

MTN Nigeria Communications PLC

BUY

Growth spurt from tariffs

Target Price: N360.53

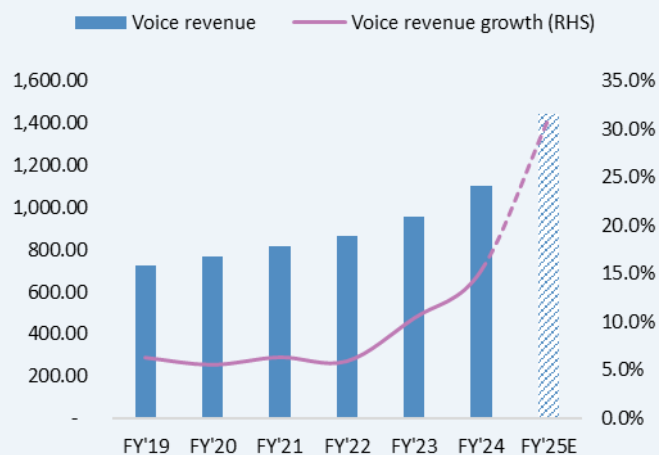
Ref Price: N270.00

There may be more to come from the tariff tailwind

Following engagement with the management of MTN Nigeria Communications Plc (MTNN), we have revised our FY'25 revenue projection for the business to N4.9 trillion (vs. N4.8 trillion prior). This adjustment reflects the greater-than-anticipated impact of the increase in telecoms tariffs on the voice and data segments. Notably, the tariff increase was announced in February and mostly implemented in the last two weeks of March 2025, indicating that the strong revenue growth of Q1'25 (+40.5% YoY) was only minimally driven by the price adjustment, with further support coming from growth in minutes of use and megabits per user. Ceteris paribus, we expect the impact of the tariff adjustment to be more pronounced in the coming financial results (i.e. Q2 onwards). This impact should combine with sustained subscriber growth to boost the company's top line.

After rising by 27.7% YoY in Q1'25, voice revenue could remain resilient for the rest of the year due to higher prices, relatively inelastic demand, and continued support from the ramp-up in MTNN's Customer Value Management. Accordingly, we forecast a 31.0% increase in voice revenue for FY'25E. The projection should also translate to the segment's strongest annual growth in over five years.

Figure 1: Voice revenue (N' billion) vs. voice revenue growth (%)



Source: Company Financials, CardinalStone Research

Samuel Gbadebo, ACA

Samuel.gbadebo@cardinalstone.com

Kayode Eseyin

Kayode.eseyin@cardinalstone.com

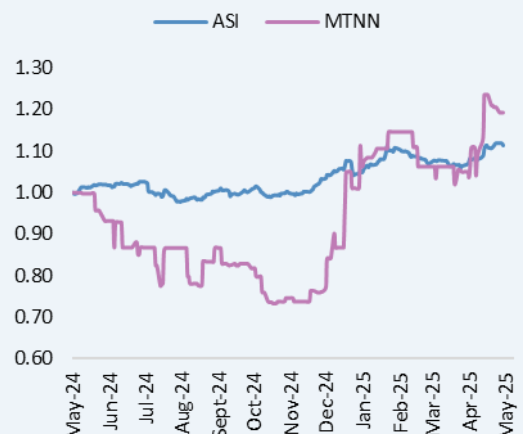
Philip Anegebe, CFA

Philip.anegebe@cardinalstone.com

Market Data	MTNN
Market Cap (N' trillion)	N5.66
Last close price (N)	270.00
52-week high/low price (N)	284.9/169.00
Avg 3M daily volume (mn)	5.92

Sources: Capital IQ, CardinalStone Research

1 year price performance (rebased)



Sources: Bloomberg, CardinalStone Research

Tariff bump to mask moderation in data usage growth

Between FY'19 and FY'24, MTNN's monthly average data usage per subscriber grew by a CAGR of 45.2% to 11.2 GB, partly aided by prior ramp-up in data promotional offers. However, amidst growing macroeconomic shocks, the company switched to a more targeted and optimised approach to its promotional offers. This strategic shift may have materially offset the impact of macro shocks on data usage growth, which came in at 29.5% in Q1'25 compared to 33.6% for FY'24 and the 40.4% CAGR already mentioned. We expect the full implementation of the c.50.0% increase in tariff, combined with the relatively mild increase in data usage, to result in a 68.2% surge in data revenue in FY'25E (FY'24 and last five-year mean: 48.7% YoY).

