4 June 2013 │ 17 pages
Wireless Telecommunication Services (GICS) │ Telecommunications Services - Wireless (Citi)
CEEMEA │ South Africa

MTN Group Limited (MTNJ.J)

The Yin, The Yang And Nigeria Again – Downgrade To Neutral

- Rating Change
- Target Price Change
- Estimate Change

- **Neutral** — The run in MTN's share price, up c40% over 12 months, and consequent valuation expansion makes it hard to justify strong further upside for now. Also, newsflow may also carry an unfavourable skew in the short-term, in our opinion, which could actually see the stock soften and offer better value should negative catalysts play out. As such we cut our rating on MTN to Neutral, from Buy.
- **We still like the medium-term fundamentals** — We believe the appeal of MTN's attractive growth/dividend profile remains intact. We forecast EBITDA CAGR of 9% in FY12-15 on the power of its non-SA operations (75% of EBITDA), which we expect to grow by c11% pa. MTN's forecast DY of 5.2% is above market averages of 3-3.5%.
- **Offset by increased near-term risks and valuation** — MTN's strong run makes its valuation look full. It also appears to brush off risks such as continued turbulence in Nigeria, currency volatility and a potential cash-flow squeeze in the coming year. On the latter point; pressure on some op's, elevated capex and the possibility of M&A could become a factor in MTN's cash flow and dividend decision. This is especially pertinent in that we, and consensus, pitch our dividend forecasts at the top end of guidance (+15% growth); thus, only leaving scope for downside on current information.
- **Nigeria again** — We take another look at the Nigerian market this time focusing on one of MTN's competitors, Etisalat (p6). As the newest player, Etisalat Nigeria has made good inroads on the back of an aggressive network and pricing strategy over the past 3-4 years. The company looks poised, and well-funded, to continue in this vein which in our mind underlines the continued tough road that lies ahead for MTN.
- **Earnings** — We update numbers, reflecting tougher trading conditions (page 8) and look for HEPS CAGR of +13.2% pa between FY 12-16. Our profile is similar to consensus.
- **Valuation** — We trim our target price to R190 (from R195), after updating numbers. MTN is now among the more expensive in our universe with a CY 13 EV/EBITDA of 6.3x, vs Vodacom's 6.9x and an EM average of 6.1x. While we think this ignores some near-term risks, MTN remains our preference on better medium-term fundamentals.

Neutral	**2**
from Buy	
Price (03 Jun 13)	R182.80
Target price	R190.00
from R195.00	
Expected share price return	3.9%
Expected dividend yield	5.2%
Expected total return	**9.1%**
Market Cap	R344,016M
	US$34,090M

Price Performance
(RIC: MTNJ.J, BB: MTN SJ)

MTN Group Limited (ZAR)

Year to 31 Dec	2011A	2012A	2013E	2014E	2015E
Sales (RM)	121,884.0	121,865.0	133,844.8	144,381.3	155,868.9
Net Income (RM)	20,607.5	20,018.6	23,419.3	25,896.3	28,916.7
Diluted EPS (R)	11.12	10.89	12.80	14.15	15.80
Diluted EPS (Old) (R)	10.70	12.14	13.76	14.87	na
PE (x)	16.4	16.8	14.3	12.9	11.6
EV/EBITDA (x)	7.2	6.6	6.3	5.9	5.4
DPS (R)	7.49	8.24	9.48	10.90	12.53
Net Div Yield (%)	4.1	4.5	5.2	6.0	6.9

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MTNJ.J: Fiscal year end 31-Dec — **Price: R182.80; TP: R190.00; Market Cap: R344,016m; Recomm: Neutral**

