

MTN Group Limited

(Incorporated in the Republic of South Africa)
(Registration number 1994/009584/06)
(Share code MTN)
(ISIN: ZAE000042164)
("MTN" or "MTN Group" or "Company")

Summary of MTN Nigeria unaudited results for the nine months ended 30 September 2020

Key metrics:

- Mobile subscribers increased by 3.9 million to 75.0 million
- Active data users increased by 1.7 million to 30.7 million
- Service revenue increased by 13.9% to NGN973.8 billion
- Earnings before interest, tax, depreciation and amortisation (EBITDA) grew by 9.1% to N497.9 billion
- EBITDA margin declined by 2.3 percentage points (pp) to 51.0%
- Profit before tax (PBT) declined by 0.6% to N211.6 billion
- Earnings per share (EPS) declined by 3.3% to N7.1kobo

Unless otherwise stated, financial information is year-on-year (YoY) (the nine-month period ended 30 September 2020 versus the nine-month period ended 30 September 2019).

Non-financial information is presented quarter-on-quarter (QoQ), or Q3 2020 vs Q2 2020.

MTN Nigeria is one of Africa's largest providers of communications services, connecting over 75 million people in communities across the country with each other and the world. Guided by a vision to lead the delivery of a bold new digital world, 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 21 countries in Africa and the Middle East.

MTN Nigeria CEO, Ferdi Moolman comments:

"The year 2020 has been challenging for everyone. The COVID-19 pandemic was first reported in Nigeria during the first quarter of 2020 and the country has, to date, registered over 62,000 cases and over 1,100 deaths according to the Nigeria Centre for Disease Control (NCDC). Many share a common distressing story of health, social and financial consequences of the pandemic. The recent agitations across the country are of further concern and our thoughts and prayers are with all those directly and indirectly affected.

Through all these, we recognise that we must keep rising the best way we have learnt to do, which is together. That is why our priorities have remained focused on continuing to provide and invest in a network that brings people together and provides a platform for everyone's voice to be heard. It also enables the accelerated need for digitalisation where more people work from home with increasing reliance on a ubiquitous and effective digital network.

As part of our COVID-19 response, we launched various initiatives to provide support for our people, customers and the various levels of government. We were pleased that over 75% of our customers benefitted from the free SMS under our Y'ello Hope package aimed mainly at the vulnerable in the society. This initiative enabled our customers to send over 4.3 billion messages and stay connected to family and friends in the midst of social distancing imperatives.

We provided personal protective equipment (PPE) to frontline workers and facilitated zero-rated access to healthcare websites, also aimed at supporting individuals and institutions, mindful that all hands must be on deck to stem the pandemic. When we deployed our Wear-it-for-me campaign, we leveraged on the power of community and the family ties that bind us, to help create awareness around wearing masks, again as part of Y'ello Hope.

Continuing our national support in relation to the disruptive effect of the pandemic, we launched The MTN Revv Programme in August to expand our support for small and medium enterprises (SMEs) across the country. The programme is designed to help SMEs reposition their businesses for growth in the emerging digital economy, and includes masterclasses, advisory services, marketing and technology support. The first phase, which is the masterclass, has engaged more than 18,000 SME participants so far. Based on the popularity of the programme, we now plan to hold it annually.

We are humbled that MTN Nigeria was named the 'Most Responsive Organisation to COVID-19' at the 2020 Nigerian Risk Awards. This is a reflection of our commitment to the initiatives we implemented in response to the pandemic. We will continue to provide support as the country navigates the pandemic and its associated impact.

During the period under review, we saw volatility in both voice and data revenue, affecting the trajectory of our overall service revenue, as well as pressure on costs, which continues to impact our operating margins, dampening profitability.

Following a decline in voice traffic and an acceleration in data during lockdowns in Q2, we have seen a normalisation of traffic as restrictions have been removed, with a recovery in voice traffic and continued growth in data. This has supported a 13.9% growth in service revenue, with an acceleration of growth to 16.5% in Q3 specifically.

Data revenue rose by 57.0%, with an increase in data usage and traffic. Revenue from digital and fintech services rose by 114.3% and 28.3% respectively, while voice revenue growth was 4.2%.

We saw a significant increase in our subscriber base with the addition of 3.9 million customers in Q3, bringing total subscribers to 75 million. Cumulative net additions totalled 10.7 million in the nine months to September 2020 the first time we have exceeded 10 million additions in an annual cycle with one quarter remaining. We also connected 1.7 million new users to the internet in Q3 (5.5 million for the nine months), bringing our active data subscribers to 30.7 million.

