



MTN Nigeria
Q3 2022 Results Call Transcript

Date: 31 October 2022



Introduction

Chima Nwaokoma

- Good day, everyone. Thank you for joining this call to discuss MTN Nigeria's results for the nine months that ended on 30 September 2022. I trust everyone is keeping safe. I'm Chima Nwaokoma and responsible for Investor Relations in MTN Nigeria.
- Karl Toriola, CEO; Modupe Kadri, CFO; and Hassan Jaber, COO, are with me on the call. We also have Thato Motlanthe, our Group Investor Relations Executive joining us.
- Karl will provide you with an overview of the business performance and an outlook for the remainder of the year. Modupe will cover some of the financial points. After that, we will move on to Q&A.
- 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 your hand, and your line will be enabled for you to speak. The chat function is also available to enter your questions.
- I would like to remind everyone that our results were released last Friday, and a version of the release is on our website.
- Finally, please note that this call is scheduled to last for an hour.

With this, I'll hand over to Karl. Karl, over to you

Operational Performance – Karl

Good afternoon, everyone. It is good to see all the usual suspects online, Adewale, Brook Cuddy, it's nice to speak to all of you once again. This is the end of Q3, we are pleased to present again to you, a strong set of results which really demonstrates our consistent operational leverage that we are applying to this business with successful results.

Our performance was against an increasingly challenging operating environment due to the strong headwinds caused by the ongoing global macro-economic and geopolitical volatility, which, of course, placed increased financial pressures on our customers and on our business.

Notwithstanding the challenges, we continue to sustain our investment in the coverage and capacity of our 5G network, and in the launch and rollout of 5G sites, focusing on capital and expense efficiencies, through our value-based approach to capital allocation. This has underpinned the resilience commercial and financial performance for the period.



- Our **mobile subscriber** base increased 9.7% YoY to 74.1 million, supported by an acceleration in gross connections. Broadly in line with our expectations, we recorded an increase in churn in Q3, which was largely offset by the growth in gross connections. As a result, there was a marginal quarter on quarter decline in mobile subscribers by approximately 57,000 in Q3. Let me remind you, of the customers that we suspended as a result of the directive on April 4th on NIN registration, the ones that didn't perform any activity would have churned. That's why we saw that churn. However, we anticipate a moderation in churn in Q4, which should support base growth, broadly in line with our expectations for FY 22.
- I'll move on to **active data** users which increased by 14.6% to approximately 38 million, and 1.2 million active data users were added in Q3. Our continued drive for data conversion of the new and existing base supported this, in addition to enhanced quality and coverage of our network, with special focus on 4G. Demand for data continue to rise in MTN Nigeria, with data traffic up by 70.6% YoY and data usage, which we refer to as average MB per subscriber, growing up 52.2% to 6.6GB per subscriber.
- Regarding our **fixed broadband** penetration, we are very pleased with the progress there. We added 204, 000 subscribers in Q3 bringing our total user base to over 1.1 million, for our fixed broadband subscribers. In the quarter, we continue to advance our home broadband strategy with the commercial launch of our 5G network, deploying 5G routers that deliver up to four times 4G download speeds, actually at peak periods, up to 20 times 4G download speeds.
- We've rolled out 218 5G sites, providing coverage in seven key cities across the 6 geopolitical regions in Nigeria, in line with the coverage obligations. We plan to deliver up to 600 5G sites by the end of this year, extending our coverage to more cities in the country, but more importantly, deepening our coverage capacity and penetration in the cities where we already are and where the opportunities exist. Our 5G network puts us at the forefront of delivering technological advancement in this country. We have, once again, asserted our leadership in the telco space in Nigeria.
- Our total active **fintech** subscribers was 11.2 million for the period, of which approximately 16% are MoMo wallet users. The active MoMo wallet users were down about 29% to 1.8 million in the quarter, while registered wallet users increased by more than two times to 9.9 million wallet users registered.
- During Q3, we moderated commercial activities and prioritised the enhancement of our control system. This has resulted in short-term reduction on our active base in Q3, as the Nigerian Inter-Bank Settlement System (NIBSS) interface has been temporarily suspended as we strengthen our control systems. We expect a more sustainable growth of active



wallets once we reopen NIBBS in Q4, and drive initiatives to restore our base. Our registered MoMo wallet users increased by more than two times to 9.9 million in Q3, demonstrating the underlying momentum in the ecosystem.

