CardinalStone

Nigeria | Equity Research | Telecommunication | Sector Update

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Tariff hike portends stronger earnings for operators

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Following extensive engagements, the Nigerian Communications Commission (NCC) has approved a maximum tariff increase of 50.0% for Mobile Network Operators (MNOs), effective January 20, 2025. This marks the first tariff adjustment since 2013 and is deemed essential by the NCC to support infrastructure investments, drive innovation, and improve service quality, network reliability, and coverage for consumers.

The new tariffs present a significant revenue growth opportunity for telecom operators, prompting a reevaluation of our coverage companies. MTNN stands to benefit the most, with the tariff increase expected to drive a 59.0% rise in revenue for 2025, stabilizing at a medium-term compound annual growth rate (CAGR) of 26.6%.

For AIRTELAFRI, we anticipate an immediate revenue boost in the final quarter of FY'24/25, given its March financial year-end. By FY'25/26, the Nigerian OpCo gains, combined with continued growth in other operating regions, are projected to lift the group's revenue by 17.0%, reaching $5.89 billion.

Some argue that higher tariffs could dampen customer demand, especially given the strain on consumer wallets in Nigeria. While this concern is valid, we believe the impact will be minimal. Data continues to drive growth in the sector, and Nigeria's youthful, digitally inclined population (with 70% aged 15–18) is a key factor. The rise of content creation, social media management, e-commerce, and remote work has solidified data usage as a necessity, positioning it for further growth.

Additionally, we expect telecom operators to ramp up capital expenditure, reversing earlier expectations of a slowdown. With stronger revenue growth, investments in acquiring additional spectrums and upgrading telecom infrastructure are likely. These moves will not only improve service quality and accelerate the rollout of 5G sites but also attract new customers and boost retention, strengthening the competitive edge over other internet service providers (ISPs).

Figure 1: Potential impact of tariff adjustment on MTNN'S FY'25F revenue (N'trillion)

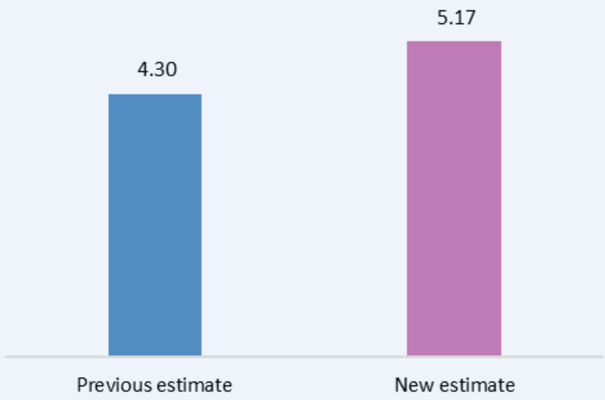
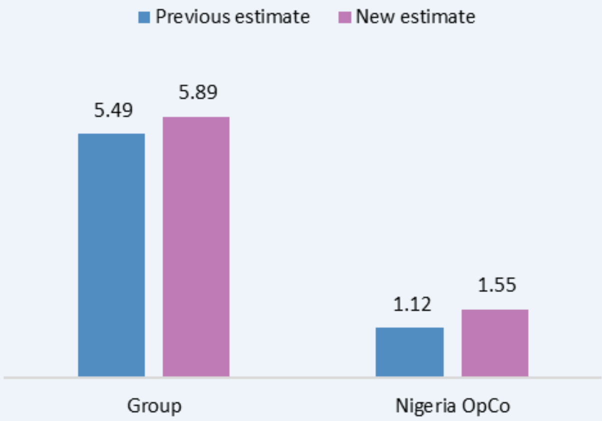


Figure 2: Potential impact of tariff adjustment on AIRTELAFRI's FY'25/26 revenue ($'billion)