Our view on data revenue factors in the continued conversion of voice-only subscribers to voice and data users. It is important to note that in each of the past 5 years, data subscriber growth has been well ahead of total subscriber growth as a result of this conversion.

Figure 2: Historical mobile and data subscribers (millions)

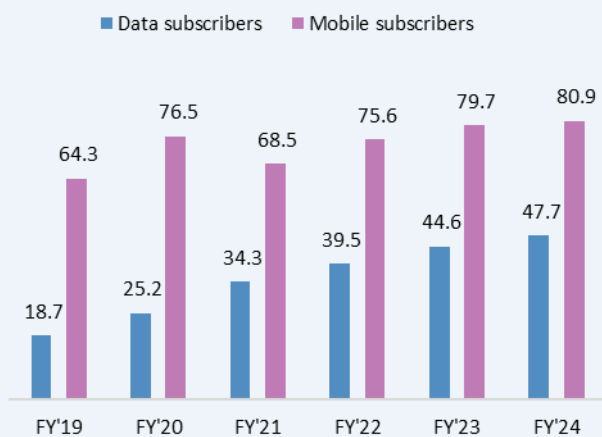


Figure 3: Historical data usage (GB/user)



Source: Company Financials, CardinalStone Research

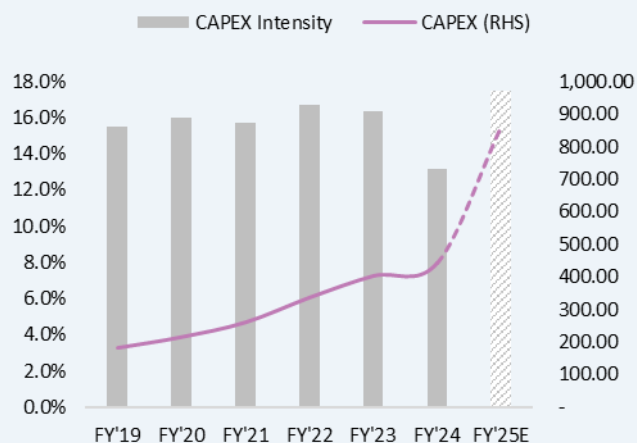
Margins to expand on strong topline growth

In Q1'25, MTNN reported a margin increase of 7.2 ppts due to the strategic restructuring of FCY exposures. We note that the 2024 tower lease renegotiation included provisions for some discounted costs for the company in 2025. For the remaining part of 2025, we expect the knock-on effect of tariff adjustments, sustained cost efficiency programs, and the successful de-dollarisation of OPEX line items to support margins. We now have an EBITDA margin forecast of 44.5% (vs 42.7% prior and 46.6% in Q1'25).

We raise our CAPEX expectation for FY'25

In Q1'25, MTNN grew its CAPEX by 159.0% to N202.4 billion. Management attributed the rise in CAPEX to the company's commitment to enhance capacity and quality in line with the NCC's conditions for allowing the tariff hike. Notably, management has guided to an increase in its capex intensity to a range of 16.0% to 19.0% for FY'25E, a notable rise from 13.2% in FY'24. Consequently, we raise our forecast CAPEX intensity from 16.0% previously to 17.5%. This CAPEX intensity implies a CAPEX spend of N863.2 billion. Over the next five years, we forecast MTNN's CAPEX spending to come in at an average of N1.3 trillion.

