



**MTN Nigeria  
H1 2021 Results Transcript**

**Date: 2 August 2021**



## Chima Nwaokoma

- Good morning, good afternoon, good evening everyone, and thank you for joining this call. My name is Chima Nwaokoma, I'm your host. I'm responsible for Investor Relations in MTN Nigeria. With me on the call are Karl Toriola, our Chief Executive Officer; Mazen Mroue, our Chief Operating Officer; and Modupe Kadri, our Chief Financial Officer. On the MTN Group side, we have Thato Motlanthe, our Group Investor Relations Executive.
- Karl will provide you with an overview of the business performance and outlook for the remainder of the year, and Modupe will cover some of the financial points. Thereafter, we'll move on to the Q&A session.
- Please note that this call is being recorded and all participants are in a listen-only mode. If you want to ask a question, kindly indicate by raising up your hand and you will be enabled to speak. The chatroom is also available for you to enter your questions.
- Just to remind you, our results were announced last Friday, and a version of the announcement is on our website.
- Finally, please know that this call is scheduled to last for an hour.

With this, I hand over to Karl for the overview.

## Business Overview – Karl

Good afternoon everyone and thank you for joining us on this H1 results call. Thank you to Chima for arranging the call, and to Mazen and Modupe for being here with me as well. We made good progress in H1, strengthening the resilience of our business, and managing the impact of the COVID-19 pandemic; while enhancing support to our people, customers, and other stakeholders. In addition, we've announced our participation in national impact projects to mark our 20th anniversary and demonstrate our long-term commitment to Nigeria (our 20th anniversary comes up on the 9th of August).



#### RITC participation.

- The Board of Directors of MTN Nigeria approved the participation in the Road Infrastructure Tax Credit scheme. We refer to it as RITC. This is in response to the government's drive towards public-private partnership in the rehabilitation of critical road infrastructure in Nigeria.
- We intend to participate in the restoration and refurbishment of the Enugu-Onitsha Expressway. Conversations in this regard have already commenced with the government, the Ministry of Finance particularly, and further announcements will be made in due course.
- It's still too early to ascertain the exact cost of the project, however, in terms of the expected financial impact of the RITC scheme,
  - we expect full recovery of the costs incurred will be utilized as tax credits against company income tax payable.
  - We expect the single uplift equivalent of MPR plus 2%, as this qualifies as tax-exempt income. This will reduce our yearly effective tax rates and there are guardrails within which we'll be investing so it's not an open-ended investment.

#### Head Office Project

- In line with our desire to plant deeper and even more permanent roots in Nigeria, we have also initiated plans to commission a purpose-built, state-of-the-art MTN Head Office, designed to showcase the flexible working structures that our driving efficiency gains in our new normal working environment.
- This and the RITC projects are aligned with our wider commitment to environmental sustainability and the Head Office project will meet the highest global environmental standards. It goes without saying that these are multi-year projects which are planned with our cash flow in mind and bring financial benefits as well as stakeholder and ESG benefits. So, something like the Head Office, we will be constructing our head office, but on a long term sustained basis, we will not be paying leases, and we will be scheduling the construction and the completion of the Head Office to align with the expiration of the current leases that we have. The next of the projects I'll speak to is localization.

#### Localisation

- MTN Group has stated its intention to sell down up to 14% of its investments in MTN Nigeria subject to market conditions over the medium term. As a result, MTN Nigeria shareholders approved an equity shelf program in the last Annual General Meeting.



- This will facilitate a process to increase ownership of the company by more Nigerian retail and institutional investors - we will focus more on retail investors, and the transaction will be conducted in phases.

#### Network investment

- In terms of network investment, we continue to invest in an improved world-class network, accelerate the expansion of our 4G coverage, and provide home broadband.
- As part of our rural connectivity program, we plan to connect approximately 1000 rural communities to our network this year, with an additional 2000 communities in 2022.
- In the next two years, we're going to invest over ₦600 billion to expand broadband access across the country, in support of the Government's broadband plan.

#### CACOVID Support

- For CACOVID support, we extended our commitments to the Coalition Against COVID-19 known as CACOVID, with an additional ₦3 billion contribution over a two-year period, half of which we've already paid.
- This is in support of efforts to promote health and security of Nigerians as we navigate our way through the pandemic, and in line with our Y'ello Hope initiatives, through which we provided support to a broad base of stakeholders to a value of approximately ₦25 billion now in 2020, and that included free communications etc.

