

MTN Nigeria Communications Plc

₦10,085,600,000 4-Year 13.5% Senior Unsecured Fixed Rate Series 1 Bonds Due 2026 (Tranche A) & ₦104,914,400,000 10-Year 14.5% Senior Unsecured Fixed Rate Series 1 Bonds Due 2032 (Tranche B) Under the ₦200 Billion Bond Issuance Programme

2022 Corporate Bond Final Rating Report

 **Agusto&Co.**

Research, Credit Ratings, Credit Risk Management

MTN Nigeria Communications Plc

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Issue Rating:

Aa+

High quality debt issue with very low credit risk; very strong capacity to pay returns and principal on local currency debt in a timely manner.

Outlook: Stable

Issue Date: 19 January 2023

Expiry Date: 30 September 2023

The final issue rating is subject to annual renewals on the anniversary of the Bond.

Issuer's Rating: Aa+

Expiry Date: 30 June 2023

Industry: Telecommunications

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RATING RATIONALE

- Agusto & Co. hereby assigns a “Aa+” rating to the MTN Nigeria Communications Plc’s (“MTN Nigeria”, “MTN”, “Issuer” or “the Company”) ₦10,085,600,000 4-Year 13.5% Senior Unsecured Fixed Rate Series 1 Bonds Due 2026 (Tranche A) & ₦104,914,400,000 10-Year 14.5% Senior Unsecured Fixed Rate Series 1 Bonds Due 2032 (Tranche B) under the ₦200 Billion Bond Issuance Programme. The assigned Issue rating mirrors the standalone rating of the Issuer, as the bonds are senior unsecured debt and rank pari passu with other senior debts of the Company. MTN Nigeria Communications Plc has a “Aa+” rating by Agusto & Co, which will expire on 30 June 2023.
- In the financial year ended 31 December 2021 (FYE 2021) and the three months (unaudited) ended 31 March 2022 (Q1’2022), MTN Nigeria’s financial condition was characterized by very good and sustainable profitability levels, strong cash flow position, improving leverage metrics, good corporate governance framework, and an experienced and qualified management team. Agusto & Co. notes positively MTNN’s strong leadership position in the Nigerian telecommunications industry, a broad range of spectrum licenses, extensive network coverage, expanding distribution channels, large and growing subscriber base and resilient internal business operations strategy.
- Also supporting the solid performance in the review period is the Company’s strong market competitive advantage, enhanced risk and regulatory framework, disciplined capital allocation strategy as well as growing Fintech and Financial Services segment, especially with the Central Bank of Nigeria’s (CBN) approval of the MoMo Payment Service Bank Limited license and the acquisition of the 5G spectrum license from the Nigerian Communications Commission (NCC) with planned rollout from August 2022. Notwithstanding, we view MTNN’s vulnerability to ongoing regulatory headwinds as well as potential disruptions in the Fintech and digital solutions space as low to medium risk factors.
- MTN Nigeria issued tranches A and B bonds totalling ₦115 billion in September 2022 as part of a Series 1 issuance under the ₦200 Billion Bond Issuance Programme to fund network expansion and 5G rollout (60%), general corporate purposes (20%) and meet working capital requirements (20%). The Series 1 Tranche A Bond, which is a 4-year issue attracts a fixed coupon rate of 13.5% payable semi-annually over the tenor, while the principal will be repaid as a bullet sum upon maturity in 2026. The Tranche B Bond, which is a 10-year instrument also attracts a fixed coupon rate of 14.5% payable half-yearly over the tenor, while the principal will be redeemed in four equal annual instalments, following a six-year moratorium from the issue date.

MTN Nigeria Communications Plc's ₦10.08 billion 4-Year 13.5% Fixed Rate Bond Due 2026 (Tranche A) & ₦104.91 billion 10-Year 14.5% Fixed Rate Bond Due 2032 (Tranche B)

TRANSACTION PARTIES

Issuer:

MTN Nigeria Communications Plc

Lead Issuing House/Book Runner:

Chapel Hill Denham Advisory Limited

Joint Issuing Houses:

Vetiva Capital Management Limited
ABSA Capital Markets Nigeria Limited
Stanbic IBTC Capital Limited
United Capital Plc
FCMB Capital Markets Limited
Rand Merchant Bank Nigeria Limited
Renaissance Securities (Nigeria) Limited

Trustees:

ARM Trustees Limited

Legal Adviser to the Trustee:

