

Our Take on MTN Nigeria Plc

At first glance, Q1 2019 operating performance of MTN Nigeria appears to be impressive with turnover rising by 13% to N282.09 billion and profit after tax growing by 50% to N48.44 billion. Improved profitability was also informed by a 22% decline in Direct network and technology operating costs to N55.89 billion which more than offset the increases in depreciation and amortization expenses of 47% and 9% to N49.25 billion and N7.32 billion respectively. However, given that the company is overleveraged, with total debt ratio of 1.67x based on interest bearing liabilities of N251.79 billion and total equity of N194.79 billion, and ongoing plans to issue N200 billion worth of commercial paper, it suggests that interest expense is expected to increase further from N23.77 billion recorded in Q1 2019 (having increased y-o-y by 54% from N15.45 billion), thus reducing profitability. Another area of concern is the 351% spike in Deferred tax and other non-current liabilities to N592.06 billion for which there were no explanatory notes. Although, notes to the Company's accounts were not available, we could safely assume that MTN would be recording increased tax expenses.

MTN Nigeria Plc Profit or Loss Statement (N 'Million)	Mar-19	Mar-18	% Change
Revenue	282,093	249,223	13%
Other income	24	20	20%
Direct network and technology operating costs	(55,892)	(71,295)	-22%
Costs of handsets and other accessories	(3,096)	(1,515)	104%
Interconnect and roaming costs	(26,790)	(25,055)	7%
Staff costs	(7,765)	(6,681)	16%
Selling, distribution and marketing expenses	(21,416)	(21,400)	0%
Government and regulatory costs	(7,667)	(6,876)	12%
Impairment of trade receivables and contract assets	(718)	545	-232%
Other operating expenses	(8,339)	(12,767)	-35%
EBITDA	150,434	104,199	44%
Depreciation of property, plant and equipment	(49,247)	(33,410)	47%
Amortisation of intangible assets	(7,317)	(6,701)	9%
Operating profit	93,870	64,088	46%
Net finance costs	(23,772)	(15,452)	54%
Profit before tax	70,098	48,636	44%
Income tax expense	(21,655)	(16,435)	32%
Profit after tax	48,443	32,201	50%

MTN Nigeria Plc Statement of Financial Position (N 'Million)	Mar-19	Mar-18	% Change
Non-current assets	1,264,122	705,682	79%
Property, plant and equipment	1,135,025	564,693	101%
Intangible assets and goodwill	113,044	124,115	-9%
Capitalised contract costs	3,978	3,391	17%
Deferred tax and other non-current assets	12,075	13,483	-10%
Current assets	182,037	259,271	-30%
Trade and other receivables	42,540	52,445	-19%
Other current assets	63,294	87,197	-27%
Restricted cash	21,852	42,683	-49%
Cash and cash equivalents	54,351	76,946	-29%
Total assets	1,446,159	964,953	50%
Non-current liabilities	719,135	275,769	161%
Interest-bearing liabilities	127,071	144,543	-12%
Deferred tax and other non-current liabilities	592,064	131,226	351%
Current liabilities	532,236	583,075	-9%
Interest-bearing liabilities	124,723	155,170	-20%
Trade and other payables	274,563	331,839	-17%
Other current and tax liabilities	132,950	96,066	38%
Total Liabilities	1,251,371	858,844	46%
Total equity	194,788	106,109	84%

Our Valuation

In terms of valuation, however, the anticipated introduction share price of N90 a share (according to quoted sources) which appears to be at a bargain offer. The listing price suggests a PE multiple of 9.45x based on forecast full year EPS of N9.52 per share. When compared to the average PE multiples of other quoted companies, Okomu Oil Pam and Nigerian Breweries, which are currently trading at close prices, the valuation of MTN Nigeria would become N195.15 a share. However, in light of the earlier-mentioned concerns (of depression of earnings due to interest and tax obligations), we expect investors to trade cautiously due to downside risks. Despite the strong profitability, we observed that the telecommunications giant recorded a negative net cash from operating activities. The sharp reversal in the net cash from operating activities to negative N22.47 billion in Q1 2019 from positive N111.85 billion is worrisome (details of the net cash from operations were not provided). MTN's large assets worth N1.44 trillion was majorly financed by liabilities (creditors).

Valuation Summary

	Valuation based on Prorated Earnings
Prorated/Forecast PAT (N)	193,764,000,000.00
Total equity N-(N)	194,788,000,000.00
Shares Outstanding	20,354,513,050
EPS (N)	9.52
Listing Price (N)	90
Book value per share (N)	9.57
PER	9.45x
Price to Book	9.52x
Earnings Yield	11%
Dividend Yield based on 80% pay out	7.62%

Peers-based Valuation	Quoted Price	Price to Earnings Multiple	Book Value per Share (N)
Okomu Oil Palm	74	14.3x	29.89
Nigerian Breweries	65	26.7x	20.86
Average		20.5x	
Implied Market price (N) based on Average Peer PE Multiples			195.15



IMPORTANT DISCLOSURES:

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