Source: Company Financials, CardinalStone Research

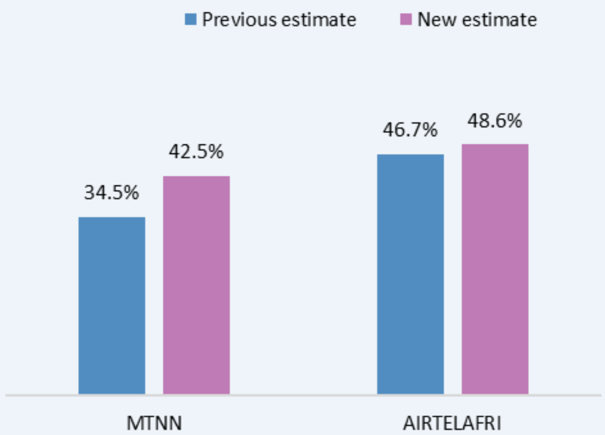
Margin recovery and expansion

In line with our earlier views for MTNN and AIRTELAFRI, we anticipate a significant improvement in operational performances, driven by each company's strategic initiatives to mitigate FX exposures and control rising operational costs. The impact of the new tariff increase is expected to serve as a complementary factor, bolstering margin improvements in the near term.

Specifically, MTNN's EBITDA margin is expected to reach 42.5% in FY'25F (vs prior estimate of 34.5%). This shift also highlights the support from the ongoing benefits of the tower lease contract renegotiation. Meanwhile, for AIRTELAFRI, we expect FY'25/26 EBITDA margin to print at 48.6% (vs prior estimate of 46.7%).

Looking further down into the profitability metrics, the EPS readings for both counters showcased the top-to-bottom positive impact of expected revenue improvements. For context, FY'25F EPS for MTNN now prints at N31.01 (vs prior estimate of N11.31), while AIRTELAFRI's EPS for FY25/25F is estimated at $0.15 compared to the initial forecast of $0.11.

Figure 3: EBITDA Margin expansion in the offing



Sources: Company Financials, CardinalStone Research

Figure 4: Potential impact of tariff adjustment on MTNN's EPS (N)

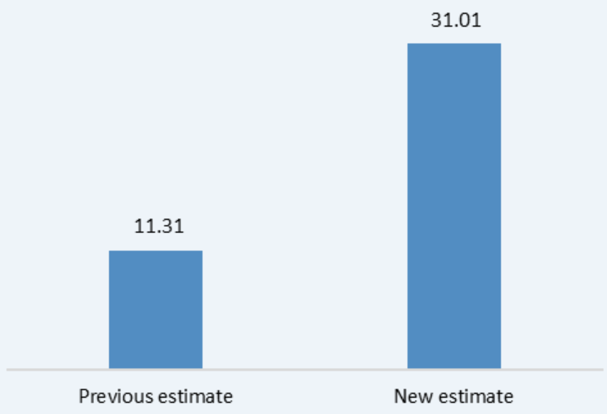
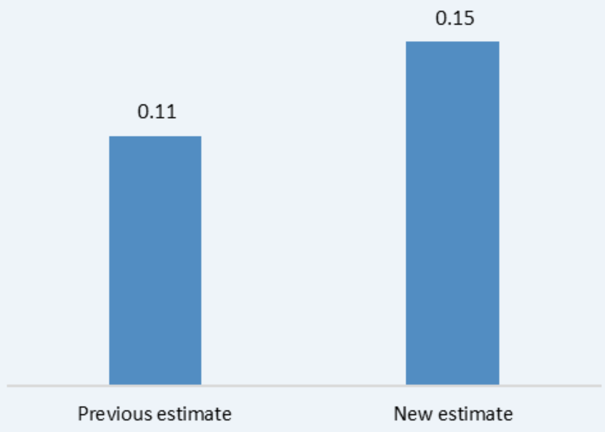


Figure 5: Potential impact of tariff adjustment on AIRTELAFRI's EPS ($)



Sources: Company Financials, CardinalStone Research

Valuation

Given the improved revenue and EBITDA expectations driven by tariff adjustments, we anticipate a significant positive impact on valuation. After incorporating the tariff increase into our model, we have revised our 12-month target prices to N301.49 per share for MTNN and N3,209.08 per share for AIRTELAFRI. Overall, we retain our BUY recommendation on the counters.

