MTN Group

Q1 2024 Trading Update Call

Tuesday 14 May 2024

Thato Motlanthe

Good day to everybody. Thank you for joining us on this call to discuss the MTN Group's trading update for the period ended 31 March 2024. My name is Thato Motlanthe, I look after Group Investor Relations, and on the call with me I've got Ralph Mupita, who's our Group CEO. We've also got Tsholo Molefe, our Group CFO, and also joining us on the call this afternoon is Charles Molapisi who's the CEO of MTN South Africa, as well as Dineo Molefe who is the CFO of MTN South Africa.

So our trading update was published this morning on the JSE and posted on our website on the Investor Relations page. I trust that you've had a chance to look at it this morning, along with the Q1 releases from our listed Opcos. These were published over the past couple of weeks and hopefully you've been able to join their investor calls as well.

For today's call, we present a bit of a focused overview of our Q1 performance, reiterating the key highlights, before we open up for Q&A. The running order, as usual, will be Ralph kicking us off with an overview of the commercial performance, as well as the key issues. Tsholo will follow up with an overview of the financial highlights, and then Ralph will come back to round up the key focus areas, and the outlook.

After that, we'll go into Q&A, and I would encourage you to enter your questions on the webcast platform, which I will read out at the end. We scheduled about an hour for this call at which point we will wrap up, and then you can send me any additional questions which we aren't able to cover. On that note, let me hand over to Ralph for introductory comments.

Ralph Mupita

Thank you, Thato, and a very good afternoon to you all. I trust everybody's keeping well.

In terms of our Q1 trading update, we are encouraged to have delivered a resilient performance for the period in what continues to be a challenging macro backdrop. And before going into the trading update highlights, it's important to just touch on the environment we continue to navigate in the period.

From a macroeconomic perspective, inflation and interest rates in some of our key markets remained elevated during Q1. It was encouraging to see the overall inflation trend improving, and to give you a sense of that, the blended rates of inflation across our footprint averaged around 13.7% in Q1 2024. This compared favourably to 18.5% in Q1 2023 and 15.4% in Q4 2023.

We also saw local currencies under pressure, particularly the naira, which continued to devalue against the dollar during the period. You would have seen from MTN Nigeria's reporting, the business delivered strong underlying commercial momentum, despite the financial impact of the sharp devaluation of the naira.

There were a number of other factors impacting us in the period, including the ongoing civil war in Sudan: this severely affected network availability and revenue generation in that market. Most of you will also be aware of the cable cuts that caused major disruptions and outages, especially in West Africa. In terms of regulatory issues, we reported to you in the past about the impact of SIM registration regulations in a number of our markets, notably Nigeria and Ghana. This mainly impacted our subscriber development during the period, but we do believe that we managed the impacts well, sustaining service revenue growth.

Tsholo and I will cover three areas in our overview commentary this afternoon to run as follows: Firstly, the overall performance highlights; a summary of the financial review which Tsholo will cover; I will then come back at the end to conclude with some priorities and outlook comments.

So let me start on our performance highlights.

We continue to invest in our networks and we deployed R5.4 billion of capex ex-leases, reflecting an overall capex intensity of 11.8%.

We delivered overall service revenue growth of 11.1% in constant currency terms, with EBITDA up 3.9%, with the underlying margin down 2.5 percentage points to 38.1%, that's all in constant currency terms.

In terms of our commercial progress, our subscriber base increased by three million to 288 million. As I mentioned, this was impacted by subscriber registration regulations in Ghana and Nigeria, as well as a decline in subscribers in Sudan amid the ongoing conflict.

Active data subscribers were up 7.8%, to 149.2 million, supporting the increase in data traffic in our networks. We are pleased with the continued strong demand for our services which underpin our medium-term growth thesis. In this regard, data traffic was up 36.2% year-on-year, 32.2% excluding the joint ventures.

MTN South Africa put in another resilient Q1, given the pressures in that market, with service revenue up by 3% year-on-year. Within this mix, the data performance was impacted by initiatives implemented to recover legacy Xtratime data advanced balances through data bundles, which slowed revenue development. They have now completed the network resilience plan and are positioned to manage loadshedding and maintain good network availabilities up to stage eight.

Subscribers increased by 3.3% to close at 37 million, while data traffic growth was up 42%. This includes the strong growth in FWA products, as the business accelerated penetration in that market. This is a particular area of focus in terms of MTN SA's pricing priorities, where there are some initiatives being implemented to enhance revenue yield.

MTN Nigeria reported its results at the end of April. Under the circumstances they delivered quite a solid underlying operating performance, given the sharp naira devaluation impacting the financial results. Data traffic in particular was quite robust and grew by 41%, which supported MTN Nigeria's strong underlying top-line performance. Constant currency service revenue for MTN Nigeria grew by about 32% in the quarter, which was once again ahead of local inflation.

