Flashnote on The Nigerian Telecommunication Sector

50% Telecom Tariff Hike:
A
Policy Milestone
Or
Policy Mirage ?

On January 20, the Nigerian Communications Commission (NCC) approved for a 50% increase in telecommunications tariffs, marking the first adjustment since 2013. This is in pursuant to its power under Section 108 of the Nigerian Communications Act, 2003 (NCA) to regulate and approve tariff rates and charges by telecommunications operators.

This decision comes in response to requests from telecom operators who had initially sought a 100% hike to offset rising operational costs. The NCC's approval aims to balance the sustainability of the telecommunications industry with consumer affordability.

The tariff adjustment is intended to address the significant gap between operational costs and current tariffs, ensuring that service delivery is not compromised.

Also, the adjustments will support the ability of operators to continue investing in infrastructure and innovation, ultimately benefiting consumers through improved services and connectivity, including better network quality, enhanced customer service, and greater coverage.

Since the last mobile tariff adjustment in 2013, Nigeria's economic environment has undergone significant transformations, marked by rising inflation, increased energy costs, and a sharp depreciation of the naira. Over the past decade, inflation has escalated dramatically, climbing from 8.00% in 2013 to 34.80% by December 2024.

This inflationary pressure has substantially eroded purchasing power while increasing operational costs for businesses, particularly in energy-dependent industries like telecommunications.

The cost of diesel, a critical resource for powering network infrastructure, has surged exponentially. In 2013, diesel was priced at N230 per litre, but by the close of 2024, this figure had skyrocketed to approximately N1,367.89 per litre, reflecting a staggering increase.

This rise in energy costs has placed significant financial strain on telecom operators, who rely on diesel to power base stations, data centres, and other critical infrastructure, especially in areas with unreliable electricity supply.

Compounding these challenges is the pronounced depreciation of the naira against the US dollar. In 2013, the exchange rate stood at N155.27/$1, but by the end of 2024, it had plummeted to N1,538.25/$1.

This significant devaluation has sharply increased the cost of imported equipment, spare parts, and maintenance services, as well as operating leases denominated in foreign currency. For telecom operators, whose capital expenditures are heavily reliant on imported technologies, this has created a substantial financial burden.

Despite these unfavourable macroeconomic trends, mobile tariff rates have remained static for over a decade. The average tariff rate has persisted at N11.00 per minute (equivalent to 0.20 kobo per second), a level that no longer aligns with the economic realities of 2024.

With inflation, energy costs, and foreign exchange rates all escalating, the failure to adjust tariffs has eroded the revenue base of telecom operators, limiting their ability to invest in infrastructure, expand network coverage, and improve service quality.

This disconnect between stagnant tariff rates and rising operational costs underscores the urgent need for a tariff review.

Without such an adjustment, the sustainability of telecom operations and their ability to meet the growing demand for high-quality digital services may be at risk, further exacerbating challenges for the sector and its consumers.

Prepaid Tariff Plan Across Networks

Tariff Class	AIRTEL	GLOBACOM	9MOBILE	MTNN
Mobile-Mobile	(kobo/sec)	(kobo/sec)	(kobo/sec)	(kobo/sec)
On-net (peak period)	20.00	18.00	20.00	20.00
On-net (off-peak period)	20.00	18.00	20.00	20.00
Off-net (peak)	20.00	18.00	20.00	20.00
Off-net (off-peak)	20.00	18.00	20.00	20.00

Source: NBS, Cowry Research

Snapshot of Nigeria's Telecoms Tariff History

The Nigerian telecommunications sector is one of the largest and fastest-growing in Africa. It has undergone significant transformation since the liberalisation of the industry in 2001 under President Olusegun Obasanjo, contributing substantially to Nigeria's economic development and digitalisation.

