



MTN Nigeria H1 2019 Results Teleconference Transcript

July 26, 2019

Operator: Good morning and good afternoon, ladies and gentlemen. Welcome to the MTN Nigeria Half Year 2019 Results Conference Call. There will be a question and answer session at the end of today's presentation. Please go ahead.

Chima Nwaokoma: Good day everyone and thank you for joining this call to discuss MTN Nigeria's results for the six months period to 30th June 2019. I am Chima Nwaokoma, Senior Manager Investor Relations, MTN Nigeria. With me on the call, I have Ferdi Moolman, CEO for MTN Nigeria, Mazen Mroue, COO for MTN Nigeria, and Adekunle Awobodu, CFO for MTN Nigeria. We have Ralph Mupita, MTN Group CFO. He's also a Non-Executive Director of MTN Nigeria. We also have Yuraisha Moodley, group IR on the call.

Ferdi will provide you with an overview of the performance and Kunle will cover some of the financial points. Ferdi will then provide an outlook for the business and we will thereafter move on to the Q&A. The Q&A will be facilitated by the Conference Call operator. Just to remind everyone, the results were announced this morning and a version of the announcement including the financial statements is on the investor section of our website mtnonline.com.

With that over to you, Ferdi.

Ferdi Moolman: Good afternoon everybody and welcome from a vibrant Lagos to MTN Nigeria Plc first analyst call as a listed company. Thank you Chima for the introduction. I just wanted to provide some salient points on the performance. As Chima said, the detailed announcement is available and there is quite a lot of information in there. So I will not be taking much of your time in terms of just providing some background into our H1 performance.

I am very happy with the performance in H1. We delivered solid results in line with our medium term guidance. We had double-digit growth in service revenues of 12.2%. This is underscored by sustained growth in our voice revenue of 11% and growth on our data revenue of about 32%.



We have seen a healthy growth in our subscriber base of 3.3 million subscribers and we now at 61.5 million RGS as at end of H1.

I am also very happy with the growth on the data subscribers. We added 2.1 million active data subscribers to 20.7 million subscribers. And just to remind everybody, our active data subscribers are measured on the basis of at least a minimum usage of 5 megabytes per subscriber. Other key highlight in the report, we had an EBITDA margin of 53.8%, and on IAS 17 basis, it was 44.6%. On an IAS 17 basis, we saw growth in our EBITDA margin and we have seen good growth of 35% in Profit after Tax.

Our earnings per share was N4.86 kobo and we had Capex investment of N106 billion. On an IAS 17 basis, we had N65 billion added to our Capex. And before I go into the details, I will like to use this opportunity to say thank you to our six pioneer Nigerian Executive Directors who retired and who have now been replaced by new directors. You all would have seen the announcement. This is after 18 years of service to the company and this was also in line with Nigeria's governance standard.

We declared a maiden dividend as a listed company of N2.95 kobo per share. So this is the total dividend of about N60 billion and this is principally in line with the dividend policy that we have announced. I thought I would provide you a little bit more background in terms of AGF matter because the matter can be quite complex. So the hearing of the AGF matter which was originally scheduled to hold on June 26th 2019 for commencement of the trial on the substantive issue before the court has been adjourned to October the 29th and the 31st. So, when we filed in September 2018, the Attorney General did not file a defense but instead, they filed a preliminary objection to contest the jurisdiction of the court to hear the case in the first place.

The court therefore had to deal with the issue of jurisdiction before they delved into the substance of the matter. The ruling in March 2019, dismissed the preliminary objection in its entirety and the matter on record for hearing of the substantial case is now scheduled for October 29th and the 31st. In anticipation of an extended hearing, we proactively obtained the two dates in advance to make sure that we can get detailed hearing in 2019 before the close of the financial year. Our position is, and has always been, that we have paid all our taxes and appropriate custom duties and we are very comfortable to defend these matters with the relevant collection agencies. Over to you, Kunle.

Kunle Awobodu:

Thank you Ferdi. I would like to start by first emphasizing that the numbers we reported are unaudited for the six months ended June 30, 2019. I will start by highlighting the impact of IFRS 16 on the reported numbers. As a result of initially applying IFRS 16 in relation to leases that we had historically classified as operating leases, we had to recognize 495.5 billion of right of use of assets and 498.9 billion of lease liabilities as at June 30 2019.