Within our Markets portfolio, MTN Ghana put in another stellar performance. They reported at the end of April: their Q1 very strong service revenue growth of 32% in constant currency, with a strong contribution from data and fintech. The results were supported by pricing initiatives implemented in the market, especially for data.

For Group Fintech, year-on-year transaction volumes and value grew by around 18% and 11%, respectively, as we ramped up the focus on monetisation. You would recall our comments from full year 23 results: this is a major priority for 2024. This is really to ensure that we balance the expansion of our ecosystem with revenue and cash flow growth. The initiative in key markets include changes in B2B and C2B activities, where we're pushing more transactions into merchant ecosystem for higher monetisation. We have intensified bill collection initiatives, optimising our pricing in order to improve take rates. In remittances, we are enhancing our model to enhance better pricing, especially in terms of rates charged to our partners. We are also pursuing high yields and floats in improving how we manage float monetisation. Through initiatives like this, we are accelerating the growth in advanced services, in line with our strategy. When you look at our performance, we grew advanced services by 63.3% year-on-year, as we continued to evolve the revenue mix. The progress in fintech was underpinned by MoMo active user growth of 6.2% to 65.5 million, and by 8.1% to 62.2 million if you exclude OTC customers in Nigeria. You would have seen in our tables that we provide both metrics, and what you'll probably see going forward as a streamline towards the ex-OTC metric, in line with our focus on active wallets. We are encouraged by the growth in active merchants up 40.1% to 2.2 million, supporting the growth in merchant payments of 4.7 billion, up 32.6%.

So let me pause here and hand over to Tsholo for some colour on our financial performance, and I'll come back with outlook and priorities as we conclude, before we take Q&A.

Tsholo Molefe

Thank you very much, Ralph, and good afternoon to everyone joining us on the call. I'd like to first talk about the financial overview for the Q1 results. And just to reiterate the resilient financial performance we have reported in light of the stiff headwinds impacting our business.

As outlined by Ralph, our service revenue increased by 11.1% in constant currency terms, and as highlighted, the conflict in Sudan had a significant impact on this performance. MTN Sudan revenue declined by 83% year-on-year, affected by mainly the lack of network availability. If we exclude MTN Sudan, our service revenue would have been up 13.3%, so quite a solid underlying performance.

If I unpack our EBITDA margin, this was affected by upward pressures on costs, due to higher inflation and forex depreciation, largely in Nigeria, the network resilience cost as well as electricity tariff escalations we saw in MTN South Africa, and the escalation of costs arising from the conflict in Sudan. We mitigated these effects however through the execution of our expense efficiency programme in terms of which we realised about R430 million during this period.

Overall, this enabled us to report Group EBITDA growth of 3.9% in constant currency, with a margin of 38.1%, however, lower by 2.5 percentage points compared to the same period last year.

Over the course of this year, we will accelerate the initiatives to realise further efficiencies and ensure that we meet our expense efficiency targets. You will recall that we have targeted savings of between R7-8 billion over the next three years. The focus on our financial resilience has been, and still remains, a key focus area for us. In this regard, we are very pleased to have maintained a group net debt-to-EBITDA ratio of 0.5x as at the end of March this year. This remains well within our loan covenants limit of 2.5x. Our net interest cover from a Group perspective is at 5.6x, and also within the covenant threshold, although under some pressure, given the near-term headwinds, especially the FX impact.

It is important to note that we've engaged with our lenders, both at Group as well as Nigeria level, we have secured the necessary accommodations from our lenders in relation to some of the potential impacts on our loan agreements arising from the major currency devaluations we have reported on in Nigeria.

Our Holding Company leverage expanded slightly to 1.7x, which is above our mid-term guidance to the market of 1.5x, and which was anticipated given the short-term pressures from FX impacts, as well as lower cash upstreaming from the Opcos, which is normally a softer quarter.

We remain focused however on our upstreaming efforts and anticipate this to improve in the coming quarters. Overall, this will also support efforts to return Holdco leverage back within guided range of 1.5x over the medium term.

In terms of our upstreaming, you would have seen from the SENS that we reported cash upstreaming of R718 million received mainly from our Opcos, largely MTN South Africa. Again, you may recall that we do have a seasonality in the profile of our cash upstreaming, as I indicated, and we expect this to increase over the remainder of the year. As a reminder of my comments, I stress that we remain guided by our capital allocation framework that has really stood us in good stead. We believe it remains relevant, even as we navigate the current volatility in our macro context and will enable us to continue to execute on our strategy. With that, I'll hand over back to Ralph.

Ralph Mupita

Thanks very much Tsholo. And just to echo the really resilient operational financial performance we've delivered given the near-term headwinds. The strength and flexibility of our balance sheet gives us a lot of confidence about our ability to deliver on our investment case as we navigate some of these near-term challenges.

