

Scancom Plc 9M2023 Results

Current rating **UNDER REVIEW**

Ghana | 01 November 2023

Sitting Pretty at the Top

Scancom PLC (“MTN Ghana”) released its unaudited 9M2023 results yesterday and, exceeding our estimates, posted robust revenue growth, decent EBITDA margins, and a significant expansion in earnings outturn. In line with our expectations, data (+47.6% y/y) and mobile money (+51.6% y/y) revenue largely drove performance. Voice revenue also showed decent growth, rising by 14.5% y/y. However, mobile subscriber numbers decreased by 9.3% y/y to 25.8mn, primarily due to disconnections related to SIM registration directives. Despite this, MTN Ghana managed to increase its active data and mobile money subscriber base by 2.7% y/y and 16.3% y/y to 14.5mn and 14.4mn, respectively.

Performance: Firing on all cylinders

- MTN Ghana’s net profit increased by 32.0% y/y to GHS 2.8bn largely on the back of a significant expansion in topline
- Service revenue increased by 36.1% y/y to GHS 9.7bn, driven strongly by data and MoMo income
- Data revenue increased by 47.6% y/y to GHS 4.1bn, supported by a 39.6% y/y growth in data traffic and upward price revisions
- The substantial increase in data traffic is as a result of the growing demand for data, underpinned by the 2.7% y/y increase in active data subscribers and the 36.0% y/y growth in MB per active user per month
- In line with our expectations, mobile money continued its remarkable performance, as revenues jumped from 7.5% y/y in 9M2022 to 51.6% y/y in 9M2023
- This growth was supported by a 63.4% y/y and 63.2% y/y increase in cash-out and advanced services revenue, respectively
- Interestingly, after a 2-year downturn in peer-to-peer (“P2P”) revenue performance, we observed a noteworthy 15.0% y/y increase in P2P revenue. We attribute this growth primarily to consumers acclimating to the 1.0% e-levy charge
- Despite the 9.3% y/y decrease in subscriber numbers due to the country’s SIM registration directives, MTN Ghana still grew its voice revenue by 14.5% y/y to GHS 2.7bn, on the back of several customer value management initiatives
- Total cost (cost of sales, operating cost, selling, distribution and marketing expenses) increased by 41.0% y/y to GHS 4.2bn in 9M2023, owing to the prevailing inflationary pressures, FX concerns and increase in IFRS 16 lease costs treatment
- On account of the heightened cost pressures, the EBITDA margin declined by 151bps to 56.0% in 9M2023 although EBITDA outturn increased by 32.6% y/y to GHS 5.4bn
- Overall, net profit margin decreased slightly by 91bps to 28.7%

Outlook: Robust earnings performance would continue, barring regulatory disruptions and heightened cost pressures

- In our previous publication, we remained bullish on MTN Ghana’s revenue and earnings outturn, but expressed concerns over the impact of the challenging macroeconomic environment and regulatory disruptions on earnings margin
- These expectations were largely realized in the 9M2023 performance. In this publication, and for 4Q2023, we maintain our stance on the above outlook
- Our perspective remains that the main drivers of MTN Ghana’s growth will be the data and MoMo revenue streams
- We believe that MTN Ghana’s data revenue growth rate is sustainable into the medium-term
- In our view, these growth rates, which are closely tied to the substantial data traffic, will continue to be supported by the growing demand for data, driven by the expanding smartphone penetration and the ongoing shift in consumer preferences towards a data-centric lifestyle
- Moreover, with MTN Ghana already achieving 99.3% population coverage in 4G networks and investing GHS 2.8bn in capex as at 9M2023, we are confident that data growth will remain strong in the short-to-medium term (1 - 3 years)
- On MoMo, we believe that consumers have normalized the e-levy charge, leading to heightened activity across the MoMo platform as a whole
- Furthermore, we hold the perspective that in the near-to-medium term, competitors will find it challenging to significantly erode MTN Ghana’s market share
- This is due to the fact that they have not made equivalent investments in enhancing their platforms for advanced services and expanding their agent network, as MTN Ghana has done over the years
- On voice, we still expect growth to soften as consumers increasingly transition from voice to data. Additionally, we believe that the full impact of the SIM disconnection activities carried out in 1H2023 will be felt in the subsequent quarters and back our thesis
- 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
- Overall, we maintain a positive outlook for MTN Ghana in the subsequent quarters

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 current P/E of 6.5x and trailing 12-month P/E of 5.1x
- The large telco is also trading at a current EV/EBITDA multiple of 3.0x and a trailing 12-month EV/EBITDA of 2.4x

Investor Call

- MTN Ghana will be hosting an investor call on Thursday, 3rd November 2023 at 14h00 GMT to discuss their 9M2023 results. Please click [here](#) to register for the call.

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