Figure 6: Summary of Financials for MTNN

Income Statement (N'billion)	2023A	2024E	2025F	2026F
Revenue	2,468.85	3,248.57	5,166.52	6,458.16
COGS	(406.00)	(524.93)	(826.64)	(1,039.76)
Gross profit	**2,062.85**	**2,723.64**	**4,339.88**	**5,418.39**
Operating Expenses	(860.33)	(1,544.77)	(2,144.11)	(2,873.88)
EBITDA	**1,202.52**	**1,178.88**	**2,195.77**	**2,544.51**
D & A	(428.87)	(520.90)	(620.96)	(764.43)
EBIT	**773.65**	**657.97**	**1,574.81**	**1,780.08**
Net Interest	(951.55)	(1,295.63)	(584.45)	(613.34)
PBT	**(177.89)**	**(637.66)**	**990.36**	**1,166.74**
Tax	40.87	177.52	(324.69)	(382.52)
PAT	**(137.02)**	**(460.13)**	**665.67**	**784.23**
Profit attributable to equilty holders	**(133.84)**	**(449.45)**	**650.22**	**766.03**
EPS	(6.38)	(21.44)	31.01	36.54
DPS	5.60	NM	NM	29.92
Payout ratios	NM	NM	NM	81.9%
Shares outstanding (billions)	20.97	20.97	20.97	20.97

Cashflow Statement	2023A	2024E	2025F	2026F
Cash flow from operating activities	**996.90**	**529.50**	**1,900.05**	**2,308.28**
o/w Depreciation & amortization	428.87	520.90	620.96	764.43
o/w Changes in working capital	183.63	83.15	121.65	146.28
Cash flow from investing activities	**(765.98)**	**(1,169.56)**	**(1,146.97)**	**(1,433.71)**
o/w Capital expenditure	(393.00)	(259.89)	(785.31)	(981.64)
as % of sales	15.9%	8.0%	15.2%	15.2%
Cash flow from financing activities	**(147.26)**	**398.14**	**(47.29)**	**(470.71)**
o/w Dividends paid	(117.58)	-	-	(627.38)
o/w Debt issued/(repaid)	487.50	(260.98)	498.23	716.62
Net change in cash	**83.67**	**(241.91)**	**705.79**	**403.86**
Cash & cash equivalent at the beginning of the year	339.84	345.07	103.16	808.95
Effects of exchange rate on changes in cash	(78.34)	-	-	-
Allowance for credit losses	(0.09)			
Cash & cash equivalent at the end of the year	**345.07**	**103.16**	**808.95**	**1,212.82**

Balance Sheet (N'billion)	2023A	2024E	2025F	2026F
Cash and cash equivalents	345.07	103.16	808.95	1,212.82
Accounts receivable	215.41	284.02	465.86	600.02
Restricted Cash	394.41	118.36	118.36	118.36
Other current assets	20.88	37.32	43.77	53.15
Current assets	**975.78**	**542.86**	**1,436.94**	**1,984.34**
PP&E	1,095.11	1,091.44	1,511.71	2,008.37
Intangible assets	447.60	389.21	366.07	353.35
Other non-current assets	670.34	1,869.38	1,953.07	2,109.24
Total assets	**3,188.83**	**3,892.89**	**5,267.78**	**6,455.30**
Short-term borrowings	689.35	536.52	828.29	1,247.95
Trade and other payable	699.52	1,249.78	1,562.70	1,851.63
Other short-term liabilities	504.55	444.65	437.75	444.60
Current liabilities	**1,893.42**	**2,230.95**	**2,828.74**	**3,544.18**
Long-term debt	487.82	379.67	586.14	883.10
Other long-term liabilities	848.44	1,800.94	1,705.00	1,724.28
Total liabilities	**3,229.67**	**4,411.56**	**5,119.88**	**6,151.56**
Shareholders' equity	(40.84)	(518.67)	147.00	303.85
Total liabilities & equity	**3,188.83**	**3,892.89**	**5,266.88**	**6,455.40**
BVPS	(1.95)	(24.74)	7.01	14.49
y/y Growth	NM	NM	NM	NM
Net debt	**1,836.51**	**2,845.33**	**2,584.01**	**2,950.16**

