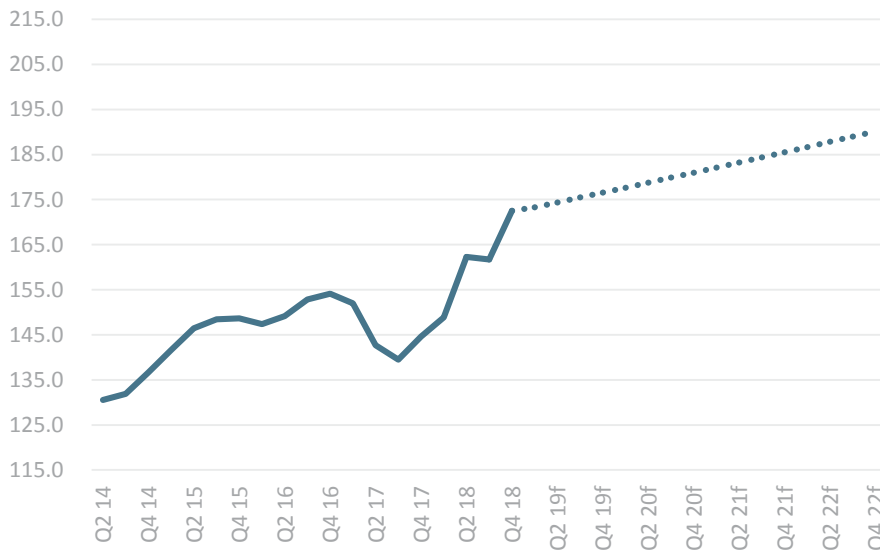
To a significant extent, in our view, MTN Nigeria's 2018 gains in GSM subscribers reflect a recovery from the retrenchment of early 2017. By the same token, the trend 2014-18 was negatively influenced both by the required disconnection process in 2015 and by the recession of 2016 (a 1.58% fall in GDP) and of Q1 2017 (a 0.91% fall in GDP, y/y). Going forward we expect much more moderate growth in subscribers given current levels of penetration.

The Nigerian GSM market 2019f-22f

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We see overall GSM subscriber levels growing at 2.0% year-on-year during the forecast period 2019f-22f (i.e. a little lower than population growth which we forecast at 2.6% per annum 2019f-22f).

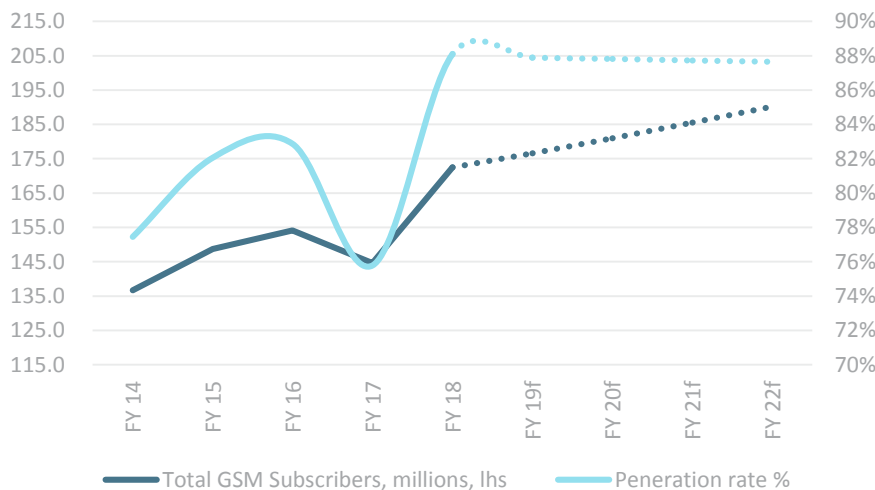
Nigerian GSM subscriber development, millions, 2014-22f



Source: NCC, Coronation Research

We forecast GSM penetration rates falling slightly over the forecast period.

