



DYER & BLAIR

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INVESTMENT BANK

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# MTN UGANDA IPO RESEARCH NOTE

**DYER AND BLAIR INVESTMENT BANK**



Wednesday, 3<sup>rd</sup> November 2021





# RECOMMENDATION

## Excluding Incentive Shares

### OVERWEIGHT RECOMMENDATION

- Target Price of UGX 218.78
- Offer Price UGX 200.00
- Upside 9.4%

## Including Incentive Shares\*

### OVERWEIGHT RECOMMENDATION

- Target Price of UGX 218.78
- Offer Price UGX 190.48\*\*
- Upside 14.86%

*\*offered to Ugandan & East African retail & professional (institutional) investors; 5 to 10 free shares for every 100 shares purchased*

*\*\*working with a minimum of 5 incentive shares*



# COMPANY OVERVIEW (1)

MTNU is a leading telco  
in Uganda

Market share of 59.1%  
with 15 million  
customers\*

Major revenue lines are:  
voice, data, fintech &  
digital revenues

Average ROE over the  
last 4 years: 51.67%

Average dividend pay-  
out rate last 4 years  
57.22%

MTNU has committed to  
a minimum dividend  
pay-out rate of 60.0%

\*as at 30<sup>th</sup> June 2021





# COMPANY OVERVIEW (2)

Incorporated in 1998 as a private company; 2<sup>nd</sup> telco at that time

Became a public company in 2003

Launched its mobile money service in 2009

In 2020 started offering mobile money services through wholly owned subsidiary

Two main shareholders:  
MTN International 96%  
and Mr. Charles Mbire 4%

MTN International selling 20.0% stake or 4.48 BN\* shares in IPO to be followed by USE listing

\*4,477,808,848 shares



# BOARD COMPOSITION

Director	Category	Nationality
Mr. Charles Mbire	Non-Executive Director/Chairperson	Ugandan
Ms. Yolanda Cuba	Non-Executive Director	South African
Ms. Karabo Nondumo	Non-Executive Director	South African
Mr. Sugentharen Perumal	Non-Executive Director	South African
Mr. Wim Vanhelleputte	Executive Director/CEO	Belgian
Mr. Andrew Bugembe	Executive Director/CFO	Ugandan

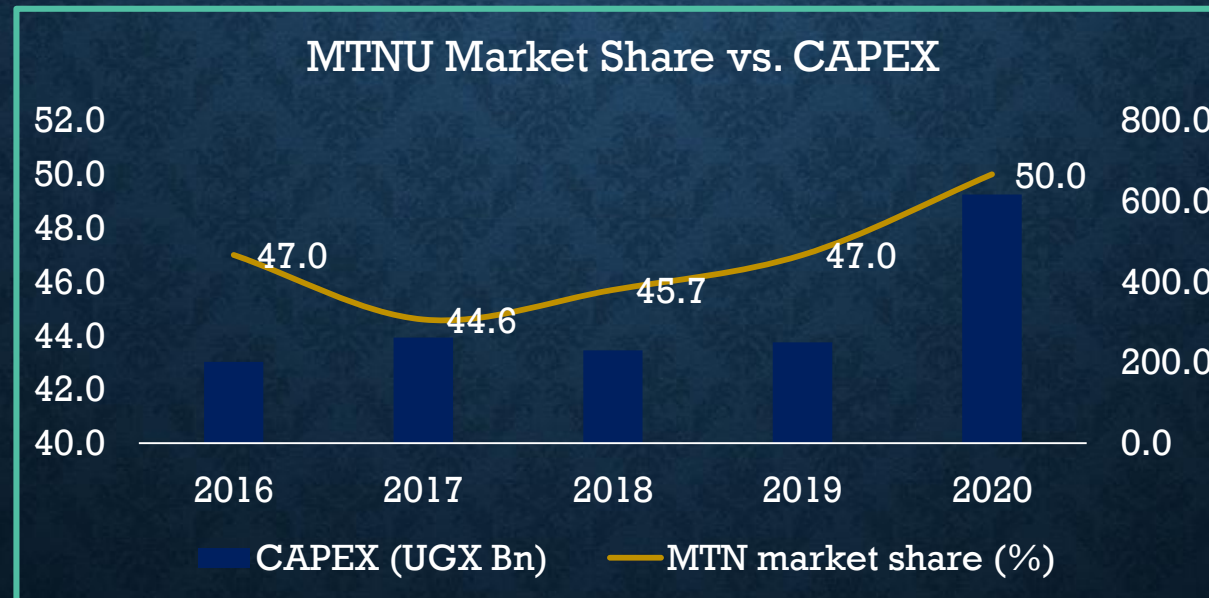
- The Company Secretary is Ms. Enid Edroma, an advocate of the High Court of Uganda