Ratio Analysis	2023A	2024E	2025F	2026F
Gross Margin	83.6%	83.8%	84.0%	83.9%
EBITDA Margin	48.7%	36.3%	42.5%	39.4%
EBIT Margin	31.3%	20.3%	30.5%	27.6%
Net Profit Margin	NM	NM	12.9%	12.1%
ROAE	-123.6%	NM	-358.2%	347.9%
ROAA	-4.8%	-13.0%	14.5%	13.2%
OPEX/Sales	34.8%	47.6%	41.5%	44.5%
Debt/Equity (x)	NM	NM	23.08x	13.70x
Debt/EBITDA (x)	1.81x	2.50x	1.55x	1.64x
Sales/Assets (x)	0.77x	0.83x	0.98x	1.00x
Assets/Equity (x)	NM	NM	35.84x	21.25x
Interest cover (x)	3.27x	1.67x	2.90x	2.63x
Effective tax rate	NM	NM	32.8%	32.8%
Revenue YoY Growth	22.7%	31.6%	59.0%	25.0%
EBITDA YoY Growth	12.3%	-2.0%	86.3%	15.9%
EPS YoY Growth	NM	NM	NM	17.8%

Valuation	2023A	2024E	2025F	2026F
EV/EBITDA (x)	6.07x	6.81x	3.54x	3.19x
Dividend Yield	2.3%	NM	NM	12.1%

Sources: Company Financials; CardinalStone Research

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

Figure 7: Summary of Financials for AIRTELAFRI

Income Statement ($'million)	23/24A	24/25E	25/26F	26/27F
Revenue	5,000.00	5,035.93	5,889.42	6,347.14
COGS	(1,484.00)	(1,494.45)	(1,672.50)	(1,847.23)
Gross profit	3,516.00	3,541.48	4,216.92	4,499.90
Operating Expenses	(1,088.00)	(1,203.58)	(1,355.60)	(1,436.03)
EBITDA	2,428.00	2,337.90	2,861.31	3,063.87
D & A	(788.00)	(824.46)	(969.33)	(1,132.19)
EBIT	1,640.00	1,513.44	1,891.98	1,931.69
Net Interest	(1,703.00)	(1,105.80)	(809.51)	(658.06)
PBT	(63.00)	407.64	1,082.47	1,273.63
Tax	(26.00)	(163.06)	(432.99)	(509.45)
PAT	(89.00)	244.59	649.48	764.18
Earnings attributable to parent	(165.00)	215.23	571.55	672.48
EPS ($)	(0.04)	0.06	0.15	0.18
DPS ($)	0.06	0.06	0.07	0.07
Payout ratio	NM	110.9%	44.7%	40.7%
Shares outstanding ('million)	3,751	3,751	3,751	3,751