Nigerian GSM subscriber development, millions, and penetration rate (rhs), 2014-22f



Source: NCC, Coronation Research

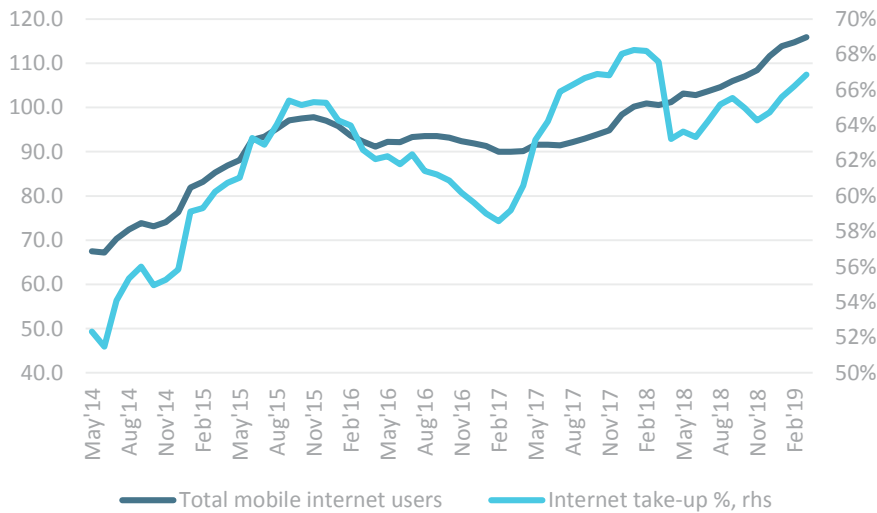
In the forecast period 2019f-22f, we think that it will be the combination of tariffs, internet penetration, digital and mobile financial services revenue growth that will drive revenue development.

The Nigerian mobile internet market 2014- Q1 2019

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Nigeria's mobile internet market registered a 8.0% CAGR in users from Q1 2015 to Q1 2019, much faster than the 5.2% CAGR in GSM subscribers over the same period. Percentage take-up rose from 60% in Q1 2015 to 67% at Q1 2019.

Total mobile internet users, millions, and take-up, 2014-Q1 2019



Source: NCC, Coronation Research

Growth rates have been volatile. In the early period of mobile internet development growth rates were, unsurprisingly, very high.


Year-on-year mobile internet growth 2014-Q1 2019



Source: NCC, Coronation Research

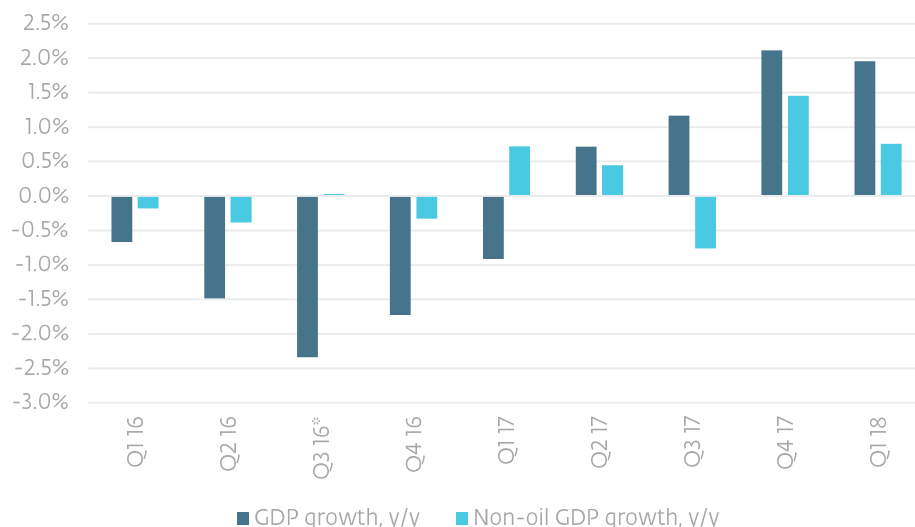
And there have been periods of contraction. The entire period from June 2016 to September 2017 recorded, each month, small year-on-year falls in mobile internet users.

Competition in mobile internet

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This 16-month period of small falls in mobile internet users coincided, with a delay of approximately two quarters, with the recession in the Nigerian economy as a whole (the recession took place from Q1 2016 to Q1 2017, inclusive).