# MARKET SHARE (1)

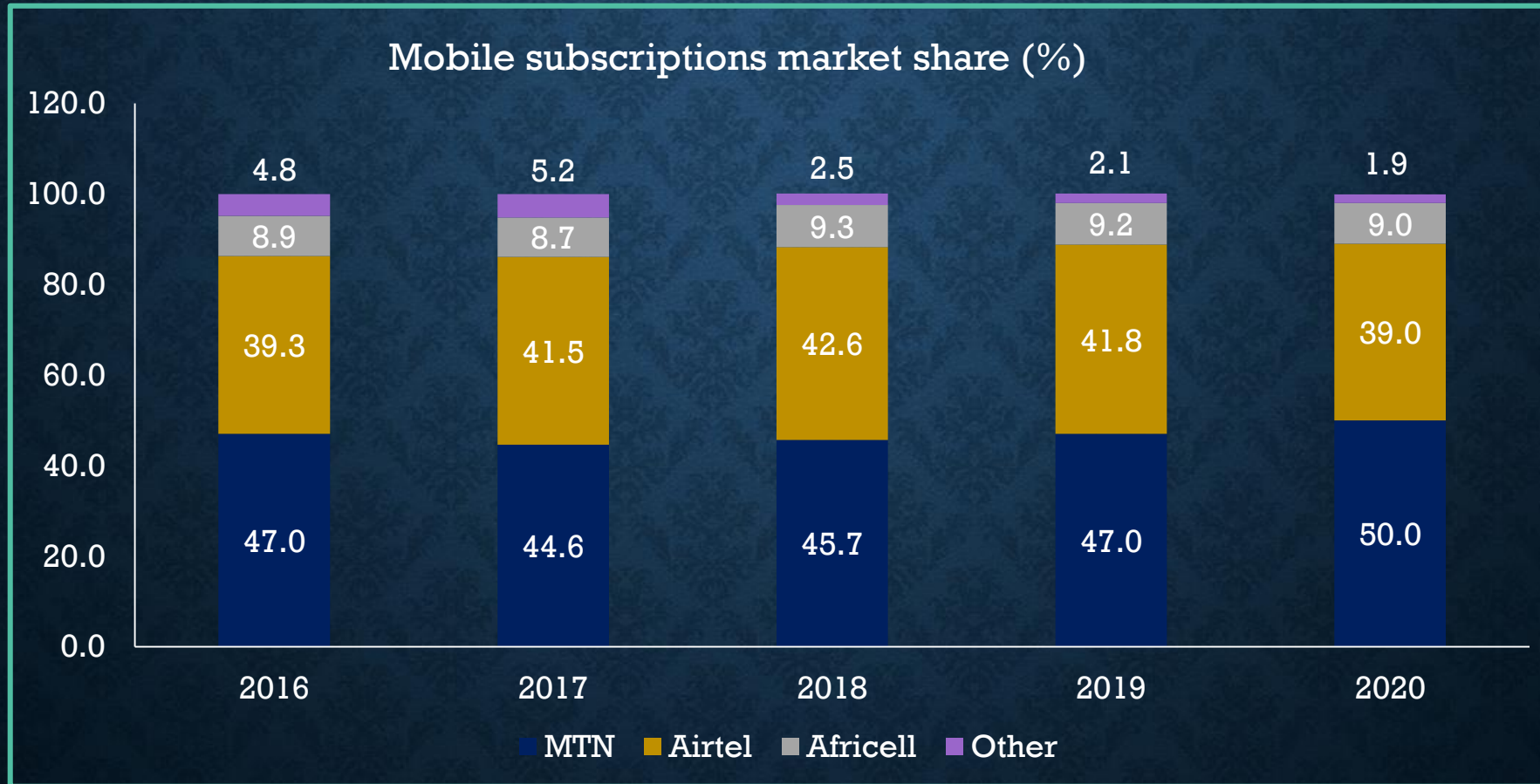
- Market share growth from 47.0% in FY16 to 50.0% in FY20
- Supported by the company's significant investments in network infrastructure as well as diversification and innovation in their product offering