The New Practice (TNP)

Solicitors to the Issue:

Aluko & Oyeboode

Solicitors to the Issuer:

Banwo & Ighodalo

Reporting Accountants:

Deloitte & Touche

Auditors:

Ernst & Young Professional Services

Registrars:

Coronation Registrars Limited

Stockbrokers:

Chapel Hill Denham Securities Limited
Quantum Zenith Securities Limited
Vetiva Securities Limited

Receiving Banks:

Access Bank Plc
Zenith Bank Plc

KEY TRANSACTION STRUCTURE

Bond Tenor:

Tranche A: 4 years with semi-annual coupon payment and bullet repayment of principal.
Tranche B: 10 years with semi-annual payment of coupon. However, the principal is subject to a 6-year moratorium and payable annually thereafter.

Bond Status:

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

Use of Bond Proceeds:

The net proceeds will be used to optimize the existing funding mix and finance network expansion.

Source of Repayment:

Operating cash flow of MTN Nigeria Communications Plc.

Payment Account:

The Issuer shall establish a Payment Account under the control of the Trustees which shall be funded at least 10 business days before the next payment date

Listing:

FMDQ Securities Exchange Limited

The bonds do not have an early redemption option and are expected to be redeemed in line with the Trust Deeds over their respective tenors.

- The Series 1 bonds are 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 present and future except for obligations mandatorily preferred by law. In addition, MTN Nigeria unconditionally and irrevocably guarantees to pay the coupon and redeem the principal amount from its operating cash flow.
- In line with the Series 1 Tranches A & B Trust Deeds, a Payment Account (PA) shall be opened by the Issuer under the control and management of the Bond Trustees for the benefit of the Bondholders. As long as the bonds remain outstanding, the Issuer will be required to fund the PA with the amount required to meet its payment obligations comprising coupon and principal due no later than 10 business days before the next payment date.
- Based on our analysis, we expect the Company's leverage level to moderately increase on account of the additional longer-term debt to be introduced into its funding mix. Notwithstanding, leverage is expected to be within acceptable limits premised on the Company's robust earnings capacity. Furthermore, we view MTN's planned capital expenditure in deploying 4G across key cities in Nigeria and rollout of 5G services as rating positives given that they will complement management's medium-term 'Ambition 2025' strategic intent which is focused on leading digital solutions for Africa's progress where everyone has the benefit of a modern connected life. Thus, we expect the overall financial condition of the Company in the near to medium term to remain very good, underpinned by its strong cash-generating capacity and very good profitability.
- Going forward, Agosto & Co. believes that MTN Nigeria is well-positioned to benefit from the growth in the telecom, fintech and financial services space due to the commencement of the MoMo Payment Service Bank commercial operations in May 2022 and the increasing scope of agency banking services with a network of over 10.7 million MoMo users. In our view, MTN Nigeria is strategic to the country as it provides support infrastructure and connectivity for various industries and businesses in the nation.
- Based on the aforementioned, we hereby attach a **stable** outlook to the MTN Nigeria Communications Plc's Series 1 Tranches A & B Bonds.

This Bond Rating Report should be read in conjunction with Agosto & Co.'s 2022 Corporate Rating Report for MTN Nigeria Communications Plc

Figure 1: Strengths, Opportunities and Threats

Strengths

- Market leader in the Nigerian telecommunications industry
- Extensive network coverage, with one of the largest private fibre networks in Africa (*circa* 33,756 km)
- Broad spectrum licenses providing competitive advantage
- Extensive product and service offerings
- Strong brand value
- Very good profitability
- Strong cash flow
- Experienced and qualified management team
- Good corporate governance framework
- Acquisition of Payment Service Bank License

Opportunities

- Nigeria's large unbanked and youthful population presents strong potentials for growth especially in the fintech space
- Large unserved rural communities
- Emerging spectrum trading and active network sharing to provide operators avenue to reduce cost
- Low data and smartphone penetration in Nigeria with rising digital adoption rates
- Increasing demand for data services on the back of Covid-19 pandemic
- New SIM registration providing credible subscriber records for targeted services

Threats

- Regulatory risks
- Growing competition in the data space, with new entrants and emerging digital solution providers could distort margins and market dynamics
- Subscriber restriction due to the ongoing National Identification Number (NIN) linkage

ISSUER'S PROFILE

Overview

MTN Nigeria Communications Plc ("MTN Nigeria", "MTNN", "the Issuer" or "the Company") is the leading mobile operator and provider of GSM cellular telecommunications services in Nigeria. The Company was incorporated in November 2000 as a private limited liability company and was granted a licence by the Nigerian Communications Commission (NCC) in February 2001 (commercial operations began in August 2001) to undertake GSM Cellular Network Systems and other related services in Nigeria. MTN Nigeria is a member of the MTN Group – Africa's leading cellular telecommunications company with a presence in 21 countries in Africa and the Middle East with over 270 million subscribers.