Figure 4: CAPEX intensity and CAPEX spending (N'billions)



Source: Company Financials, CardinalStone Research

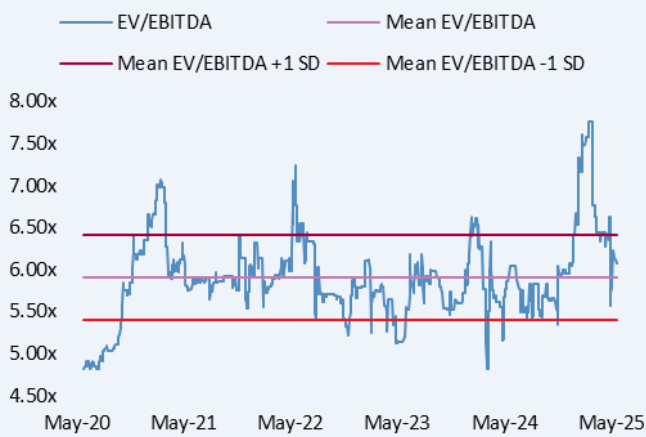
Valuation upside and hint at public offer

Adjustments to our model led to a new 12-month target price ("TP") of N360.53, reflecting a 33.5% potential upside from its current ref price and an unchanged BUY recommendation. MTNN has an estimated forward EV/EBITDA multiple of 3.8x compared to a next twelve-month Bloomberg peer EV/EBITDA of 4.1x. In addition, our 12-month TP implies a conservative exit P/E of 10.1x compared to MTNN's last 5-year harmonic mean P/E of 14.6x.

On other fronts, MTN Group (through its President, Ralph Mupita) has announced plans to reduce its stake in MTNN through a public offer when the latter returns to positive equity position and dividend payments. Specifically, the Group is looking to reduce its stake from 76.0% to 65.0%, consistent with its commitment to deepen local ownership in MTNN. The proposed offer would represent the Group's second major retail public offering in Nigeria, following the 2021 sale of 575.0 million MTNN shares to local investors.

Interestingly, the President's view on a rebound in 2025 (particularly in relation to service revenue) is consistent with our projections for a return to a positive equity position of N312.1 billion in FY'25E. We, however, remain conservative on a potential return to dividend payment in the current financial year.