Source: MTNU, DBIB Analysis



## MARKET SHARE (2)



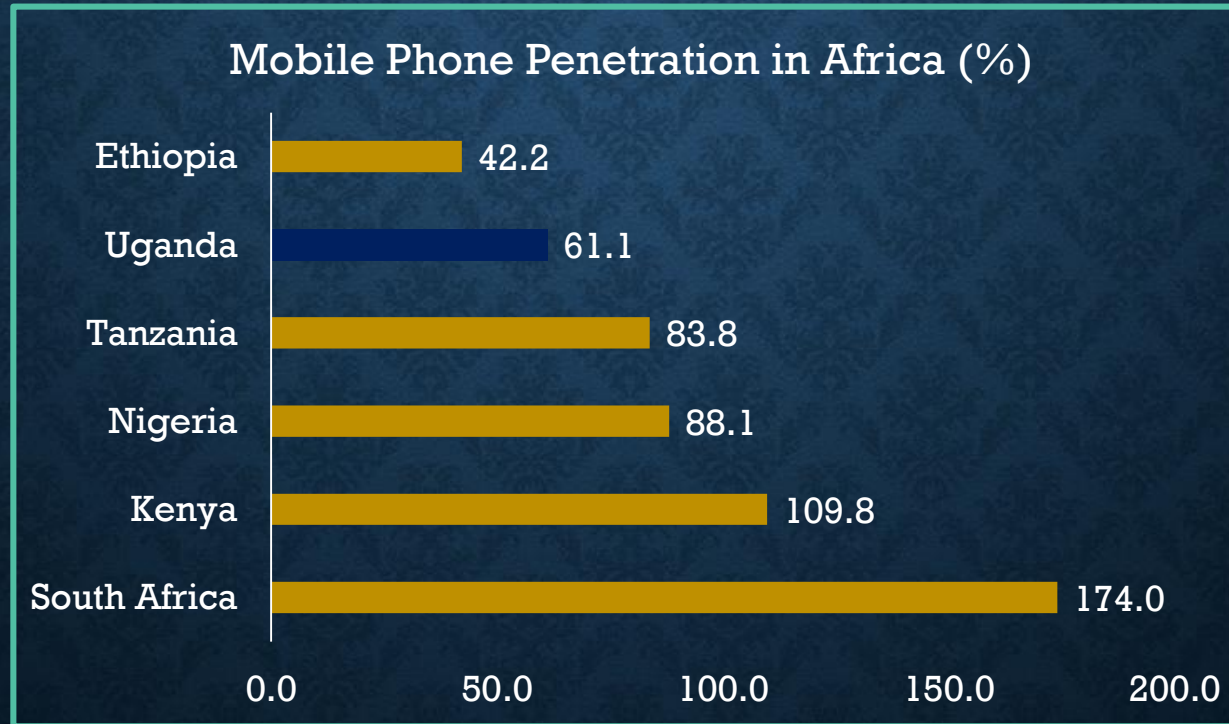
Source: MTNU, DBIB Analysis





## MARKET SHARE (3)

- Low Uganda mobile phone penetration rate (67.2% in FY20) offers potential for growth



Source: MTNU



## MARKET SHARE (4)

70.9%

Uganda mobile phone penetration rate in FY23

3.0%

Uganda's annual population growth (FY21 – FY23)