- I'm pleased to inform you that we now have a MoMo PSB CEO designate, Eli Hini. Eli Hini joined us from Mobile Money Limited, Ghana, that's the largest mobile money business in Ghana, and the largest mobile money business in MTN Group. It is a subsidiary of MTN Ghana, and he was the CEO there and has been serving in that business, building it from the bottom up, for quite a number of years. He's probably our most experienced mobile money operator on a large scale. He was instrumental in setting up mobile money services and growing MoMo business in Ghana. I reiterate, he's CEO designate, the process for his full appointment is underway.
- We continue to drive the penetration of our digital products reaching approximately 10 million **digital** subscribers, up 66% YoY. This was led by Ayoba, our instant messaging platform, with about 5.1 million active Ayoba users, up 75.5%.
- Our strong commercial momentum drove broad base growth across all revenue lines, demonstrating the underlying strength and resilience of the business. We recorded a 20.6% increase in revenue, marginally below the general inflation rate, but in line with our medium-term guidance, and this is in spite of the challenges of the NIN registration directive.
- Our EBITDA rose by 23%, and our EBITDA margin by a pp to 53.6%, in line with our medium-term range. This demonstrates very strong operational leverage. Modupe will cover details on EBITDA and other financial matters in his section.

Recent Developments

- In terms of recent developments, I'll start by covering our progress and the trends we have seen in implementing the NCC directive on NIN barring since April 2022.
- As at 30 September 2022, about 10.5 million of those initially restricted numbers submitted NINs for verification, of which approximately 3.8 million have been reactivated as a result of successful verification.
- The average daily gross connections range was 48% above the pre-directive level, partly driven by the cohorts of subscribers who were initially restricted but opted to obtain a new SIM.



- The growth in gross connections, to a large extent, helped to offset the impact of churn on the subscriber base. Combined with the increased usage from the existing user base, this has supported an acceleration in the service revenue growth in Q3.
- We've seen a steady recovery in total voice traffic, as the affected subscribers are reconnected to resume voice calls, either through verifications of their NINs, or through new connections which they've made. These connections continue to ramp up significantly above the pre-directive levels. However, traffic is still below the pre-directive levels by approximately 5%. We are, however, optimistic that the trend will approach normalisation in Q4.
- Our data traffic has increased steadily, up approximately 14% above the pre-directive level. This supported by the switch to data by the affected subscribers, that is switch from voice to data, although it is yet to compensate for the decline in voice revenue of the restricted subscribers.
- We anticipate that the interventions we've put in place will continue to yield positive results and bring trends to more normal levels in Q4 2022.

Tariff Increase

I'll now speak to the tariff increase. You will recall that ALTON had made a case for a tariff increase in response to the rising cost pressures faced by the industry and businesses at large.

- The NCC approved a 10% increase in tariff on voice and data subscribers, and we commenced the implementation of this in slow phases from the middle of September, starting with the voice plans. However, we did receive a directive from the NCC, earlier this month, to suspend the tariff increase and we completed the rollback, as instructed, in mid-October.
- The impact of the tariff increase was minimal in the Q3 results due to the timing and phased implementation. We, however, continue to engage the Regulators on the price increase to cushion the effect on the challenging operating environment and support with continued investment and long-term sustainability of the industry, and we are optimistic that we will make headway in this path.



Flood Incident

I'll now speak about the very unfortunate flood incidence in Nigeria.

- The impact of the flood incidence has affected many communities across the country, and we share our deep sympathies with them. However, the impact on our business has been relatively minimum. So far, about 145 sites were affected by the flood, 40 of which have already been restored. We've triggered our disaster recovery plan, and efforts are being made to recover the remaining sites.
- The affected sites have not resulted in any material impact on decline on network quality. However, we will continue to monitor the development to ascertain the full impact on our operations.

With all of these said, I'll now hand over to Modupe to cover some of the key financial points, after which I'll touch on the outlook for the year. Thank you.

Key Financial Points - Modupe

Thank you, Karl.

Good afternoon, and thanks for joining us on the call today. As Karl mentioned, our strong financial performance was achieved against the strong headwinds.

Notwithstanding the challenging conditions, we recorded a solid financial performance with service revenue growth and EBITDA margin expansion in line with our medium-term guidance. If we do recall, our medium-term guidance is 53 – 55% range.

- We continued to realise cost savings through our expense efficiency program and remain disciplined with our capital allocation.
- Our operating expenses increased by 15.1% YoY, same for Q3 2021, mainly because of the Naira depreciation, higher dollar CPI on lease rentals, the acceleration in our site rollouts, and rising energy costs. You would note that that is below the inflation, but because of those initiatives I just mentioned, that's why we are able to moderate that growth at 15.1%.
- Most of our tower contracts mitigate the impact of margins from energy prices. About 88% of our sites do not have diesel pass-through, so in our tower construct, we have some contracts that are all-inclusive of energy. In a small bucket of sites, there's energy pass through and those are the ones impacted by the escalation of diesel prices in Nigeria. So, the net impact of that is 0.4pp EBITDA impact. In addition, we now estimate, given the currency mix, that the 10% devaluation in the official exchange rate would result in an



EBITDA margin erosion of between 1pp and 1.3pp in our EBITDA, and that depends on the mix, but on the average, it's about 1.3pp.