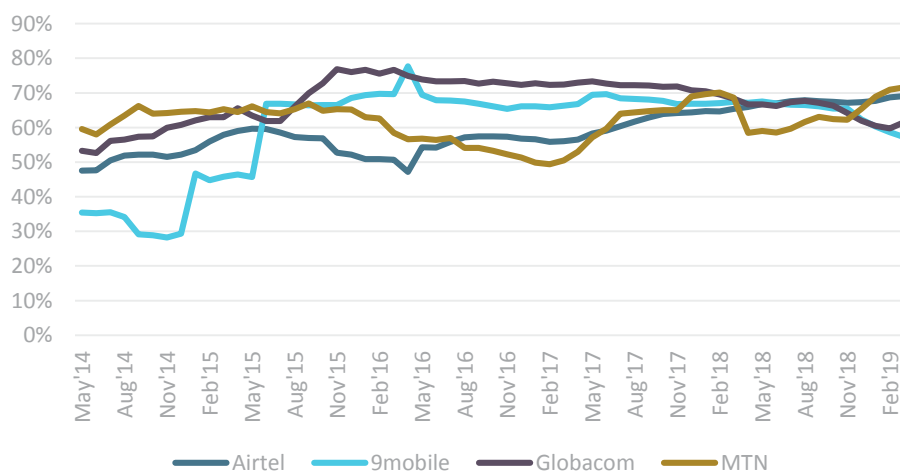
Nigerian GDP growth, Q1 2015 – Q1 2018



Source: National Bureau of Statistics (NBS), Coronation Research

The falls in internet use may have been due to falls in business activity overall, and, as we think, low levels of expenditure on internet channels by businesses.

Percentage internet take-up, by company, 2014-Q1 2019



Source: NCC, Coronation Research

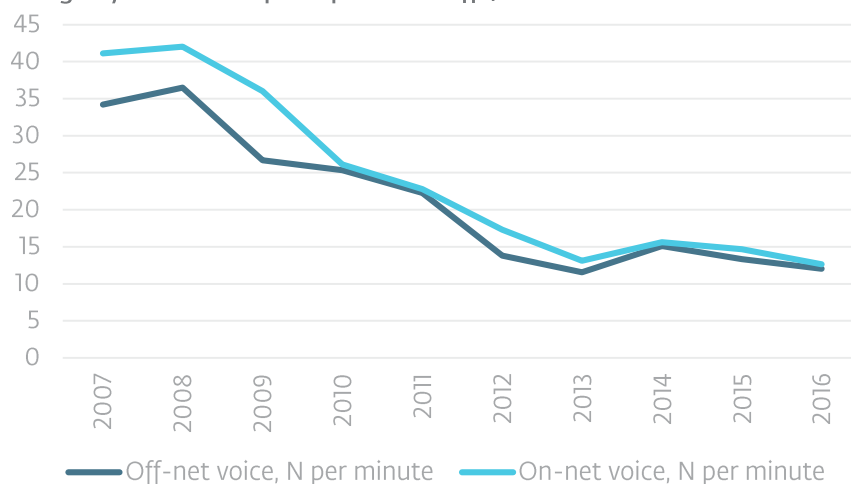
Another, remarkable, feature of internet usage is that the four GSM companies have very similar levels of internet take-up, ranging from 65% for Airtel to 69% for MTN Nigeria. Mobile internet market shares do not differ significantly from GSM subscriber market shares.

Tariffs

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Due to competitive pressures Nigerian mobile tariffs fell sharply over the period 2007-16. The annual compound rate in tariff decline over this period was 11.0% nominal. However, the rate of decline ameliorated significantly around 2013. From 2013 to 2016 the on-net (same network) tariff fell by an annual compound rate of just 1.2% nominal, while the off-net (one network to another) tariff actually grew by a CAGR of 1.3%.

Average system-wide peak period tariffs, 2007-16



Source: NCC, Coronation Research

It is important not to read across directly from tariffs to average revenue per user (ARPU). For example, MTN Nigeria's voice ARPU rose by 0.5% y/y in 2016 when, in the GSM system as a whole, off-net tariffs fell by 9.8% and on-net tariffs fell by 13.8%. Sophisticated and well-targeted layering of subscriber offers keeps customers buying services, increases usage of regular and premium services.

Going forward, we see tariff declines in the range of 0.0%-2.00% per annum during the forecast period, but do not believe that such declines equate with falls in revenue per average user (ARPU).