This liberalisation brought about the issuance of GSM licences to private operators marked a turning point. Companies like MTN, Econet Wireless (now Airtel), Globacom, and Etisalat (now 9mobile) entered the market. Thus, the entrance of these players spurred competition, expanded telecoms coverage nationwide and improved service quality.

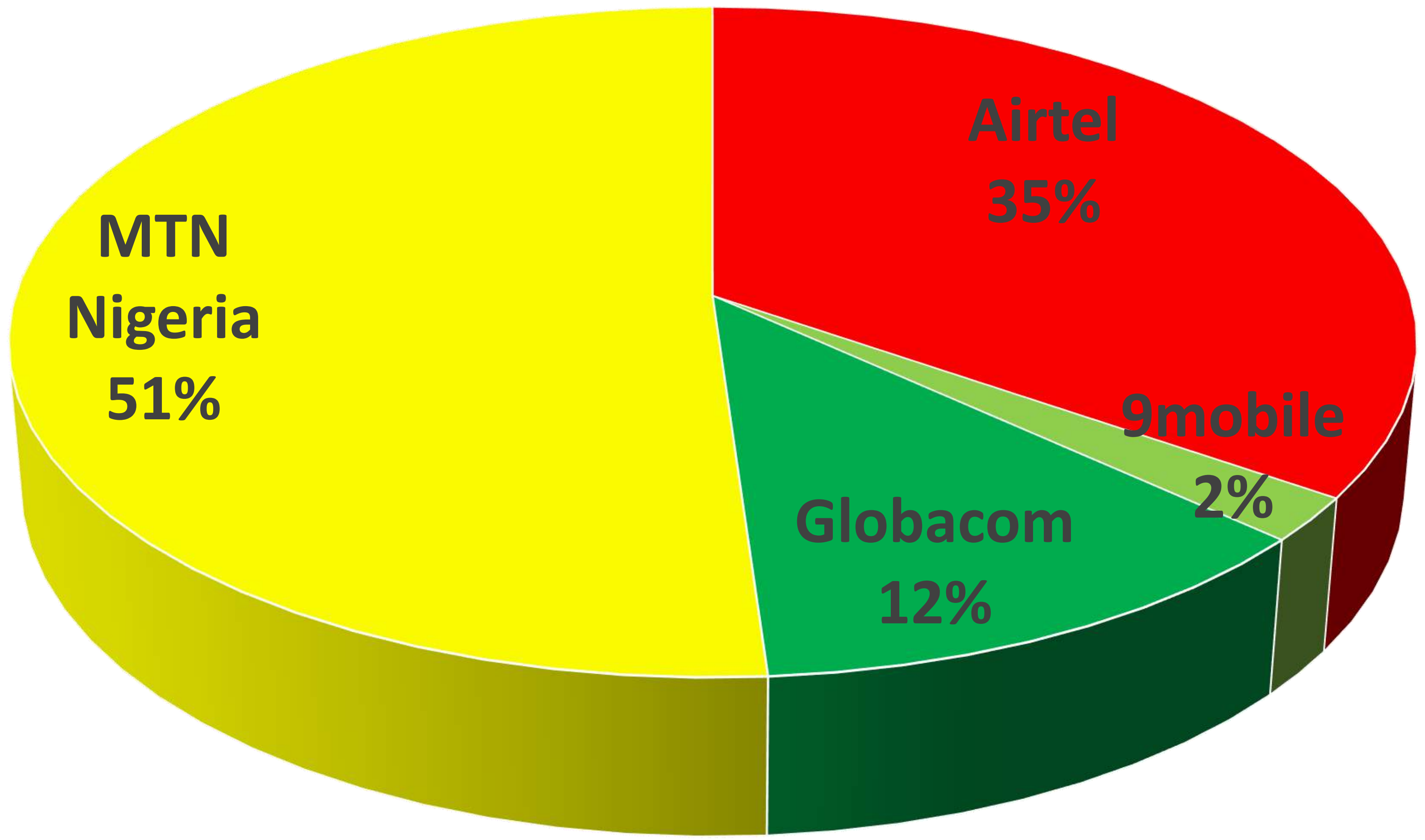
Key Statistics

Subscribers: As of 2024, Nigeria has over 224 million mobile subscribers and around 157 million internet users.