MTN Nigeria has grown organically and also through acquisitions over the last 20 years to remain the leader in the mobile voice and upstream market segment in Nigeria with over 70.2 million subscribers¹ representing 50.8% of the subscriber market share as at the end of March 2022. In addition, MTN Nigeria owns the longest private fibre optic cable coverage of over 33,756 kilometres in Africa and has built over 15,000 base transmission stations in the Country. As at the end of March 2022, the Company had circa 35.9 million active data subscribers, 10.4 million active MoMo users and 3.3 million ayoba subscribers and has also grown its network spread to 71.7% 4G population coverage, 82.9% 3G population coverage, 91.5% 2G population coverage, 51.1% Data penetration and 50% smartphone penetration. In our view, MTN Nigeria is strategic to the country's telecommunication industry as it provides backbone infrastructure and connectivity for various sectors, and serves as a 'carrier of carriers' in the telecom Industry.

MTN International (Mauritius) Limited is the holding company of MTN Nigeria Communications Plc and its ultimate holding company is MTN Group Limited - incorporated in South Africa. MTN Group through MTN International (Mauritius) Limited is the single largest shareholder accounting for 72.83% of the Company's shares as at end of March 2022 with plans to sell down up to 10.75% of its equity holdings in the near to medium term. The Company has three wholly-owned subsidiaries namely XS Broadband Limited, Visafone Communications Limited and Yello Digital Financial Services Limited. MTN Nigeria together with these subsidiaries is referred to as the MTN Nigeria Group. In April 2022, the Central Bank of Nigeria gave final approval and license to MTN Nigeria to operate the Momo Payment Service Bank Limited. This will enable the Company to offer financial services to its customers and drive financial inclusion in Nigeria. Also, MTNN plans to roll out 5G services from August 2022 (following the acquisition of the 5G spectrum license - with a 100MHz lot in the 3.5 GHz spectrum band) which will further position the Company to deepen broadband penetration, enhance customer experience and unlock new revenue streams.

The Company is governed by a 15-member Board of Directors, with Dr Ernest Ndukwe as the Chairman while Mr Karl Toriola is the Chief Executive Officer. The Board comprises ten non-executive directors, three independent non-executive directors and two executive directors, who are all well versed in board management. MTN Nigeria's Board of Directors maintains four sub-committees (Audit Committee; Risk Management and Compliance Committee; Nomination and Governance Committee; and Remuneration, Human Resources, Social and Ethics Committee) and a Statutory Audit Committee, providing oversight to management. MTNN's executive management team comprises 15 members, with vast industry experience across countries and most have worked in various capacities within the MTN Group for over 10 years. In our view, MTN Nigeria has a good corporate governance structure and an experienced and qualified management team.

¹ Nigerian Communications Commission (NCC) – 1 June 2022 Industry Statistics – puts MTN's subscriber base at 76.2 million

Performance Review

As at 31 March 2022 (unaudited), MTN Nigeria Communications Plc had total assets of ₦2.48 trillion (FYE 2021: ₦2.28 trillion) and shareholders' funds of ₦391.2 billion. The Company generated a turnover of ₦470.7 billion and recorded a profit after tax of ₦98.9 billion during the first three months ended 31 March 2022. As at the same date, the Company's total outstanding interest-bearing debts stood at ₦494.7 billion (FYE 2021: ₦493.3 billion) while contingent liabilities were ₦1.6 billion (FYE 2021: ₦12.1 billion).

In April 2022, NCC announced its decision not to extend the deadline for the National Identification Numbers (NIN) - Subscriber Identification Module (SIM) linkage and required all mobile telecommunications operators to restrict outgoing calls for subscribers who have not completed the NIN-SIM linkage. MTN Nigeria's management disclosed that about 60 million subscribers (representing 85% of the subscriber base) have linked their NINs as at end of April 2022.