60.0%

MTNU's market share in FY21



62.0%

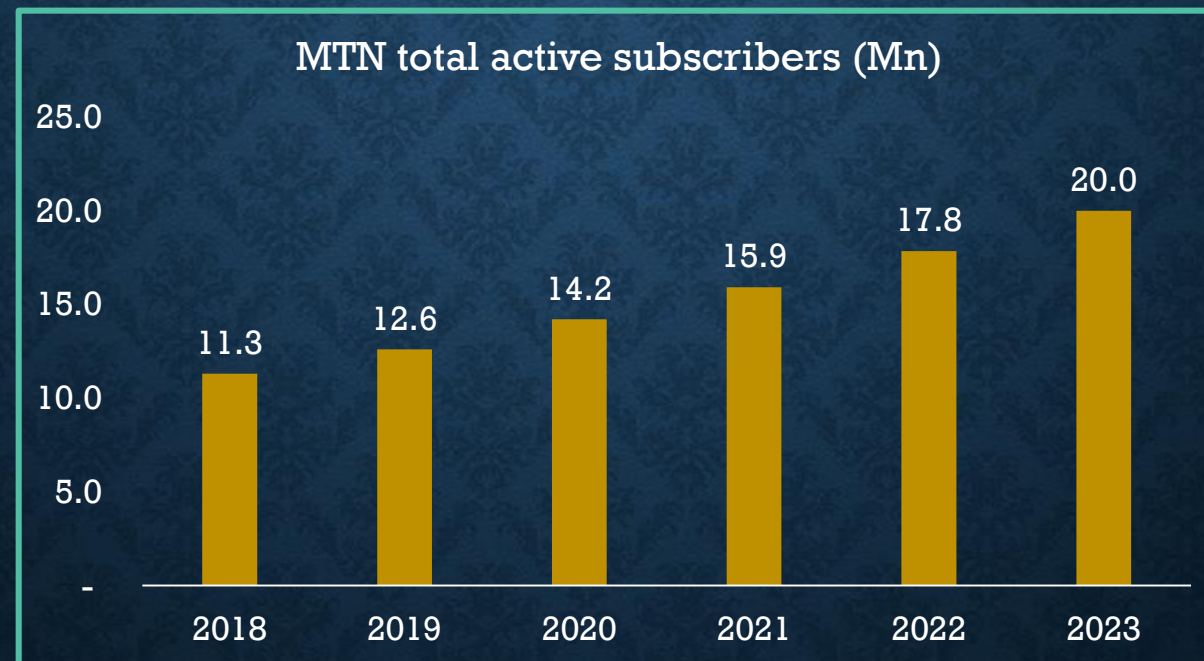
MTNU's market share in FY23





## MARKET SHARE (5)

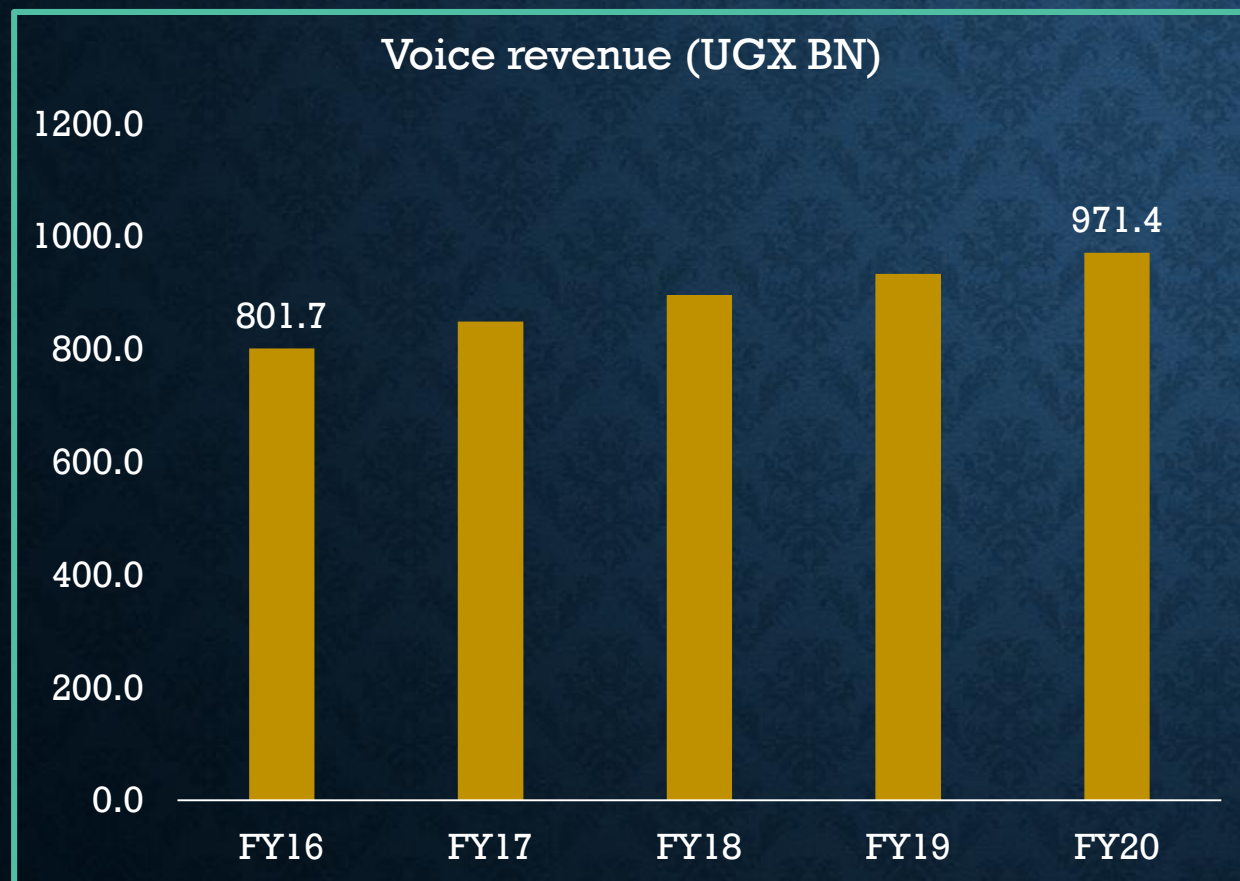
- Population growth + mobile penetration rates + market share growth to provide uplift to MTNU's active mobile phone subscribers to reach 20.0 million in FY23



Source: MTNU, DBIB Analysis



# VOICE REVENUE (1)



- Voice revenue grew at a CAGR of 4.9% between FY16 & FY20
  - Anchored by rising active subscribers (risen by 25.7% from 11.3 million in FY18 to 14.2 million in FY20)
  - Weighed down by declining ARPUs; declined by 8.6% from UGX 6,611 in FY18 to UGX 6,041 in FY20
- Voice contribution to revenue persistently declining; easing from 61.3% in FY16 to 51.7% in FY20 – in line with global trends





