

## MTN Nigeria Communications Plc's Series 2 Senior Unsecured Bonds

Rated Entity / Issue	Rating class	Rating scale	Rating	Outlook
N89.999bn Series 2 Senior Unsecured Bonds	Long Term Issue	National	AAA <sub>(NG)</sub>	Stable

### Rating Rationale

The Issuer, MTN Nigeria Communications Plc ("MTN Nigeria" or "the Company"), is the leading domestic provider of cellular telecommunications services, accounting for 37.72% of the Nigerian GSM subscriber base as at 31 December 2021. The Company is a subsidiary of MTN International (Mauritius) Limited, with the ultimate parent company being South Africa based MTN Group. MTN Group has developed into a leading regional cellular telecommunication services provider, with a subscriber base of about 277.3 million across 21 countries in Africa and the Middle East as at end-June 2021. MTN Nigeria is viewed as operationally integral to the Group, accounting for 27.4% of its subscriber base, and around 32.3% of revenue and 36.3% of group EBITDA in FY20.

GCR upgraded the national scale long-term Issuer rating of MTN Nigeria to AAA<sub>(NG)</sub> and affirmed the national scale short-term Issuer rating of A1+<sub>(NG)</sub> in June 2021, with the Outlook accorded as Stable. The ratings reflect the Issuer's very strong competitive position, as well as its strong earnings and cash flow which have supported a robust financial profile.

The Issuer registered a N200bn Bond Issuance Programme ("the Programme") with the Securities and Exchange Commission in May 2021 and subsequently raised N110bn in Series 1 Senior Unsecured Bonds under the Programme. In November 2021, the Issuer raised additional N89.999bn in 12.75% Series 2 Senior unsecured Bond Issue. The Series 2 Bonds have a tenor of ten years, with maturity in 2031, and a seven-year moratorium on principal repayment, but interest will accrue from the issue date and will be payable semi-annually in arrears. At the expiration of the seven-year moratorium, principal redemption will be payable annually, amortising over three (3) equal annual instalments. The Bonds constitute direct, unsecured, senior and unconditional obligations of the Issuer and shall rank pari-passu among themselves and equally with other existing senior unsecured obligations of the Issuer. The Bonds' net proceeds is being utilised to optimise MTN Nigeria's existing funding mix and finance network expansion.

The Programme Trust Deed does not offer the Series 2 Bondholders any security over assets but does feature a negative pledge and other covenants to protect the interest of Bondholders.

Being senior unsecured debt, the Series 2 Bonds rank pari passu with all other senior unsecured creditors of MTN Nigeria. As such, the Series 2 Bonds will bear the same national scale long term rating as that accorded to the Issuer. Accordingly, any changes in MTN Nigeria's long term Issuer rating would impact the Bond rating.

### Outlook Statement

The Stable Outlook reflects GCR's view of MTN Nigeria's leading market position, combined with ongoing capital investments, which will allow the Company to maintain its robust earnings and cash flow, and further strengthen the financial profile.

## Rating Triggers

Given that the rating is intrinsically linked to the Issuer's long-term corporate rating, any change in the rating assigned to the Issuer would affect the Series 2 Bond rating.

## Analytical Contacts

<b>Primary analyst</b> Lagos, Nigeria	Femi Atere Femi@GCRratings.com	Senior Analyst +234 1 904 9462
<b>Committee chair</b> Lagos, Nigeria	Julius Adekeye Adekeye@GCRratings.com	Chief Rating Officer, Nigeria +234 1 9049462

## Related Criteria and Research

Criteria for the GCR Ratings Framework, January 2022  
Criteria for Rating Corporate Entities, January 2022  
GCR Ratings Scales, Symbols & Definitions, May 2019  
GCR's Country Risk Score report, December 2021  
GCR Nigeria Corporate Sector Risk Scores, October 2021  
MTN Nigeria Communications Plc's Issuer rating report, 2019-21

## Ratings History

### MTN Nigeria Communications Plc's Series 2 Senior Unsecured Bonds

Rating class	Review	Rating scale	Rating	Outlook/Watch	Date
Long Term Issue	Initial/last	National	AAA <sub>(NG)</sub> (IR)*	Stable	August 2021

\*IR stands for Indicative Rating

## Rating analysis

### N89.999bn Series 2 Senior Unsecured Fixed Rate Bonds

In May 2021, The Issuer registered a N200bn Bond Issuance Programme with the Securities and Exchange Commission, and subsequently raised N110bn in Series 1 Senior Unsecured Bonds at a coupon rate of 13%. The Issuer raised additional N89.999bn in Series 2 Senior unsecured Bond Issue in November 2021. The Series 2 Bonds constitute direct, unsecured, senior, and unconditional obligations of the Issuer and shall rank pari-passu among themselves and equally with other existing obligations of the Issuer.