Agusto & Co. notes that the alleged revenue indebtedness and income leakages reconciliation with the Federal Inland Revenue Service, Nigerian Customs Services and House of Representatives Committee on Finance remain unresolved as at end of May 2022. However, we do not foresee any material impact on the Company's operations in the near term given its enhanced risk and regulatory framework which has seen MTN win awards for tax compliance² as well as its continued support of government initiatives such as participating in the Road Infrastructure Tax Credit (RITC) Scheme with the rehabilitation of the Enugu-Onitsha Expressway (110km).

Going forward, we note positively that MTN Nigeria remains well-positioned to benefit from new subscribers' acquisition (post-NIN verification and linkage) given its wide network coverage and availability, expanded recharge options, aggressive deployment of rural telephony initiatives, increasing 4G/3G/2G network coverage as well as evolving pricing regime. This view is further reinforced by the burgeoning number of Nigerians (estimated at 15 million³) without SIM cards as well as the rising annual population growth rate, low smartphone penetration of 50%, increasing scope of agency banking services with a network of over 10.7 million active MoMo users, planned launch of 5G services to deliver enhanced value and speed as well as unlocking huge fintech opportunities with the commencement of the MoMo Payment Service Bank commercial operations in May 2022. In our view, MTN Nigeria remains strategic in the telecom industry premised on its dominant status of controlling over 50% of the market share of subscribers.

MTN Nigeria's management has disclosed plans to continuously diversify its funding sources and lower average borrowing costs while mitigating exposure to foreign exchange risk by accessing the local debt capital market for longer-term financing. Agusto & Co. expects the Company's leverage level to moderately rise on account of the additional longer-term debt to be introduced into its funding mix after the issuance of the up to ₦100 billion Series 1 Bonds in Q3'2022. Notwithstanding, we expect the overall leverage position to be within acceptable limits bolstered by the Company's robust earnings capacity.

Going forward, we expect the Company's double-digit revenue growth to be sustained in the near term mainly from data, voice and Fintech services segments. Also, we expect MTN Nigeria's profitability to remain good buoyed by its ongoing cost efficiencies with a target EBITDA margin guidance of 53 -55% in the near term. Furthermore, we expect MTN's cash flow to remain strong bolstered by the favourable trade terms with customers and suppliers. Agusto & Co. also anticipates continued improvement in MTN's funding structure as additional longer-term debt is injected into its funding mix.

In our opinion, MTN Nigeria Communications Plc possesses a very strong capacity to meet existing debt obligations and the proposed Series 1 Bond obligations from its operating cash flow in a timely manner.

² In April 2022, MTN Nigeria was recognized with two awards by the Federal Inland Revenue Service (FIRS) as the Most Tax Compliant Organization and also as part of the Top 20 Taxpayers in Nigeria for the 2021 tax year.

