

Scancom Plc 9M2024 Results

Current rating **UNDER REVIEW**

Ghana | 01 November 2024

A Step Ahead of The Game

Scancom PLC (“MTN Ghana”) released its unaudited 9M2024 results yesterday and surpassed our expectation by 12.8%, posting a significant 35.5% y/y growth in earnings outturn to GHS 3.8bn. Revenue surged by 31.9% y/y to GHS 12.8bn while EBITDA improved by 32.2% y/y to GHS 7.2bn. As anticipated, MTN Ghana’s performance was chiefly bolstered by robust growth in data revenue (+53.4% y/y) to GHS 6.3bn and mobile money revenue (+50.8% y/y) to GHS 3.1bn. In contrast, voice revenue decreased by 3.4% y/y to GHS 2.6bn. Furthermore, the company experienced an increase in mobile subscriber numbers, up by 10.8% y/y to 28.6mn. Also, MTN Ghana successfully expanded its active data and mobile money subscriber base, growing by 17.3% y/y and 18.1% y/y, respectively, reaching 17.0mn subscribers each. 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. Management’s commitment to invest and capture opportunities from the growing demand for data and expand partnership with financial institutions to grow the MoMo ecosystem is reassuring about the short to medium-term outlook.

9M2024 Performance: Data and Momo revenue were key drivers to topline growth

- MTN Ghana’s net profit surged by 35.5% y/y to GHS 3.8bn, largely on the back of a significant growth in topline (+31.9% y/y, GHS 12.8bn) and finance income (+38.9% y/y, GHS 268.1mn) alongside a 24.7% y/y decline in finance cost to GHS 398.0mn
- Service revenue increased by 32.0% y/y to GHS 12.7bn, driven primarily by higher data, MoMo and digital revenues, supported by enhanced 4G connectivity and a 10.8% y/y expansion in the mobile subscriber base.
- Data revenue surged by 53.4% y/y to GHS 6.3bn, supported by 17.3% y/y increase in active data subscribers
- Furthermore, a 29.5% y/y growth in data traffic was underpinned by a 17.3% y/y increase in active data subscribers and a 10.4% y/y increase in MB per active user per month
- Also, mobile money revenue significantly advanced by 50.8% y/y to GHS 3.1bn in 9M2024
- The growth in mobile money was supported by an 18.1% y/y increase in active users to 17.0mn and a 41.8% y/y growth in basic revenue comprising of cashout services and P2P, and advanced services (+79.0% y/y). Management attributed the growth partly to improvements in acquisition channels and introduction of self-activation, which accounted for approximately 6,000 additions per week. In our view, this acquisition and re-activation drive will anchor the revenue momentum and bode well for the short-to-medium term.
- In contrast, voice revenue declined by 3.4% y/y to GHS 2.6bn. Management attributed the decline in voice revenue to the switch to lower-priced plans by customers. As a result, voice usage increased (+11.2% y/y in minutes of use) as management stimulated higher engagement through customer value initiatives
- Depreciation and amortization increased by 38.4% y/y to GHS 1.7bn during the period, primarily due to a 54.2% y/y growth in property, plant and equipment
- On the other hand, finance income increased by 38.9% y/y to GHS268.1mn from gains on investments in call and fixed-term deposits
- Finance cost dropped by 24.7% y/y to GHS 398.0mn on the back of a reduction in loan balances and interest rates.
- Additionally, total costs surged by 31.5% y/y to GHS 5.6bn. Management mitigated the upward pressure on expenses through the continued execution of cost-reduction initiatives under its expense efficiency programme
- Resultantly, EBITDA increased by 32.2% y/y to GHS 7.2bn. However, EBITDA margin inched up by 0.1pp to 56.2%
- Overall, net profit margin ticked up by 0.8pp to 29.5%

Outlook: We expect revenue expansion and disciplined cost management initiatives to bolster bottom-line growth in FY2024.

- We maintain a positive outlook on MTN Ghana’s revenue and earnings trajectory, underpinned by its solid performance in 9M2024 and robust growth across data and mobile money services. Despite potential headwinds from FX volatility, upcoming election uncertainties, and regulatory constraints, MTN Ghana’s strategic focus on expanding digital and financial services, supported by steady subscriber growth, bolsters our confidence in its ability to achieve sustainable earnings momentum. This positioning, alongside its Ambition 2025 investments and disciplined cost management, will drive continued top-line and bottom-line expansion through year-end and into the medium term.
- We expect the strategy of cost efficiency to improve margins in the near term as well as maintain 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 GHS 3.7bn in total CAPEX during the period to maintain network quality, expand coverage and capacity, and enhance the IT systems. These investments improved its service delivery to its customer base of 28.6mn, which includes an additional 0.3mn customers connected in the third 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
- We note that, in the third quarter, an additional 2.1% localization was achieved bringing the current localization of Scancom PLC to 30%. Management is working with the relevant regulatory authorities to finalize the localization of MobileMoney Limited
- 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.
- Management has announced a strategic focus on leveraging the rising demand for data, particularly by expanding accessibility in underserved rural areas and fostering smartphone adoption. The commitment to broadening the data and digital infrastructure aims to capture incremental revenue opportunities while also supporting the long-term objective of driving greater digital inclusion. Management has further indicated an intensified effort to expand partnerships within the mobile money ecosystem by collaborating with financial institutions, agents, and merchants. This approach underlines MTN Ghana's dedication to enhancing the MoMo platform with advanced services to deepen financial inclusion across the country. In our view, these investments align with MTN Ghana's Ambition 2025 strategy and are likely to contribute meaningfully to sustainable growth in both data and financial services revenue segments, fortifying MTN's market leadership in a highly competitive sector.
- 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.

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 7.7x and a trailing 12-month P/E of 5.8x
- The large telco is also trading at a current EV/EBITDA multiple of 3.8x and a trailing 12-month EV/EBITDA of 3.3x

Investor Call

- MTN Ghana will be hosting an investor call today, 1 November 2024 at 14h00 GMT to discuss their 9M2024 results. Please click [here](#) to register for the call.

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