

Scancom Plc FY2023 Results

Current rating **UNDER REVIEW**

Ghana | 29 February 2024

Ruling The Roost

Scancom PLC (“MTN Ghana”) released its unaudited FY2023 results yesterday and exceeded our estimates by 13.4% y/y, posting robust revenue growth (34.6% y/y), improved EBITDA (40.2% y/y), and a significant expansion in earnings outturn (39.4% y/y). As anticipated, MTN Ghana’s performance was chiefly bolstered by robust growth in data (50.9% y/y) and mobile money revenue (+48.8% y/y). Additionally, voice revenue grew by 9.0% y/y to GHS 3.6bn. However, the company experienced a decline in mobile subscriber numbers, down by 6.3% y/y to 26.8 million, primarily attributed to SIM registration directives leading to disconnections. Notwithstanding this setback, MTN Ghana successfully expanded its active data and mobile money subscriber base, growing by 14.0% y/y and 20.1% y/y, respectively, reaching 15.4 million and 15.2 million subscribers. Amid the macroeconomic challenges the company continued to pursue its Ambition 2025 strategy by investing in the development of its platforms as well as improving its network and services to unlock value for stakeholders. In the outlook, MTN Ghana maintains its medium-term guidance of high-twenties (in percentage terms) growth in service revenue.

Performance: A significant surge in Data and Momo revenue drives topline growth

- MTN Ghana’s net profit surged by 39.4% y/y to GHS 4.0bn, largely on the back of a significant growth in topline and finance income
- Service revenue increased by 34.6% y/y to GHS 13.3bn, driven predominantly by data and MoMo income
- Data revenue surged by 50.9% y/y to GHS 5.8bn, grounded on investment in network infrastructure offering high speed data services to homes and mobile subscribers and implementation of data pricing initiatives
- The significant increase in data traffic is underpinned by the 14.0% y/y increase in active data subscribers and the 19.3% y/y growth in MB per active user per month
- Also, mobile money significantly improved from 48.8% y/y to GHS2.9bn in FY2023
- This growth was supported by a 20.1% y/y increase in active users to 15.2mn and 24.8% contribution of advanced services to mobile money revenue compared to the previous year’s contribution of 21.8%
- Finance cost spiked by 63.3% y/y primarily due to currency depreciation, which resulted in unrealized losses on dollar-denominated capex and high levels of inflation and interest rates on lease costs
- The finance cost was partially offset by a 40.2% y/y increase in finance income, primarily from gains on surplus cash invested in call and fixed-term deposits
- Despite the 6.3% y/y decline in subscriber numbers due to the country’s SIM registration directives, MTN Ghana still grew its voice revenue by 9.0% y/y to GHS 3.6bn, on the back of customer value management initiatives
- Furthermore, MTN Ghana managed to contain the increase in total costs to 27.5% y/y to GHS 5.6bn, significantly lower than the average monthly inflation of 40.3% for the year
- This bolstered growth in EBITDA to GHS 7.8bn (+40.2% y/y), resulting in a 2.3pp increase in EBITDA margin to 58.4%
- Overall, net profit margin increased by 103bps to 29.8%

Outlook: Robust revenue and earnings performance would continue amid macroeconomic headwinds

- While our optimism persists regarding MTN Ghana’s revenue and earnings performance, we’re mindful of potential challenges stemming from FX pressures and potential regulatory disruptions, which could impact earnings margins
- However, as domestic inflation profile continues to moderate, we expect continuous improvement in margins within the short to medium term
- We anticipate that MTN Ghana’s investment in platform development and ongoing enhancement of its network and services, aligned with the Ambition 2025 strategy, will bolster top-line growth and translate into bottom-line results
- We continue to expect that data and MoMo revenue streams will remain the main drivers of MTN Ghana’s growth
- 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
- Also, we are optimistic about the proactive measures being implemented by MTN to mitigate fiber outages, which are currently undergoing testing
- In the local roaming programme, both Airteltigo (rebranded as “at”) and Vodafone are currently leveraging MTN’s network, and there are further opportunities to significantly expand this partnership. We believe this partnership will continue to generate streams of revenue and increase utilization of MTN’s network infrastructure
- Furthermore, to uphold its position as a market leader in customer experience, the company allocated a total of GHS 3.3 billion towards core capital expenditure. This investment was directed towards modernizing infrastructure, improving IT systems, and expanding network capacity and coverage nationwide. Notably, the deployment of 350 2G, 353 3G, and 350 4G sites has resulted in

an impressive 99.3% 4G population coverage. Given these advancements, we remain confident that data growth will continue to exhibit strength in the short-to-medium term

- We observe that consumers have adapted to the e-levy charge, which has contributed to increased engagement across the MoMo platform
- Moreover, we hold the perspective that in the near-to-medium term, competitors will find it challenging to significantly erode MTN Ghana's market share across the various business lines
- This is due to the fact that the competitors 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
- We think the 6.3% decline in mobile subscribers due to the SIM re-registration exercise negatively impacted voice revenue growth in FY2023. However, we anticipate a recovery in voice revenue as customers seek to recover SIM cards following disconnections.
- 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 year ahead

Dividend Announcement

- MTN Ghana declared a final dividend of GHS 0.175 per share for the FY2023 financial period. This translates to a total dividend of GHS0.225 per share, representing 74.8% of profit-after-tax and a 37.2% increase in dividend per share when compared to the prior year. The key dates relating to the payment of dividend are as follows:
 - Ex-dividend date – Tuesday, 26 March 2024
 - Qualifying Date – Thursday, 28 March 2024
 - Payment Date – Friday, 12 April 2024

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 4.7x
- The large telco is also trading at a current EV/EBITDA multiple of 2.0x and a trailing 12-month EV/EBITDA of 3.4x

Investor Call

- MTN Ghana will be hosting an investor call on Friday, 1 March 2024 at 14h00 GMT to discuss their FY2023 results. Please click [here](#) to register for the call.

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