- Our ability to drive operating leverage has enabled EBITDA growth of 23% (Q3, 24.8%) and the expansion of our EBITDA margin by 1pp to 53.6%. We are pleased that this is well in line with our medium-term range of 53 – 55%.
- We continue to meet our forex requirements, in anticipation of any question in that regard, for Capex, by using our trade lines to bridge the forex liquidity funding gap. As a result, our core capex, including the right-of-use assets, increased by 51.3% to ₦251.8 billion, driven by accelerated coverage expansion, focusing on the 4G and our new 5G sites start to roll out. We are on track with our expected FY of Capex of 340 billion, as previously advised
- We remain efficient with our capital allocation, bringing Capex intensity within our target levels at 17.3%, while our free cash flow has gone up by 7.5% to ₦401.6 billion.
- During Q3, we completed the issuance of our ₦115 billion Series 1 Fixed Rate Bond. The Series 1 bond represents our first issuance under a ₦200 billion Bond Programme. We set out to raise out ₦100 billion but the total bids received were over ₦168 billion, So, what we did was to take the green shoe option which allowed us to take up to 15% of the excess funds. In other words, we took in ₦115 billion on that, and that came in two tranches: 4-year and 10-year bonds with clearing coupon rates of 13.5% and 14.5% respectively.
- We also issued a ₦23 billion 180-day commercial paper within the period, at 12.02% yield. As you can see, all these rates are well below the MPR which now stands at 15.5%.

In addition, just to help with our funding, we obtained a €100 million financing line from the EIB, the European International Bank, from which we have drawn about \$38 million to support our network expansion and capacity upgrade. The facility has a 9-year tenure with a 3-year moratorium on principal repayment which does reduce the pressure on our forex obligations, and the interest rate is LIBOR + 1.37%.

- Our funding and liquidity, therefore, remain well managed, supported by our strong cash flows and approved facilities.
- Our debt matrix remains within all our financial covenants with a net debt-to-EBITDA ratio of 0.6 times. As a result, we can comfortably meet our operational, financial, and capex investment obligations. In addition, our foreign privacy exposure is within manageable limits, and the current debt mix is 92:8, 92% in local currency and 8% in foreign monies.

So, at this point, I'll hand back to Karl to give the outlook.



Outlook - Karl

Thank you, Modupe for that insight on the financials.

As I conclude with the outlook, I want to remind all of you that we continue to remain focused on building the solid foundations that we've laid thus far: smart capex investments, taking leadership in the market, stakeholder management, customer friendliness, and, of course, our staff.

As we further strengthen our commercial operations, we are also accelerating our expense efficiency program, and bolstering our financial position to improve shareholder returns. We will aggressively pursue the expansion and growth of our fintech business as it plays a pivotal role in the financial inclusion of the country. We will do the same with 5G, where we've been the first to launch and we would be rolling out smartly but aggressively within the opportunities that exist to really assert our leadership position.

We maintain our service revenue guidance in the medium term of "at least 20%" and EBITDA margin range of 53–55%, again, you are reminded that that is in the medium term, while remaining mindful of the near-term uncertainties.

Thank you.

Question and answers

Chima Nwaokoma

Thank you, Karl and Modupe for the insights. We will now move on to the Q&A session. The first question is from Jonathan Kennedy.

Jonathan Kennedy

Good afternoon and thanks for the opportunity to ask questions. Just want to get your thoughts, I think there was a news flare, last week, that the Regulators wanted to reverse price increases the operators put through. Can you comment on whether that was accurate? Also, how you plan to mitigate the impact of rising inflation, because, as you've said in your release, inflation is close to pretty much where the revenue growth is. That is question one.

Question two, if you could give us an insight into what you see happening with Naira/Dollar, and the ability to extract cash from Nigeria, if you've done so recently. Thank you



Karl Toriola

Jonathan you might have missed the part where I mentioned that we had about a tariff increase of 10% on voice and data services. We started in mid-September, but we received a directive from the NCC, earlier this month, to suspend the tariff increase and roll them back, and we did suspend in the middle of October. The tariff increase impact on Q3 was minimal due to the timing and phased nature, so we think that the numbers that you see here were minimally impacted by the tariff increase.

In terms of the outlook, I think there is a very clear understanding of the need for tariff increase by the regulator and by the policy maker, the Honourable Minister. I think it is a question of phasing and addressing some of the issues and concerns around the health of the industry, increased requirements for revenue generation, and the speculated 5% excise fee. So, we are optimistic that in the near term, we would continue to implement or go back to implementing tariff increases once again, and I think the whole industry agrees with this position, so we are optimistic about that.

On cash upstreaming, Jonathan, I'm sure you know that we generally don't answer those questions, we leave it for Ralph, Tsholo, and Thato to handle in their call which is imminent, so we leave it for them. Our responsibility stops with paying dividends to Registrars and we allow MTN Group to speak about cash upstreaming.

Thank you.

Chima Nwaokoma

Thank you, Karl. The next question is from Maddy.