³ Agusto & Co. Research



TRANSACTION STRUCTURE

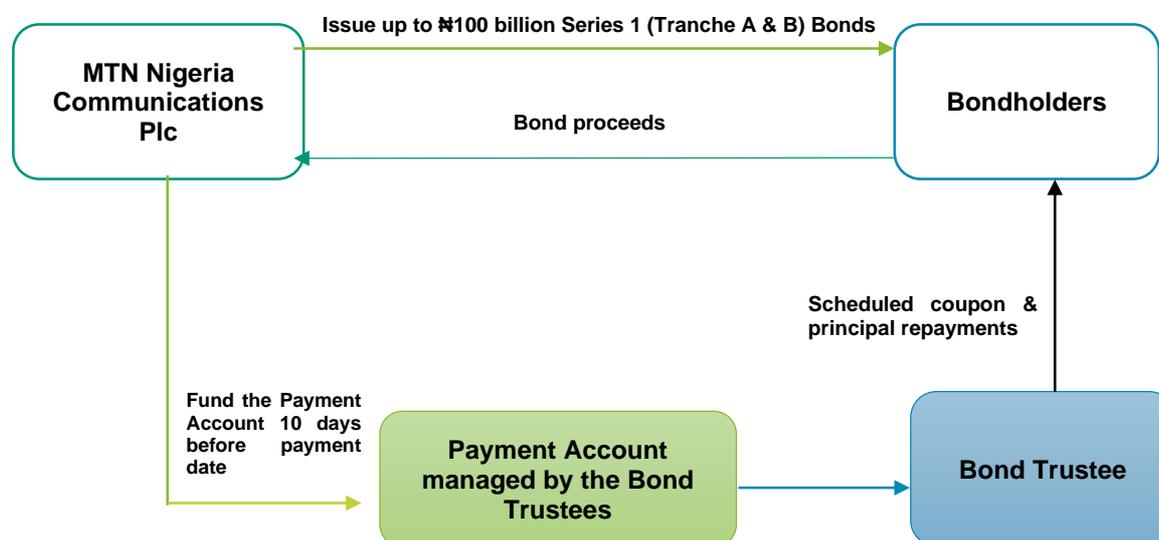
Overview

MTN Nigeria Communications Plc (“MTN Nigeria”, “the Issuer”, “MTNN” or the “Company”) issued ₦115 billion Series 1 Bond split into two tranches: ₦10,085,600,000 4-Year 13.5% Senior Unsecured Fixed Rate (Tranche A) Bonds Due 2026 & ₦104,914,400,000 10-Year 14.5% Senior Unsecured Fixed Rate (Tranche B) Bonds Due 2032 in September 2022 under the ₦200 billion Bond Issuance Programme. The Tranche A Bond fixed coupon rate of 13.5% will payable semi-annually over four years, while the principal will be redeemed as a bullet at maturity in 2026. The Tranche B Bond fixed coupon rate of 14.5% will be payable semi-annually over ten years, while the principal amount will be repaid in four equal annual payments following a six-year moratorium from the Issue date until maturity in 2032.

In line with the Series 1 Tranches A & B Pricing Supplements, the bonds do not have an early redemption option and are expected to be repaid over their respective tenors. The net proceeds of the entire Series 1 issuance will be used to fund network expansion and 5G rollout (60%), general corporate purposes (20%) and meet working capital requirements (20%).

The bonds which shall be issued by way of an offer for subscription through a book-building process to Qualified Institutional Investors and High Net Worth Individuals, will be subject to the approval of the Securities & Exchange Commission and will be listed on FMDQ Securities Exchange Limited. In the event of an oversubscription, the Issuer may issue up to an additional 15% of the qualifying Book in line with prevailing regulations.

Figure 2: Overview of the Transaction Structure



Source: Agosto & Co (adapted from the MTNN Series 1 Tranches A & B Pricing Supplements)

Similar to the existing bonds in issue, the coupon and principal repayment obligations of the Series 1 Tranches A & B bonds will be made out of the Payment Account (PA), under the control and management of the Bond Trustees (ARM Trustees Limited) with the Account Bank. As long as the Series 1 bonds remain outstanding, the Issuer will be required to fund the PA with all amounts due no later than 10 business days before the next coupon payment date or the redemption payment date as the case may be.

In line with the Tranches A & B Trust Deeds, the Bond Trustee shall, no later than 21 days before the payment date, issue a written notice to MTN Nigeria notifying it of the next coupon payment date and the obligation to fund the Payment Account. The Issuer irrevocably acknowledges and accepts that the monies in the PA, and any other account in line with the Trust Deed, shall be held by the Trustee for the benefit of the Bondholders.

Details of Indebtedness

As at 31 March 2022 (Q1'2021) unaudited, the Company's total outstanding interest-bearing debts stood at ₦494.7 billion (FYE 2021: ₦493.3 billion) split into local currency (72%) and foreign borrowings (22%). Agosto & Co. notes positively that MTN Nigeria's financing strategy over the last three years has been to use more local funding to mitigate the impact of foreign exchange rate volatility on its financial liabilities. Further analysis of the Company's interest-bearing debt stock as at end of Q1'2022 is stated in table 1 below.

Table 1: Status of Indebtedness of MTN Nigeria Communications Plc as at 31 March 2022

Unsecured borrowings	Description of Facility	Q1'2022 (₦ Billion)
Facility M (Local currency borrowing)	₦200 billion local currency syndicated term loan with 12 banks maturing in 2025, variable interest loan, linked to average 3-Month NIBOR plus a margin of 1.75%	109
Facility N (local currency borrowing)	₦200 billion local currency syndicated term loan with 7 banks maturing in 2026, variable interest loan, linked to average 3-Month NIBOR plus a margin of 1.75%. ₦75 billion of this facility was prepaid from the proceeds of the Series 1 Bond to reduce exposure to volatility in short-term interest rates.	45
Facility O (foreign currency borrowing)	\$95 million syndicated facility from AFC and RMB obtained in 2020 under two tranches (01: \$15 million and 02: \$80 million) with a one-year moratorium at 6-Month LIBOR plus a margin of 5.55%. The outstanding balance as at Q1'2022 was \$76 million.	42.6
Local bonds	Series I: ₦110.001 billion 7-year 13% Fixed Series I Bond Due 2028. Principal repayment will occur twice in 2027 and 2028 respectively. Series II: ₦89.999 billion 10-year 12.75% Fixed Series II Bond Due 2031. Principal repayment will occur twice in 2030 and 2031 respectively.	200
Trade loans	\$470 million trade loans for the establishment of Letters of Credit with various banks in Nigeria. The loans are cash-backed and \$236 million was due and unpaid as at 31 March 2022 as trade loans for Letters of Credit.	98.1
Total		494.7

