



Credit Rating Announcement

GCR affirms MTN Nigeria Communications Plc's national scale long-term Issuer rating of AAA_(NG), Outlook Stable.

Rating Action

Lagos, Nigeria, 30 June 2022 – GCR Ratings ("GCR") has affirmed the national scale long-term and short-term Issuer ratings of AAA_(NG) and A1+_(NG) respectively accorded to MTN Nigeria Communications Plc, with the Outlook accorded as Stable. Concurrently, GCR has affirmed the national scale long term Issue rating of AAA_(NG) accorded to each of MTN Nigeria Communications Plc's existing Senior Unsecured Bond Issues, with the Outlook accorded as Stable.

Rated Entity / Issue	Rating class	Rating scale	Rating	Outlook / Watch
MTN Nigeria Communications Plc	Long-Term Issuer	National	AAA _(NG)	Stable Outlook
	Short-Term Issuer	National	A1+ _(NG)	--
N1110bn Series 1 Senior Unsecured Bond	Long-Term Issue	National	AAA _(NG)	Stable Outlook
N90bn Series 2 Senior Unsecured Bond	Long-Term Issue	National	AAA _(NG)	Stable Outlook

Rating Rationale

The rating affirmation is driven by MTN Nigeria Communications Plc's ("MTN Nigeria" or "the Company") strong competitive position within the Nigerian telecommunications sector, which continued to support robust earnings and cash flow, and solid leverage metrics.

The competitive position remains a positive rating factor, given MTN Nigeria's deep market penetrating capabilities, rapidly growing network infrastructure, and strong subscriber base. As of 30 April 2022, MTN Nigeria remains the leading mobile operator and provider of communication services in Nigeria, accounting for 38% of Nigeria's GSM subscriber base. The competitive position is further supported by our expectation that the Nigerian telecoms sector will remain resilient in 2022 in terms of earnings and margins, despite the increasingly volatile operating environment. GCR expects the Company's competitive position to be sustained over the medium term by strong customer acquisition, revenue generation, cost flexibilities and continuous expansion of network infrastructure.

Management and Governance factors remain neutral to the ratings. However, GCR notes that the USD1.3bn tax dispute between the Company and the Federal Inland Revenue Service has yet to be resolved.

The Company's earnings profile is also a positive rating factor, driven by strong revenue growth and solid margins. Despite the net loss of 8 million subscribers in 2021 (end-2020: 76.5m), and restrictions placed on certain locations due to insecurity, revenue grew by 23% in FY21 (5-Year average: 16%) on the back of strong network infrastructure capitalisation and coverage, and a growing active mobile subscriber base. Also noteworthy is the ongoing diversification in the revenue mix especially with the data business catching up with voice as a significant contributor. In FY21, the number of 4G sites on its network grew by over 100%, resulting in 4G population coverage of 70% (FY20: 60%). GCR expects revenue growth to average 13% over the medium term, driven by increase in smartphone penetration and sustained financial inclusion drive (through the fintech business). Similarly, the EBITDA margin remained strong at 53.1% in FY21 and is expected to hover within the 50%-55% band in the coming years, taking cognisance of

the persistent inflationary pressures facing international and domestic markets, and the potential impact of foreign exchange illiquidity in Nigeria.

Leverage and capital structure is considered a strong rating driver despite the Company's growing debt profile. This is because MTN Nigeria has maintained robust earnings and operating cash flows and is committed to significantly reducing foreign currency proportion of its gross debt. Accordingly, net debt to EBITDA moderated to 1.05x at FY21 (FY20: 1.28x), and further to 1.01x in 1Q FY21 due to significantly higher EBITDA and a stronger cash position. In addition, operating cash flow coverage of debt remains adequate, hovering between 50% and 80%, while interest cover registered within the 7x-8x range. The Company plans to issue local currency bonds of up to N200bn in FY22 to partly refinance maturing obligations, finance network infrastructure expansion and general corporate purposes. This should see gross debt rise to N1.38trn (inclusive of about N727bn in lease liabilities) by FY22. Notwithstanding the projected debt level, we do not expect a material deterioration in the metrics over the next 18 months, however, some pressure could emanate from the high inflationary environment amidst foreign currency shortages.