Maddy Singh

Hi, thank you for taking my question and congrats on the great set of results. I have a few questions, firstly, around Capex. I did see that there was a decline YoY in Q3. I understand that you had been deploying accelerated Capex in H1, so is this just normalisation or was there any issues in accessing USD which led to this drop? Why not continue the accelerated Capex ahead of 2023 and position yourself even stronger?

Second question is a very quick one. If you could share, what is the percentage of dollar cost in the overall Opex. I understand lease rentals are in dollars, that's part of it, but are there other parts as well? Just for us to get some idea there.

The third question is around mobile money, fintech side of things. Firstly, I saw this news around Nigeria planning demonetisation to issue the new currency notes. Just wondering, what are your thoughts around this step, how do you think that affects mobile money opportunity currently in Nigeria. Also, if you could talk about your own preparedness in terms of MoMo, fintech, what



percentage of the distribution network is already signed up, ready to sell mobile money, fintech services? Are you still looking for normalisation in the fintech revenue growth by early 2023?

Karl Toriola

Okay, the first two questions sound like Modupe's questions, and the third one sounds like Usoro who has been running our fintech business, and we will remain in the fintech business as an Executive Director in our MoMo PSB. So, I'll hand over to them to respond to the questions.

Modupe, I presume you have the notes on what they are.

Modupe Kadri

Yes. Thanks, Maddy, and thanks for the questions. In terms of the decline in Q3, it's mainly because we frontloaded our Capex and we are keeping within our Capex allocation framework. The guidance we gave was N340 billion. For the first half of the year, if you look at the numbers, the quarterly movement between Q2 and Q3 is about N72 billion or N73 billion in line with our plan. So, we didn't have any challenges with sourcing forex finance.

In terms of the cost, the Opex cost in dollars, we have some cost mix, in terms of IT costs that come in from third-party vendors. But, the bulk of the costs, as at today, 73% of those costs that are denominated in dollars come from the tower companies at the higher end. The majority of the tower costs are sourced at the NAFEX (Nigerian Autonomous Foreign Exchange) rate. So, that's how we're able to minimise the impact. So, we are not impacted by what is happening at the alternative or parallel market, in as much as the contracts are at the official rate. When you look at it in that perspective, we find out that roughly 73% of our towerco Opex is driven in dollars, and well over 80% of that is at the official rate. That's the way I look at it. So, if there is any devaluation in currency, let's say a 1% devaluation in the Naira, the impact on our tower costs of about 7 million USD. Thanks.

Usoro over to you.

Usoro Usoro

Maddy, thanks. The three questions you asked, first was the opportunity that we see with the Naira redesigned. If I have to speak to that, firstly, we expect that there would be, in the short term, the challenge of people having access to Naira notes to facilitate a conversion. We intend to work with stakeholders in the industry to see how we can solve that problem. Obviously, conversion to wallets and eMoney would be one of those options for customers.

On the percentages of our distribution that is part of our mobile money, today we have over 180,000 of our agents that are focused on mobile money operations. You recognize that we have a legacy business where we had our MoMo agents that have always been part of providing financial services to customers, and those agents are now primarily focused on offering more services to our customers.



Lastly, you asked about the normalisation of our fintech revenue. Our fintech revenue has two broad content. One is XtraTime and the second is our core fintech. XtraTime revenue has been muted somewhat because of the impact of NIN, and as we reconnect customers back with their NIN, we expect that revenue to start to grow.

Maddy Singh

So, just to clarify the Opex, was the 23% of Opex in dollars or about 73% of Opex in dollars?

Modupe Kadri

73% of the main tower costs.

Maddy Singh

Okay. Thanks, and just from the mobile money, your total agents are 180,000 and how many of those are on mobile money already?

Usoro Usoro

The numbers I provided, the total number of MoMo agents, are agents that are offering financial services.

Maddy Singh

Okay, thank you very much.

Oluwaseun Arambada

Okay. Thank you so much for hosting this call and thank you for taking my questions. Some of my questions have been answered, so I won't repeat them. Just two more questions, really. I am struggling to reconcile the subscriber churn you said you recorded in Q3 about 57,000, but if I recall correctly, the subscriber base at the end of Q2 was about 74.2 and now we are having 74.1. If we do the math, 57,000 doesn't seem to be, maybe you could just help clarify that.

The next question is on the MoMo business. I remember also in the half-year conference call, you talked about the focus on building an ecosystem. I'm hoping you could give us some progress report on what we can expect; can you speak to what we can expect, probably for revenues, or if you could begin to give guidance on that front? That will be all from me.

Karl Toriola

Okay, so let me try and describe what happened at the end of Q2. On April 4, we were asked to suspend outgoing calls for subscribers that had not submitted NINs. We believe, we can't speak for the rest of the industry, when we look at the traffic trends, we were the first to comply and we complied early on. What happened is, some of those numbers will remain on the network as receive-only or as data SIMs. But a whole lot of them, when they can't make an outgoing call, will just throw away the SIM and move on.