Accordingly, as per the guidelines of IFRS 16, we had to recognize depreciation and interest costs. For the six months ended June 30 2019, we recognized N27.4 billion of depreciation charges and N35.5 billion of interest cost for these leases. If we had stayed on IAS 17, we would have recognized operating lease expense of about N51.8 billion. The net impact of IFRS 16 on our reported numbers, if you just want to unpack it, is that it lowered our pre-tax profit by about N8 billion. Total revenue grew by 12.1% to N566.9 billion with a gross margin of 81.2% versus 2018 half year of 80.4%.

Service revenue increased by 15% year-on-year if we exclude our digital and VAS revenue. Remember that we had talked about the completion of VAS optimisation in 2018, which we have done to improve overall digital experience of our customers and to make sure that we reduce customer complaints. Going forward, we expect a modest digital growth with the re-introduction of auto renewal which will allow our subscribers to choose whether to renew their digital services or not automatically. Our main focus is around building a solid base of active digital users with the planned launch of some new digital services as well as promotion of our existing products, which we stopped during the optimization activities.

Operating expenses reduced by 17.8%, if you look at it on an IFRS 16 basis. On IAS 17, operating expenses increased by 9.7% which is well below inflation. This is due to our continued cost optimization initiatives and the execution of cost saving projects that we started.

EBITDA grew by 40% to 304.9 billion. On IAS 17 basis, the growth is 16.2% to N253 billion. Our EBITDA margin was 53.8% on account of IFRS 16 implementation. If I convert that to IAS 17, the margin improved by 1.5 percentage points to 44.6%. The 1.5 percentage point improvement in margin was supported by a stable Naira against the US dollar benefitting our operating expenses as well as lower digital expenses arising from our VAS optimization initiatives.

Our CAPEX expenditure increased by 63.8% to N105.8 billion. If I exclude the recognition of right of use of asset as a result of IFRS 16, our CAPEX spending increased by about 48.9% to N96 billion. In May, we signed a 7-year 200 billion mid-term facility to support CAPEX investments and working capital. We continue to work on making sure that our debt structure is optimal and we are planning to raise an additional N100 billion commercial paper during the second half of the year, to further support our working capital and CAPEX needs. Our bottom line remained strong with 30.9% and 34.8% growth in profit before and after tax respectively. Our earnings per share increased by 34.8% to N4.86.

I will hand back to Ferdi to give an outlook on second half of 2019.

Ferdi Moolman:

Thank you, Kunle. In looking at the second half of 2019, I really want to address three core issues - what our view is on data, what you see





happening on fintech and a very high level view on where we see that going and what our plans are on VAS. In terms of data, we are very confident that we can build on the first half performance and it is very fundamental that our data performance is very strong in H2. We added 2.1 million subscribers to the active database and we saw a strong growth in our total data volume of about 67%.

I am happy to report that the NCC gave us approval and the 800MHz frequency, which we obtained from Visafone was transferred to MTN for full usage. This has a number of positive impacts. The first one is that it allows for cost effective 4G roll out and our plans is to double population coverage for 4G within the next nine months. It also allows us to look at carrier aggregation. So we have been able to launch 4G+, which basically lifts your 4G speed and allows a higher speed per subscriber. We have launched this in urban areas. It also gives us an opportunity to alleviate the pressure that we have on the 3G spectrums. So we see substantial growth in the data revenues in the second half of the year.

When I look at Fintech, I am very excited to announce that we were issued the Super-Agent licence yesterday by the CBN. The Super-Agent licence has always been a part of our MOMO (mobile money) business plan and obtaining a license shows we are on track with our MOMO plans. Our focus is not just on rolling out our Agent Network but also on local remittance across payment corridors with a large amount of cash flows. Super-Agent allows us to leverage off our Diamond/Access Bank relationship although additional investment is required. So just to give you a view in terms of what the Super-Agent does, Super-Agent really allows us to roll out agent network which is core to the success of any mobile money business.

We will be focusing on Cash-to-Cash transfer since we see huge value on it. In terms of the Payment Services Bank (PSB), we have submitted everything we need to submit to the CBN for approval and we are awaiting an approval in principle. Just to remind all of you that approval in principle doesn't allow us to launch the PSB, it just allows us to create the legal entity and start setting up structures. After that, we will still need to get approval to actually launch so we can officially start the process of the MOMO business in Nigeria.