Contribution to GDP: The sector contributes approximately 16.3% to Nigeria's GDP (Q3:24), making it a critical driver of Nigeria's economic growth.

Broadband Penetration: Broadband penetration has grown to over 43%, with targets set to reach 70% by 2025 under the National Broadband Plan.

Market Share by GSM Operators



Source: NCC, Cowry Research

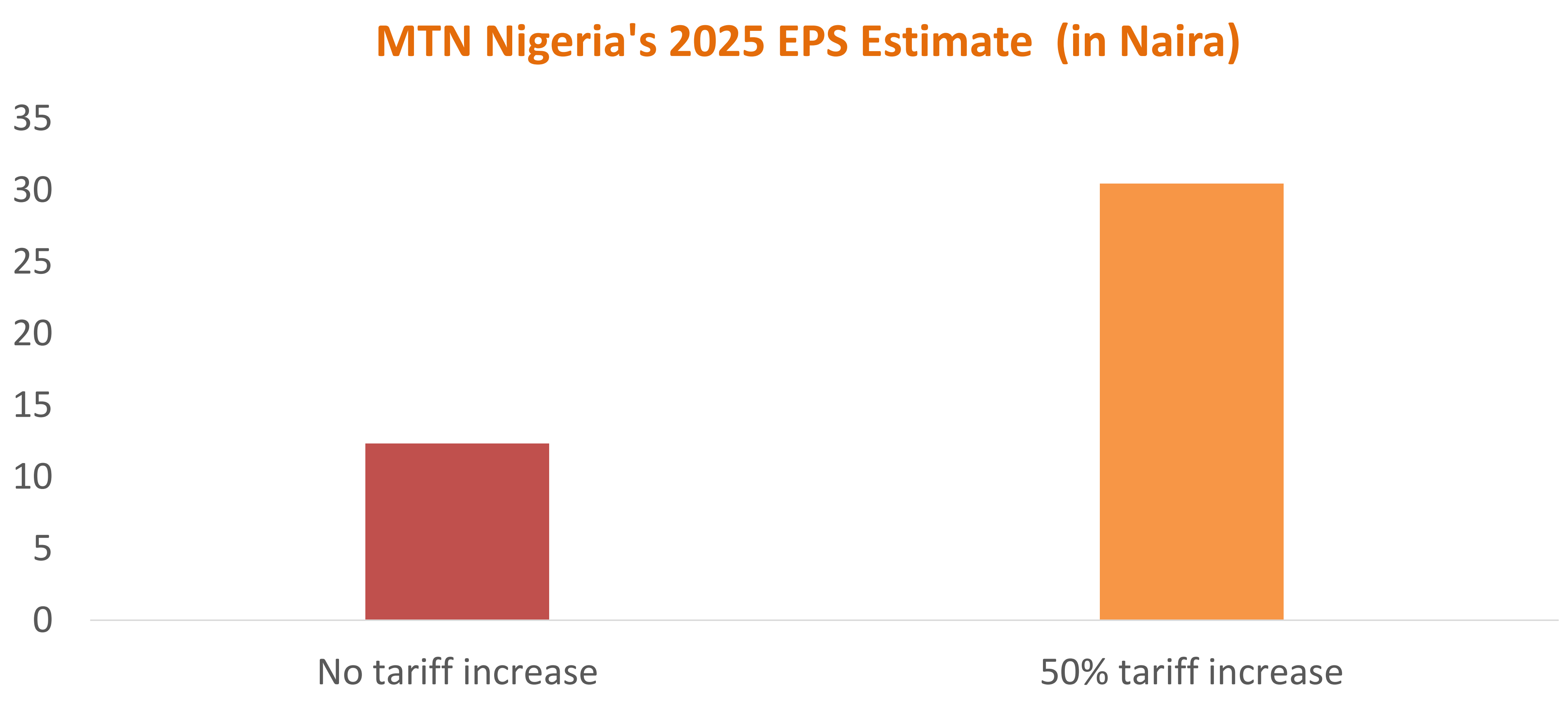
Period	Era	Key Developments	Tariff Trends
1960–1985	State-Controlled Telecommunications	NITEL operated as a monopoly; tariffs were regulated and subsidised. Poor service quality and low penetration rates.	Affordable tariffs for basic services; international calls were expensive. Fixed-line systems dominated.
1985–1999	Early Reforms and GSM Licensing	Limited deregulation; private operators introduced Value-Added Services. Fixed-line tariffs remained affordable but inefficient.	Tariffs remained low for basic services but increased for premium and international services.
2000	National Telecom Policy and Deregulation	GSM licences issued to private operators. Initial tariffs were high due to infrastructure costs and licensing fees.	GSM tariffs were exorbitant: SIM cards cost up to N60,000, and call rates were N50–N100 per minute.
2003–2005	Tariff Reductions Begin	Competition increased, leading to significant tariff reductions. SIM card prices and call rates dropped.	Call rates dropped to N20–N30 per minute, and SIM card prices declined significantly.
2006	Introduction of Per-Second Billing	Globacom introduced per-second billing, forcing competitors to adopt it. Tariffs dropped sharply, making services more affordable.	Tariffs for calls dropped to as low as N10 per minute due to competition.
2010–2015	Data Services Emerge	Growth of 3G networks; mobile internet services emerged. Voice tariffs stabilised, while data services remained expensive initially.	Voice tariffs stabilised at N6–N10 per minute; data services were introduced but costly at first.
2016–2020	Broadband Expansion and Inflationary Pressures	Growth of 4G networks, Economic recessions and naira devaluation increased operational costs. Operators lobbied for tariff adjustments.	Broadband data prices dropped due to competition; voice tariffs remained stable.
2021–2023	Rising Inflation and Tariff Adjustments	NCC approved a 10% tariff hike for voice and data services due to inflation and energy costs. Call rates increased slightly.	Call rates increased from N4–N6 per minute; data prices rose marginally due to inflation.
2024–Present	Proposals for 50% Tariff Hike	Operators proposed a 50% tariff hike due to economic instability, inflation, and rising energy costs. Public debates ensued.	Potentially one of the most significant tariff hikes, affecting both voice and data services at N16.50 per minute and N525 per gigabyte due to inflation and energy costs.