What happened is, 90 days after the date of barring, you see a spike in churn. Some people may keep the number for a month or two months without making an outgoing call, but still, receive incoming calls. Those subscribers will count in RGS 90 for the two months or so. If they throw away the SIM card thereafter, it means they will churn out of our network 90 days from that date.

In Q3, there was a very high rate of churn but at the same time, even with the barring due to NIN directive, we also accelerated our gross connections. So, net, we effectively churned 57,000 subscribers which is a very small number within the context of the NIN registration.

On the MoMo business, our focus has always been, in the early years, on building the ecosystem and not so much on driving revenue. What we did in Q3 is that we started to build industrial strength, control and compliance environment, and we slowed down on the commercial acceleration front as a result of that. This is so that when we want to scale up to our medium-term intention of having approximately half of our GSM RGS 90 as mobile money subscribers, we'll have the systems to support that in full. Usoro you want to talk in detail on that?

Usoro Usoro

Yeah, just to add that our primary target market right now is really the unbanked. And the primary ecosystem we need to build to support that unbanked segment is our distribution network to facilitate cash in and cash out.

Oluwaseum Arambada

Thanks, Karl.

Karl Toriola

Thank you. Can we go next to Adewale? Good to hear from you, and I can see Kayode around too.

Adewale

Good afternoon and congratulations on your results. Being able to squeeze out 100 basis points EBITDA margins and pretty strong numbers in a difficult environment, I think it is something to say thumbs up to you guys. Some of my questions have been answered, but just to draw us back, in your presentation, you mentioned something about gross connections being up in Q3. Maybe you can clear me up, what is the difference between gross connections and active subscribers? Maybe you put some colour on that link.

Secondly, is there a reason why you don't disclose the average revenue per user? Maybe you can sort of talk through that on voice, data, and maybe 4G as well, just to see how high the margin is. I suspect it has a high margin, than for mobile money as well.

Thirdly, regarding diesel coverage, I think Modupe did mention that the hike in diesel price, did put some pressure on your operating cost. Would you say most of your towers run on diesel, and how sustainable do you think it is? Is it something that MTN is looking to change? Maybe just talk through that for me from a sustainability perspective.



My last question is about your free cash flow. How do you compute free cash flow? I know it is an alternative measure you use; how do you compute it? That will be all from me for now.

Karl Toriola

I thought most of your questions have been answered already, but we are always happy to have them. I'm going to call on Hassan to speak to gross connections and active subscribers and the links to that.

On ARPU, I think it is the FY results we disclose ARPU, but relatively same old calculation. Let me, however, point out that from what we are seeing, from the early days, is that the data ARPU from 5G subscribers is approximately three times that of 4G subscribers. So, we are optimistic about that, and I think that is a little bit of data point which you can use for your information.

On diesel coverage, and I'll maybe ask Modupe when he talks about free cash flow, to also speak to that, in terms of the financial impact. Most of our tower contracts do not have a power passthrough, which is usually a diesel passthrough. We have the NAFEX rate element, and the tower company for the majority of our contracts, that is IHS, absorbs the cost of the variation of power and the underlying drivers of power costs within that structure. However, we do have a small number amount with other tower providers where there is a diesel passthrough.

In terms of how we manage this dependency on diesel, again, it is not directly within our control, but we made a commitment to net zero emissions to the market in line with our Ambition 2025. Scope 3 which takes us to tower companies is also part of that commitment and I think IHS has also made their commitment to this, same as ATC. So, most certainly, over the medium to long term, although it is quite a journey, we will be moving away from the dependency on diesel.

I'll ask Hassan to speak to the gross connections and how that links to active subscribers. I thought I covered it, but let's go through it once again. Then maybe Modupe will comment on how we compute free cash flow and maybe any other comment he might have on diesel and the impact on our margins. Thank you

Hassan Jaber

Thank you, Karl. We closed September with an RGS 90 of around 74 million. We calculate this RGS which is the revenue from subscribers in the last 90 days. During Q3, we added to the network, in terms of gross connections, about 5.9 million but this was neutralised by the impact of the high churn coming from the barred subscribers in the previous quarter. The barred subscribers who didn't do any activity go into churn, so we end up with about 57,000 decline in subscribers during the quarter. So, that is why we ended up with a lower RGS 90 in Q3. But we believe we did a good job because our forecast was to end up with higher negative net adds. However, the impact was minimal which means the high churn was mitigated by our aggressive gross connections. I hope I answered the question.



Adewale

Okay. Yes, thank you.

Modupe Kadri

Okay, I think Karl has answered most of the questions on the diesel. As he said, the major tower provider that has over 70% of those towers is an all-inclusive contract where they provide power, so they carry that cost. Another useful piece of information is when you deconstruct the energy cost or the tower cost, it is of three elements. One is the dollar element, the other is the naira element, and the third is the energy element. So, for a sum total of 100, 60% is indexed to the dollar, 36% is based on the Naira, and 4% is based on energy. So, other energy costs that you see in the financials that hit us relate to our owned facilities and switching centres where we incurred those diesel costs like everybody else. But the bulk of it, that's where the savings and efficiencies are coming on, has been mitigated by our tower contracts in addition to the expense efficiency program. That is why we are not affected to a large extent, by the increasing energy cost.