Forecast Revenues 2018e-22f

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Revenue assumptions, 2015a-22f

	2015	2016	2017	2018e	2019f	2020f	2021f	2022f
Voice								
Subscribers year end	61,252,387	61,840,461	52,272,687	58,137,682	59,300,436	60,486,445	61,696,174	62,930,097
Subscribers average	62,133,525	59,348,381	54,588,141	56,944,502	58,515,125	59,829,338	61,073,895	62,311,363
ARPU (voice), N per annum	10,107	10,160	11,969	13,764	14,039	14,180	14,322	14,465
				11.2%	2.0%	2.0%	2.0%	2.0%
Data								
Internet Subscribers year end	39,924,737	31,753,369	36,069,597	42,670,333	44,803,850	47,044,042	49,396,245	51,866,057
Internet Subscribers average	40,446,972	33,396,650	32,070,920	39,369,965	43,737,092	45,923,946	48,220,143	50,631,151
ARPU (Data), N per annum	1,780	1,737	3,336	3,937	4,331	4,764	5,097	5,454
Digital, MFS, and Other revenue								
Internet Subscribers year end	39,924,737	31,753,369	36,069,597	42,670,333	44,803,850	47,044,042	49,396,245	51,866,057
Internet Subscribers average	40,446,972	33,396,650	32,070,920	39,369,965	43,737,092	45,923,946	48,220,143	50,631,151
ARPU (other revenue), N per annum	2,645	3,982	3,929	2,545	2,508	2,618	2,737	2,865
Revenue Voice	628,000	603,000	653,000	783,796	821,523	848,374	874,682	901,328
Revenue Data	72,000	58,000	107,000	154,986	189,407	218,766	245,783	276,137
Revenue Digital, MFS, and Other	107,000	133,000	126,000	100,194	109,688	120,239	131,977	145,045
Total Revenues	807,000	794,000	886,000	1,038,986	1,120,618	1,187,378	1,252,441	1,322,511
Actual ARPU								
Subscribers year end	61,252,387	61,840,461	54,016,393	58,137,682	59,300,436	60,486,445	61,696,174	62,930,097
Subscribers average	62,133,525	59,348,381	52,272,687	56,944,502	58,515,125	59,829,338	61,073,895	62,311,363
ARPU, Naira per annum	12,995.38	13,373.12	16,938.87	18,245.59	19,150.91	19,846.09	20,506.98	21,224.23
ARPU Monthly, Naira	1,082.95	1,114.43	1,411.57	1,520.47	1,595.91	1,653.84	1,708.92	1,768.69
Change in:								
Subscribers, average	n/a	-4.5%	-8.1%	4.4%	2.8%	2.2%	2.1%	2.0%
Internet Subscribers, average	n/a	-17.4%	-4.0%	22.8%	11.1%	5.0%	5.0%	5.0%
Change in internet ARPU	n/a	n/a	43.6%	19.0%	16.4%	10.0%	7.0%	7.0%
Change in Total ARPU Monthly	n/a	2.9%	26.7%	7.7%	5.0%	3.6%	3.3%	3.5%
Average CPI	9.0%	15.6%	16.6%	10.0%	n/a	n/a	n/a	n/a

Source: MTN Nigeria, Subscriber data obtained from NCC data, Coronation Research forecasts. NB 2018e data is estimated as some headline data for MTN Nigeria for 2018 is available but full financial and operating data has yet to be published at the time of going to press.