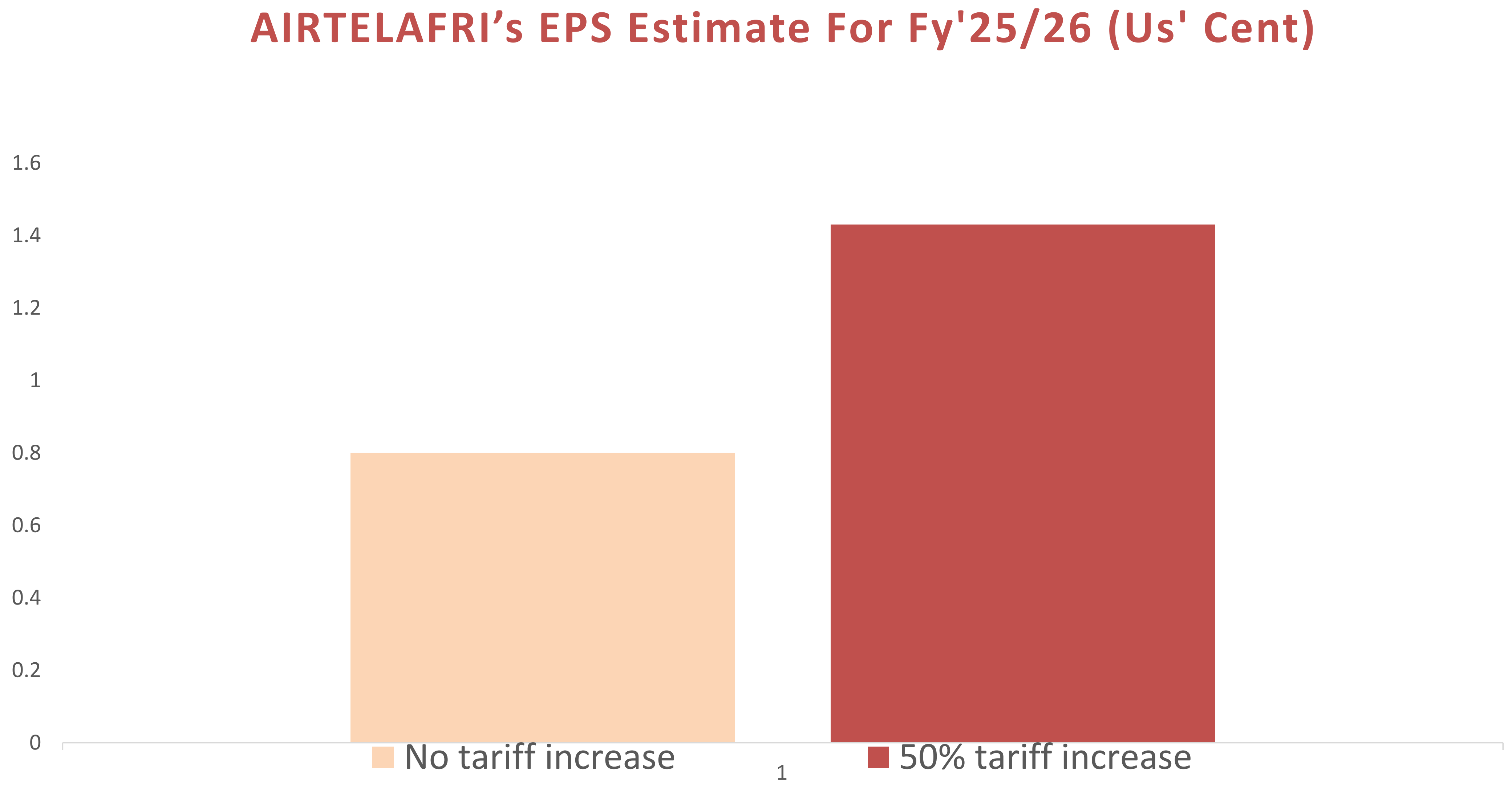
Sector Outlook: Tariff Hike as a Growth Catalyst