To accommodate the increase in traffic and enhance service quality for all our customers, we continued to invest in the capacity and resilience of our network, accelerating our 4G rollout and expanding our investments in rural connectivity. Our 4G network now covers 52.9% of the population, up from 48.6% in Q2 and 35.4% in Q3 2019.

The growth in our digital business continued to accelerate from a low base, and our fintech business delivered impressive results. In Q3, we surpassed our year-end target of 300,000 registered Mobile Money (MoMo) agents, as we continued to convert our traditional airtime agents. Our fintech subscribers increased by 1.2 million in the quarter to 3.4 million, driving higher transaction volumes and fintech revenue growth.

EBITDA rose by 9.1%, supported by service revenue growth. However, the EBITDA margin declined by 2.3pp to 51.0% due to cost pressures arising mainly from increased investments in our network and the impact on costs of the depreciation to the Central Bank of Nigeria (CBN) and NAFEX exchange rates, affecting in particular the costs of our lease contracts. PBT and EPS declined by 0.6% and 3.3% respectively; however, we saw a recovery in Q3 with a growth of 2.2% YoY in PBT and a marginal decline of 0.7% YoY in EPS.

Finally, we would like to express our heartfelt appreciation to Mr. Rob Shuter, former Group CEO of MTN Group and former Board member of MTN Nigeria, who resigned with effect from 1 September 2020. We appreciate his exemplary leadership and commitment to the Company."

Key financial highlights

	YTD			QTD		
Items (in naira millions)	9M 2020	9M 2019	YoY	Q3 2020	Q3 2019	YoY
Total Revenue	975 764	856 549	13,9%	337 688	289 555	16,6%
Service Revenue	973 811	854 939	13,9%	336 820	289 075	16,5%
Voice	654 520	628 293	4,2%	222 312	207 690	7,0%
Data	241 634	153 861	57,0%	87 552	56 307	55,5%
Digital	6 675	3 114	114,3%	2 417	1 195	102,3%
Fintech	32 368	25 222	28,3%	11 022	8 757	25,9%
Other Service Revenue	38 614	44 449	-13,1%	13 517	15 126	-10,6%
Expenses	477 963	400 124	19,5%	166 949	135 497	23,2%
EBITDA	497 864	456 426	9,1%	170 802	154 058	10,9%
EBITDA Margin	51,0%	53,3%	-2.3pp	50,6%	53,2%	-2.6pp
Depreciation & Amortisation	190 853	171 699	11,2%	68 327	58 731	16,3%
Net Finance Costs	95 416	71 821	32,9%	30 451	24 825	22,7%
PBT	211 594	212 905	-0,6%	72 024	70 501	2,2%
Taxation	67 356	63 682	5,8%	22 663	20 815	8,9%
PAT	144 239	149 223	-3,3%	49 362	49 686	-0,7%
Capital Expenditure including Right of Use Assets	194 230	154 062	26,1%	60 161	41 141	46,2%
Capex Intensity	19,9%	18,0%	1.9pp	17,8%	14,2%	3.6pp
Free Cash Flows	303 633	302 364	0,4%	110 641	112 916	-2,0%
Mobile Subscribers	75,0	61,6	21,8%	75,0	61,6	21,8%
Data Subscribers	30,7	22,3	37,7%	30,7	22,3	37,7%

Note:

- Voice revenue includes interconnect and outbound roaming voice;
- Data revenue includes outbound roaming data;
- Digital revenue excludes bulk SMS and USSD services;
- Fintech revenue includes MTN Xtratime and mobile financial services;
- Other service revenue includes SMS, USSD, Information and Communications Technology (ICT) & infrastructure and devices;
- Capital expenditure excluding right of use assets (IFRS 16 impact) was N130.1 billion;
- Free cash flow (EBITDA minus capital expenditure) excluding IFRS 16 impact was N281.4 billion.

Operational review

We made significant progress in building the base for our business, with 75.0 million subscribers connected to our networks and accessing communication services as of September 2020. The growth in our subscriber base provided support for voice revenue, which accounted for 67.2% of service revenue and rose by 4.2%, with an acceleration in growth to 7.0% YoY in Q3. The key drivers for this were our expanded customer acquisition touchpoints, rural telephony initiatives and revamped acquisition offers using our customer value management toolkit.

Data revenue (24.8% of service revenue) continued to grow strongly, building on the positive momentum from H1. The performance in data was delivered through a combination of increased subscribers, usage (MB per user) and ultimately traffic, supported by increased network capacity and 4G penetration. Data traffic rose by 135.6% YoY and average usage by 70.4%. We added 2.9 million new smartphones to our network in the quarter, bringing smartphone penetration to 45.2% of our base, up from 43.5% in Q2 and 41.7% in Q3 2019.

