

Scancom Plc 1H2024 Results

Current rating **UNDER REVIEW**

Ghana | 01 August 2024

Ahead of the curve

Scancom PLC (“MTN Ghana”) released its unaudited 1H2024 results yesterday and in line with our expectation, posted a significant 36.3% y/y growth in earnings to GHS 2.3bn. Revenue surged by 31.3% y/y to GHS 8.1bn while EBITDA improved by 31.3% y/y to GHS 4.6bn. As anticipated, MTN Ghana's performance was chiefly bolstered by robust growth in data revenue (+55.0% y/y) to GHS 4.0bn and mobile money revenue (+44.8% y/y) to GHS 1.9bn. In contrast, voice revenue decreased by 3.1% y/y to GHS 1.7bn. Furthermore, the company experienced an increase in mobile subscriber numbers, up by 3.9% y/y to 28.4mn. Also, MTN Ghana successfully expanded its active data and mobile money subscriber base, growing by 15.9% y/y and 16.2% y/y, respectively, reaching 16.4mn and 16.5mn subscribers. Amid the macroeconomic headwinds and election uncertainties, the company continues to pursue its Ambition 2025 strategy by investing in the development of its platforms as well as preserving liquidity and strengthening the balance sheet. In our view, the results of this strategy have been impressive so far. In the outlook, MTN Ghana maintains its medium-term guidance of high-twenties (in percentage terms) growth in service revenue and we remain confident that the Telecoms giant will continue to out-perform this guidance in the near-term.

1H2024 Performance: Data and Momo revenue propel topline growth

- MTN Ghana's net profit surged by 36.3% y/y to GHS 2.3bn, largely on the back of a significant growth in topline (+31.3% y/y, GHS 8.1bn) and finance income (+49.8% y/y, GHS 192.6mn) alongside a 11.5% y/y decline in finance cost to GHS 322.5mn
- Service revenue increased by 31.2% y/y to GHS 8.1bn, driven primarily by higher data, MoMo and digital revenues, supported by enhanced 4G connectivity and a 3.9% y/y expansion in the mobile subscriber base.
- Data revenue surged by 55.0% y/y to GHS 4.0bn, supported by 15.9% y/y increase in active data subscribers
- Furthermore, a 24.2% y/y growth in data traffic was underpinned by a 15.9% y/y increase in active data subscribers and a 7.2% y/y increase in MB per active user per month
- Also, mobile money revenue significantly advanced by 44.8% y/y to GHS 1.9bn in 1H2024
- The growth in mobile money was supported by a 16.2% y/y increase in active users to 16.5mn and growth in cashout services (+33.0% y/y), P2P (+43.1% y/y) and advanced services (+73.3% y/y)
- In contrast, voice revenue declined by 3.1% y/y to GHS 1.7bn. Management attributed the decline in voice revenue to the switch to lower-priced plans by customers. As a result, voice usage increased (+13.7% y/y in minutes of use) as management stimulated higher engagement through customer value initiatives
- Depreciation and amortization increased by 37.7% y/y to GHS 1.1bn during the period, largely due to license cost
- On the other hand, finance income increased by 49.8% y/y to GHS 192.6mn from gains on investments in call and fixed-term deposits
- Finance cost dropped by 11.5% y/y to GHS 322.5mn on the back of a reduction in loan balances and interest rates.
- Additionally, total costs surged by 31.3% y/y to GHS 3.6bn. Management mitigated the upward pressure on expenses through the continued execution of cost-reduction initiatives under its expense efficiency programme
- Resultantly, EBITDA increased by 31.3% y/y to GHS 4.6bn. However, EBITDA margin remained at 56.1%
- Overall, net profit margin increased by 1.1pp to 28.7%

Outlook: Revenue expansion and effective cost management strategies to drive bottom-line growth

- We are bullish about MTN Ghana's revenue and earnings outlook, despite FX and election uncertainties, as well as regulatory challenges
- We expect the strategy of cost efficiency to improve margins in the near term as well as maintains its medium-term guidance of high-twenties (in percentage terms) growth in service revenue and we remain confident that the Telecoms giant will continue to out-perform this guidance in the near-term.
- The company invested GHS2.8bn in total capex to maintain network quality, expand coverage and capacity, as well as enhance its IT systems. This served its nationwide customer base of 28.4mn, which reflected 0.6mn additional customers connected in the second quarter. We anticipate that MTN Ghana's ongoing investment in platform development, which aligns with the Ambition 2025 strategy, will sustain top-line growth and yield positive bottom-line results
- On 1st July 2024, Facebook expanded monetization feature for content creators in Ghana. Creators are now eligible to monetise their posts. We believe this will increase data penetration and demand. Later this year, these monetisation features will also be extended to Instagram, offering a broader platform for creators to benefit from their digital content. We expect MTN to benefit more from high data demand due to wider coverage, access to more users and more robust infrastructure to handle spikes in data traffic.
- We continue to maintain our outlook that data and MoMo revenue streams will remain the primary growth drivers for MTN Ghana. We believe the sustainable growth trajectory of MTN Ghana's data revenue into the medium term is bolstered by an expanding data subscriber base, which continues to drive data traffic amid increasing smartphone penetration.

- On the national roaming update, MTN Ghana has signed a long-term agreement with AT (formerly AirtelTigo), effective from January 2024, and is in the final phase of negotiations with Telecel (formerly Vodafone). We believe these partnerships will continue to generate streams of revenue and increase utilization of MTN's network infrastructure
- On regulations, we maintain our cautious view that the major setback to performance is the directive on regulating voice, data and SMS prices, as this tampers with margins
- Overall, we remain confident that the Telecoms giant will continue to out-perform its medium-term guidance of high-twenties (in percentage terms) growth in service revenue.

Dividend Announcement

- MTN Ghana declared a gross interim dividend of GHS 0.065 per share for the HY2023 financial period. The key dates relating to the payment of dividend are as follows:
 - Ex-dividend date – Wednesdays, 14 August 2024
 - Qualifying Date – Friday, 16 August 2024
 - Payment Date – Friday, 06 September 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 10.3x and a trailing 12-month P/E of 5.2x
- The large telco is also trading at a current EV/EBITDA multiple of 2.6x and a trailing 12-month EV/EBITDA of 3.1x

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