The proposed 50% tariff hike in Nigeria's telecommunications sector is expected to drive significant revenue growth for telecom operators, enabling them to invest in infrastructure, expand network coverage, and improve the quality of their services. This revenue increase will also help operators offset escalating operational costs, particularly those driven by higher energy prices, currency depreciation, and inflation.

In our view, we estimate strong revenue growth of +37.3% for MTNN and +29.4% for AIRTELAFRI, driven by rise in voice and data revenues. This growth will be supported by initiatives to reactivate dormant SIM cards, the rising adoption of smartphones, and the surging demand for data and digital services.

The anticipated financial improvements will also benefit from a reduction in foreign exchange losses, estimated at 69% for MTNN and 61% for AIRTELAFRI, alongside expectations of naira stability, creating a favourable environment for sustained earnings growth. For 2025, earnings per share (EPS) are forecasted to reach N30.45 for MTNN and $1.43 for AIRTELAFRI.





MTNN's financial performance in 2025 is expected to build on its strong showing in the first nine months of 2024, with subscriber numbers forecasted to grow by 1.5% year-on-year, supported by a 2.2% year-on-year rise in data subscribers.

Average revenue per user (ARPU) is anticipated to grow by 18.5%, reflecting the increasing demand for mobile data services. Data revenue, which is projected to contribute 49.5% of MTNN's total revenue, will serve as a key driver of the company's overall growth.

Additionally, cost containment measures, including a renegotiated contract with IHS Towers, are expected to limit operational expense (OPEX) growth to 15.9% year-on-year. This will lead to a gradual recovery in margins, with the EBITDA margin projected to improve by 227 basis points to 39.3%.

The anticipated tariff hike is likely to act as a catalyst for MTNN's financial recovery, allowing the company to prioritise shareholder returns. As a result, dividend payments are now expected to resume in 2025, earlier than the previously anticipated 2026, driven by the company's strengthened financial position.

For AIRTELAFRI, our estimate shows an expected revenue boost from this hike for the FY'24/25, with further gains expected in 2025/2026. The company is forecast to achieve continued growth across its operating markets, underpinned by a 16.23% increase in ARPU.

The 50% tariff adjustments, combined with AIRTELAFRI's cost-optimisation initiatives, are expected to drive a significant improvement in profitability. The company's EBITDA margin is projected to rise to 48.73%, reflecting both the benefits of higher tariffs and ongoing efforts to reduce energy expenses through the adoption of renewable energy solutions, such as solar-powered sites.

This strengthened financial performance is expected to result in an upward movement of AIRTELAFRI's payout ratio, with an increase in dividend payments likely in the coming year.

The tariff hike is poised to serve as a major catalyst for improved financial health in the telecom sector, marking a turning point for both MTNN and AIRTELAFRI, while offering a stronger platform for enhanced shareholder returns.

Tariff Hike to Drive Upward Valuation and Favourable Market Response

In general, we posit that higher telecom tariffs could enhance financial stability for operators, enabling them to meet loan obligations, invest in 5G deployment, and upgrade ageing infrastructure.

This stability may also attract foreign investments due to the potential for higher returns. Additionally, increased tariffs would boost government revenue from taxes and levies tied to telecom earnings, creating opportunities for reinvestment in the digital economy or public infrastructure.

On the contrary, a 50% hike in telecom tariffs could significantly increase costs for individuals and businesses, particularly in sectors like e-commerce, fintech, logistics, and remote work, leading to reduced affordability and potential digital exclusion for low-income earners. This could hinder communication, productivity, and growth in Nigeria's digital economy.

The hike may spur cost-push inflation, raising the prices of goods and services tied to telecom costs, while consumer spending may decline due to rising expenses. Although the increased revenue could improve telecom infrastructure and attract foreign investments, the hike may deter investments in sectors reliant on affordable connectivity, provoke public dissatisfaction, and strain regulatory relations, especially if deemed exploitative or untimely.

Tariff Hike to Drive Upward Valuation and Favourable Market Response

Overall, we anticipate a favourable market response to the proposed tariff increase, as investors are likely to recalibrate their expectations to account for the improved revenue and earnings outlook for telecom operators. The tariff adjustment is expected to bolster the financial performance of the industry's major players, providing them with the necessary resources to manage escalating operational costs and invest in infrastructure upgrades, network expansion, and enhanced service delivery.

In light of a 50.0% tariff increase, our valuation estimates reflect a robust outlook for both MTNN and AIRTELAFRI. For MTNN, we project a fair value of N329 per share, supported by significant revenue growth driven by higher average revenue per user (ARPU) and a recovering subscriber base.