In terms of VAS, we believe we have bottomed out on our VAS optimization looking at the customer journey for subscription. We are slowly starting to see recovery and we can see month on month increase on our VAS services. This is also being supported by the regulator recently allowing auto renewal on VAS, and we are able to start implementing this towards the end of the H2. So, we hope to see this providing some momentum for the VAS growth going into the second half of the year.

I think generally, this sort of just provides you with a little bit of colour for the end of H2.





Chima Nwaokoma: Thank you Ferdi and Kunle for the overview and now I will hand over to the moderator so that we can take questions.

Kay: Thank you. We will now open the lines for questions. To ask a question, please press "0" on your phone's keypads. That's "0" to ask a question, and "7" to cancel your question request. Once again, that's "0" to ask a question and "7" to cancel your request. Thank you. Your first question is from JP Davis from JP Morgan. Please go ahead.

J.P. David: Yes. Good afternoon team and thank you for the opportunity. Three questions from my side, Please. Ferdi, you talked about the PSB licensing process. Can you provide any colour around the timeframe for that. So when we might expect the in principle approval to come through and then the actual approval, what sort of timeline are we looking at here? The second question, please, around the dividends. I just want to understand, is the interim dividend a bit like MTN Group where you pay one-third now and then two-thirds at the end of the year to sort of grow it up to the 80% payout or is there sort of the payout level that we should expect for the final part of the year?

Finally, just on some pricing, there has been quite a lot of headlines on the local press around your price adjustments in the data space. Are these genuine price cuts or is this more of a marketing way sort of adding the existing night bundles into the original data allocation? Thank you.

Ferdi Moolman: Thanks JP. I will take the first and the last question and then Kunle will talk about the dividends. The process for the PSB licensing is slightly different to the Super-agent licence. In the Super-agent licence process, you apply for a licence and then they will issue you the approval in principle and when they issue the approval in principle that allows you to setup the legal structure to develop the process and systems and in fact it requires also a POC launch before you get final approval. So we launched the POC on the Super-Agent in March of this year. We did that below the line because we were not allowed to advertise and go above the line with the super-agent.

But we launched it and we have actually been doing cash to cash transfers for the last three or four months although we do it in a very limited manner. The CBN then came in and did an audit on the process and the final licence, as I said, was issued to us yesterday. We received it yesterday, which now allows us to immediately start rolling out. We can pretty much hit the ground running on the Super-agent.

It could also be important to just explain the major differences between the PSB and the Super-agent. The big difference really is that for the Super-agent, we still need to work with the Bank and this is why we are working with Diamond/Access Bank in terms of the Super-agent. But on the PSB, we obviously do not need to interface with the Bank. And secondly on the PSB, we are able to open up wallets as well. But on the





Super-agent we are not allowed to open up wallets. We still work with the Bank. I think this is important. The way the PSB process comes is different to the Super-agent.

So applying for the licence and for the approval in principle to be issued, that will only allow us to setup the legal structure. So we have to do it in a separate legal entity. It will then only allow us to appoint a board of directors and address all the strategy issues that goes along setting up a legal entity. And by the way, that also requires verification from Central Bank. And only after they have done that we will be ready to launch a POC and then the final licence will be issued. So it is quite a longer process than the Super-agent.

We have done everything we can do so far on the PSB. We have been busy developing the systems in the backend, and have progressed quite far. But in terms of timeline and getting approval from CBN, I cannot give you any detail on that other than to say there is nothing outstanding from us that we need to give CBN to get the approval. So we need to wait for CBN.

On the pricing on data, I have got Mazen with us as well. But I will give you a quick view on pricing and then Mazen can also speak a little bit on data pricing. Generally, you know, we have a lot of soft growth in the network especially on subscriber numbers in the last 18 months. And although we are spectrum rich, we have got a broad range of spectrums that is very healthy, we do have a spectrum crunch specifically on the 3G spectrum where there is limited spectrum available in the market. As you know we were only given 800MHz frequency recently which obviously helps us a lot on the 4G. With us getting the 4G spectrum now, this alleviates quite a lot of our spectrum crunch and it allows us to take a lot more volumes on the network without foreseeable degradation in the data services.

With this additional capacity that we have available now on the last mile with the frequency, it also allowed us to look at our data pricing. What we did in anticipation of the growth we will see in H2 was to adjust our data pricing to keep it in line with the market. And basically, the way we adjusted the pricing was to bring the night package, as you said, into the day. So we did not limit the usage of night any more, we have now made it available for the entire day.