Cashflow Statement ($'million)	23/24A	24/25E	25/26F	26/27F
Cash flow from operating activities	2,259.00	1,714.48	2,276.76	2,622.07
o/w Depreciation & amortization	788.00	824.46	969.33	1,132.19
o/w Changes in working capital	175.00	43.24	49.88	67.65
Cash flow from investing activities	(1,228.00)	(1,883.22)	(1,995.23)	(2,039.83)
o/w Capital expenditure	(868.00)	(730.21)	(789.58)	(852.97)
as % of sales	17.4%	14.5%	13.4%	13.4%
Cash flow from financing activities	(844.00)	101.10	(310.11)	(333.33)
o/w Dividends paid	(212.00)	(238.78)	(255.50)	(273.38)
o/w Debt issued/(repaid)	(550.00)	(942.63)	(506.30)	(448.77)
Net change in cash	187.00	(67.64)	(28.57)	248.91
Cash & cash equivalent at the beginning of the year*	561.00	620.00	552.36	523.79
Effects of exchange rate on changes in cash	(128.00)	-	-	-
Cash & cash equivalent at the end of the year	620.00	552.36	523.79	772.69

Balance Sheet ($'million)	23/24A	24/25E	25/26F	26/27F
Cash and cash equivalents	620.00	552.36	523.79	772.69
Accounts receivable	184.00	206.96	209.76	191.28
Balance held under mobile money trust	106.00	76.00	76.00	76.00
Other current assets	1,382.00	1,175.66	1,174.49	1,174.83
Current assets	2,292.00	2,010.97	1,984.04	2,214.81
PP&E	1,827.00	2,135.27	2,442.25	2,751.51
Other intangible assets	725.00	986.91	1,250.56	1,528.03
Other non-current assets	5,017.00	5,583.73	6,097.68	6,481.86
Total assets	9,861.00	10,716.88	11,774.53	12,976.21
Short-term borrowings	1,426.00	1,544.45	1,894.63	2,059.05
Trade payable	422.00	470.85	522.37	571.88
Other short-term liabilities	2,198.00	2,575.70	2,613.29	2,653.70
Current liabilities	4,046.00	4,591.01	5,030.29	5,284.63
Long-term borrowings	947.00	1,440.54	1,493.68	1,766.15
Other long-term liabilities	2,568.00	2,379.53	2,550.78	2,734.85
Total liabilities	7,561.00	8,411.08	9,074.74	9,785.63
Equity	2,300.00	2,305.80	2,699.79	3,190.58
Total liabilities & equity	9,861.00	10,716.88	11,774.53	12,976.21
BVPS	0.61	0.61	0.72	0.85
y/y Growth	-93.0%	0.3%	17.1%	18.2%
Net debt	3,842.00	4,969.87	5,610.59	6,023.06

Ratio Analysis	23/24A	24/25E	25/26F	26/27F
Gross Margin	70.3%	70.3%	71.6%	70.9%
EBITDA Margin	48.6%	46.4%	48.6%	48.3%
EBIT Margin	32.8%	30.1%	32.1%	30.4%
Net Profit Margin	-1.8%	4.9%	11.0%	12.0%
ROAE	-2.9%	10.6%	26.0%	26.0%
ROAA	-0.8%	2.4%	5.8%	6.2%
OPEX/Sales	21.8%	23.9%	23.0%	22.6%
Debt/Equity (x)	1.94x	2.39x	2.27x	2.13x
Debt/EBITDA (x)	1.84x	2.36x	2.14x	2.22x
Sales/Assets (x)	0.51x	0.47x	0.50x	0.49x
Assets/Equity (x)	4.29x	4.65x	4.36x	4.07x
Interest cover (x)	3.40x	2.32x	2.84x	2.68x
Effective tax rate	NM	40.0%	40.0%	40.0%
Revenue YoY Growth	-4.9%	0.7%	16.9%	7.8%
EBITDA YoY Growth	-5.7%	-3.7%	22.4%	7.1%
EPS YoY Growth	NM	NM	165.5%	17.7%

Valuation	23/24A	24/25E	25/26F	26/27F
EV/EBITDA (x)	3.61x	4.75x	4.65x	4.02x
Dividend Yield	3.8%	4.0%	4.3%	4.6%

Sources: Company Financials; CardinalStone Research

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

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