Similarly, AIRTELAFRI is expected to benefit from the tariff hike, with a fair value projection of N2,985 per share, reflecting improved margins and earnings momentum across its operating markets. These upward revisions in fair value signify the strong potential for investor confidence and the likely attractiveness of these stocks in the near term.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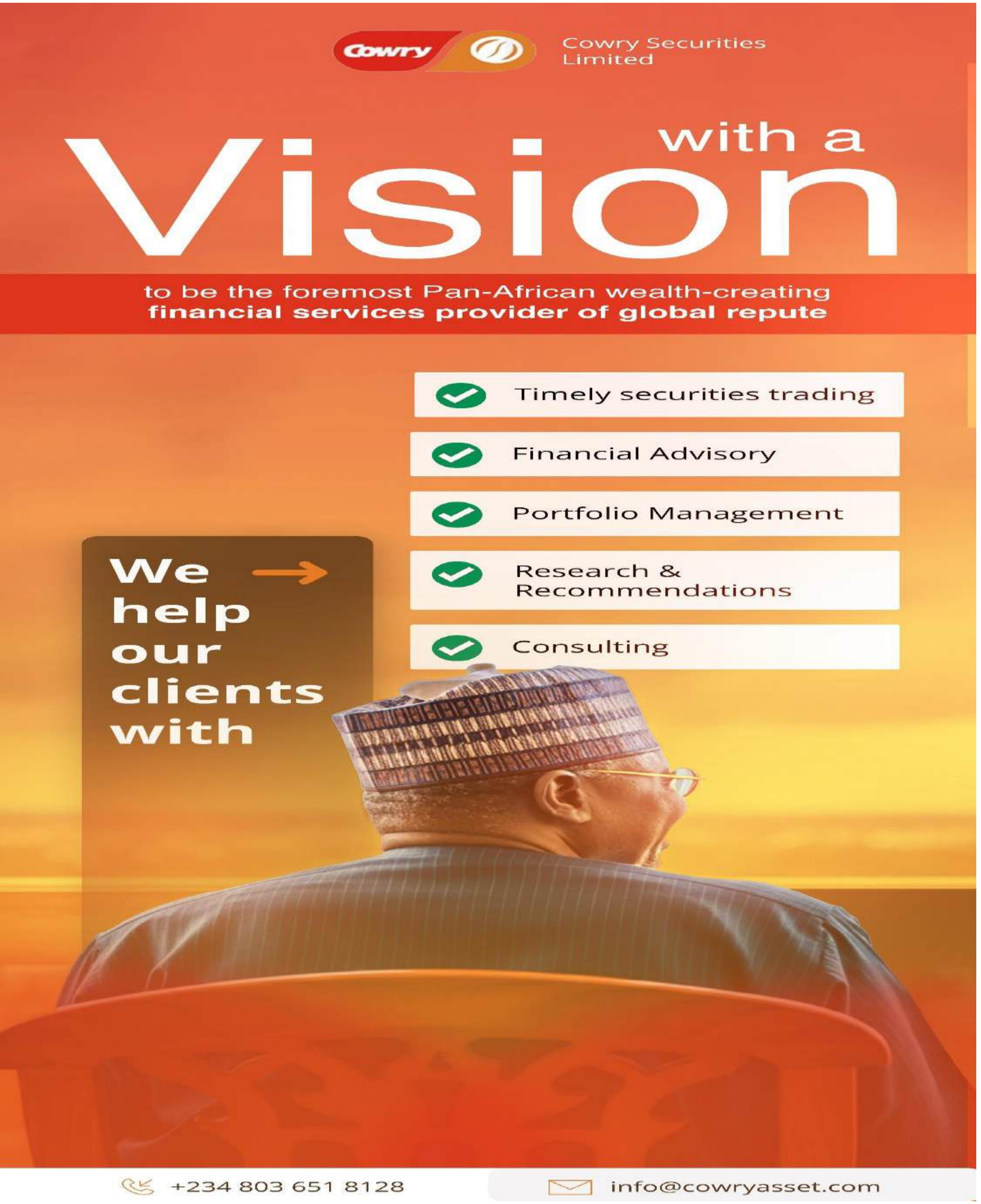
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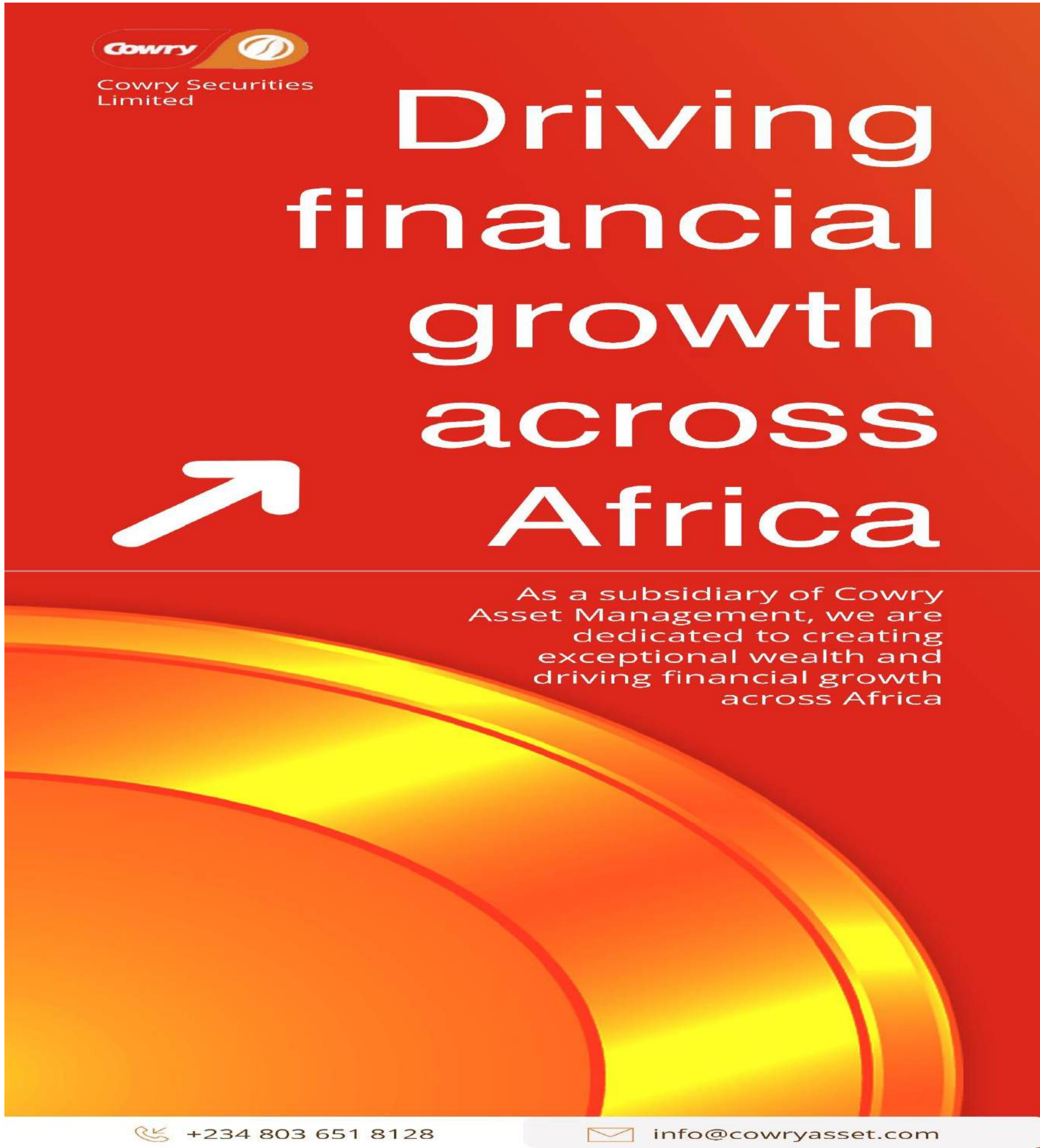
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