Forecast Profit & Loss 2018e-22f

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Naira millions, year to 31 Dec	2014	2015	2016	2017	2018e	2019f	2020f	2021f	2022f
Revenue	824,807	807,449	793,673	885,440	1,038,986	1,120,618	1,187,378	1,252,441	1,322,511
Cost of Sales (excluding depreciation)*	(178,571)	(223,899)	(239,296)	(339,210)	(358,635)	(387,248)	(417,254)	(444,456)	(472,241)
change	n/a	25%	7%	42%	6%	8%	8%	7%	6%
Gross Profits	646,236 	583,550	554,377	546,230 	680,351	733,370	770,124	807,985 	850,270
change	n/a	-10%	-5%	-1%	25%	8%	5%	5%	5%
margin	78%	72%	70%	62%	65%	65%	65%	65%	64%
Total Opex	(166,887)	(149,630)	(198,673)	(200,663)	(227,312)	(238,318)	(251,339)	(264,361)	(278,104)
change	n.a	-10%	33%	1%	13%	5%	5%	5%	5%
Operating Profit	479,349 	433,920	355,704	345,567	453,039	495,052	518,785	543,624 	572,166
change	n.a	-9%	-18%	-3%	31%	9%	5%	5%	5%
margin	58%	54%	45%	39%	44%	44%	44%	43%	43%
EBITDA	479,349	433,920	355,704	345,567	453,039	495,052	518,785	543,624	572,166
change	n/a	-9%	-18%	-3%	31%	9%	5%	5%	5%
margin	58%	54%	45%	39%	44%	44%	44%	43%	43%
Depreciation and Amortization	(150,419)	(140,407)	(143,739)	(150,467)	(149,735)	(164,976)	(175,068)	(184,462)	(194,381)
EBIT (excluding fine)	328,931	293,513	211,965	195,100	303,304	330,077	343,717	359,163	377,785
change	n/a	-11%	-28%	-8%	55%	9%	4%	4%	5%
margin	40%	36%	27%	22%	29%	29%	29%	29%	29%
Interest Income	28,030	39,588	40,131	n/a	12,539	13,001	13,239	16,016	15,897
Interest Expense	(66,354)	(70,362)	(145,830)	n/a	(51,073)	(61,165)	(46,104)	(34,053)	(15,312)
Net Finance Income/(Cost)	(38,324)	(30,774)	(105,699)	(88,039)	(38,534)	(48,165)	(32,865)	(18,037)	585
Exceptional income/(loss)	-	(275,074)	20,384	-	(110,000)	(110,000)	-	-	-
PBT	290,607	(12,335)	126,650	107,061	154,770	171,912	310,852	341,126	378,371
change		-104%	-1127%	-15%	45%	11%	81%	10%	11%
margin	35%	-2%	16%	12%	15%	15%	26%	27%	29%
Tax	(81,579)	(67,955)	(37,851)	(26,552)	(45,010.85)	(50,744)	(93,256)	(102,338)	(113,511)
Effective tax rate	28%	-551%	30%	25%	29%	30%	30%	30%	30%
Profit After Tax and Exceptional Income	209,027	(80,290)	88,799	80,509	109,759	121,168	217,596	238,788	264,859
change		-138%	-211%	-9%	36%	10%	80%	10%	11%
margin	25%	-10%	11%	9%	11%	11%	18%	19%	20%

Source: MTN Nigeria, Coronation Research forecasts. NB 2018e data is estimated as some headline data for MTN Nigeria for 2018 is available but full financial and operating data has yet to be published at the time of going to press.

Forecast Balance Sheet 2018e-22f

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Naira millions, year to 31 Dec	2016	2017	2018e	2019f	2020f	2021f	2022f
Non-current assets	663,021	750,433	813,535	844,255	876,388	885,299	894,968
Property, plant and equipment	494,670	582,439	640,501	666,030	692,816	696,220	700,216
Goodwill and intangible assets	141,488	128,602	132,460	136,434	140,527	144,743	149,085
Investments	-	-	-	-	-	-	-
Investment in associates and joint ventures	-	-	-	-	-	-	-
Deferred tax and other non-current assets	26,863	39,392	40,574	41,791	43,045	44,336	45,666
Current assets	363,785	241,417	260,452	292,191	329,793	342,124	367,984
Other current assets	160,605	76,809	84,490	92,939	102,233	112,456	123,702
Trade and other receivables	39,550	33,425	33,091	34,745	36,483	38,307	40,222
Restricted cash	17,261	41,618	42,867	44,153	45,477	46,841	48,247
Cash and cash equivalents	146,369	89,565	100,005	120,354	145,601	144,520	155,814
Total Assets	1,026,806	991,850	1,073,987	1,136,446	1,206,181	1,227,423	1,262,952
Non-current liabilities	461,207	340,757	380,581	393,567	375,190	322,237	271,187
Interest-bearing liabilities	189,783	135,545	134,327	139,925	113,938	53,148	(5,975)
Deferred tax and other non-current liabilities	271,424	205,212	246,254	253,642	261,251	269,089	277,161
Current liabilities	487,430	542,244	535,165	536,171	537,245	515,925	496,560
Interest-bearing liabilities	100,054	119,820	109,904	93,283	75,959	35,432	(3,983)
Trade and other payables	255,472	245,887	243,428	255,600	268,380	281,798	295,888
Other current and tax liabilities	131,904	176,537	181,833	187,288	192,907	198,694	204,655
Total equity	78,169	108,849	158,240	206,708	293,746	389,261	495,205
Attributable to equity holders of the company	78,169	108,849	158,240	206,708	293,746	389,261	495,205
Non-controlling interests	-	-	-	-	-	-	-
Total equity and liabilities	1,026,806	991,850	1,073,987	1,136,446	1,206,181	1,227,423	1,262,952
Total Debt	289,837	255,365	244,231	233,209	189,897	88,581	(9,958)
Cash	146,369	89,565	100,005	120,354	145,601	144,520	155,814
Net Debt	143,468	165,800	144,226	112,855	44,296	(55,939)	(165,772)
Debt / Equity	371%	235%	154%	113%	65%	23%	-2%
Net Debt / Equity	184%	152%	91%	55%	15%	-14%	-33%
ROACE*	50.6%	49.3%	35.6%	28.1%	33.5%	33.5%	32.6%