In terms of the outlook, let me outline a few key messages. I think the first is to recognise the prevailing geopolitical and macroeconomic conditions will continue to impact our business in the near term and on our expectations. That said, the fundamentals of our businesses are quite strong, and we are confident in our ability to continue to navigate the near-term uncertainties.

In South Africa, Charles and the team are doing work to accelerate growth and improve profitability underpinned by its resilience plan, which has significantly improved the network availability. Several initiatives are underway and are being executed in MTN SA, including price-ups in prepaid plans and other portfolios, as well as revision of data bundle portfolios. As we noted in our FY23 results, MTN SA is making investments into the device market to support its revenue-acceleration initiatives, and we have cautioned that this will put some near-term pressure on EBITDA margin there. In the SENS you will have also seen that MTN SA has mutually agreed to unwind the PaaS agreement with IHS, and we're happy to take questions around the logic of that. But very importantly, MTN SA remains very focused on delivering on the medium-term guidance for FY2024, for both service revenue and EBITDA margin guidance.

For MTN Nigeria, the key will be to resolve the negative equity position reported there. The EGM and Q1 already highlighted the five key initiatives being implemented to achieve this, and without getting into details of it, they do merit some repeating.

Firstly, continuing to pursue regulated tariff increases through engagements with the authorities, and these are ongoing. Driving margin recovery through accelerated top-line growth, with a focus on executing on the expense efficiency programme. The third, optimising capex deployments, targeting capex intensity in the upper single digits. Fourth, reducing US dollar exposure with a focus on MTN Nigeria's outstanding letters of credit obligations, and the fifth, MTN Nigeria is considering strategic options to manage its tower lease portfolio.

As we communicated with the release of MTN Nigeria's Q1 trading update, we have revised up our service revenue guidance, to a high 20s to low 30s. We also communicated FY24 EBITDA margin guidance of 33 to 35% on the assumption of FX average rates between 1400 and 1700, no tariff increase, and no successful outcome from towerco contract renegotiation. Obviously, as any of those three variables move, they would affect the margin guidance positively.

Of course, MTN Ghana will continue to lead the focus within our Markets portfolio, and achieving operational excellence, which will help safeguard its margins, and drive sustained bottom-line growth in the medium term.

In our platforms, we will leverage partnerships to accelerate ecosystem growth, and wrap up commercial monetisation. We'll also continue the work to bring in further minority investments, investors, into our platform. The commercial initiatives with Mastercard will ramp up in Q2, with sequential launches across markets through the remainder of the year.

And then on capex, we have revised our anticipated capex for 2024 to R28-33 billion. This was due to the reduction in expected spend by MTN Nigeria, as they announced a couple of weeks ago. I do want to however reiterate that we have a very well-invested network in Nigeria, excellent spectrum of assets, and network headroom in Nigeria to take on the data traffic growth in the year ahead, and we believe that we'll be able to maintain the strong network leadership position that we've had over several years.

So, in closing, we remain focused on our strategy execution to deliver on our medium-term guidance. This is guided by a robust capital allocation framework and anchored on the resilience and flexibility of our balance sheet. So let me stop there, and hand over to Thato for Q&A. As was mentioned earlier, we have Charles and Dineo in the room to help us answer some of your questions.

Thato Motlanthe
Thanks so much, Ralph, thanks Tsholo. Let's jump straight into Q&A, there are quite a few of them. Let's start with a question on Nigeria. Can you please provide some colour on the progress regarding the renegotiation of the Nigerian USD leases, and why this is taking time to execute.

Ralph Mupita
I think we mentioned this quite clearly during the results roadshow. There are a variety of variables that are very sensitive when you do this multi-year renegotiation. Firstly is what exchange rates do you convert what is currently dollar-denominated use fees into naira. And that's one key variable. If you get it wrong, you are kind of stuck with it for the period of the contract, so there's been a lot of work going through that.

The other is on CPI escalations: how do we frame the CPI escalations? And then there are a few other terms that are being discussed. I think we've made good progress in particular on looking towards movement from technology-based pricing, towards space and power, so that side is not a big issue.

So it's essentially really around the rate that is used to convert what was previously dollar-based use fees, or currently dollar-based use fees to naira. The CPI rate, understanding also the tower portfolios, there's actually three of them. There's the so-called IHS, there's a Helios portfolio, there's an INT portfolio, and all of those have various terms that are still being discussed, including the lease tenor, so these discussions will remain ongoing.

Thato Motlanthe
Thanks, Ralph. A couple of questions on Nigeria. Following the MTN Nigeria EGM, just to clarify, is there no Holdco obligation to shore up support for the Opco balance sheet in any way? While the five-point plan may help the Opco trade out of its negative equity position, what is the fallback plan, if any of the initiatives do not result in the closing of the net equity balance by 25?