## Expectations

# VOICE REVENUE (2)

### Voice revenue

to rise by a CAGR of 4.1% over our forecast period to reach UGX 1,095.9 Bn in FY23

### Driver

supported by subscriber growth; rise by a CAGR of 12.1% to 20.0 MN in FY23

### ARPU

declining bias adopted in voice ARPUs to persist; falling by a CAGR of 7.2% to UGX 4,826 in FY23

### Contribution

contribution to total revenues easing to 46.0% in FY23



# VOICE SUMMARY

	FY16	FY17	FY18	FY19	FY20	FY21F	FY22F	FY23F
Voice revenue (UGX BN)	801.7	849.5	896.4	933.8	971.4	1011.2	1052.7	1095.9
% change		6.0%	5.5%	4.2%	4.0%	4.1%	4.1%	4.1%
% contribution	61.3%	59.1%	57.8%	54.4%	51.7%	50.1%	48.1%	46.0%
Voice ARPU (UGX)			6,611	6,512	6,041	5,596	5,197	4,826
Voice ARPU (USD)			1.9	1.8	1.7	1.6	1.5	1.4
% change				(1.5%)	(7.2%)	(7.4%)	(7.1%)	(7.1%)
SCOM voice ARPU*			2.4	2.3	1.8	1.5	1.5	1.4
Active subscribers (MN)			11.3	12.6	14.2	15.9	17.8	20.0
% change				11.5%	12.7%	12.1%	12.1%	12.1%

ARPU shown as a monthly figure

\*USD

Source: MTNU, DBIB Analysis





# DATA REVENUE (1)

- Between FY16 & FY20 data revenue grew at a CAGR of 32.1% to UGX 338.1 Bn in FY20
  - Attributable to rising mobile internet penetration rates in Uganda
  - Improvements in mobile network capabilities
  - Growth in active data subscribers; grew by 109.1% from 2.2 million in FY18 to 4.6 million in FY20
- Solid growth in data revenues translated into rising contribution of data revenues to total revenues; from 8.5% in FY16 to 18.0% in FY20
- Data ARPUs up 9.5% in FY19 to UGX 7,885, but eased by 10.7% in FY20 to UGX 7,045
- Challenges in mobile internet market in Uganda
  - Internet usage focused on social media limiting usage
  - Smart phone affordability remains a challenge consequently limiting the advancement of digital skills which restrains growth in data usage



## Expectations

# DATA REVENUE (2)

### Data revenue

to rise by a CAGR of 11.0% to UGX 462.5 Bn in FY23

### Driver

supported by active data subscribers; rise by a CAGR of 21.6% to 8.3 MN in FY23, supported in part by MTNU's device financing partnerships

### ARPU

ease by a CAGR of 10.6% to UGX 5,036 in FY23 owing to aforementioned challenges

### Contribution

contribution to total revenues to sustain its upward bias, rising from 18.0% in FY20 to 19.4% in FY21





# DATA SUMMARY

	FY16	FY17	FY18	FY19	FY20	FY21F	FY22F	FY23F
Data revenue (UGX BN)	111.0	170.9	190.1	264.9	338.1	373.2	414.4	462.5
% change		54.0%	11.2%	39.4%	27.6%	10.4%	11.1%	11.6%
% contribution	8.5%	11.9%	12.3%	15.4%	18.0%	18.5%	18.9%	19.4%
Data ARPU (UGX)			7,201	7,885	7,045	5,953	5,357	5,036
Data ARPU (USD)			2.0	2.2	2.0	1.7	1.5	1.4
% change				9.5%	(10.7%)	(15.5%)	(10.0%)	(6.0%)
SCOM data ARPU*			1.5	1.4	1.4	1.4	1.6	1.9
Data active subscribers (MN)			2.2	3.4	4.6	5.8	7.0	8.3
% change				54.5%	35.3%	27.1%	20.5%	17.3%