#### Operational Review

- In terms of our operational performance, our mobile subscribers closed H1 at 68.9 million subscribers down 9.9% from December 2020. This was due to the regulatory restrictions imposed by the ministerial directive in mid-December 2020 on new SIM sales and activation, which was lifted on the 19th of April 2021.
- Although the initial run rate of gross connections has been slower than the usual rate, due to new process requirements, we anticipate growth to normalize in the short term as more of our acquisition centres are certified for SIM registration.
- As of the end of July, we had 2,483 certified centres for SIM registration, while many other centres undergoing the certification process.



- Our voice revenue grew by 13.1%, benefitting from an 11.8% increase in traffic, our customer value management initiatives, and partly the lower base in comparative 2020 voice revenue that resulted from lockdowns during that period. You will remember that the lockdowns in Nigeria happened in the second quarter of 2020, primarily in April and May. The impact on voice revenue from the industry-wide suspension of new SIM registration was partly offset by higher usage in our active SIM base, as well as migration to a higher quality experience.
- Our data revenue grew by 48.3% driven by increased usage from the existing base, supported by the acceleration of our 4G rollout and enhanced network capacity following the acquisition and activation of an additional 800MHz of spectrum in Q1.
- Data traffic rose by 83% YoY, and the average MB per user rose by 50.3%. Smartphone penetration was up by 5.8 pp to 49.3%. Our 4G network now covers 65.1% of the population up from 60.1% in December 2020. We continue to invest in our network, accelerating the expansion of our 4G coverage and rural connectivity, as well as providing home broadband.
- Our Fintech business continues to gain traction with the expansion of our agent network and increased adoption of our XtraTime and our core Fintech services. Service revenue from Fintech rose by 48.2%, XtraTime accounted for approximately 95% of the revenue.
- Our registered MoMo agents increased by 121,000 in H1 2021 to more than 515,000. Transaction volumes increased by 280% approximately YoY to 55.6 million in H1 2021, and our active subscriber base is now more than 6.1 million, up 180% YoY.
- We remain optimistic about the PSB license as we continue to deepen our relationships with the Central Bank and the stakeholder ecosystem, demonstrating that we can play a critical role in the acceleration of financial inclusion in Nigeria.
- The recent announcements by the Central Bank about the Mobile Money Operations (MMO) licence, where Telcos will not be the lead initiator is not a new development. The MMO licence is separate from the Super-Agent and PSB licence. Each has its set of permissible activities. A PSB licence will enable us to pursue our fintech strategy, leveraging on our Super-Agent network. With the licence, we can provide all services permissible under MMO and more, which include deposit-taking,



investments in government securities, cross-border personal remittances, electronic wallets, etc.

- Our digital revenue rose by 61.8%, supported by our rich media and value-added services. The active base rose by 38% to over 3.9 million led by Ayoba, our Instant Messaging platform with more than 2.3 million active users.
- Our enterprise revenue business increased by 6%, demonstrating the continued recovery from the impact of the COVID-19 lockdown. Normalized growth excluding USSD revenue was 2.6%. We have made significant progress in the implementation of the new pricing framework for the USSD services to the banks, which incorporates the recovery of outstanding USSD debt. We have also arrived at a revised commission structure with our banking channel partners, which we implemented in July 2021 as part of our cost-efficiency drive.

#### NIN registration update

- The deadline for NIN verification has been extended for the seventh time to 31<sup>st</sup> of October 2021.
- We are actively supporting the government's NIN enrollment program with more than 380 points of enrollment active across the country. We've acquired over 40,000 enrollment devices which are being configured for this purpose.
- We are working with the National Identity Management Commission (NIMC), to complete bulk verification of the National Identity Numbers, (NINs), collected. We supported NIMC with equipment to address capacity challenges limiting the verification process.
- As of the 26th of July 2021, approximately 37 million subscribers have submitted their NINs, representing 54% of our subscriber base and 65% of service revenue.

I will now hand over to Modupe, our CFO, to cover some of the key financial points, after which I'll touch on the outlook for the year.

#### Financial Highlights – Modupe Kadri

Thank you, Karl.

We recorded growth across key revenue lines, resulting in strong top-line revenue growth of 24%.