Ralph Mupita
There's no Holdco obligation to shore up the balance sheets in terms of an equity capital injection, I think that's super clear. The CAMA rules require us to communicate the plan, and obviously if we get the tariff increase, we are able to renegotiate an attractive new set of contracts with IHS that would obviously change the picture pretty much in an instant. So there is a scenario, which we say is the trade-out scenario, which is to continue to keep the current contracts as they are, they have different tenures, a big portfolio of towers has a tenure that goes up to 2029, that's the so-called INT portfolio. So that's still got four and a half years to run. And so there is a scenario where you

just trade out and go into next year, and obviously the impacts of that would be you'll remaining negative equity.

As Tsholo said, you've got your accommodation from the funders, etc., and on our kinds of reasonable scenario assumptions, we'd come out the back end of next year towards a profit situation, given various assumptions about exchange rates, and so forth. So, that scenario remains one that is available for the company. But I think it's important to note that we're going to remain agile and responsive to developments, whether they are on the tariff increase side, or on progress with IHS on the contract renegotiations.

Thato Motlanthe

Another question on Nigeria capex before we move on to some SA questions. Please talk about the change in approach in Nigeria capex. At FY23 results, it seems the point was largely to maintain spend levels, especially considering your experience through the prior devaluation. What's the change since then, and how is this different this time? It doesn't look like your peers are pulling back on capex intensity in the near term.

Ralph Mupita

I think there's one peer who communicated less capex into the year with full-year results, so I won't comment about them. What we assessed in these situations, you have to remain strategically agile. So, what we assessed after full year was what is the headroom in the Nigerian network. And what we've seen in the Nigeria network, and particularly given that we had secured 2 by 5 MHz at 2600, which was contiguous to the balance of the 2600 we had. When we looked at that, and having done our spectrum planning, Karl and team concluded that actually, without compromising network quality and having a level of sustaining capex mostly going to IT, and with some radio planning, we would actually be able to maintain the data growth that we've seen, certainly in Q1, so you saw 40% traffic growth, supported by revenue growth that's in the 50s.

So, the team felt that they could continue to absorb that and have headroom to be able to take on the data traffic. So that was being responsive to the conditions as we saw them, trading through February and into early March. As I said, we've invested ahead of demand in Nigeria. We've got headroom in 5G, we're trying to move a lot more traffic towards 5G, and particularly FWA in our home solutions, we're trying to use more of that 3500 MHz spectrum, has got a 100 MHz of that. And then as I said that 2600 portfolios helping us carry quite a lot of traffic, so we feel comfortable that there is no kind of competitive impairment by taking on this strategy.

Thato Motlanthe

Thank you, Ralph. So just some questions on SA. What is the effective price increase MTN SA is looking to price up for prepaid? When will this start and any colour on initial subscriber response we are seeing ARPU uplift? Charles.

Charles Molapisi

Thanks Thato. The prices, maybe just to give a bit of a framework. We delivered the postpaid pricing in February. The first time we do that, there was about an 8.6% tariff increase with a 4.3% effective rate. On prepaid, I want to explain that prepaid is done on multiple layers. So being prepaid on CVM, I've also been prepaid on open market. CVM, we're done. I think mostly all our top 20 bundles, we've completed that. The effective rate differs, depending on the bundle profile, so we vary it depending on the size of the bundle, and the target market that we are targeting. And then on open market, most of those prices have not started yet, they'll go in the market in the month of May. There's a bit of a lag effect in terms of those pricing because there are a lot of channels, there's bank integration, we must roll them out into the channel all together. So that will come through I think maybe May, but there's a comprehensive pricing strategy across all the segments, whether it's wholesale, enterprise, FWA and postpaid and prepaid. Thanks.

Thato Motlanthe

Thanks, Charles. And then just carrying on, postpaid ARPUs decline is accelerating quarter on quarter, any colour on what is driving this in the outlook for FY2024?

Charles Molapisi

Our expectation is that postpaid will see some recovery. I think the dilution largely is also just the profile of the customer that you are onboarding on postpaid. So that's mainly that, but I think we expect that as you go into Q2 and Q3, then the postpaid recovery will come through. We did also mention that postpaid was affected by the cleanup that we did on the base, that cleanup was done in Q4 2023, so we can expect that the comparable will be a little bit lopsided for a while but will come through the wash as we go into Q4.

Thato Motlanthe

A couple more. The EBITDA margin in South Africa: what would the margin have been had you not front-loaded device investment, and when should we expect to see the benefit in terms of revenue acceleration initiatives from this?