Figure 5: EV/EBITDA



Source: Capital IQ, CardinalStone Research

Figure 6: Summary of Financials

Income Statement (N'billion)					Cashflow Statement				
	2023A	2024A	2025F	2026F		2023A	2024A	2025F	2026F
Revenue	2,468.85	3,360.83	4,932.80	6,172.09	Cash flow from operating activities	1,004.24	868.90	1,465.51	2,070.90
COGS	(406.00)	(528.19)	(690.59)	(861.01)	o/w Depreciation & amortization	428.87	535.16	614.01	756.23
Gross profit	2,062.85	2,832.64	4,242.21	5,311.08	o/w Changes in working capital	164.86	97.82	81.43	225.02
Operating Expenses	(860.33)	(1,519.25)	(2,047.11)	(2,555.24)	Cash flow from investing activities	(783.27)	(238.40)	(1,233.20)	(1,496.73)
EBITDA	1,202.52	1,313.40	2,195.09	2,755.84	o/w Capital expenditure	(449.33)	(443.48)	(863.24)	(1,064.68)
D & A	(428.87)	(535.16)	(614.01)	(756.23)	as % of sales	18.2%	13.2%	17.5%	17.3%
EBIT	773.65	778.24	1,581.09	1,999.60	Cash flow from financing activities	(147.26)	(736.84)	(46.29)	(495.30)
Net Interest	(951.55)	(1,328.57)	(480.99)	(442.96)	o/w Dividends paid	(171.70)	-	-	(544.82)
PBT	(177.89)	(550.33)	1,100.10	1,556.64	o/w Debt issued/(repaid)	134.55	(525.33)	(48.02)	66.29
Tax	40.87	149.89	(330.03)	(466.99)	Net change in cash	73.72	(106.34)	186.02	78.88
PAT	(137.02)	(400.44)	770.07	1,089.65	Cash & cash equivalent at the beginning of the year	349.79	345.17	253.41	439.43
Profit attributable to equity holders	(133.84)	(399.45)	752.20	1,064.36	Effects of exchange rate on changes in cash	(78.34)	14.58	-	-
EPS	(6.38)	(19.05)	35.88	50.76	Allowance for credit losses	(0.09)	(0.03)	(0.03)	(0.03)
DPS	5.60	NM	NM	25.99	Cash & cash equivalent at the end of the year	345.07	253.38	439.40	518.27
Payout ratios	NM	NM	NM	51.2%					
Shares outstanding (billions)	20.97	20.97	20.97	20.97					
Balance Sheet (N'billion)					Ratio Analysis				
	2023A	2024A	2025F	2026F		2023A	2024A	2025F	2026F
Cash and cash equivalents	345.07	253.38	439.40	518.27	Gross Margin	83.6%	84.3%	86.0%	86.1%
Accounts receivable	215.41	367.71	420.82	475.31	EBITDA Margin	48.7%	39.1%	44.5%	44.7%
Restricted Cash	394.41	107.02	107.02	107.02	EBIT Margin	31.3%	23.2%	32.1%	32.4%
Other current assets	20.88	63.22	67.60	68.05	Net Profit Margin	NM	NM	15.6%	17.7%
Current assets	975.78	791.34	1,034.84	1,168.66	ROAE	-123.6%	NM	NM	186.4%
PP&E	1,095.11	1,248.30	1,749.00	2,330.58	ROAA	-4.8%	-10.8%	16.6%	19.8%
Intangible assets	447.60	408.78	380.38	362.75	OPEX/Sales	34.8%	45.2%	41.5%	41.4%
Other non-current assets	670.34	1,748.57	1,895.47	2,072.02	Debt/Equity (x)	NM	NM	10.29x	3.80x
Total assets	3,188.83	4,196.99	5,059.69	5,934.00	Debt/EBITDA (x)	1.8x	2.5x	1.5x	1.2x
Short-term borrowings	689.35	336.33	319.72	342.64	Sales/Assets (x)	0.8x	0.8x	1.0x	1.0x
Trade and other payable	699.52	1,191.42	1,330.34	1,610.30	Assets/Equity (x)	NM	NM	16.21x	6.93x
Other short-term liabilities	504.55	460.58	460.79	458.70	Interest cover (x)	3.3x	1.8x	3.1x	4.0x
Current liabilities	1,893.42	1,988.32	2,110.86	2,411.63	Tax rate	NM	NM	30.0%	30.0%
Long-term debt	487.82	636.59	605.17	648.54	Revenue YoY Growth	22.7%	36.1%	46.8%	25.1%
Other long-term liabilities	848.44	2,030.09	2,031.60	2,016.94	EBITDA YoY Growth	12.3%	9.2%	67.1%	25.5%
Total liabilities	3,229.67	4,655.00	4,747.63	5,077.12	EPS YoY Growth	NM	NM	NM	41.5%
Shareholders' equity	(40.84)	(458.01)	312.06	856.89					
Total liabilities & equity	3,188.83	4,196.99	5,059.69	5,934.00					
BVPS	(1.95)	(21.84)	14.88	40.87					
y/y Growth	NM	NM	NM	NM	Valuation	2023A	2024A	2025F	2026F
Net debt	1,836.51	3,002.96	2,770.65	2,741.31	EV/EBITDA (x)	6.1x	6.5x	3.8x	3.0x
					Dividend Yield	2.1%	NM	NM	9.6%

Source: Company Financials; CardinalStone Research

Note: N in billions (except per-share data). Fiscal year ends in December. o/w-out of which

Disclosure

Analyst Certification

The research analyst(s) denoted by an “*” on the cover of this report certifies (or, where multiple research analysts are primarily responsible for this report, the research analysts denoted by an “*” on the cover or within the document individually certifies, with respect to each security or issuer that the research analyst(s) cover in this research) that: (1) all of the views expressed in this report accurately articulate the research analyst(s) independent views/opinions, based on public information regarding the companies, securities, industries or markets discussed in this report. (2) The research analyst(s) compensation or remuneration is in no way connected (either directly or indirectly) to the specific recommendations, estimates or opinions expressed in this report.

Analysts’ Compensation: The research analyst(s) responsible for the preparation of this report receive compensation based upon various factors, including the quality and accuracy of research, client feedback, competitive factors, and overall firm revenues, which include revenues from, among other business units, Investment Banking and Asset Management.