- Voice and data remain the key drivers. Although voice contribution to service revenue continues to decline (61% vs 68% in prior year) as data share of service revenue continues to accelerate (29% vs 24% in prior year).
- On the cost side, we continue to pursue and realize efficiency through cost discipline and enhanced digitization of our operations. However, due to accelerated site rollouts, the effects of Naira depreciation on lease rental costs, and COVID-19 related expenditure, operating expenses increased by 24.6%.
- Our continued ability to drive operating leverage helped to drive EBITDA growth. As you could see, there was a 1.4 percentage points expansion in our EBITDA margins to 52.7%.
- Our capital expenditure in the period rose by 39.1% to ₦186.4 billion. You should bear in mind, just as Karl pointed out, that last year, we had the COVID-19 lockdowns, so there was a slow pace in site rollout, which has now accelerated with economic recovery. We saw a slight increase in recovery at the end of Q4. We recorded a healthy free cash flow of ₦230.8 billion, up by 19.6%. Despite the 50.6% increase in our core capex, excluding the right of use assets, to 115 billion, our capex intensity remains within our targeted levels at 14.5%.
- We frontloaded, our capex budget for 2021. What that just means is that we accelerated our 4G rollout for H2 to H1. As a result, we surpassed our initial target of 65% population coverage by the end of H1. So, we are geared towards reaching a 70% coverage by year-end. To complement the minimal supply foreign exchange (fx) from the fx markets (you're all aware that Nigeria is in fx scarcity) we continue to collaborate with our selected financial institutions through confirmed trade lines and import facilities to accelerate foreign exchange based capex investments.
- From a funding perspective, our funding and liquidity remain well managed, supported by strong cash flow and approved headroom facilities.
- We will continue to focus on local currency funding, which is currently at 78%, To further buttress this, we recently announced the successful issuance of our ₦110 billion Series 1 seven-year 13% fixed rate bond, which was a first for a telco and the largest corporate bond issuance this year. Just to remind you, we have a ₦200 billion shelf program, of which we've only utilized ₦110 billion.



- Consequently, we recorded a 9.8% reduction in our net finance costs, resulting from the low average cost of fund, in line with the objectives of our bond issuance. Overall, we recorded a profit before tax growth of 54.1%, which is also coming out of the softer base of H1 2020, due to the impacts of the pandemic. And of course, we declared an interim dividend per share of ₦4.55k, which is 30% up same time last year.
- Finally, our progress towards achieving greater business resilience is reflected in the upgrade, by Global Credit Rating (GCR), of our national scale long-term issuer rating to AAA, and affirmation of national scale short-term rating of A1+ with a stable outlook. In addition, GCR upgraded the national scale long-term rating of our ₦110 billion Series 1 senior unsecured bond to AAA with a stable outlook. All these put MTN Nigeria on the highest possible GCR scale for short-term and long-term ratings and provides a solid platform for growth.

So, with this, I'll hand over back to Karl to give the outlook, and thanks for your time.

### **Outlook – Karl Toriola**

Thank you very much, Modupe.

- In the remainder of the year, we have a clear focus on driving our 4G network, both in capacity and coverage, and rural network expansion, as well as positioning our fintech and digital businesses for accelerated growth in order to unlock their full value and potential.
- We will continue to sustain our expense efficiency program to strengthen our financial position and support margins. We maintain our service revenue guidance of double-digit growth ahead of inflation. However, we anticipate that the base effects will partly influence our commercial and financial trends. Although the availability of foreign exchange remains a constraint, we strive to minimize its impact on the business.
- We are driving a positive cultural change across the organization to enhance productivity and further improve performance. We maintain a strong focus on deeper, proactive, and inclusive engagements to drive shared value for all



stakeholders while ensuring that our activities align and can contribute to the government's developmental agenda. You will see that through our head office and RITC projects, and through our CACOVID donations as well as other activities that we're undertaking in this phase so that we have the social licence to operate peacefully in Nigeria.

- While we continue to pursue a new strategy, which we call Ambition 2025, taking advantage of MTN existing platforms and assets, we are well-positioned to accelerate long-term growth.
- Finally, emerging trends indicate a steady recovery in economic activity. However, given the ongoing uncertainties presented by the new wave of a COVID-19 outbreak (i.e. the Delta variant) and the NIN registration exercise, we remain mindful of changes to the operating environment as the rest of the year unfolds.

Thank you very much. Back to you, Chima.

### **Chima Nwaokoma**

Thank you, Karl and Modupe for the update. We will now move on to Q&A. As I mentioned earlier, if you have a question, please indicate by raising your hand and we will enable you to speak.

### **Chima Nwaokoma**

The first question is from Odayar. Please go ahead.

### **Odayar P. (Preshendran)**

Hi everyone. Thank you for taking the questions, and congrats on a good set of results in your Q2. I'm surprised because normally Q2 and Q3 are usually tougher quarters for you guys, but good acceleration from the last quarter. I've got three questions to start off with, and then I'll join the queue afterwards. I saw the update from MTN Group about, I think R4.7 billion of the outstanding debt that was repatriated since Q2 or during Q2, should I say?

Can you just give us an update on the FX liquidity in Nigeria, and how long it would take to get the balance paid to the Group? On your interest or net finance costs, I noticed that has come down a bit and you've moved I think about 95% of your debt to local currency debt. So, just want to know, what is the interest rate that you've got on this local currency debt, and if that is the main driver for the lower interest charge?