ARPU shown as a monthly figure

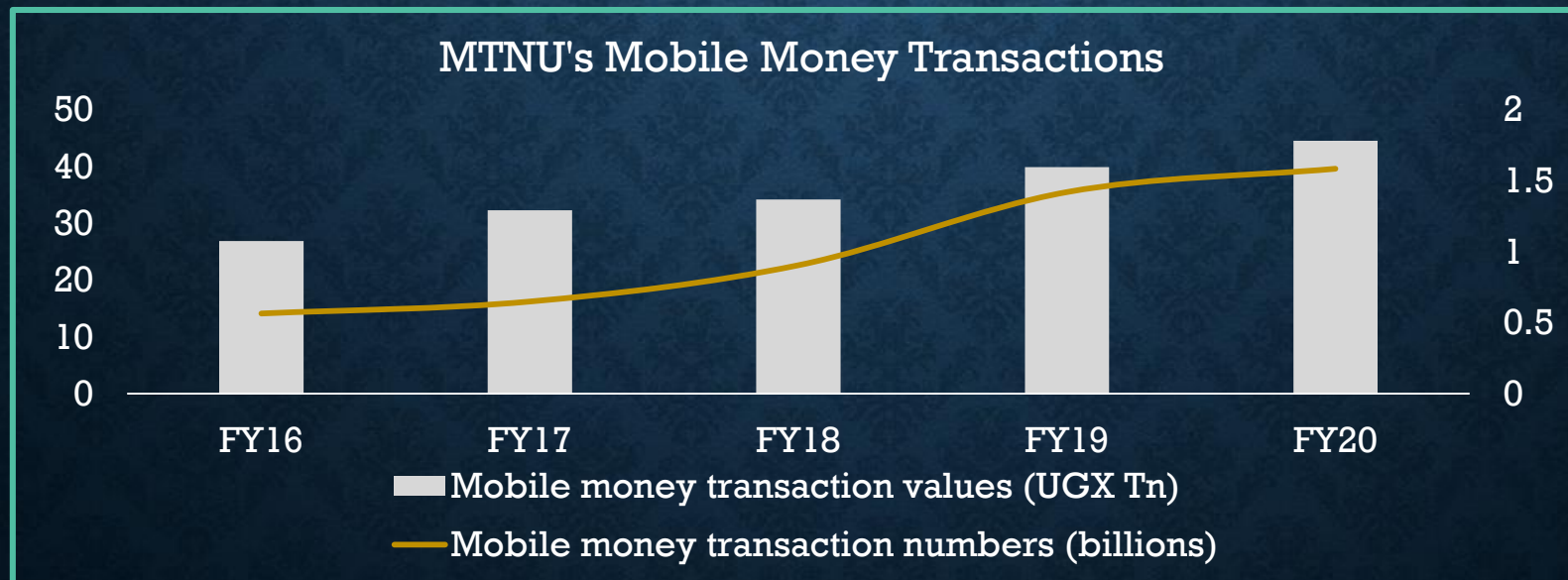
\*USD

Source: MTNU, DBIB Analysis



# FINTECH & DIGITAL REVENUE (1)

- Fintech & digital revenues grew at a CAGR of 11.8% to UGX 482.2 Bn in FY20
  - Transaction volumes; +CAGR of 29.4% to 1.6 BN
  - Transaction value; +CAGR of 13.4% to UGX 44.5 TN
  - Active fintech & digital subscribers; +CAGR of 16.6% to 8.5 MN in FY20



Source: MTNU, DBIB Analysis





# FINTECH & DIGITAL REVENUE (2)

- Over the last 5 years fintech & digital revenues contribution to total revenues has averaged 24.7%
- Growth observed in mobile money largely due to:
  - rising ownership of mobile phones coupled with
  - the prevalent low levels of financial inclusion in the country
- Currently, MTNU's mobile money platform (MoMo) is mostly used for basic transactions (deposits, transfers, payments and withdrawals)
- In comparison to Safaricom's M-PESA, the platform has a lot of growth potential in terms of revenue generation



# FINTECH & DIGITAL REVENUE (3)

- A comparison between Safaricom's M-Pesa and MTNU's MoMo transfer and withdrawal charges shows that MTNU MoMo's average charges as a percentage of transaction amount remain significantly above M-Pesa's, putting pressure on rates to come down, with this boosting the number of transactions

	Withdrawal charges/transaction amount (%)	Transfer charges/transaction amount (%)
MoMo (Nov 2020)	4.89	1.21
MoMo (May 2021)	4.63	
Safaricom M-Pesa	2.82	1.09

Source: MTNU, DBIB Analysis





# FINTECH & DIGITAL REVENUE (4)

## Expectations

### F&D revenue

to rise by a CAGR of 13.3% to UGX 701.3 Bn in FY23 – key revenue driver

### Driver

supported by active F&D subscribers; +CAGR of 12.4% to 12.1 MN active subscribers in FY23 and rising transactions per subscriber (219 by FY23)