Investment Ratings

Investment Ratings CardinalStone employs a 3-step rating system for equities under coverage: Buy, Hold, and Sell.

Buy ≥ +15.00% expected share price performance

Hold +0.00% to +14.99% expected share price performance

Sell < 0.00% expected share price performance

A **BUY** rating is given to equities with strong fundamentals, which have the potential to rise by at least +15.00% between the current price and the analyst’s target price

An **HOLD** rating is given to equities with good fundamentals, which have upside potential within a range of +0.00% and +14.99%,

A **SELL** rating is given to equities that are highly overvalued or with weak fundamentals, where potential returns of less than 0.00% are expected between the current prices and the analyst’s target prices.

A **NEGATIVE WATCH** is given to equities whose fundamentals may deteriorate significantly over the next six (6) months, in our view

CardinalStone Research distribution of ratings/Investment banking relationships as of May 26, 2025

Rating	Buy	Sell	Hold	Negative Watch
% of total recommendations	59%	7%	33%	0%
% with investment banking relationships	0%	0%	0%	0%

Valuation and Risks: Please see the most recent company-specific research report for an analysis of valuation methodology and risks on any security recommended herein. You can contact the analyst named on the front of this note for further details.

Frequency of Next Update: An update of our view on the company (ies) would be provided when next there are substantial developments/ financial news on the company.

Conflict of Interest: It is the policy of CardinalStone Partners Limited and its subsidiaries and affiliates (individually and collectively referred to as “CardinalStone”) that research analysts may not be involved in activities that suggest that they are representing the interests of Cardinal Stone in a way likely to appear to be inconsistent with providing independent investment research. In addition, research analysts’ reporting lines are structured to avoid any conflict of interests. For example, research analysts are not subject to the supervision or control of anyone in CardinalStone’s Investment Banking or Sales and Trading departments. However, such sales and trading departments may trade, as principal, based on the research analyst’s published research. Therefore, the proprietary interests of those Sales and Trading departments may conflict with your interests.

Company Disclosure:

CardinalStone may have financial or beneficial interest in securities or related investments discussed in this report, which could, unintentionally, affect the objectivity of this report. Material interests, which CardinalStone has with companies or in securities discussed in this report, are disclosed hereunder:

Company	Disclosure
MTN Nigeria Communications PLC	A,D

- a. The analyst holds personal positions (directly or indirectly) in a class of the common equity securities of the company
- b. The analyst responsible for this report as indicated on the front page is a board member, officer or director of the Company
- c. CardinalStone is a market maker in the publicly traded equities of the Company
- d. CardinalStone has been lead arranger or co-lead arranger over the past 12 months of any publicly disclosed offer of securities of the Company
- e. CardinalStone beneficially own 1% or more of the equity securities of the Company
- f. CardinalStone holds a major interest in the debt of the Company
- g. CardinalStone has received compensation for investment banking activities from the Company within the last 12 months
- h. CardinalStone intends to seek, or anticipates to receive compensation for investment banking services from the Company in the next 3 months
- i. The content of this research report has been communicated with the Company, following which this research report has been materially amended before its distribution
- j. The Company is a client of CardinalStone
- k. The Company owns more than 5% of the issued share capital of CardinalStone
- l. CardinalStone has other financial or other material interest in the Company
- m. Shareholder and/or bond register(s) managed by CardinalStone Registrars Limited

Important Regional Disclosures

The analyst(s) involved in the preparation of this report may not have visited the material operations of the subject Company (ies) within the past 12 months. To the extent this is a report authored in whole or in part by a Non-U.S. analyst and is made available in the U.S., the following are important disclosures regarding any Non-U.S. analyst contributors: The Non-U.S. research analysts (denoted by an * in the report) are not registered/qualified as research analysts with FINRA; and therefore, may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account. Each analyst (denoted by an *) is a Non-U.S. Analyst and is currently employed by Cardinal Stone.

Legal Entities

Legal entity disclosures: CardinalStone Partners is authorized and regulated by the Securities and Exchange Commission (SEC) to conduct investment business in Nigeria.