Table 1: Basic features	Series 2 Senior Unsecured Bonds
Amount (in Naira)	89,999,000,000
Tenor	10 years
Expected Maturity Date	2031
Coupon	12.75%
Coupon basis	Fixed Rate, payable semi-annually
Principal moratorium	7 years (84 months)
Principal redemption basis	Amortising over three (3) equal instalments, and payable annually after the moratorium period.

## Utilisation of proceeds

The net proceeds of the Series 2 Bonds is being utilised to optimised MTN Nigeria's existing funding mix and finance network expansions.

## Payment Account

The transaction incorporates a Debt Service Payment Account, which is established by the Issuer, but in the name and under the control of the Bond Trustee on behalf of the Bondholders. The Trustee shall keep and maintain the Debt Service Payment Account for as long as the Series 2 Bonds remain outstanding. The Debt Service Payment Account is to be fully funded not later than ten (10) business days before each payment date such that sufficient funds will be available to the Bond Trustee to settle the bond obligation on due dates. The Trustee shall ensure that the funds in the Debt Service Payment Account are utilized for purposes of effecting payments on the Bonds to Bondholders as and when due.

The Issuer irrevocably acknowledges and accepts that the monies in the Debt Service Payment Account, and any other accounts opened by the Issuer (or the Bond Trustee as the case may be), either in addition or replacement of the Debt Service Payment Account from time to time in accordance with the terms of the Series 2 Trust Deed, shall be held by, or assigned by way of security to the Trustee, for itself and the Bondholders, upon similar trusts to those held by the Trustee under the Series 2 Trust Deed.

## Covenants and other security features

The Programme Trust Deed ("PTD") contains various covenants binding the Issuer to repay the Bonds, pay interest and comply with the provisions of the relevant Trust Deeds and all applicable laws. The key covenants set by the Issuer include the following:

- *Covenant of compliance:* The Issuer undertakes to comply with, perform, and observe all the provisions of the Series 2 Trust Deed. The Conditions shall be binding on the Issuer, the Trustee, and the Bondholders.
- *Negative pledge:* For as long as any of the Bonds are outstanding, the Issuer shall not, without the prior written consent of the Bond Trustee, create any security Interest to secure any financial indebtedness, unless the Issuer's obligations under the Bonds are secured equally and rateably with the said obligations or directly or indirectly secure any other financial indebtedness represented by bonds or any other debt securities which are, or are capable of being, traded or listed on any stock exchange or over-the-counter or similar securities market.

The PTD also contains various representations and warranties from the Issuer to protect the interest of the Bondholders.

## Events of default

Per Condition 15 of the PTD, these include the following events, among others;

- **Payment Default:** if the Issuer does not pay any amount in respect of the Bonds within twenty (20) business days of due date;
- **Cross default:** If any financial indebtedness of the Issuer of a value exceeding 50% of the outstanding principal amount and coupon at a relevant time is not paid by due date or within an applicable grace period of twenty (20) business day;
- **Insolvency event** in respect of the Issuer;
- **Breach of other Obligations:** The Issuer does not comply with its other obligations under or in respect of the Bonds, and the non-compliance is not remedied within 30 days after written notice requiring such default to be remedied has been delivered to the Issuer

- Enforcement proceedings against any material assets and having an aggregate value of 50% of the outstanding principal amount and the coupon at the relevant time of the Issuer and such action is not discharged within forty-five (45) days;
- Cessation of business;
- Winding-up or dissolution of the Issuer;
- Material adverse event;
- If any step is taken by any person with a view to the seizure, compulsory acquisition, expropriation or nationalisation of all or a material part of the assets of the Issuer.

Following the occurrence of an event of default and is continuing, a Bond Acceleration Notice may be given to the Issuer, stating that all amounts due to Bondholders will become immediately payable. The Trustee is authorised to take reasonable steps to effect payment.

### Issuer: MTN Nigeria Communications Plc

The Issuer is the leading domestic provider of cellular telecommunications services, accounting for 37.72% of the Nigerian GSM subscriber base as of 31 December 2021. Incorporated in November 2000 as a private limited liability company, it was later converted to a public company in April 2019. MTN Nigeria's competitive position is underpinned by its well-established brand, broad spectrum of licences, substantial infrastructural and network coverage, which allows it to monetise excess capacity and share infrastructure with other domestic operators. The Company is a subsidiary of MTN International (Mauritius) Limited, with the ultimate parent company being MTN Group Limited.

MTN Nigeria has demonstrated sustained earnings progression over the years. Similarly, its EBITDA margin remained strong around 50%-55% in the recent period, trending above international peers. GCR expects MTN Nigeria to continue to maintain solid revenue growth given its growing infrastructure, and Nigeria's favourable demographic.

### Rating considerations for the Series 2 Bond

GCR has considered those factors impacting the general creditworthiness of MTN Nigeria Communications Plc, in performing its analysis. Being senior unsecured debt, Series 2 Bonds bear the same probability of default as the Issuer and would reflect similar recovery prospects to senior unsecured creditors in the event of a default. As such, the Series 2 Bonds garner the same national scale long term rating as that accorded to the Issuer. Accordingly, any change in the Issuer rating would impact the Bond rating.