Secondly, we have increased some of the data volumes on the packages as well, mostly around our monthly and weekly packages. So it is a longer use of the packages.

I will just hand over to Mazen to give you a little bit further colour on data pricing.

Mazen Mroue:

Good afternoon everyone. As Ferdi said, we have done quite good extensive work around the data pricing. In line with our CHASE programme, which includes coverage, handsets availability and the





affordability, service bundling and experience, and education, we have bundled all these initiatives together. We have recently revamped our data prices and the purpose of the data price revamp was to match competition around key price points in the market. In particular, when you talk about N100 and N2,000 segments.

This was achieved by keeping existing prices and increasing the volume. Our data price revamp and 4G network acceleration go together in alignment. In addition, the continuous programme to push the potential customers who already have 4G handsets to swap their SIMs to 4G, put us in a strong competitive position to offer more value to our customers, supporting data and voice revenue growth which definitely will enhance our service revenue.

Kunle Awobodu: If I may just answer the question on the dividend, in declaring the interim dividends, we had looked at a lot of factors, which includes the fact that at listing we had guided the market on a dividend policy that targets 80% of our distributable net income. But this distributable net income depends on a lot factors. We had to factor in accounting issues, we had to look at the regulatory issues, and we had to look at taxation in order for us to make sure that when we do declare dividend, we do not attract excess dividends taxation issues.

In declaring, we also had to consider that we declared dividend earlier this year and I think the last factor we considered was that we are guided by the current policies the Group adopts in determining interim dividends.

Kay: Thank you. Your next question is from Sheyi Oyalade from ARM. Please go ahead.

Sheyi Oyalade: Hello. Thank you for the call. Just a quick question to get an outlook on revenue, what is going to be the key major drivers for revenue going forward. Is it going to be from the data segment or more from the voice? And also I will like to get a guideline in terms of IFRS 16. I didn't really get the explanation and impact on the financials. Thank you.

Ferdi Moolman: Okay, looking at the growth going forward, we still believe that we can still get healthy growth from subscribers. We believe that voice will still be strong and we will continue seeing growth on voice revenue. As I just explained, we are also seeing very good growth in data with the potential of additional frequency and the fact that our products are now repriced in the market. We see VAS and Fintech clearly starting to contribute to the growth as well. But the major growth drivers will be subscribers with healthy voice and data going forward.

Kunle Awobodu: On IFRS 16, if I can just summaries it again, the impact of IFRS 16 is that operating lease expenses that we had historically classified as expenses, which we reported under EBITDA is now split into three. A portion of that will have to stay in EBITDA where we are not leasing





capacity and they are just providing you service. Thereafter, you do the allocation of the balance. You need to allocate a portion to depreciation because you have to recognize a Right of Use and you also have to look at interest expense because you need to discount this over a period of time.

So overall, if we were to remain under IAS 17, in the first six months of 2019, we would have recorded operating lease expense of about N51.8 billion as part of our operating expenses. But because of IFRS 16, we had to classify part of this into EBITDA and take N27.4 billion into depreciation and N33.5 billion into interests costs. The totality of this is that instead of recognizing about N52 billion, we were required to recognize N60 billion and the impact of this was that pre-tax profit was lowered by about N8 billion.

Kay: Thank you. Your next question is from Okpe Ani, from Cordros Securities. Please go ahead

Okpe Ani: Hi Good afternoon. So there are some questions on quarter on quarter growth. So revenue grew marginally, just 1%, so I just wanted to find out why the flattish growth on revenues side and then what was pushing costs up in the quarter. And the dominant status, I just wanted to know what the situation is around that with the NCC.

Kunle Awobodu: Our revenue was affected by seasonality factors. In Q2 there was Ramadan and there was also rain. When we get into the rainy season, it does affect our quarter two numbers. Historically, we have always seen a reduction in our numbers. Quarter one is always affected by yuletide period, the spill-over of activities in December into January.

So there are some seasonality factors you will keep seeing in our quarterly numbers and that is why you see a slow down in quarter two numbers. Ramadan is always affecting voice revenue especially from the northern part of the country and the rainy season is always affecting our revenues when it starts between May and June.