And then just the last one from me is on your total expenses? What percentage of that, is in local currency? not just your power leasing cost, because I know that it's got a portion that's linked to the US dollar but your total expenses, what is the local currency versus hard currency component?

Thanks very much, gentlemen.

### **Karl Toriola**

Okay, I just like to point out that all questions relating to upstreaming will be addressed at the MTN Group annual results. Modupe over to you.

### **Modupe Kadri**

The first question was on the net finance costs. So, there are two things about the finance cost; one is that we have fixed rate instruments, which is what the bond represents, and we have floating rate instruments, which is what the term loan represents. We had two facilities initially, ₦200 billion each from the banking consortiums, and those came in at floating interest rates. Post-COVID, interest rates started to tick downwards. And that's what reduced the finance costs to a certain extent with a huge swing from H1 of 2020 to H1 of 2021.

So, the other thing we just need to be mindful of is that the interest rates are going up post-COVID recoveries. But you will not see that impact until maybe in H2 of 2021 or possibly H1 of 2022. However, that's what brings about the strategy of the bonds - to go for a fixed rate, 13%, 7-year instrument, so that will help crystallize those costs.

In terms of what percentage of our cost is in foreign currency, two things: even though we say that some are in foreign currency, most of the costs are still paid in Naira. So, the real foreign currency expenditures, when you look at the major component which is the towers, though with a foreign cost component, are paid in Naira. So, on an aggregate 78% of our cost is in Naira terms, and 22% is foreign currency.

### **Karl Toriola**

We shall take Tajudeen next?

### **Tajudeen Ibrahim**

Yes, thank you very much. Congratulations on those sets of strong numbers that you delivered. I have one or two questions to ask. The first is around the EBITDA margin. You know, for the full year, are you able to guide to the side of EBITDA margin that you can defend in 2021? It is clear that in the first quarter, you had a stronger EBITDA margin



compared to what you reported for the second quarter of this year. So, how should we imagine the margin will play out over the next two quarters specifically FY21? That's the first.

The second is around your mobile money business. Can you shed a bit of light around the composition in terms of , the airtime credit and also the other product in that space, and then, in terms of the PSB license, can you speak more to what is delaying it, because it is seeming to me like it is taking too long, in order for you to get that licence? So for now, those are my questions. Thank you.

**Karl Toriola**

Okay. Modupe will answer the question on EBITDA margin guidance for the rest of the year. On mobile money business, the composition, Mazen will give you some insights into that, and I will respond on PSB license.

We do not have a firm timetable for the issuance of a PSB licence. As you're aware, we've applied to the Central Bank and it's firmly in their hands. However, one of the primary activities that the management team has focused on this year is stakeholder management and relationship building, to shift the perception of MTN from being perceived as a foreign value extracting entity to an indigenized Nigerian company that's investing in a sustainable manner in the future of Nigeria. This is clearly indicated by the projects and programs which we have spoken to, with very careful consideration to shareholder returns, cash flow, etc. This is gradually changing the narrative in Nigeria, and that's a long-term journey.

We believe we've come a long way. The resolution of the USSD banking dispute, which has happened, about the channel and their historical debt was actually driven in its main part by two players, the Central Bank Governor and the Honorable Minister of Communications and Digital Economy, and we really have a lot of support from the Central Bank Governor. So, we believe we've made significant advancements in our relationship-building and trust-building with the Central Bank.

We remain optimistic that over the medium term, we will get a PSB license, we have communicated in a respectful and humble manner, the kind of value that we as the largest mobile operator in Nigeria can bring to the acceleration of financial inclusion in Nigeria, and we think we are being heard. Can I give you a firm timeline? No, I can't. But we think we're taking one step after the other, in the right direction, and we think the announcements of today around the RITC, our support of CACOVID, building a head office



to show that we're here to stay and we are not leaving this market under any circumstances, is a very clear indication of our commitment which has been very well received by the Government of Nigeria.

Finally, I'll point out that slightly over a month ago, the Group CEO, the Group CFO, and of course myself and the MTN Nigeria Chairman, visited His Excellency, President Muhammadu Buhari, and we were very well received. It was a courtesy visit, it wasn't to resolve any crisis, and that's also an indication that we're headed in the right direction in terms of stakeholder management and relationship-building. Thank you.

### **Mazen Mroue**

During the first half of the year, our MoMo business was focused on enhancing the product portfolio and channels to be able to compete with the best players. We launched several products including the cardless solution for cash withdrawal as well our MoMo agent App. So, our primary focus is continuing to expand the agent network, leveraging the Super-Agent licence, and more importantly, increasing the number of active agents in the markets. We have exceeded more than half a million registered agents and we see more than 100,000 active agents in a month.