Charles Molapisi

I'll deal with the revenue profile, and then I'll deal with the margin. First of all, just to explain the strategy, I want to be clear that in terms of the envelope that we intend to spend on devices, that is pretty much under control. The front-loading was a strategic decision that we're taking to say, let's get the customers early as opposed to getting the customers on board later in the year, let's pull them through early in the year, let's say Q1, and maybe Q2, that allows us to load the service revenue profile. So it's still early, but we're seeing a nice upside coming through. But I think we'll start to see a much clearer picture as those devices get into the market. Remember, there's a bit of a lag effect, where once the device is bought and get into the market. So we expect to see some form of upside going forward. And then obviously, we'll re-assess and try to bring the whole margin under control.

Dineo Molefe
So the device acceleration had a 0.6 percentage point impact on the reported margin, so it would have reported 35.5%.

Thato Motlanthe
Thanks, both. If we move on to a question on pricing: please can you update us on the price-up initiatives across Nigeria and Ghana? And have you upstreamed cash from Ghana in the quarter? And then linked to that, the same person is asking, can you give us colour on the detail on the products that you will roll out in conjunction with Mastercard, that's on the fintech side.

Ralph Mupita
In Ghana, I think there's been a kind of a rhythm and a pattern, that we do get price increases particularly on data, as a function of our SMP regulatory status, where we can't price below the competitors. That's supported top-line and margin growth in Ghana. That is actually driven by the SMP regulations that are in place there. In Nigeria, I think one has got to think about this in two codes. We are talking about a data and voice tariff increase just to lift at an industry level, as many of you would have read that certainly on voice the floor price has been in place for several years. That's what we are engaging on as an industry through ALTON with engagements with the minister. What we did do as we spoke with full year results at the end of Q3, we did introduce new bundles that we frame as bundle optimisation, that has supported the strong growth that you saw at the top-line level in Nigeria. Without the tariff increase, we got to 32%. So, data there 40% traffic growth almost mid-50s data revenue growth was boosted by that optimisation. So, we'll continue to work on both the tariff increase, and where optimisation is possible, particularly around data.

On upstreaming, quarter one is seasonally very low, I think last year's comp would have been about 1.6. So we don't normally get a lot of upstreaming. It's mostly South Africa that comes in Q1, but we start getting management fees, some of them are paid on a quarterly basis, and then the dividends that get declared some happen at half year. So, you start actually seeing seasonally that the bulk of the upstreaming is Q3 and Q4, Q4 is always generally much higher. So, we still feel confident that the upstreaming will come through. No upstreaming from Ghana, and as I said, the majority of the upstream would have been SA, and some of the smaller markets on management fees, we'll start seeing it come through Q2 now, by the half year, and then as I said, the majority, we normally see that come through Q3 and Q4.

With Mastercard, one of the key things we want to launch and get out the way is the virtual cards. Most mobile money systems or fintech systems in our markets, these are closed-loop systems, most of them, not all. And with this virtual card, it really enables us to take our customers out of the walled garden of the MTN MoMo business into a broader ecosystem with the ability to make payments with MoMo, overlaid by other virtual card capability that we get from Mastercard. So that's what we are kicking off. So big push on issuance and acceptance, also a big push on the merchant side. As I mentioned, we saw very good growth on the merchant side, and that's obviously ultimately going to be a big part of the success of our strategy is just a ubiquitous merchant ecosystem to support our strategy.

Thato Motlanthe
While we are still on fintech: how likely are you to do a MoMo transaction this year, i.e., a further sell down?

Ralph Mupita
Our shareholders like to ask me that, and when I don't deliver in the period, then I get beat up. All I can say is we carry on working on this. We are working on the second process. So that's kind of underway. Thato, as you said, I mustn't give shareholders a timeline, because they'll ask me that. But the work is ongoing, we're not sitting still on this.

Thato Motlanthe
Thanks, Ralph. This is a question on balance sheet. Can you discuss the plan for addressing the Holdco company debt? Previously it was communicated that the goal would be to bring FX debt to a de minimis level, as soon as possible. Is this still the case, what funding options would be available to take out the debt?

Tsholo Molefe
Thanks, Thato. I'll take that. We are still on track, we communicated to the market with the year-end results that we still have about $97 million to clear on the 2024 Eurobond, which is due in the last quarter. So, plans will be underway to clear that, and then we will have the 2026 bond as we indicated. So, we will explore liability management, subject to market conditions when the time is right. And as we indicated, as well, we do have the domestic medium-term note in South Africa that we utilise. We are comfortable that we have sufficient headroom to be able to tap into that. I think,

as we indicated before, that that mix is well within our target of 40% USD to ZAR, we are currently at 23% USD; ZAR we are at 77%.

Thato Motlanthe
Tsholo, some follow-up questions on SA. Why is the EBITDA margin taking longer to recover, especially since loadshedding is now much better? And then how much was the contribution of price hikes in the growth of SA service revenue? Do you expect more? I think you did cover that earlier. And then your organic growth rate is now at low double-digits, I think that should be low single digits, how quickly should that be expected to track back to your medium-term guidance?