Source: MTN Nigeria, Coronation Research forecasts. NB 2018e data is estimated as some headline data for MTN Nigeria for 2018 is available but full financial and operating data has yet to be published at the time of going to press. *ROACE is defined as taxed EBIT (NOPLAT) divided by average Capital Employed (year-end Capital Employed in the case of 2016).

Forecast Cashflow 2018e-22f

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Naira millions, year to 31 Dec	2017	2018e	2019f	2020f	2021f	2022f
EBITDA	345,567	453,039	495,052	518,785	543,624	572,166
(Increase)/ Decrease in other current assets	(24,357)	(7,681)	(8,449)	(9,294)	(10,223)	(11,246)
(Increase)/ Decrease in Trade Receivables		334	(1,655)	(1,737)	(1,824)	(1,915)
(Increase)/ Decrease in Restricted Cash		(1,249)	(1,286)	(1,325)	(1,364)	(1,405)
Increase/ (Decrease) in trade other payables	(9,585)	(2,459)	12,171	12,780	13,419	14,090
Working Capital Changes	(33,942)	(11,054)	782	424	7	(476)
Interest Paid		(38,534)	(48,165)	(32,865)	(18,037)	585
Income tax paid	(58,877)	(45,011)	(50,744)	(93,256)	(102,338)	(113,511)
Other operating activities	(67,714)					
Change in other current and tax liabilities		5,296	5,455	5,619	5,787	5,961
Net cash generated from operating activities	185,034	363,736	402,380	398,708	429,044	464,725
Acquisition of property, plant and equipment	(193,015)	(207,797)	(190,505)	(201,854)	(187,866)	(198,377)
Acquisition of intangible assets	(10,320)	(3,858)	(3,974)	(4,093)	(4,216)	(4,342)
Increase in non-current investments						
Realisation/(purchase) of financial assets	117,348					
Change in Deferred tax and other non-current liabs		41,042	7,388	7,609	7,838	8,073
Change in Deferred tax and other non-current assets		(1,182)	(1,217)	(1,254)	(1,291)	(1,330)
(Increase)/decrease in restricted cash	(24,357)					
Movement in other investing activities	551					
Net cash used in investing activities	(109,793)	(171,795)	(188,308)	(199,592)	(185,536)	(195,976)
Free Cash Flow	75,241	191,942	214,072	199,116	243,509	268,748
Proceeds from borrowings	50,516	(11,134)	(11,022)	(43,311)	(101,317)	(98,539)
Repayment of borrowings and interest	(106,890)					
Dividends paid to equity holders of the company	(50,000)	(60,367)	(72,701)	(130,558)	(143,273)	(158,916)
Fine		(110,000)	(110,000)			
Net cash (used in)/from financing activities	(106,374)	(181,502)	(193,723)	(173,869)	(244,590)	(257,454)
Net (decrease)/increase in cash and cash equivalents	(58,014)	10,440	20,349	25,247	(1,081)	11,294
Net cash and cash equivalents at beginning of the year	146,369	89,564	100,004	120,353	145,600	144,519
Exchange losses on cash and cash equivalents	1,209					
Net monetary gain on cash and cash equivalents						
Net cash and cash equivalents at end of the year	89,564	100,004	120,353	145,600	144,519	155,813

Source: MTN Nigeria, Coronation Research forecasts. NB 2018e data is estimated as some headline data for MTN Nigeria for 2018 is available but full financial and operating data has yet to be published at the time of going to press

Valuation

To derive MTN Nigeria's equity value we combine discounted cash flow (DCF) and relative valuation (RV), applying an equal weighting to both.

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DCF Valuation

Using the DCF valuation method, we arrive at an equity value of N2.24tn for the company. Our DCF valuation incorporates the use of a two stage model: the forecast stage (2018e-22f), and perpetuity.

To derive our WACC, we adopt a cost of equity of 21.7% and an after tax cost of debt of 8.8%.