As I said earlier, the impact of energy on our EBITDA margins is about 0.4 bps increase, which is against the increase in diesel cost.

For the free cash flow, free cash flow is EBITDA less Capex.

Adewale

Okay, thanks. Just to be clear, so, for dollar CPI on the towers, you are using US inflations, or what measures are you using?

Modupe Kadri

Yes, US inflation at the end of the year. So, there are two things; each contract has a dollar element and a Naira element but they vary in proportions, and the dollar element is indexed at the official NAFEX rate. It is escalated at the start of the year, based on the year-end dollar CPI. And, as you know, for this current financial year, the dollar CPI went haywire, on average, from 3% to about 7.4%, approaching 9%. It might moderate before the end of the year. So we saw the impact affecting us hugely. Of course, the Naira element of it is also indexed to the Naira CPI. At the current rate, if the CPI does not moderate by the end of the year, then you'll probably have a higher escalation which takes us to one of the points that were mentioned earlier about revenues being in line or close to the inflation.

So, these things have an impact on the cost. I think that's it, as I said about 70% of the cost is the USD based on the current construct of the towers.

Adewale

Okay, thank you.



Karl Toriola

I just want to say that Modupe means about 70% of the tower costs, not the total Opex. So that people don't get it mixed up.

Modupe Kadri

Yes, 70% of the main tower costs is driven by USD and impacted by the dynamics I just explained.

Karl Toriola

We move on to Kayode.

Kayode Eseyin

Hello, good afternoon everyone, thank you for having me. For starters, congrats on the fantastic nine months' results. Compared to Q2, your Q3 was an awesome performance. Most of my questions have been answered, but I still have a few lined up.

For the 5G for example, you've mentioned that you are able to roll out some 5G sites during the period. So, my first question is, are there particular states or regions that you are targeting for the 5G rollout? I don't expect you to roll out 5G across all 36 states at once, I understand you've mentioned that the 5G rollout was smart and aggressive. If you can define what you mean by smart and aggressive. Are there particular regions you are looking at?

The second question is still on 5G but relates to the current prices, and chip manufacturing issues with China and USA, specifically what the US government is restricting exports from chip companies, even out rightly banning some of its nationals from working for Chinese chip manufacturers. Are you somewhat exposed to that prices? Do you receive imports from 5G equipment from China? How do you think that would impact you? What steps are you taking to mitigate that? Not just 5G, 4G rollout devices. Most of your raw material imports are you worried? Are you exposed to chip manufacturing prices in China?

Thirdly, I know you mentioned it, but when you were talking about it, I had some network issues. If you can just help me go over again, the flooding impact on your operations. Just mention how that has affected your operations and what steps are you taking to correct or mitigate that.

In a nutshell, I think this would help. I think I used to be able to get your presentation slides for these calls on your website, but subsequently, I don't know why I don't have access to them. I also noticed the person before me asked a question I think was already answered. If maybe we have network issues and someone can't hear some things, I think it would be best if these slides or maybe access to recordings are available so that we won't have to ask questions on stuff you've already mentioned. I think that will be of help to you people.



Karl Toriola

Kayode, thank you very much. Very audible! Thank you very much, I'm sure Chima will make sure that, for this session and sessions going forward, you guys have all the texts and presentations so you can always refer back to them.

I'll just touch quickly on the flood and operations. 145 sites were affected, and about 40 of those have been restored. No material impact on our business, and we have a crisis management plan which we activated to ensure we push as much in restoring those. We do sympathise, however, with the communities and people who have suffered from this.

We haven't seen any restrictions in our ability to roll out and execute as a result of the chip shortages. Our various vendors, as the geopolitical scenario progressed, topped out quite significantly. There's been no limitations and no restrictions.

I'm going to ask Hassan, and I think it is a very important point, and he is the key orchestrator, probably, of this, to speak to how we are looking at 5G rollouts going forward, but let me just give some context.

By the time we were setting our budgets for 2022, we hadn't yet gone through the auction process. So, we put some of our stakeholder markers in place say 220 sites, and we eventually launched in September. To achieve this, we quickly relooked and reallocated additional budget to accelerate 5G. We believe the transitions in technology always create an opportunity for the leading telco operator, and we also believe that Africa deserves, every single time, the best of the technology that is available.

So, we launched a relatively conservative number of sites, which is going to increase quite rapidly before the end of this year, in the capitals of what we call all the big geopolitical zones of Nigeria. We focused on where the commercial opportunities are. But for the next 400 sites that we plan to deploy before the end of the year, and what we plan to do next year, I'll allow Hassan to speak to that and tell you how we select those locations. He will cover how we use smart Capex principles, very strong analytics and business intelligence to select locations.

Over to you, Hassan.