Charles Molapisi
Maybe just a quick one on pricing just to emphasise, most of the prices will come in only let's say May. There were very few price-ups that we did in April. So the current performance that you see does not necessarily show all the price changes that we have done. The big one that will be reflective on the performance will be the postpaid, which was done in February. I guess, the issue of EBITDA, maybe Dineo will just deal with it.

Thato Motlanthe
So it's just, why is it taking longer to recover, especially given that loadshedding is now much better?

Dineo Molefe
How we've guided is that we will be able to return to the guidance of 37 to 39% range by the time we get to year-end. You must remember that there are lag effects in terms of ability to recover service revenue because the improvement period of network availability takes time then to be able to recover service revenue. So, as we get into half two, that's when we are able to close out within guidance.

Thato Motlanthe
Thanks, Dineo. Still on South Africa, this is on the tower unwind, the PaaS unwind. Who will manage or pay for security of batteries backup power on site? Will this put upward pressure on opex? And then on Nigeria: strategic options for towers assuming IHS is unwilling to renegotiate the current lease terms, what are the strategic options for MTN?

Charles Molapisi
On the batteries, we will cover that cost, that is assets that belong to MTN. That cost was also factored into an initial PaaS agreement. So, there is no expectation of any acceleration in cost.

Ralph Mupita

On the strategic options, as I said, the plan A is to try and renegotiate the contracts. So we're putting all our investment there. Karl and team are looking at that, it's complex when you're talking about 17,000 towers, each with its own lease agreement and different portfolios. So these are not simple contracts to renegotiate with many variables and long tenures. So, that's always plan A. Plan B, there's obviously the trade through. The bulk of the towers, as I said, expire in four and a half years, and obviously could be, one doesn't want to necessarily take that path, but there is continue as you are, and then assess your options, as the various tower portfolios come up for renewal, that's always an option.

There's always an option that you can look at some of your towers and buy back some of your towers. I think in the suite of all options, you'd have to put that there as well. But obviously, that's capital allocation decision that requires a lot of discipline. So these are basically the two options outside of renegotiated: trade through, which is kind of 'tough it out'. What that actually means particularly when you look at the lease mathematics is that with the tenure, each year, you bring down the impact, particularly below EBITDA gets reduced, in particular on the lease liability. So that trade through option, is an option that we could consider, but as I said to be clear, our preferred is to a successful renegotiation.

Thato Motlanthe

While we are still on the issue of towers, another question on Nigeria. Please can you provide an update on the decision to transition tower leases from IHS to ATC? How is this progressing? An expected timeline for the full transition? Will there be duplicate costs and/or capex impacts as a result of the switch?

Ralph Mupita

As you well remember, there are 2,500 sites. I think with 1,400 of those sites, there's absolutely no issue. So I think we can start there that those 1,400, you know are pretty much cleared and there are no issues. The other 1,100, we need to have GPS coordinates approved or submitted to the NCC for approval. So that's work ongoing, but the other – to be exact – 1,380 awarded to ATC there are no issues whatsoever there. Karl and team are continuing to engage on the balance of the 1,100 in terms of coordinates, getting approvals, etc.

Thato Motlanthe

Thanks, Ralph. And then just a question on expense efficiency: do you see the cost efficiency programme having a net positive impact on margins? So it will be broad, or will it be broadly absorbed by cost inflation?

Tsholo Molefe
We are doing all we can to try and improve our margins. And as we've indicated, the focus is over the medium term, over the next three years, R7-8 billion, we do expect that we will see some level of improvement. But given the extent of the FX impacts, as well as inflation, particularly in Nigeria, we don't see that being able to get us to historical levels of margin. So, it is going to be over the medium term that we start seeing that repair, but not in this financial year.

Thato Motlanthe
Thanks, Tsholo. So there are a couple of questions on the PaaS unwind in SA. Could you please walk through the rationale of unwinding the power as a service agreement in SA, and what impact do you expect this to have on the economics? That's one question. And then one that's related to that, do you expect it to have a broader impact in terms of renegotiations elsewhere, like Nigeria?

Charles Molapisi
On the rationale. I think in the engagements last year, we did mention the fact that the accelerated level of loadshedding in South Africa was problematic, I think in terms of capacity for IHS and also capital. And I thought what we decided, was to say maybe it's best if we insource it for a while, and project manage the execution. And when we look back, I think we're very proud about the intervention that we did, in terms of our ability to be able to roll this out. We have to say, though, that this was an amicable decision that we've taken with IHS, and that was really the base of why we did that, and I think the result of what we've achieved, demonstrated. In terms of the cost profile, there is no impact in terms of cost increases. Most of these changes that we have done in the in-sourcing was just based on what we've modelled in terms of the business plan for 2024. And the emphasis in terms of delivery, while we are confident that we're going to do it, we still have to mention that we are still using partners, this does not mean that these are overloaded MTN SA headcount, this is still delivered through partners who manage services. So generally, it's still delivered by partners. Thanks.