We compute our cost of equity by applying MTN Nigeria's blended cost of existing debt of 12.6%, a market risk premium of 6.0% and a beta of 1.24. The beta was derived by computing MTN Group's unlevered beta and applying it to MTN Nigeria's debt structure. We have assumed a long term growth rate of 7.0% slightly higher than our 2018e-22f revenue CAGR of 6.2%.

WACC assumptions

Cost of Debt (Kd)

Cost of debt	12.6%
After tax cost of debt	8.8%

Cost of Equity (Ke)

Unlevered beta (Stock beta)	1.24
ERP	6.0%
RFR (10Y FGN bond: 5-year avg implied yield)	14.2%
Ke	21.7%

Weighted Avg Cost of Capital (WACC)

Equity	39.3%
ST debt	27.3%
LT debt	33.4%
Total debt	60.7%
WACC	16.2%

Terminal Value Assumptions

LT growth rate	7.0%
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Discounted Cash Flow: Equity Value

Naira millions	2019f	2020f	2021f	2022f	2023f	Perpetuity
Free Cash Flow	214,072	199,116	243,509	268,748	292,936	3,412,099
Discount factor	0.86	0.74	0.64	0.55	0.47	0.47
Present Value of FCF	184,249	147,502	155,257	147,478	138,357	1,611,571
EV	2,384,414					
Less: Net debt	(144,226)					
Minorities						
Gratuity Provisions						

Equity Value (market cap) 2,240,188

No. of shares, millions 20,355

DCF per share, Naira 110.1

Source: MTN Nigeria, Coronation Research. Exchange rate used is N360/US\$

Valuation

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Relative Valuation

Here we use an EV/EBITDA spot multiple comparison. Comparison is made with a selection of emerging market telco companies (we have used consensus estimates to arrive at valuations for the companies).

Relative Valuation

Peers	2016	2017	2018e
	EV/EBITDA FY1	EV/EBITDA FY2	EV/EBITDA FY3
Sonatel	5.52	4.82	3.44
Safaricom	8.26	10.05	7.00
Bharti Airtel India	6.50	10.32	8.79
Onatel	5.86	4.67	3.76
Tim Participacoes	3.85	5.78	4.30
MTN Ghana	7.13	6.08	5.04
Emerging market peer average	6.19	6.95	5.39
MTN Nigeria EBITDA, Nm	355,704	345,567	453,000
MTN Nigeria, implied EV, Nm	2,200,622	2,402,843	2,440,915
Net debt, Nm*	(143,486)	(165,800)	(144,226)
Equity Value, Nm	2,057,136	2,237,043	2,296,689
Average, 2016-18e			2,196,956
No. of shares, millions			20,355
Blended target price per share, Naira			107.9

Source: Bloomberg, Coronation Research *EBITDA in 2018 is given in company presentation, Net debt is estimated pending publication of full 2018 financial results.

Using both our peer-group relative spot multiple valuation and our DCF valuation gives us an indicative valuation range of N2.20 trillion to N2.24 trillion, for the equity of MTN Nigeria, and an average price per share of N108.6..

Risks

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Risks to our investment thesis are evident in: exchange rates, in particular the Naira / US dollar exchange rate; oil prices and production; and other contingent liabilities that may crystallise, in particular the ongoing court case between the Federal Government of Nigeria (FGN) and Process and Industrial Development; insurgencies and security breaches; regulatory risk; macro-economic risk; market risk; interest rate conditions; and management decisions as they affect the performance of MTN Nigeria.

Regulatory risk

MTN Nigeria is regulated by the Nigerian Communications Commission (NCC). The NCC is responsible for a broad range of authorisation for the telecommunications industry in Nigeria, including registration of telephone subscribers, interconnection regulations, operating licences and permits, number portability, termination rates etc. The NCC sets tariffs levels for termination rates, and maximum tariffs for voice service and internet services. The NCC could, in future, set minimum and maximum termination, voice service and internet service rates that significantly affect the economics of Nigerian telecom companies, including MTN Nigeria.

Naira / US dollar exchange rate

In January 2017 the unofficial, or parallel Naira/US\$ rate was N490.00/US\$1 while the interbank Naira/US\$ rate stood at N314.86/US\$1. By mid-August 2017 these rates had converged to approximately N360.00/US\$1. During 2017 the published foreign exchange reserves of the Central Bank of Nigeria (CBN) rose from US\$28.3bn to US\$38.7bn. The CBN's FX reserves are currently reported at US\$44.8bn. Therefore, by the end of 2017, the Naira/US dollar exchange rate had stabilised considerably. However, inflation (April 2019: 11.25% year-on-year) currently above its target of 6 – 9%, represents an ongoing threat to the exchange rate, which continues to be protected by various restrictive rules and controls.