Ferdi Moolman: You will also see an increase in performance in H2 as you go into seasonalities narrative, Christmas season etcetera. In terms of the dominant status, we do not see it changing in the short term. Just to remind everybody, we have been declared dominant on voice and we have also been declared jointly dominant on wholesale leased lines and transmission capacity with Glo. Those were the only two segments that we have been declared dominant. We have not been declared dominant on data or VAS and we do not see these changing in the short term.

Kay: Thank you. Your next question is from Tony Schroenn from Imara. Please go ahead.

Tony Schroenn: Hi gentlemen. Thanks for the call. Just quickly, we are talking about VAS revenues bottoming out. You did provide a quick explanation as to why.





I think I missed it. I did not catch it fully. If you can just elaborate on that. And then your second year, I guess you are one of the largest if not the largest consumer facing companies in Nigeria. For us abroad, do you think you could give us of your version or your take on how you see this sort of economy developing in Nigeria and the consumer and consumer disposable income? Thanks very much.

Ferdi Moolman:

Okay. On VAS revenue, during the course of 2018, we reviewed the subscription module and looked at the customer journey in terms of taking control of not only subscribing to the service but also unsubscribing to the service. In doing this, we stopped marketing. We also stopped all promotions around VAS services and it has taken us some time to look at the journey. Just to give everybody a view, we have over two thousand products sitting in that VAS revenue category.

VAS revenue is also categorized by the fact that we have VAS partners. This is a partnership module that we have with VAS providers. It is quite a complex process to review the subscription module. As part of the subscription module, there is auto-renewal. These are products that you can subscribe on a monthly or a weekly basis, and you can get them auto renewed once your subscription runs out. That auto renewal was suspended as part of the process and the regulator also suspended it on VAS.

Two things that happened, one, we have concluded the process of looking at the subscriber journey for subscription. We put a number of controls in place and did what we call double opt-in. So when a subscriber wants a product, he gets asked a second time either by virtue of an OTP or some other form, whether he really wants a product and then he subscribes into it. Two, the regulator recently, I think in the last six weeks or so, allowed for auto renewal on these products again. So the auto renewal has come in as well.

We are now ready to start promoting these products again. First, doing some promotion around the product, and secondly, we reintroduced the auto renewal process. We are very cautious in terms of the growth on this product. This is a very complex process so we are not just opening it up for growth, we normally seek quite fast growth but we wanted to do this in a sustained manner so that the revenue we generate is sustained revenue. So that gives us a bit of a view on the VAS.

In terms of the economy itself, Nigeria remains an oil driven economy. We have recently gone through elections and the ministers have not been appointed yet. They are in the process of vetting the ministers. Capital expenditure normally comes to a bit of a stand-still from government during this process. We anticipate that once the ministers are fully on seat and have been appointed, we will start seeing some growth again in the country.

The Federal Government has also lifted up the minimum wage. This may not be convenient but we anticipate it coming at some particular point





in time. We believe this will also at least provide a bit more room for the general public to be able to spend on telco services. I think this is where we sort of see the economy. It is obviously still very sensitive to FX as well but generally, that is what we see at the moment.

Kay: Thank you. Your next question is from Michael Oyeleye from Stanbic IBTC. Please go ahead.

Michael Oyeleye: Good afternoon and thank you very much for taking my question. I just wanted to find out what is the ARPU for the H1 2019 and for 2018 also, any kind of the changes in ARPU. Thank you.

Ferdi Moolman: I will do a general discussion for you just on the ARPU. ARPU also is seasonal. Just like we explained earlier, generally, our H1 is suppressed versus H2 because of seasonality. This year, most specifically so because of Ramadan sitting in H1 as well as the rainy season. The other impact that we have seen on ARPU was the election. Generally, in Nigeria when we have an election period, we actually see usage on our network going up. But this time around during the election period we saw a decline and the main reason we saw a decline was because of the delay of the election. And if you recall that delay was announced within 24 hours so people did not recharge in anticipation of the long delay period in terms of the election.

Generally, we have seen ARPU basically flat during the period. The make up of the ARPU over the years has changed. The ARPU is now largely made up of voice and data, while VAS makes up a smaller part of ARPU. We have genuinely seen sort of a flat ARPU over the course of the period.

Kay: Thank you. Your next question is from John Munge from Vergent Asset Management. Please go ahead.