Ralph Mupita
On the second point, it's got no issue in terms of the relationship. Two days ago, Sam Darwish did give me the heads-up that they would be commenting on the unwinding of the PaaS with their results, and said, obviously we're doing the same. So, this is mutually agreed: Charles and team believe that they can manage it for value. This for IHS seemed like an outsized potential challenge in terms of the costs, particularly in SA while they're trying to build up the network of these service providers. So we mutually agreed, rolled back the power as a service, that's all very mutually agreed. Charles is not speaking about the medium- to long-term opportunity there, but there is an opportunity in managing our own assets if the loadshedding improves that we will ultimately be

able to wheel some of this back into the grid as an example. So, this is all very mutual and very cordially done.

Thato Motlanthe
Thanks, both. A couple of questions on portfolio optimisation: please provide an update on localisations in Uganda and Ghana?

Ralph Mupita
On Uganda, we are progressing with that, as you well know. The regulatory requirement is 20%; we are at 13. So, we are working towards the 7% as we speak right now. So that is work in progress. I think we should in the next couple of quarters be able to update on that, so that we feel we can get away the 7%.

Ghana, we mentioned with the full year results the 7. Post the end of the quarter, we've done about 3 of that 7, so there's like a stub still to go in Ghana, in terms of the localised. So these are all in progress for both Ghana and Uganda.

Thato Motlanthe
Then another one was MTN recently announced the disposal of two smaller Opcos in WECA, please can you update on further portfolio rationalisation initiatives, and any outstanding Opcos earmarked for disposal?

Ralph Mupita
There's a lot of press commentary that says we've disposed of two Opcos in West Africa. And what we said is we're talking to a party, and I think it's in the media who that party is, that we're looking to exit in an orderly way out of Guinea-Bissau, Guinea-Conakry as part of our portfolio simplification. So those discussions are ongoing with the authorities in both markets, and as and when those are concluded we would come back and report to investors. There isn't anything specifically that we're working on right now, in terms of exiting further markets; it's just those two that we've announced previously: Guinea-Bissau and Guinea-Conakry.

Thato Motlanthe
Thanks, Ralph. And then a question on Holdco leverage: what do you expect your Holdco leverage to be in – for one higher or lower – for Q2? I mean, we can give a sense of direction.

Tsholo Molefe
I think we did communicate that the Holdco leverage this year will be under pressure. We may be above the 1.5x, but we expect that we'll come back to the guided 1.5x in 2025, 2026.

Ralph Mupita
Just on that one, I think we can't give you the number, but I think what one has to look at what's the progress with localisations; what's the progress with exiting those two markets; and what kind of upstreaming are we getting, does Nigeria come back on stream...and what progress we're making on minority investment into the platform? So all of those come into the calculus of, where we will go to, we would guide on the H1 outlook and we will certainly as Tsholo says, as we get through this year, we feel comfortable that we'll come back below the 1.5x.

Thato Motlanthe
Thanks Ralph, thanks Tsholo. A couple of questions on Xtratime. First one is in South Africa, what proportion of prepaid revenues does Xtratime contribute, how do you see this evolving over time? And then the next question is, can you elaborate on how SA data revenue was impacted by recovery of legacy Xtratime data, will this affect future quarters?

Charles Molapisi
Thanks Thato. First just to cover the penetration. In Q1 last year we were on 23.9% penetration, that was about R57 million. In Q1 this year 36.6% penetration rate, delivered R392 million of revenue, that's a 52% growth rate. That delivers R135 million that we call, so quite significant contribution overall in terms of penetration on the recharges.

Now, the question about the impact of Xtratime on data, I need to take that a little bit slowly, just to explain that, because a lot of people want a bit more clarity on that. So, when we communicated, I think it was in H2 or H1, last year, we communicated the fact that we're bringing a new vendor on board. In that meeting, we also mentioned that our penetration at that time was at about 24%, and we needed to grow the base. And to actually get the penetration to the 37%, you need to expand the addressable base. So, what we looked at was that there were customers recharge, how we claw back the loans from the customer today, you have to recharge either in airtime wallet, or recharge that data bundle. So today, the capability that you had before on the system was that when you recharge an airtime wallet, we can claw back the loan. But when a customer buys directly, and does a recharge on data, we have no capability to actually claw back that loan. So you ended up having customers who borrow but they actually don't pay, they will actually get the data bundle knowing that they cannot actually be clawed back in terms of payment. There's about six million customers that we had on that base. So last year, we implemented the bundle clawback, which means that every customer who owed us money on the loans, when they try to recharge using a data bundle, let's say argument's sake, we charge 20 bucks, you owe us 10 bucks, the first thing we do is we take our 10 bucks back, and then you only have 10 bucks to actually buy the data bundle. That's where the shortfall of that volume that we had to clean up came from, but where we are today, we've almost cleaned up all that backlog, but the only difference is that the comparable is still comparing the revenue for this quarter, with the quarter last year where there was no claw back. So you have to anniversary this by let's say end of September, then you start to see like for like, but that was really the essence of it: the claw back of data bundles, which were never used to claw back on customers before. I hope that's very clear. Thanks.