So, on the composition, our core fintech services account for almost 90% of the transaction volume, while XtraTime remains our volume driver. The services include cash to cash, bill payment, data and airtime vending, assisted deposit and withdrawals. So, these are the main component of our fintech services in Nigeria at this stage.

### **Modupe Kadri**

Our EBITDA margins were enhanced by a number of factors, and we just need to put them into context. The top-line revenue growth at 24% was a strong factor, and that's because of a low base in 2020. So, the growth rates are going to slow down, YoY, based on that uplift.

Having said that, you also recall that we had the NIN registration issue that had a positive impact on our cost of sales because of the regulatory restriction. So, in terms of the guidance, well, management has taken a firm position to enhance the EBITDA margin through different cost efficiency programs that were put in place. Our aspiration is to continue to maintain the current trajectory where possible. I think the only things that could impact our margins is our site rollouts, and maybe if there's going to be any currency depreciation. But I'll just say that it's headed, on the average, in the right direction.



### **Tajudeen Ibrahim**

Thank you. My follow-up question will be on your digital strategy. Can you speak to your aspirations around your digital products? Would I be right to assume that, that business could be as large or close to like 50% as large as where your data revenue currently is if we take a five-year view at that business? And that will be all from me, thank you.

### **Karl Toriola**

Okay, our digital strategy is clearly aligned with Ambition 2025, where we want to be a platform business. We believe that we hold a unique set of assets - the customer base knowledge and understanding, a pipe to deliver services to customers - to build a digital business. Your aspiration of being half of where our data business is today is actually a good one, we're not committing to it. If we can hit that, I think we would have done very well, but it's a lot of heavy lifting.

But we're in a unique position to deliver content of every variant and a platform business that combines or aligns with our fintech business through our Ayoba system. We have a good understanding of our customer behaviour, and we own the customer. So, we're in a unique position, but it's something we have to leverage on, and it will take a lot of hard work.

The initial priorities have really been focused on two or three things. One, getting our fundamental connectivity business right, which is why we focus so much on the acceleration of our 4G, and having the premium quality network in the country as well as stakeholder management. As we have built that advantage, and continue to sustain it, there's going to be a lot of focus around our fintech and digital businesses as well. Thank you.

So, I'll move on to Kayode Eseyin.

### **Kayode Eseyin**

Okay, good afternoon. Congrats on your H1 performance. I have two questions and the first one is on the, will I say, squabble with DMBs, that's Deposit Money Banks in the country. There seems to be a resolution with the introduction of the flat rate for USSD charges in that space, but we haven't heard anything on the payment of outstanding debt, which, if I understand was to the tune of ₦40 - ₦45 billion being owed to MNOs. So, my



question is, has this been paid? Or are there maybe conversations or stuff in the pipeline as regards resolving this?

Also, still on the DMBs, how do you see this story or the relationship panning out, given that I think in your Q1 conference, you give a guidance of 50% of your airtime recharge coming through these channels. The second is on BDC and FX liquidity, and as well as your dividend repatriation. There was a recent report from the CBN, that they will not be issuing new licenses for BDC, and even those with BDC license will not be getting FX. So, my question is, how do you think that will impact your operations? Your CFO earlier gave a guidance of 22% of your cost being a foreign currency source? So, I'm thinking what the impact of the even tighter FX liquidity issues will be on operations.

Also, still on you at your last conference calls, you spoke about 250million dividends being unrepatriated to the HoldCo, that's the parent company of MTN. So, has there been any update in the fx space in terms of dividend repatriation? Also, there are talks of MTN Group willing to diversify shareholding to more Nigerians, and I'm thinking, there'll be a need to repatriate some of these sales. So, how do you think the fx story will pan out, considering these huge repatriation requirements, vis-a-vis the BDC ban?

### **Karl Toriola**

Okay, I'm going to take a few questions and leave the CFO to answer a whole lot more. The issue with the Deposit Money Banks, is over. There was a ruling, and an agreement has been signed between the regulators and there's a tariff of ₦6.98k for all new USSD transactions, which will be deducted from a customer's bank account. The customer must agree and accept to use the USSD channel for the amount to be deducted. Of that ₦6.98k, ₦5 is for new transactions, ₦1.98k is to recover the outstanding debt. We implemented at the end of June, though there were a few technical issues but now we're operating smoothly. We've started invoicing and have started receiving some payment from the banks.

In terms of the relationship with DMBs, about 50% or more of our recharges comes through electronic recharge channels. Now, you all know how aggressively and quickly the fintech industry is accelerating in Nigeria and globally. That means that the channels to recharge are diversifying quite quickly. So, as fintech continues to grow, there'll be more and more options for people to recharge on their bank accounts. Electronic recharge remains a key part of our strategy and will continue to grow. So, there'll be a much broader diversity of the channels.