Source: MTN Nigeria Communications Plc's Financial Statements Q1'2022 (unaudited)

Post the end of Q1'2022, MTN Nigeria Communications Plc raised ₦127 billion through commercial paper issuance comprising two series (184-day 7.5% Series 1 issuance & 254-day 8.5% Series 2 issue) in April 2022. The Company also plans to issue up to ₦100 billion Series 1 Bond in the third quarter of 2022 to fund capital expansion and general corporate purposes. After the issuance of the Series 1 bond, MTNN's total interest-bearing debt obligation is expected to rise to circa ₦630 billion by the end of Q3'2022.

OUTLOOK

MTN Nigeria Communications Plc issued ₦115 billion as aggregate amount under a Series 1 issuance in September 2022 in two tranches, following the successful issue of ₦110.001 billion 7-Year 13% Bonds due 2028 Series 1 Bond (in May 2021) and ₦89.999 billion 10-year 12.75% Bonds due 2031 Series 2 Bond (in December 2021) under the first ₦200 billion Bond Issuance Programme. Augusto & Co. notes that the proposed Series 1 Bonds under this new ₦200 billion Bond Issuance Programme will moderately increase the Company's leverage, as only a small proportion of the proceeds will be used to refinance existing borrowings. However, we recognise that the deployment of a significant portion (60%) to fund capital expansion projects is expected to result in a further increase in earnings in the near to medium term, which will cushion the impact of the higher debt obligations on the Company's financial performance.

Going forward, we expect MTN Nigeria's profitability to remain good supported by its ongoing efficiency campaign with a target EBITDA margin guidance of 53 -55% in the near term. Also, we expect the double-digit revenue growth to be sustained in the near term from data, voice and Fintech services segments. The Payment Service Bank (PSB) license is projected to boost growth in Fintech revenue through the offering of financial services to its customers. Furthermore, we expect MTNN's cash flow to remain strong bolstered by the favourable trade terms with customers and suppliers. In addition, we anticipate continued improvement in MTNN's funding structure as more longer-term debt is injected into its funding mix.

Overall, we expect the financial condition of the Company to remain very strong over the near to medium term, underpinned by its strong market competitive advantage, good cash-generating capacity and very strong profitability levels. Based on the aforementioned, we hereby attach a **stable** outlook to MTN Nigeria Communications Plc's Series 1 Tranches A & B bonds.

This Bond Rating Report should be read in conjunction with Augusto & Co.'s 2022 Corporate Rating Report for MTN Nigeria Communications Plc

RATING DEFINITIONS

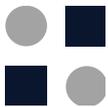
Aaa	Highest quality debt issue with minimal credit risk; strongest capacity to pay returns and principal on local currency debt in a timely manner.
Aa	High quality debt issue with very low credit risk; very strong capacity to pay returns and principal on local currency debt in a timely manner.
A	Good quality debt issue with low to moderate credit risk; strong capacity to pay returns and principal on local currency debt in a timely manner.
Bbb	Satisfactory quality with moderate credit risk; adequate capacity to pay returns and principal on local currency debt in a timely manner.
Bb	Below average quality with moderate to high credit risk; speculative capacity to pay returns and principal on local currency debt in a timely manner.
B	Weak quality with high credit risk; speculative capacity to pay returns and principal on local currency debt in a timely manner.
C	Very weak capacity to pay returns and principal. Debt instrument with very high credit risk.
D	In default.

Rating Category Modifiers

A "+" (plus) or "-" (minus) sign may be assigned to ratings from 'Aa' to 'C' to reflect comparative position within the rating category. Therefore, a rating with + (plus) attached to it is a notch higher than a rating without the + (plus) sign and two notches higher than a rating with the - (minus) sign.

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