John Munge: Hello, Hi, congratulations for the strong set of results and for taking my call. It is sort of a quick one as regards to your Fintech ventures. Will it differ in any way in terms of structure, will it differ from what you have in Ghana or will it be a similar structure in terms of how you relate with your merchants and agents.

Ferdi Moolman: There is some similarity between us and Ghana but generally it is different. So, the first thing you need to understand is that our Mobile Money is sitting in a subsidiary company called Yellow Digital Services. As was said earlier, the Super-agent licence that we have at the moment does not allow us to open up a wallet. We need to work with banks to be able to open some form of accounts for the subscriber. We cannot do any thing on our own as a Super-agent.

When we get the PSB, however, this will allows us to open up a wallet. It will also allow us to use our SIM registration as the KYC for the wallet. But at this particular point in time, with the Super-agent we can just launch the Agent Network.





Mazen Mroue: One thing to add to what Ferdi said is that the the Super-agent allows us to build a large distribution network. We can have great number of Agents that can really start transacting. And while we are still working on the PSB license, that can give us a chance to build a strong agent network in the country.

Kay: Thank you. Your next question is from Khalil Woli from Cardinal Stone Research. Please, go ahead

Khalil Woli: Okay. Thank you for picking my questions. I just have a couple of questions to ask. First of all, I noticed that the Capex increased by 63% to N106 billion. I will like you to shed more colour on what part of the business that this expenditures were on. I know that the firm said they are increasing their 4G capacity and also the 4.5G that was just launched. And so I will really like to know if the Capex was due to the increase in 4G penetration and I would like to know the 4G penetration as at the end of H1 2019. And I would also like to know the percentage of the revenue from the North.

I noticed you guys said that the Ramadan period usually affects revenues in Q2, and so I would like to know the revenues that came from the northern region of Nigeria. Yes. Thank you for taking my questions. That's all.

Ferdi Moolman: In terms of Capex, our spend was to a large extent on 4G. But more in terms of 2600MHz, we also spend some Capex on 3G to provide capacity and coverage for 3G. We also rolled out a number of new sites. We have upgraded virtual recharge modules services, which is where we have virtual airtime. We anticipate Capex spending to continue on 4G and 3G capacity towards the end of the year as we see substantial demands in data. We also have Capex plan for rural network rollout. We are also modernizing our sites for the future. This is the high level capacity in view. I will hand over to Mazen to talk about revenue in the North and the impact of Ramadan.

Mazen Mroue: Just to add to Ferdi on the 4G, the population coverage now is around 28% so there is a significant improvement versus same period last year. On the north portion, what we see in terms of subscriber acquisition is more than 60% count from the north but in terms of revenue around 35-40%.

Kay: Thank you. Your next question is from Oluseun Oluwaseun from FBN Quest. Please go ahead.

Oluwaseun Oluwaseun: Thank you very much for the presentation. Quickly I just like to ask a couple of questions. First I kind of joined the call a bit late, I want to know our capex guidance for the rest of the year. Also I heard you guys are proposing a 100 billion commercial paper. Is it to fund working capital or it is also channeled towards capex. Then on your statement of





financial position, there is an item "restricted cash". There is some bit of unclarity. I'm seeing "retention fee" on purchase of Visafone communication. I just want some sort of clarity on that. Those are my few questions. Thank you very much.

Kunle Awobodu: The guidance that we gave to the market for our Capex spending is about 16-18% of our revenue, and you can easily work that out if you look at the revenue numbers. What has happened this year is that we started our Capex programme very early. We started it early and we sort of rolled out well ahead of the plan that we put in place. Restricted cash, depending on what you have seen, relates to letters of credit (LC) and we also have restricted cash that is related to a deposit we have done relating to the PSB license. I'm not sure which one you have seen.

In terms of the Commercial Paper (CP), the CP programme has always been part of our debt programme. We have been working on a lot of initiatives to achieve an optimal mix of our debt structure. We plan to launch the CP in the 2nd half of the year and it is targeted at working capital and for some of our investment needs.

Kay: Thank you. Your next question is from Gbolahun Ologunro from CSL stock brokers. Please, go ahead.

Gbolahun Ologunro: Good afternoon. Thank you for hosting the Conference Call and taking my question. So my question is bordering on your cost, basically. So in terms of direct network operating cost, I noticed there was a significant moderation by about 21% and I think that was on the back of decline in BTS leasing cost. So I will like to get an insight as to what was responsible for that marked decline. In addition to that looking at your other cost line items, if we decide to exclude depreciation - so I have my opex to revenue ratio at about 25%, that's opex to revenue ratio, that is 0.25 that was a decline from 0.27 in H1 2018. So I would like to get your guidance on that going forward. So that will be all for now.