### Other key counterparties

Counterparty	Role	Counterparty	Role
Chapel Hill Denham Advisory Limited	Lead Issuing House	Vetiva Capital Management Limited	Joint Issuing House
FBNQuest Merchant Bank Limited	Joint Issuing House	ARM Trustees Limited	Bond Trustee
Stanbic IBTC Capital Limited	Joint Issuing House	The New Practice (TNP)	Trustee' advisor
DLM Advisory Limited	Joint Issuing House	Aluko & Oyebode	Solicitor to the Issue
FCMB Capital Markets Limited	Joint Issuing House	Banwo & Ighodalo	Solicitor to the Issuer
Rand Merchant Bank Nigeria Limited	Joint Issuing House	Ernst & Young Professional Services	Auditors

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## Glossary

Bond	A long-term debt instrument issued by either a company, institution, or the government to raise funds.
Bondholder	Investor of capital market securities
Borrower	The party indebted or the person making repayments for its borrowings.
Cash Flow	The inflow and outflow of cash and cash equivalents. Such flows arise from operating, investing and financing activities.
Claim	1. A request for payment of a loss, which may come under the terms of an insurance contract (insurance). 2. A formal request or demand (corporate finance).
Coupon	The interest paid on a bond expressed as a percentage of the face value. If a bond carries a fixed coupon, the interest is usually paid on an annual or semi-annual basis. The term also refers to the detachable certificate entitling the bearer to the interest payment.
Covenant	A provision that is indicative of performance. Covenants are either positive or negative. Positive covenants are activities that the borrower commits to, typically in its normal course of business. Negative covenants are certain limits and restrictions on the borrowers' activities.
Debt	An obligation to repay a sum of money. More specifically, it is funds passed from a creditor to a debtor in exchange for interest and a commitment to repay the principal in full on a specified date or over a specified period.
Enforcement	To make sure people do what is required by a law or rule et cetera.
Exposure	Exposure is the amount of risk the holder of an asset or security is faced with as a consequence of holding the security or asset. For a company, its exposure may relate to a particular product class or customer grouping. Exposure may also arise from an overreliance on one source of funding. In insurance, it refers to an individual or company's vulnerability to various risks
Indicative Rating	An indicative Rating is denoted by an 'IR' suffix to indicate that a credit rating has been accorded based on review of final draft documentation and expectations regarding final documentation.
Interest Cover	Interest cover is a measure of a company's interest payments relative to its profits. It is calculated by dividing a company's operating profit by its interest payments for a given period.
Interest	Scheduled payments made to a creditor in return for the use of borrowed money. The size of the payments will be determined by the interest rate, the amount borrowed or principal and the duration of the loan.
Issuer	The party indebted or the person making repayments for its borrowings.
Lender	A credit provider that is owed debt obligations by a debtor.
Market	An assessment of the property value, with the value being compared to similar properties in the area.
Maturity	The length of time between the issue of a bond or other security and the date on which it becomes payable in full.
Principal	The total amount borrowed or lent, e.g. the face value of a bond, excluding interest.
Rating Outlook	See GCR Rating Scales, Symbols and Definitions.
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
Security	One of various instruments used in the capital market to raise funds.
Senior	A security that has a higher repayment priority than junior securities.
Surveillance	Process of monitoring a transaction according to triggers, covenants and key performance indicators.
Transaction	A transaction that enables an Issuer to issue debt securities in the capital markets. A debt issuance programme that allows an Issuer the continued and flexible issuance of several types of securities in accordance with the programme terms and conditions.
Trust	A third party that acts in the best interest of another party, according to the trust deed, usually the investors. Owner of a securitisation vehicle that acts in the best interest of the Noteholders.
Trustee	An individual or firm that holds or administers property or assets for the benefit of a third party.

## SALIENT POINTS OF ACCORDED RATINGS

GCR affirms that a.) no part of the rating process was influenced by any other business activities of the credit rating agency; b.) the rating was based solely on the merits of the rated entity, security or financial instrument being rated; and c.) such rating was an independent evaluation of the risks and merits of the rated entity, security or financial instrument.

The credit rating has been disclosed to MTN Nigeria Communications Plc and the Transaction Arrangers. The rating above was solicited by, or on behalf of, the rated entity, and therefore, GCR has been compensated for the provision of the rating.

MTN Nigeria Communications Plc and the Arrangers participated in the rating process via tele-conferences and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible. The information received from MTN Nigeria Communications Plc and other reliable third parties to accord the credit rating included:

- 2020 audited annual financial statement, and prior four years annual financial statements,
- Management accounts for the period to 30 September 2021,
- Executed Shelf Prospectus,
- Executed Programme Trust Deed,
- Executed Series 2 Pricing Supplements,
- Executed Series 2 Trust Deed.

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