Hassan Jaber

Thank you, Karl. In terms of the 5G, we are particular about covering the main geopolitical regions, starting by Lagos, Abuja, Port Harcourt, Ibadan, Kano, Owerri, and Maiduguri, and we are really using intelligences to identify the location where there's the need for the 5G, and most importantly, there is a use case for 5G.



So, we will be able to provide 5G coverage to our customers based on the current usage and the concentration of the 5G-enabled devices in different locations. Customers will be able to access 5G via the use of 5G-enabled handsets, and via the fixed wireless access modems (5G routers) for home use.

We will go in line with the international standard forecast of the 5G spread in those locations. In identifying those, we use a mix of business intelligence, analysis, and artificial intelligence that would allow us, through what we call smart Capex investment, to locate the area where the future requirement in 5G would come from. We want to ensure there is no waste of resources while providing a state-of-the-art 5G quality network to our users.

So, when we say that we are giving 5G users the 5G experience in Nigeria, the customer should be able to translate it into the quality of experience on their mobile devices and, most importantly, in their homes.

Karl Toriola

Thank you, I hope we've answered your question, Kayode. Can we go on to Vik Sharma?

Kayode Eseyin

Yes, thank you.

Karl Toriola

Thank you, Kayode. Great to hear from you. Vik?

Vik Sharma

Hi guys, thank you so much for taking my questions. Two questions here. One is, obviously in the first half, you were indicating that you will probably be lower than your medium-term EBITDA guidance, and that was because of the NIN issue and the cost of PSB that was going to come through. You did mention that the NIN issue has turned out better than expected.

Did you not incur all the costs for the PSB? Because, Karl, you mentioned that there was a closure of an inter-bank exchange. Is PSB getting enough money or will the money only be spent in the first half of next year?

The second question, possibly you might have answered this, sorry if I didn't pick it up. The data trends for Q3 seem to be slowing down compared to Q2 and Q1. Is this because of gross connections going up, or is there any kind of softening in the overall trend in the data usage and data growth overall for Q3?

Thank you.



Karl Toriola

Okay, on H1 guidance results vs now and the margins, I think we did say that we deliberately slowed down on the acceleration or operational momentum on MoMo PSB to put industrial strength, control system, and governance in place. These are control systems, IT systems, people and resourcing, which we've done at a very large scale and would hold us in good stead until we get to our medium-term aspirations and ambitions of having half of our GSM base on our mobile money. So, we made a conscious effort.

So, yes, we could have spent a lot more, and we would resume as we have, pretty much, gotten to the tail end of putting those control systems in place. We will resume late Q4 or early Q1, to reaccelerate MoMo PSB. However, the margin that we delivered should not be seen as just the cause of deliberate focus on controls and governance of MoMo PSB.

The operational leverage and the cost management in our existing business, put PSB aside, has been nothing short of exceptional. There is a significant amount of our margin improvement which has been delivered by operational leverage, by the heart, sweat, and blood of the staff. So, you can look into the minute details of the income statement to see how the costs are built up.

In terms of data trends, I will ask maybe, Hassan to respond, but let me just caution you that last year, we saw a very high rate of data revenue growth because we implemented, sometime in March or April, the 800 spectrum which we acquired. So, that pumped up the revenue growth in 2021. If you look at H1 2022, half of the period didn't have the 800 spectrum, half did. If you are comparing H2 or Q3 in 2022 to 2021, H2 in 2021 had the full impact of the 800MHz spectrum. So, we think it is more of a base comparison issue, rather than a slowdown.

In terms of the demand for data, we said there's a structural increase. As we execute, though it is not going to happen overnight, and I don't want to give unrealistic expectations, by the end of this year, we will get to 600 sites with our 5G and continue to roll out in 2023. We see even more opportunity there. I did speak to the fact that 5G ASPU (average spend per user) is about three times of 4G data ASPU. It is early days and a very small cohort of subscribers.

Over to you, Hassan if you want to talk in detail about that. Thank you

Hassan Jaber

I just want to give comfort to our friends that what we are seeing now in data growth is not slowing down. Actually, there is a healthy growth. There is an opportunity that exists in the market and we are capturing it in a healthy way in comparison to other international markets. If you do some international benchmark, you'll see that our growth is still very strong in data.

Quarter on quarter, we are growing in data revenue and active data subscribers. Data usage is also following the same path in addition to the ASPU. We expect to see this trend continue as



people migrate from 3G to 4G and 2G to 4G, supported by the new use case for 5G to drive more and more growth.

The comparison of H1 to H1 YoY was explained by Karl and that's it. Other than that, quarter on quarter, month on month, it's the same level of growth and if you draw the line, you can see that it is growing upward, and I don't think that we will see a slowdown in the medium term.

Vik Sharma

Thanks guys, thank you so much.

Chima Nwaokoma

Next, Mohammed.