### ARPU

to remain fairly flat; a CAGR of 0.9% (FY20 – FY23) to UGX 5,116

### Contribution

rise in the contribution to total revenue, from 25.7% in FY20 to 29.4% in FY21



# FINTECH & DIGITAL REVENUES SUMMARY

	FY16	FY17	FY18	FY19	FY20	FY21F	FY22F	FY23F
Fintech & Digital revenue (UGX BN)	308.9	357.8	378.2	430.9	482.2	543.1	616.0	701.3
% change		15.8%	5.7%	13.9%	11.9%	12.6%	13.4%	13.8%
% contribution	23.6%	24.9%	24.4%	25.1%	25.7%	26.9%	28.2%	29.4%
Revenue per transaction (UGX)	547	589	487	371	321	299	288	281
No of transactions per subscriber	123	125	144	192	186	200	209	219
Fintech & Digital ARPU (UGX)	5,596	6,131	5,825	5,927	4,986	4,993	5,031	5,116
Fintech & Digital ARPU (USD)	1.6	1.7	1.6	1.7	1.4	1.4	1.4	1.4
% change		9.6%	(5.0%)	1.8%	(15.9%)	0.1%	0.8%	1.7%
SCOM M-Pesa ARPU (USD)			2.3	2.5	2.5	2.2	2.5	2.4
Active subscribers (MN)	4.6	5.2	6.3	7.4	8.5	9.6	10.8	12.1
% change		13.0%	21.2%	17.5%	14.9%	13.3%	11.9%	11.9%

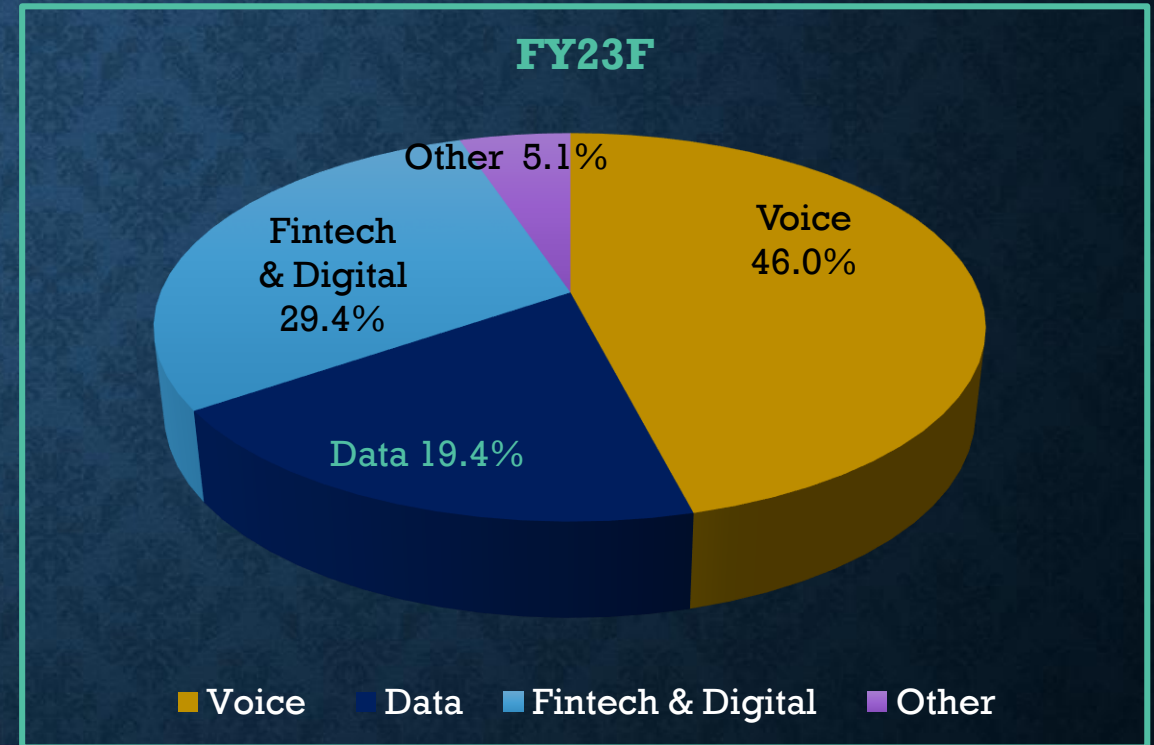
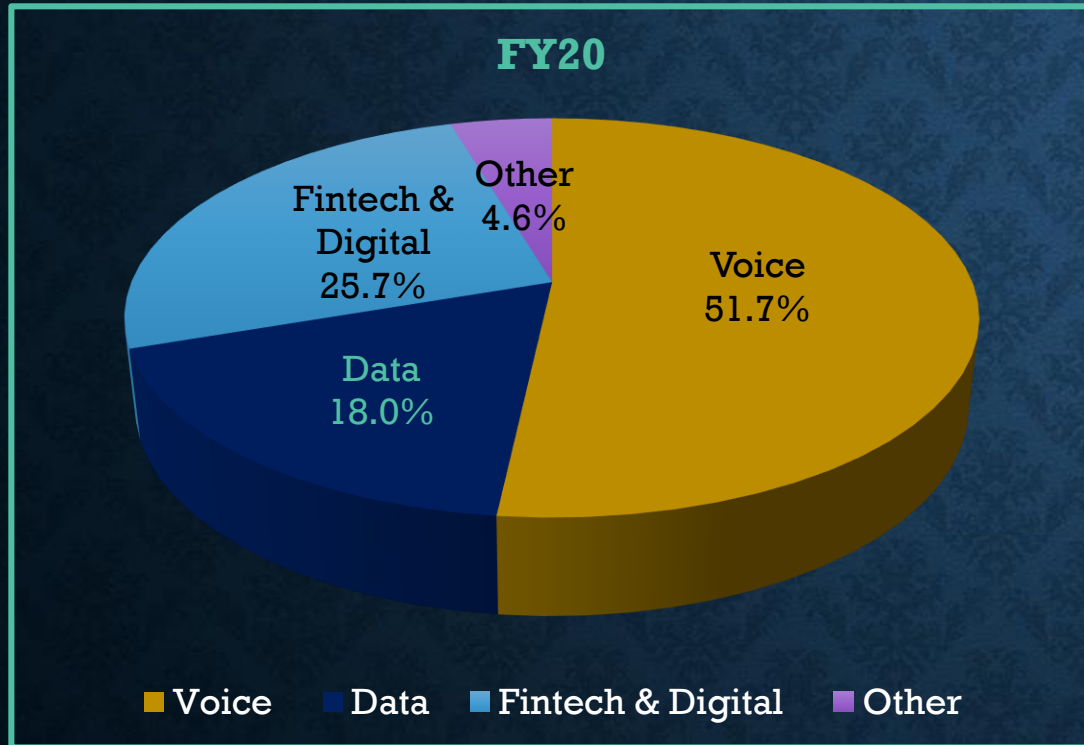
ARPU shown as a monthly figure

