

## Scancom Plc 1Q2023 Results

Current rating **UNDER REVIEW**

Ghana | 28 April 2023

### Promising Outlook Despite Marginal Earnings Growth

**Scancom PLC (MTN Ghana) released its unaudited 1Q2023 results yesterday, posting notable revenue growth, decent EBITDA expansion but subpar earnings outturn. From our rudimentary analysis, we realized that the prevailing inflationary pressures drove up MTNGH's total costs while the increases in IFRS 16 lease costs treatment as a result of inflation-induced adjustments on tower lease contracts, jacked up the depreciation outturn. These cost pressures ultimately stifled net earnings growth. Data (+30.3% y/y) and mobile money (+24.8% y/y) revenue largely drove performance while digital revenue declined by 24.7% y/y. Voice revenue also supported performance, growing steadily by 12.9% y/y. MTN Ghana also expanded its subscriber base across all business lines, with mobile subscribers increasing by 1.4% y/y to 27.4mn, active data subscribers increasing by 8.4% y/y to 13.9mn and mobile money ("MoMo") users increasing by 15.9% y/y to 13.4mn.**

Performance: MoMo picks up, Voice dulls, Data is still strong

- MTN Ghana's net profit increased marginally by 5.4% y/y to GHS 745.4mn
- This lackluster earnings performance was as a result of a jump in total cost and depreciation outturns
- Total cost jumped by 33.5% y/y to GHS 1.3bn in 1Q2023, which is higher than the previous 4-quarter average of 21.1%. This increase in cost was primarily influenced by the tough operating environment, marked by a high inflation rate (50.5% average inflation rate for 1Q2023), surging utility costs, and a 22.1%\* depreciation of the Ghanaian Cedi against the US Dollar in 1Q2023
- MTN Ghana's depreciation outturn also increased by 31.3% y/y to GHS 312.2mn, which is much higher than the previous 4-quarter average of 20.5%. Management attributed this jump to increases in IFRS 16 lease costs as a result of inflation-induced adjustments on tower lease contracts
- On the revenue front, service revenue was up by 23.2% y/y to GHS 2.9bn on the back of growth in data, MoMo and voice
- Data was the key growth driver, increasing by 30.3% y/y to GHS 1.1bn and accounting for 39.3% of service revenue
- The growth in data was underpinned by the growing demand for data, evidenced by the 51.5% y/y increase in data traffic and a jump in active data subscribers to 13.9mn on the back of capex investments in network/coverage expansion and enhancement
- Voice revenue also supported top-line growth as it increased by 12.9% y/y to GHS 887.0mn. Management attributed this growth to the 1.4% y/y increase in subscriber base to 27.4mn and the several customer value management initiatives
- As expected, MoMo revenue stayed on its recovery trajectory with a growth of 24.8% y/y to GHS 643.0mn
- This recovery was bolstered by growth in cash-out revenue (+75.2% y/y) and advanced services revenue (+46.4% y/y). Predictably, P2P revenue declined by 41.6% y/y (though transaction volumes were up by 20.0%) due to changes in user behaviour post e-levy
- On account of the heightened cost pressures, although EBITDA increased by 16.4% y/y to GHS 1.6bn, EBITDA margin eased by 3.2pps to 56.3% in 1Q2023
- Overall, net profit margin fell by 4.3pps to 25.7%

Outlook: Robust revenue performance barring regulatory disruptions and heightened costs pressures

- In our previous publication, we expected MoMo revenue to bounce back, voice growth to soften, and data to wax stronger. These expectations were realized in the 1Q2023 performance
- In this publication, we remain bullish on MTN Ghana's revenue outlook but concerned over the impact of the challenging macroeconomic environment and regulatory disruptions on MTNGH's earnings momentum
- In our opinion, growth will primarily be driven by data as consumer behaviour and smartphone penetration drive will increase megabytes consumed per active subscriber and higher data traffic
- Furthermore, given MTNGH's CAPEX spend of GHS 1.1bn in 1Q2023, we are convinced that MTN Ghana is committed to investing in bridging the data infrastructure gap. This will improve service quality, expand capacity, and extend network coverage to further support data subscriber growth, consumption and revenue
- Moreover, with MTN Ghana already achieving 99.3% population coverage in 4G networks, we are confident that data growth will remain strong in the short-to-medium term (1 - 3 years)
- The above notwithstanding, we are concerned that the implementation of SMP directives which prevent MTN Ghana from offering very affordable bundle packages could potentially restrain data growth in the near term. The recent cancellation of the "zone bundle" (a 1-day bundle offered at steep discounts to industry average) resulted in massive consumer backlash and could potentially induce consumers to migrate to other networks
- On the MoMo front, we anticipate that the reduction of the e-levy from 1.5% to 1.0% will accelerate the recovery process by easing customers' concerns and stimulating more activity on the MoMo platform
- Furthermore, we continue to opine that competitors will be unable to nip significant market share from MTN Ghana in the near-to-medium term as they have not invested as much as MTN Ghana into scaling their platform for advanced services and expanding their agent infrastructure
- In our last publication, we reiterated our belief that the transition from voice to data has commenced. We maintain this view and anticipate that voice revenue will continue to dull in the next few quarters, albeit at a slower pace

- On regulations, we continue to caution that the major setback to performance is the directive on regulating voice, data and SMS prices, as this tampers with margins

#### 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 a P/E of 20.8x and an EV/EBITDA multiple of 8.5x

#### Investor Call

- MTN Ghana will be hosting an investor call on Tuesday, 2<sup>nd</sup> May, 2023 at 14h00 GMT to discuss their 1Q2023 results. Please click [here](#) to register for the call.

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