Modupe will talk about the Bureau de Change impact on MTN Nigeria's liquidity, but let me just point out the Group results are coming out soon. We cannot speak extensively about the upstreaming until they come out formally. So, we'll leave them to speak on that when they release the results. On the divestiture by MTN Group, they will retain, at the very lowest, 65% and it's not a search for additional capital or any form of funding. It's just to include more Nigerians in the MTN Nigeria's value creation. We have always said that we will do so when the economic conditions are right. We are firmly moving forward with it, and I think we're getting enough support from the institutions of government to be comfortable that by the time we pull the trigger, we will not be in an awkward position. So, over to you Modupe, on the BDC liquidity. Thank you.

### **Modupe Kadri**

First and foremost, BDC is not a line we use for our operations. So, that should not affect us. More so, the Central Bank is clear in their resolve to try to, you know, clear the backlog based on what they can do. But from where we sit, how does fx impact our business? It does mainly through capital expenditure (capex) and our ability to fund the capex. Now, given the scarcity of FX in the market, we use a combination of instruments, including trade lines and letters of credit (LC) to bring in the critical equipment and of course, the LCs qualify for fx allocation at the appropriate time. So, there is a backlog which the CBN has acknowledged, and we're conscious of that. And then we also come up with this construct where we have some hedging between the timing of the maturity of those trade lines, and when, hopefully, liquidity should resume in the markets. So that's what we do in the short term, and we must have mentioned that we've fully financed the H1 2021 capex plan. So, we are just waiting for the equipment to come in.

We've actually started advanced capex preparations for FY 22, just to make sure that the growth and the opportunity we see the marketplace is taken care of, and to also give some comfort, 78% of our loans are local currency-based and only 22% is foreign currency-based. And the key to note is that when you look at the financials, local debts sit at about ₦453 billion of which ₦270 billion relates to floating rates instruments, ₦110 billion is the seven-year fixed rate bond, and the rest are commercial papers, which are short-term fixed rate instruments.

So, with that mix, we should be able to hedge against the interest rates fluctuation to a large extent, and more importantly, have the wherewithal to finance capex plans. So, in a nutshell, BDC ban will not impact us because we don't use those lines. And in terms of our ability to meet our capex requirements, we are ahead of our plans.



### **Chima Nwaokoma**

The next question is from Myuran Rajaratnam.

### **Myuran Rajaratnam**

Thank you. Well done to the team. It was an excellent quarter, and it's very impressive. I've got a couple of questions. The first one is, you know, the COVID impact is, I suppose, is a question, you know, because in the first and second quarter of last year, when the first wave hit, there was somewhat of an impact on the numbers and in the ability to do business. It seems like subsequent waves and even the current waves don't have such an impact on the business. And just some of your thoughts and learnings why that's the case. And it's interesting to see at least.

The second one is the question on your 80/20 or 70/30 principle where 70% of your revenue comes from 30% of your subscribers or so. Now that you are seeing more and more data growth, you know, data revenue growing almost 50% and traffic at 80%, if I remember correctly, is that becoming less of a 70/30 principle in any direction? Or is that still being maintained?

And the last one, Karl, is that you know, thank you for pointing out the different sort of licenses that are available for fintech on the CBN website. Perhaps just a little bit more colour as to, you know, why is there a different license for MoMo versus PSB. I know you talked about the fact that the PSB licensing allows you to do all the things that you planned on, was there any changes that you didn't expect that you saw on these notices? I leave it there for now. Thanks.

### **Karl Toriola**

The primary difference in terms of COVID, last year, was that there was a physical lockdown in Nigeria in Q2 2020. So, there was restriction of movement, and what we saw was an impact on people who earned a daily wage and voice revenue. We did see a rise in data revenue, but I don't think it quite compensated for the voice revenue decline that we saw. There is no physical lockdown now, in Nigeria. So, a lot of people, I would say at the bottom of the pyramid that survive on a daily wage, can continue to go about their business and have enough money to make phone calls. That's the primary difference that we see.



I do believe that the 70/30 principle still stands even with data. You can see that in the handset penetration and the behavior associated with handsets; the higher the handsets, the higher the costs spent on data. So, if you're talking about an iPhone, 9, 10, 11, Samsung, S8, etc., you will always see that they have a higher consumption because it's directly connected to the spending power of the customer. And remember that it's not all of our customers that have LTE capable handsets, many are still on 3G only.

The changes in the PSB licence were just prudential changes. There was no significant difference in the capabilities that you have in a PSB licence. It was almost strictly prudential obligations: the type of people that can sit on the board, key people needed in the management team, etc. In terms of the operating license itself, there was really no change on that.