In addition, and over the long term, the Naira/US dollar exchange rate has been subject to periodic dislocations. During periods of severe exchange rate disruption there can be limitation on capital flows and foreign exchange transfers.

Oil prices and production


The average price of oil (Brent) in 2017 was US\$54.75/bbl, while year-to-date in 2018 the average has exceeded US\$65.00/bbl. The Nigerian economy depends on oil prices and production to a significant extent.

Average oil prices (Brent) in 2019 have remained favourable, having averaged US\$66.04/bbl up until 6 May. Nevertheless, a sharp decline in oil prices and/or production, especially below US\$60.00/bbl is likely to distort the implementation of the 2019 budget and confidence in the currency. This, in our opinion, could have destabilising effects on the broader economy and MTN Nigeria.

Political risk – Process and Industrial Development (P&ID)

Process and Industrial Development Limited, a company registered in the British Virgin Islands, currently has a US\$9bn claim against the Federal Government of Nigeria (FGN) over alleged contracts with the Ministry of Petroleum Resources of the FGN to build a natural gas processing plant – see Coronation Research: P&ID's risk to Nigeria, 14 March 2019. Enforcement of this contract through US courts could negatively impact the monetary and fiscal stability of Nigeria.

Risks

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Political risk - insurgencies

The author(s) of this report are aware of three areas of insurgency in Nigeria: in the north-east of the country, where the so-called 'Boko Haram' group wages a terrorist campaign; in the south-south, particularly the Niger Delta area, where various groups disrupt oil & gas production; in the middle belt and north-west where violent raids by bandits have disturbed economic activity. These insurgencies are chronic and, if any one or more of them worsen, could significantly disrupt the politics and economy of Nigeria.

Macro-economic risk

The authors of this report expect continued growth of the Nigerian economy during the forecast period, but cannot rule out a return to recession. Such a renewed downturn would have negative effects on consumer behaviour and on the profitability of MTN Nigeria

Market risk

The prices of shares listed on the Nigerian Stock Exchange (NSE) are subject to volatility which exceeds that of some developed and emerging markets. While volatility does not equate to risk, as such, market participants may reduce their participation in the Nigerian market if volatility reaches high levels, and this could negatively impact share prices.

Interest rate conditions

The interest rates that apply to MTN Nigeria's debt, in both Naira and US dollars, could change in future and differ from those assumed in building the financial model of our forecast earnings, cash flow development and balance sheet for the company.

Management decisions

As described in this report, the NCC found MTN Nigeria in breach of subscriber registration regulations in 2015. We understand that management changes were made after that breach was discovered, that new governance structures are in place, and that the settlement between the NCC and MTN Nigeria is final. However, we cannot entirely rule out future breaches of regulations or of business best practice.

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Security Name	Available Disclosure
Nestle Nigeria	
Flour Mills of Nigeria	G
Unilever Nigeria	G
PZ Cussons Nigeria	G

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	Date Recommendation	Recommendation	Date Recommendation	Recommendation	Date Recommendation	Recommendation	Current price, Naira/s	Target price, Naira/s
FBNH	1-Jan-19	Buy	21-Dec-18	Buy	8-May-19	Buy	7.50	12.50
Zenith	1-Jan-19	Buy	21-Dec-18	Buy	8-May-19	Buy	20.45	27.50
UBA	1-Jan-19	Buy	21-Dec-18	Buy	8-May-19	Buy	6.60	11.50
GT Bank	1-Jan-19	Hold	21-Dec-18	Hold	8-May-19	Hold	32.30	35.00
Access	1-Jan-19	Buy	21-Dec-18	Buy	8-May-19	Buy	7.00	8.70
Fidelity	1-Jan-19	Buy	21-Dec-18	Buy	8-May-19	Buy	1.85	2.40
Stanbic IBTC	1-Jan-19	Buy	21-Dec-18	Buy	8-May-19	Buy	43.50	66.00
Sterling	1-Jan-19	Hold	21-Dec-18	Hold	8-May-19	Hold	2.70	1.90

This documents marks the initiation of coverage by Coronation Research for Nestle Nigeria, Flour Mills of Nigeria, Unilever Nigeria and PZ Cussons Nigeria.

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Sell	0%
Hold	25%
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