Thato Motlanthe
Thanks, Charles. Another question on IHS: is buying out IHS as an entity an option?

Ralph Mupita
Why do we think we would get that question asked? [Laughs.]

I think the first thing you have got to look at is what we've been trying to do, we've been trying to reduce the leverage at the Holdco. As Tsholo said, we're moving in a direction we want de-minimis amount of debt at the Holdco level, and any such action, as you can well imagine kind of re-leverages the balance sheet in many respects.

So it's not something we're working on. You can have a theoretical discussion about that, but it's not something that we think is going to be executable, particularly now. Our focus is on ensuring both Nigeria has a turnaround in this negative equity position, and there is a trade-through scenario, which we may well work through. But at the same time, we want to maintain the strong, Holdco balance sheet position, as Tsholo mentioned, the liquidity level. The environment is still going to be quite challenging, and it can come up with some unexpected risks, and we need to be ready for those across our markets. So, it's something that one can look at, but it's not the priority, the priority is the renegotiations.

Thato Motlanthe
Thanks, Ralph. And then just a clarity question on IHS renegotiations in Nigeria. Disregarding the comment on delay and renegotiations of IHS being due to deciding on the correct USD/naira rate, should we take this as a USD-based no longer being, should we take it as a USD basis, I think, no longer being the go-forward terms of the agreements?

Ralph Mupita
As you can see where the pain is in Nigeria, the pain is all below gross profit. So the moment you go to gross profit, and you start looking at the opex, the network opex, that's where all the pain and a lot of it is the repricing, is the FX resets on, particular the IT portfolio, the one that's still got four and a half years to go. That's where there is the bulk of the pricing is dollar index. So, you know, a renegotiation with MTN Nigeria would need to deal substantially with that. So what is

70:30? There's always going to be a level of kind-of 'should be' cost that will be dollars: you've got steel, in terms of the maintenance of the towers, you've got diesel for energy, so those components will always be there. And on a 'should be' cost analysis, you might work out that somewhere between 20 and 30% is actually dollar-denominated anyway, even if you have to do it yourself. So the negotiations are really aimed at, can we get it in well-priced contracts, market-based pricing, but with significantly much lower dollar indexation. So, we have 70:30, you've got to kind of think about flipping it the other way around. That's what we're trying to work through with IHS.

Thato Motlanthe

Thanks, Ralph. Maybe to just wrap-up the call is that clarity question, the earlier question around low double digits, I think I said low single digits for South Africa, apparently it was for the Group, who obviously achieved an 11%. Maybe just to talk about some of the dynamics behind that 11%, and how long it will take to get back into the guidance range?

Ralph Mupita

I had a big discussion with the finance team, and I said to them, I think the market will read these results with respect also, without the context of how do we do constant currency measurement. If you took the view that you kept the rates, 2023 rates against this, I mean the numbers more like mid-teens already.

The big issue is, if you think about in the composite, is Nigeria used to be x now it's y, because of the devaluation. So this is just, you know, a weighted average issue. Last year, Nigeria was at 400, now it's at 1400 odd. So the weight of Nigeria in the mix of constant currency is different. So we using in 2024 constant currency. We have 11.4, used last year's constant currency, you're going to have mid-teens, pretty much mid-teens. So we remain on our basis of using this year's in our rates, versus, and the mix effects, that's what gives us the 11 dot.

Now to your points in terms of improvements back, we're still committed to the mid-teens. We saw that with Sudan where we've had the network pretty much down; the network availability given the war condition is down. If you exclude that, that's 13.2, with a little bit of voice pressure in Ghana, I think there's an MTR in Rwanda, and Benin, and I'm looking through all of those. South Africa, as we say, is at three nowhere, not yet at the four level. So, you know, over the next 12 months, I think the basic fix will reset back into mid-teens, anyway. But I think the big thing is just the structural change in the contribution of Nigeria, in the constant currency makeup.

Thato Motlanthe

Thanks, Ralph. I think with that, we can wrap up the call. We've gone through quite a few questions, so thanks to management on the call, and thanks for everyone for dialling in. If you do have follow ups, please do send me an email. Thank you very much.

Edited for accuracy

END OF TRANSCRIPT