Mazen will talk about the spread or the 70/30 rule around data. But in terms of impact on the business, look, we're still in the early days of a delta variant of COVID-19. Thus far, West Africa doesn't seem to have had a massive wave that has really started to knock out people. But I will say that the infection rates in this second and third waves, as the case may be, are rising in Nigeria. So, we are very cautious around this, which is why in the end of my statement, I said we continue to be cognizant of the uncertainties presented by COVID-19. I can't tell you there's a better resilience in Nigeria than other places. We've provided massive capacity through the acceleration of our rollouts on data to cater for migration of voice to data and work from home. We think we're in a good state, and we have a superior network in every state of the country.

### **Mazen Mroue**

We have about 69 to 70 million total subscribers, out of this, around 55 million are doing data sessions per NCC data. But only 32.5 million are active data subscribers who are consuming more than 5MB a month. So, our focus is on converting, as much as possible, incidental data users on our base to active data users. That's a key priority for us.

Regarding the 70/30 contribution with respect to data, we look at it from a different angle. First, from segmentation point of view where the main contributors are the high value customers. However, the second (medium value customers) and the third segments (enterprise customers) are also continuously increasing their contribution. So those are three segments that are driving our data adoption in Nigeria.



### **Karl Toriola**

We move on to Tunde Abidoye.

### **Tunde Abidoye**

Good afternoon, gentlemen. I'm congratulating you on your very strong results. I have just one question. Your voice revenue grew strongly when you look at it on a YoY basis, and it's quite remarkable, considering that your subscriber base was down by some subscribers, quarter on quarter, can you provide as to what segments of your customer base is driving the growth, and what trends you're seeing within each customer segment? And do you see this kind of growth going forward?

### **Mazen Mroue**

On the revenue, especially during the outbreak and lockdowns, we saw a slowdown within the bottom of the pyramid subscribers, who did not have enough funds to fund their wallets. We saw increase in usage by the medium-value, and high-value customers. A big portion of the high-value segment switched part of the expense from voice to data, during the lockdown. So, marginally, the medium-value to high-value are really those segments leading the voice contribution at this stage in our business.

### **Chima Nwaokoma**

The next question is from Abbas.

### **Irfaan Abbas**

Hi MTN management, well done on the results, it was an excellent result. I just wanted to confirm status of the spectrum licences, the 900 and 1800MHz. Has that been renewed? And what was the estimated price tag? And then just my second question, I just want to understand better the competitive dynamics. I mean, it seems like Airtel Africa has been gaining market share of late and if I look at the results, they grew faster on revenue versus MTN Nigeria. Can you maybe just comment on what are they doing differently? Why are they gaining market share and growing faster? Thanks.

### **Karl Toriola**

On the spectrum renewal, an offer has been made. The offer has been accepted, and we believe firmly that the NCC is going through its internal processes towards the issuance of the license. We're cognizant that there is a finite timeline and if you look at the regulations, once we've applied within the deadlines, we're in good stead. The NCC has to go through its entire process before they issue us the final letter. So, we believe we're in good stead



on both the UASL and spectrum licences. We are in good regulatory standing with the NCC and will receive the formal notification of the renewal of the license in due course.

### **Mazen Mroue**

In terms of subscriber market share, we've gained market share during the last six months. Airtel is aggressively rolling out in new areas where they were not covering before, where MTN is already present. So, that's what's adding to their growth rate at this stage.

### **Karl Toriola**

Yeah, maybe just a slight addition and this is something that's going to be a recurring theme going forward. Airtel is working off a significantly lower base than us. So, if we see, a ₦50 billion increase in revenue, and these numbers are not accurate, it might represent a 3% increase in growth for us. However, if Airtel sees a ₦20 billion increase, it could be a 15% growth. I'd suggest that to get a better picture, first, look at what Mazen is saying. Second, look at the absolute figure in Naira, in terms of our voice revenue growth. Third, there's a different story around data revenue. We've really accelerated on data and you will see that driving a lot of the future performance. Finally, if you look at NCC statistics, and I think also Airtel's numbers, you'll see that on market share we've gained moderately in the past two quarters or so. Thank you.

### **Mazen Mroue**

What I would suggest is that you also look at the trends of data and voice. Then you will see that MTN Nigeria's data revenue for the last eight quarters is growing at a higher rate than the competition.

### **Chima Nwaokoma**

The next question is from Tracy.