Kunle Awobodu: So when you look at the Opex numbers for 2019, it is a little bit complicated by the implementation of IFRS 16 and that was why at the beginning of the call, I had tried to highlight the impact of IFRS 16 on the reported numbers. The reduction that you see in leases is a reduction due to the implementation the standard. Some of the numbers that we used to report under operating expenses are now reported under depreciation and interest expenses. So if you look through our P & L, you will see that our depreciation is also going up and part of our reported interest expenses is also gone up. Those are the impact of IFRS 16 and I think I gave the numbers earlier on when we started the discussion.

When you look overall at operating expenses, on IAS 17 basis, you will see a growth in leases but for a lot of the other cost lines, you will see that we have moderated our expenses in a way for us to start improving our EBITDA margin. We are beginning to get benefit of operating



leverage and a lot of the initiatives we put through since the beginning of last year.

On IAS 17 basis, our EBITDA margins increased by about 1.5 percentage points and that we see coming through because of cost containment activities that we have put through.

Kay: Thank you. Your next question is from Elhan Ishmael from Prudential. Please go ahead.

Elhan Ishmael: Hi good day. Its Chris Wood here from Prudential and Elhan is here in the room with me. There is just two questions please. Firstly if you can just talk a little bit about the Preference shares redemption. You made a comment in the commentary that you are waiting regulatory approval and therefore the cash has not actually flowed. How should we think about that in terms of Balance Sheet and should we anticipate there will be a rise in borrowings in order to pay back the Preference shares and what are the implications for finance costs going forward? First question.

Second question is just relating to your data revenue. So while it is pleasing in terms of your 31% growth, what we can see from Airtel Africa result disclosure is that data revenue grew 73% and the data subscribers is growing at almost twice the rate of MTN. Can you perhaps just provide some colour on your market share and whether the apparent loss of share is related to relative data pricing. Thanks.

Kunle Awobodu: I will take the preference shares questions. So if you go through our Balance Sheet, once we declared that we wanted to do the redemption of the preference shares, those preference shares were reclassified. We used to have them in equity but we have now reclassified them into liabilities. The only exposure that we have on that is that they are subject to changes in exchange rates. If exchange rate moves, we have to mark to market.

We do not need to raise additional debt to settle it. We have always set aside cash generated from operations for this purpose. What we are waiting for is approval. The new process, without going to the details, requires some form of approval because it is a sort of redemption that is coming out of capital and we need to make sure that the process is correct within the foreign exchange regulations of Nigeria.

Ferdi Moolman: Okay. I will take the question on data. Firstly, I think frequency plays quite an important role in this discussion. Although we have got a broad range of spectrum, we have a crunch on 3G spectrum. Whereas Airtel does not have crunch on that spectrum, it is a lot easier for them to reaffirm existing frequencies and use that existing frequency which generally is aligned to either voice, 3G or 4G. So that is what they have been using. Although we have been refarming spectrum, we need to be very conscious of the fact that we have a spectrum crunch, and we are carrying large volume of voice, much more voice than Airtel.





The 800MHz frequency we got is very fundamental because it loosens up and provides us more freedom for effective frequency use to be able to drive data usage. The other issue was that our pricing on the data has been at a premium compared to competition. So with us now getting 800MHz and the additional capacity that allowed us to mark our data pricing to market, we do believe this will assist substantially to drive subscriber acquisition especially data users. We believe we now have capacity available to deal with increased demand without a degradation in our services.

From marketing point of view on data, 3G market share on data sits with us whereas the 4G market share is not with us but we are very comfortable at this stage with 800MHz frequency that we obviously have a huge opportunity to grow substantially our 4G market share. In terms of overall market share on data, we still have the biggest market share on data in the market.

Kay: Thank you. There are no questions at this time. You may continue with closing remarks. Thank you.

Chima Nwaokoma: Okay, thank you every one for joining this call. We will make the transcript available on our website and if you have any further questions, please try to get through to me. Thank you.

Kay: Thank you for dialing into MTN Nigeria Half year 2019 result conference call. You may now disconnect.

[End]

