

Scancom Plc FY2022 Results

Current rating **UNDER REVIEW**

Ghana | 01 March 2023

Data and Voice Holds the Fort

Scancom PLC (MTN Ghana) released its unaudited FY2022 results yesterday evening and, in line with our expectations, posted impressive revenue, EBITDA and net earnings outturns, as well as declared a final dividend of GHS 0.124 per share. Data (+39.8% y/y) and voice (+24.5% y/y) revenue largely drove performance, although digital revenue declined by 18.8% y/y. Mobile money revenue growth (+11.6% y/y) appeared to have dulled post e-levy implementation. MTN Ghana also expanded its subscriber base across all revenue lines, with mobile subscribers increasing by 12.8% y/y to 28.6mn, active data subscribers increasing by 8.3% y/y to 13.5m and mobile money ("MoMo") users increasing by 15.0% y/y to 12.7mn.

Performance: MoMo begins to pick-up despite sluggish FY growth while data and voice provided momentum

- Net profit was up by 42.7 y/y to GHS 2.9bn, exceeding our estimated figure of GHS 2.4bn
- Data was the key growth driver, increasing by 39.8% y/y to GHS 2.8bn and accounting for 39.2% of service revenue
- The growth in data was underpinned by an 8.3% y/y jump in active data subscribers to 13.5mn, as well as higher data traffic (+46.6%) and capital investments in improving network quality and coverage
- Voice revenue also supported top-line growth as it increased by 24.5% y/y to GHS 3.3bn. Management attributed this growth to the 12.8% y/y increase in subscriber base to 28.6mn, various customer value management initiatives and portfolio adjustments as well as rationalization initiatives
- As expected, the introduction of the e-levy coupled with MTN Ghana's decision to decrease P2P transaction fees by 25.0% impacted MoMo's revenue growth, causing it to increase sluggishly by 11.6% y/y to GHS 1.9bn compared to 38.2% y/y growth in FY2021
- EBITDA increased by 30.9% y/y to GHS 5.6bn, resulting in a 110bps y/y expansion in EBITDA margin to 56.1% in FY2022
- Overall, operating profit and net profit margins increased by 289bps and 241bps y/y to 28.8% and 44.0%, respectively

Outlook: MoMo to bounce back, Voice to decline and Data to wax stronger

- Despite the challenging macroeconomic environment and regulatory disruptions, we continue to be bullish on MTN Ghana's revenue, optimistic that earnings momentum will remain robust in the years ahead
- In our opinion, growth will primarily be driven by data as consumer behaviour and smartphone penetration drive further increases in megabytes consumed per active subscriber and higher data traffic
- Furthermore, we anticipate that MTN Ghana's CAPEX investment in bridging the data infrastructure gap by improving service quality, expanding capacity and extending network coverage will further support data subscriber growth, consumption and revenue
- Moreover, with MTN Ghana already achieving more than 90.0% population coverage in both 3G and 4G networks, we are confident that data growth will remain strong in the short-to-medium term (1 - 3 years)
- On the MoMo front, while we are mindful of MoMo's revenue evolution post 2022 given the full impact of e-levy and the potential loss of MoMo customers to competing products with zero-rated fees, like GhanaPay and VodaCash, we are confident that a brighter path lies ahead
- Our optimistic stance is based on the fact that MoMo revenue appears to be picking up in 3Q2022 (+19.1% q/q) and 4Q2022 (+26.6% q/q) after it decreased in 2Q2022 (-25.4% q/q). As a result, we expect the reduction of the e-levy from 1.5% to 1.0% to speed up this recovery by loosening consumers' aversion to using MoMo and spur more activity on the platform
- Moreover, given that MTN Ghana has the widest agent infrastructure and a growing usage of advanced services on its platform, we opine that competitors will be unable to nip significant market share from MTN Ghana in the near-to-medium term as they haven't invested as much as MTN Ghana into scaling their platform and agent infrastructure
- Moving on, notwithstanding the solid voice revenue growth in FY2022, we anticipate a softer growth in FY2023
- Our expectation is predicated on the premise that consumers will shift from voice to data as smartphone penetration and quality network coverage increases. With consumers becoming more comfortable with IP-based services such as instant messaging and voice over IP (calls over the internet), we believe the transition from voice to data has begun gathering steam
- On regulations, we are pleased to see that the SMP directives have had minimal impact on revenue so far. However, we continue to caution that the major setback to revenue growth is the directive on regulating voice, data and SMS prices, as this tampers with margins

Dividend Announcement

- MTN Ghana declared a final dividend of GHS 0.124 per share for the FY2022 financial period. This translates to a total dividend of GHS 0.164 per share, representing 70.6% of profit-after-tax and a 42.6% increase in dividend per share when compared with FY2021
 - Ex-dividend date – 17 May 2023
 - Qualifying Date – 19 May 2023
 - Payment Date – 22 June 2023

Valuation: Under Review

- We are in the process of initiating coverage on MTN Ghana and have therefore placed our recommendation under review
- MTN Ghana is trading at an EV/EBITDA multiple of 1.8x

Investor Call

- MTN Ghana will be hosting an investor call on Thursday, 2nd March 2023 at 14h00 GMT to discuss their FY2022 results. Please click [here](#) to register for the call.

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