### **Tracy Kivunyu**

Thank you very much, and congratulations on a great set of numbers. My first question will be leading on from the question that was asked earlier. So, what is the differential in data pricing specifically for 3G, 4G, between Airtel and MTN? And second, what is the smartphone strategy, considering the COVID environment that we're in? Third, there seems to be a spike in effective tax rates going quarter on quarter I'm talking to Q1 2021 versus Q2 2021. So, what informed that? And my last question will be regarding the USSD disputes. Now that we have a way forward in terms of recouping some of that outstanding



debt for the banks, how long do you anticipate it will take to fully recover the amount?  
Thank you.

**Karl Toriola**

I'll answer the last question first. The USSD dispute, as I've said, certain percentage of what we're charging now is to recoup the historical debts. There would be changes to customers' consumption or use of the USSD channel with the implementation of the new pricing model, which would take a few months to normalize before we could predict how long the debt recovery is going to take. For sure, it's going to take a few years. I can't give you a precise number because that behavior is still fluctuating. As people see they have to opt-in on the first instance for one year to be charged for the USSD channel, they may initially decline, but after a while they get right back to it because they're going to use banking channels, regardless. But we don't have a clear model yet. So, it will take a few years to recover the historical costs. But at least we're on the path to do that.

**Mazen Mroue**

On the data pricing, we believe that there is no significant gap between us and the competition when it comes to data pricing. If you recall, almost two years back, we took a decision and we revamped our data tariffs in line competition. This follows the decision we took three years back to accelerate 4G rollout in the market. On smartphone, our focus is on having low cost 4G device in the market. We continue working with MTN Group devices team on this subject to ensure that there is affordable 4G devices available in our market. We also continue working with the distributor of devices in the market and incentivizing those distributors who are our partners to activate their devices with bundles from our data services. In addition, our focus is to continue to push aggressively our MiFi and HyNetflex routers. They also contributed to the data growth in terms of traffic volume that we saw during the last 12 months. Thank you.

**Modupe Kadri**

On the ETR, effective tax rate, indeed, there was a spike from Q1 to Q2. That was mainly as a result of some re-categorization of some fixed assets in the asset register. We did an ERP implementation earlier this year, and took a view on some of those categorizations, which we've now aligned. So, that resulted in a slightly higher ETR, in Q2 versus Q1. But the good thing is that they are consistent with the Group accounting policy. Thanks.



### **Chima Nwaokoma**

We will now take the last question from Jonathan.

### **Jonathan Kennedy**

Thanks for the opportunity. Just wanted to ask you quickly, on data volume growth, that's kind of 83%, you've got new spectrum that is being put into use in the quarter. Do you expect that kind of growth to continue for the rest of the year? It looks to me as though you know, data revenue growth is accelerating. So, just trying to understand, you know, why you haven't upped your guidance perhaps on revenue, given this performance in the first half? Is that because you expect tapering off in next year's numbers and the year thereafter? Or, you know, why are you so conservative on the revenue number?

### **Karl Toriola**

Data revenue growth has been accelerated by a multitude of factors. One of them was the 800 spectrum, second was an acceleration of our LTE coverage, third was frontloading a lot of our capacity rollout to H1 2021. It doesn't suggest that we expect H2 to be timid. It's still going to be good, but it's hard to predict to what extent that will evolve. We are positioning ourselves to be the network of choice, and we are pretty much marked to market in terms of pricing. So, we're competitive in terms of pricing, but we're investing intelligently and aggressively ahead of the curve and that's going to give us an advantage in terms of growth. But the endpoint is we still maintain our guidance as it stands, and Modupe you have anything to add to the guidance question?

### **Modupe Kadri**

I think it's about what you've said. However, given the ongoing uncertainties presented by the new wave of the COVID-19 outbreak, the NIN registration exercise, FX scarcity and potential devaluation that may happen, we remain mindful of changes to the operating environment as the rest of the year unfolds. Thanks.

### **Jonathan Kennedy**

If I can just follow up with one more question. The USSD debt, did you mention how much you've recovered of that?

### **Karl Toriola**

We've just started the recovery. The first set of invoicing was for the month of July so there's nothing material to report, and as I said, normalization of the behaviour of customers is going to take a while to pan out. But, at least, we first put a stop to a build-



up of any additional debts so that all USSD activities from now going forward are charged and then a part of that charge is the recovery of the debt. There's nothing to report materially other than we've stopped, and the new process is established, the technology is in place, and so we are going to report recovery going forward.

**Jonathan Kennedy**

Great, thanks.

**Karl Toriola**

Thank you, everyone, for joining. We really appreciate it. We believe we've given you a fair and balanced view of the business, and we're also extremely happy and encouraged by the H1 results. The business has done well, and I'm very grateful to the staff and the team. Thank you.

**Chima Nwaokoma**

Thanks, everyone. If you have further questions, feel free to reach me via email. We'll make the transcript available on our website. Thank you and stay safe.

END OF TRANSCRIPT