Salaam Mohammed

Good afternoon gentlemen, and very well done on an excellent set of results. Just have two questions from my side. In terms of your 4G population Q3 view, I think you were aiming for 80% at the end of the quarter. I'd like to understand where you are currently in terms of that number. And please speak some interpretations in terms of your smart Capex intelligence. Where do you think that 80% could go in a long term, on a commercial basis, especially at some point when you get diminishing returns and decreasing number. What percentage of the sites are already 4G enabled?

Secondly, give some colour on the expense efficiency program, slightly gather a sense of where the key gains were this quarter, and do you still see sufficient opportunity set to give us some other kinds of gains in the next few quarters?

Karl Toriola

Salaam Mohammed, thanks. I'm going to as Hassan to cover the 4G population coverage and Modupe talk about EEP, where we've seen the gains, and where we see the runway still ahead of us.

Over to you, Hassan.

Hassan Jaber

If you ask me, in terms of the number of sites that are 4G enabled, around 85% of our sites have the 4G technology. In terms of population coverage, the last number we saw is around 77%. So, we are comfortable that by the end of the year, we would reach a population coverage of 80%.

Karl Toriola

To answer the other question, sorry, if I may. How far do we see this fleshing out? Getting up to 85, 88%, maybe even approaching 90s where we might be stuck. Of course, there is a lot of subjectivity, depending on smartphone penetration. The smartphone penetration depends on affordability, which depends on where the dollar rates are, and the prices of 4G handsets. So, it's like looking



into a crystal ball, but we have always said that in Nigeria, the speed of adoption of new technology or the new Gs; from 2G to 3G and 4G, always surprises us. This is why we are rolling out some 5G sites and will continue to be very optimistic about 4G. Over to you, Modupe.

Modupe Kadri

All right, thanks. Mohammed, thanks for the question. The expense efficiency program is a robust program with governance that seeks to optimise how we run our operations. So, it covers from the network to marketing, to finance and all possible strata of the business.

We know that with the headwinds, some of the gains we recorded will be eroded. To give an example, the program was moving towards having independent power generators that run on gas. Obviously, as the gas prices escalated, that reduced the quantum of savings. What we've done is to look for other areas to try to optimise that. It is a continuous cycle.

In terms of what we've done, with recorded strong gains across the year. We have other initiatives in the pipeline that would also help secure that space in terms of margin optimisation. I could go into details, but I don't think that is the core purpose of the call. But there is a framework we are using, and clearly looking for other areas we can optimise as we move along. Thanks

Salaam Mohammed

Thank you so much for that colour, really appreciate it.

Chima Nwaokoma

Next is Ayobami.

Ayobami

So, in your report, you said that you prioritise the control systems against commercial activities on your MoMo platform, and that led to a slowdown in, I believe, transactions in Q3. So, in Q4 going forward, to what extent should we expect this trend?

Thank you.

Karl Toriola

I think we said there was a slowdown in our active wallet users, even though registered wallets more than doubled. And of course, active wallet users impact the number of transactions. I think in the course of Q4, we are going to reopen NIBSS. In late Q4, we'll start accelerating commercial activities and have significant acceleration in Q1 next year. But let me ask Usoro maybe to give some more colour there.

Usoro Usoro

Exactly, Karl, we expect as we go into Q4, we would start accelerating commercial activities, so we will see an uptake of those numbers as we get into Q4.



Ayobami

Thank you.

Karl Toriola

Thank you.

Keever

Thank you for the time and opportunity. Actually, my question was in line with the comment on the suspension of the NIBBS, so I think it is partially answered. Maybe, just to help us understand, can the existing MoMo customers still transact given the suspension? Does it mean some services are excluded? Just some context in terms of what the suspension means for the consumers.

Thanks.

Karl Toriola

I'll leave Usoro to take that one. Thank you.

Usoro Usoro

Okay. The only service that was suspended was the NIBSS inbound and outbound interbank transfer. Every other service still runs, that includes cash in and cash out at our agent locations, airtime purchase, P2P transfers between our users, and even bill payments. The only service that was suspended was interbank.

Karl Toriola

Just to make it clear, what was suspended was the ability to transfer from a mobile money customer wallet to someone with a bank account outside of mobile money and vice versa. So, a bank account holder with First Bank or Access Bank, for instance, cannot transfer to mobile money because we suspended that service for now. We are going to reopen that service.

P2P transfers within the MTN mobile money ecosystem are still working: cash in-cash-out, airtime payment, etc. But as we said, let's get all the control systems in place, all the monitoring, all the supervision, all the governance, and all the resources in place before we put our foot on the pedal and really go for gold.

Chima, do you want to bring it home for us?

Chima Nwaokoma

Yes. Thank you, Karl, Modupe, Hassan, and Usoro, for attending to all the questions. To all our participants, we say thank you. We will share the transcript within the course of the week, and please stay safe. We'll catch up again during our full-year results engagement.



Karl Toriola

Thank you, everyone. I'll catch up with you at the end of the year. And a big thank you to my team for an amazing job so far, this year. Thank you.

END OF TRANSCRIPT