Source: MTNU, DBIB Analysis





# REVENUE CONTRIBUTION



*Source: MTNU, DBIB Analysis*



# PROFITABILITY AND RETURNS (1)

- MTNU's PAT have risen steadily; +CAGR of 35.2% (FY16 – FY20) to UGX 321.7 BN
  - growth has translated to an average ROaE of 51.67% (last 4 years)
  - consistent dividend pay-out rate average of 57.22% (last 4 years)
- Between FY20 – FY23, we expect PAT by a CAGR of 10.8%, supported by revenue growth; CAGR of 8.2%
- Flat growth in earnings expected in FY21 due to rising one-off costs (IPO costs, transitional license fees)





# PROFITABILITY AND RETURNS (2)

- MTNU's current dividend policy (approved in November 2020) targets a dividend pay-out of at least 60.0% characterized by 3 dividend payments
  - a first interim dividend after the 1H results,
  - a second interim dividend after 3Q results and
  - a final dividend following the release of FY results
- By 3Q21, MTNU had paid interim dividend totaling UGX 230.0 Bn. Thus, with regard to the final dividend payment in respect of FY21 results, we estimate a final dividend of UGX 2.50, bringing the total dividend pay-out rate in FY21 to 88.7%



# PROFITABILITY AND RETURNS (3)

	FY17	FY18	FY19	FY20	FY21F	FY22F	FY23F
ROaE (%)	47.2	55.5	53.9	50.1	43.3	45.8	43.6
ROaA (%)	10.3	14.4	14.1	12.9	11.6	13.4	14.3
ROIC (%)	27.7	31.4	25.7	24.0	23.9	26.5	27.8
Div. Pay out (%)	66.6	57.4	57.3	47.6	88.7	60.0	60.0
EPS (UGX)	6.82	9.81	12.03	14.37	14.40	17.19	19.55
DPS (UGX)	4.54	5.63	6.89	6.83	12.77	10.31	11.73

*Source: MTNU, DBIB Analysis*





# LEVERAGE

	FY16	FY17	FY18	FY19	FY20		
Total debt (UGX Bn)	402.4	344.9	305.6	822.3	1,023.8	26.3%	CAGR
Debt-to-equity (x)	1.35	0.99	0.69	1.48	1.41	1.18	Average
Debt-to-capital (%)	57.46	49.71	40.86	59.60	58.51	53.2	Average
ROaE (%)		47.21	55.49	53.87	50.14	51.67	Average
Net debt-to-EBITDA (x)	0.94	0.60	0.38	0.88	1.04		
Interest cover ratio (x)	3.25	5.44	8.11	3.79	3.84		

Source: MTNU, DBIB Analysis



# KEY RISKS

- Increasing regulatory pressure
  - Law governing mobile money; National Payment Systems Act, 2020
  - License renewal: New Licensing Framework in 2020 (new NTO license) & listing requirement
- Increasing competition from traditional and non-traditional operators
  - OTT operators: WhataApp, Telegram, Google Meet
  - Traditional operators:





# Q&A





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