GCR considers MTN Nigeria's liquidity profile a neutral rating factor due to the counterbalancing effect of strong cash flows on liquidity coverage, against high capex requirements and expected robust dividend payments. While the Company's strong operating cash flows and cash position were duly factored into the liquidity assessment, GCR notes that coverage of sources versus uses falls short of a positive assessment. The Company has nearly maxed out its committed facility lines with banks and is yet to obtain new funding commitments. However, plans are underway to reopen credit lines with various financiers. GCR views this positively given the Company's relatively easy access to capital, backed by well-established relationships with leading local and international financial institutions. Overall, the liquidity sources versus uses coverage is estimated at 1.27x and 1.04x over a 12-month and 24-month period respectively.

GCR has factored in group support into the rating, given that MTN Nigeria is operationally critical to MTN Group Limited, and is well assimilated into the MTN Group brand.

The N110bn Series 1 and N90bn Series 2 Bonds are senior unsecured debt of MTN Nigeria, ranking *pari passu* with all other senior unsecured creditors. As such, the Bonds bear the same national scale long term corporate rating of MTN Nigeria. Accordingly, any change in MTN Nigeria's long term Issuer rating would impact the Bonds ratings.

Outlook Statement

The Stable Outlook reflects GCR's expectation of sustained strong earnings and cash flow performance, which should support the Company's liquidity and leverage positions.

Rating Triggers

A national scale upgrade is not possible as MTN Nigeria's long-term and short-term ratings are the highest possible achievable on GCR's national rating scale. However, a material deterioration in earnings and margins arising from risk factors such as adverse regulatory developments and currency risk could result in a downgrade especially if leverage profile becomes pressured due to inflated funding requirements.

Analytical Contacts

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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 2022

GCR Country Risk Scores, June 2022

GCR Nigeria Corporate Sector Risk Scores, April 2022

Ratings History

MTN Nigeria Communications Plc					
Rating class	Review	Rating scale	Rating	Outlook/Watch	Date
Long-Term Issuer	Initial	National	AA _(NG)	Stable	June 2019
Short-Term Issuer	Initial	National	A1+ _(NG)		
N110 Series 1 Bonds – LT Issue	Initial	National	AA _(NG)	Stable	January 2021
N90bn Series 2 Bonds – LT Issue	Initial	National	AA _(NG)	Stable	August 2021
Long-Term Issuer	Last	National	AAA _(NG)	Stable	June 2021
Short-Term Issuer	Last	National	A1+ _(NG)		
N110 Series 1 Bonds – LT Issue	Last	National	AAA _(NG)	Stable	June 2021
N90bn Series 2 Bonds – LT Issue	Last	National	AAA _(NG)	Stable	August 2021

RISK SCORE SUMMARY

Risk score	
Operating environment	7.25
Country	3.75
Sector	3.50
Business profile	2.00
Competitive Position	2.00
Management and Governance	0.00
Financial profile	3.75
Earnings	2.00
Leverage & Capital Structure	1.75
Liquidity	0.00
Comparative profile	2.50
Group Support	2.25
Peer Analysis	0.00
Total Risk Score	15.25

GLOSSARY

Credit Rating	See GCR Rating Scales, Symbols and Definitions.
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.
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
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.
Issuer	The party indebted or the person making repayments for its borrowings.
Leverage	With regards to corporate analysis, leverage (or gearing) refers to the extent to which a company is funded by debt.
Long Term Rating	See GCR Rating Scales, Symbols and Definitions.
Short Term Rating	See GCR Rating Scales, Symbols and Definitions.
Short Term	Current; ordinarily less than one year.

SALIENT POINTS OF ACCORDED RATINGS

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

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

MTN Nigeria Communications Plc 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 ratings included:

- 2021 audited annual financial statements, and prior four years annual financial statements.
- A three-month management accounts to 31 March 2022.
- Internal and/or external management reports.
- Industry comparative data and regulatory framework and a breakdown of facilities available and related counterparties.
- Information specific to the rated entity and/or industry was also received.

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