Digital revenue improved strongly off a low base, rising by 114.3%. This was driven by the increased uptake of our enhanced digital offerings, supported by our active base of 1.5 million users and partnerships with digital content providers.

Our fintech business continued to grow, with MTN Xtratime as a key revenue driver. We expanded our MoMo agent network with the addition of over 90,000 registered agents during the quarter and broadened our service offerings to include bill payments as well as bank deposit and withdrawals through the agents. At the end of Q3, we recorded 311,770 registered MoMo agents, surpassing our year-end target and processing more than 29.4 million transactions (up 101% QoQ in Q3), from an active base of 3.4 million subscribers.

Enterprise revenue grew by 2.0% YoY in the first nine months but declined by 2.1% YoY in Q3 due to the economic impact of the lockdown on the businesses we support. However, we are encouraged by the recovery we saw on a sequential QoQ basis as economic activity started to pick up in the quarter. Our enterprise business includes revenue from mobile and fixed connectivity, cloud and ICT solutions, and devices. It cuts across voice, data and digital services for SMEs, the public sector and large enterprise customers.

Capital expenditure ("capex") was N194.2 billion, up 26.1%. Excluding right of use assets, capex was down by 2.5% to N130.1 billion. In Q3, we were able to ramp up site rollout by 46.2% YoY, following a slowdown in Q2 due to a scarcity of foreign exchange and port congestion.

The aggressive 4G site rollout, which commenced in Q4 2019, resulted in the full impact of increased lease rentals coming through in 2020. This, together with the effects of a 23.9% adjustment to the official exchange rate, put upward pressure on lease rental costs in the period. In addition to this, the combined effect of the 2.5% increase in value-added tax ("VAT"), the change in the treatment of non-recoverable VAT on lease payments, and COVID-19-related costs led to a 24.9% increase in operating expenses with a commensurate knock-on effect on EBITDA.

EBITDA rose by 9.1%, and the EBITDA margin was 51.0%. We delivered a healthy free cash flow of N303.6 billion, up 0.4%. Overall, PBT declined marginally by 0.6%, mainly due to an increase in finance costs arising from higher borrowings. PAT and EPS declined by 3.3% respectively, reflecting an increase in taxation mainly due to lower investment allowance and exempt income.

CEO succession

We have previously announced the appointment of Mr Karl Toriola as the CEO designate for MTN Nigeria. His appointment is effective 1 March 2021, when he will take over from the current CEO, Mr Ferdi Moolman.

Mr. Toriola is currently the Vice President, West and Central Africa (WECA) for MTN Group, a role he has held since 2016. During this period, he has overseen the steady progress of the operating companies in that region as well as the significant commercial and strategic strides made in some of its markets. This includes the development of mobile financial services which is an important driver of our medium to long-term growth strategy. Mr Toriola has held a number of senior operational roles since joining the MTN Group, including CEO of MTN Cameroon and Chief Technical Officer for Nigeria, and also serves on the boards of a number of its subsidiary companies, including MTN Nigeria.

Mr Moolman will exit his current role as MTN Nigeria's CEO with effect from 1 March 2021 and assume a new role as MTN Group Chief Risk Officer (GCRO). Mr Moolman joined MTN Nigeria, first as CFO in 2014 and became CEO in 2015. Under his leadership, significant progress has been made in stabilising the business and setting it on a sustainable growth path. He will remain on the Board of MTN Nigeria in his new role as the MTN GCRO.

Outlook

Despite the relaxation of the lockdown restrictions, the operating environment remains challenging. We will continue to build on our operational and financial resilience and execute on our strategy to position the business for sustained growth over the medium and long term. The availability of foreign exchange remains a constraint even as we strive to minimise its impact on the business.

In the remaining quarter of 2020, we will build on the momentum from Q3 to further expand 4G coverage and broaden rural connectivity. This, backed by our revamped acquisition offers, will help to boost subscriber acquisition as well as support the continued growth in voice and data revenue.

For our digital business, we will focus on growing the active base and building partnerships with digital content providers to stimulate increased adoption and usage of our services. Progress in our MoMo business remains on track as we continue to expand the agent network and financial service offerings to drive adoption.

While the exchange rate impact on our lease rental costs continues to put downward pressure on EBITDA margin into Q4, we will continue to drive service revenue growth and optimise our balance sheet to unlock efficiency and support margins.

This announcement is only a summary of the information in the full announcement and does not contain full or complete details. Please visit <https://www.mtnonline.com/about-us/investor/financial-reporting/quarterly-results/> for the unaudited results for the nine months ended 30 September 2020.

Fairland

28 October 2020

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