Profit & Loss (Rm)	2011	2012	2013E	2014E	2015E
Sales revenue	121,884	121,865	133,845	144,381	155,869
Cost of sales	-62,581	-63,186	-69,832	-75,448	-80,710
Gross profit	59,303	58,679	64,012	68,933	75,158
Gross Margin (%)	48.7	48.2	47.8	47.7	48.2
EBITDA (Adj)	**46,296**	**50,437**	**52,744**	**57,040**	**61,987**
EBITDA Margin (Adj) (%)	38.0	41.4	39.4	39.5	39.8
Depreciation	-13,296	-13,735	-15,575	-16,917	-17,510
Amortisation	-2,194	-2,218	-2,218	-2,218	-2,218
EBIT (Adj)	**38,075**	**36,096**	**39,529**	**42,797**	**47,684**
EBIT Margin (Adj) (%)	31.2	29.6	29.5	29.6	30.6
Net interest	-1,582	-3,787	-2,143	-1,416	-1,277
Associates	-38	3,009	2,500	2,846	3,173
Non-op/Except	1,957	587	0	0	0
Pre-tax profit	**38,412**	**35,905**	**39,886**	**44,227**	**49,579**
Tax	-13,853	-11,836	-13,162	-14,595	-16,361
Extraord./Min.Int./Pref.div.	-3,976	-4,050	-3,304	-3,736	-4,301
Reported net profit	**20,583**	**20,019**	**23,419**	**25,896**	**28,917**
Net Margin (%)	16.9	16.4	17.5	17.9	18.6
Core NPAT	20,608	20,019	23,419	25,896	28,917

Per share data	2011	2012	2013E	2014E	2015E
Reported EPS (R)	11.10	10.89	12.80	14.15	15.80
Core EPS (R)	11.12	10.89	12.80	14.15	15.80
DPS (R)	7.49	8.24	9.48	10.90	12.53
CFPS (R)	16.36	11.24	11.62	13.86	15.16
FCFPS (R)	3.36	-1.73	-3.65	1.12	2.89
BVPS (R)	47.17	47.18	50.12	52.95	55.75
Wtd avg ord shares (m)	1,854	1,838	1,830	1,830	1,830
Wtd avg diluted shares (m)	1,854	1,838	1,830	1,830	1,830

Growth rates	2011	2012	2013E	2014E	2015E
Sales revenue (%)	6.3	0.0	9.8	7.9	8.0
EBIT (Adj) (%)	8.4	-5.2	9.5	8.3	11.4
Core NPAT (%)	49.8	-2.9	17.0	10.6	11.7
Core EPS (%)	48.8	-2.0	17.5	10.6	11.7

Balance Sheet (Rm)	2011	2012	2013E	2014E	2015E
Cash & cash equiv.	45,832	38,051	34,433	36,161	39,061
Accounts receivables	17,916	17,523	19,246	20,761	22,412
Inventory	2,629	2,593	2,848	3,072	3,317
Net fixed & other tangibles	71,610	77,485	87,057	91,121	93,823
Goodwill & intangibles	34,540	33,935	33,935	33,935	33,935
Financial & other assets	8,881	11,797	11,797	11,797	11,797
Total assets	**181,408**	**181,384**	**189,316**	**196,847**	**204,345**
Accounts payable	25,054	25,915	28,303	30,495	32,717
Short-term debt	10,462	10,790	10,790	10,790	10,790
Long-term debt	23,554	21,742	21,742	21,742	21,742
Provisions & other liab	29,639	30,050	30,050	30,050	30,050
Total liabilities	**88,709**	**88,497**	**90,885**	**93,077**	**95,299**
Shareholders' equity	88,897	89,006	94,550	99,889	105,165
Minority interests	3,802	3,881	3,881	3,881	3,881
Total equity	**92,699**	**92,887**	**98,431**	**103,770**	**109,046**
Net debt	**-11,816**	**-5,519**	**-1,901**	**-3,629**	**-6,529**
Net debt to equity (%)	-12.7	-5.9	-1.9	-3.5	-6.0

Valuation ratios	2011	2012	2013E	2014E	2015E
PE (x)	16.4	16.8	14.3	12.9	11.6
PB (x)	3.9	3.9	3.6	3.5	3.3
EV/EBITDA (x)	7.2	6.6	6.3	5.9	5.4
FCF yield (%)	1.8	-0.9	-2.0	0.6	1.6
Dividend yield (%)	4.1	4.5	5.2	6.0	6.9
Payout ratio (%)	67	76	74	77	79
ROE (%)	25.6	22.5	25.5	26.6	28.2

Cashflow (Rm)	2011	2012	2013E	2014E	2015E
EBITDA	53,565	52,049	57,322	61,932	67,412
Working capital	-4,835	-1,819	411	453	326
Other	-18,409	-29,563	-36,465	-37,014	-39,988
Operating cashflow	**30,322**	**20,667**	**21,267**	**25,371**	**27,749**
Capex	-24,099	-23,854	-27,941	-23,312	-22,458
Net acq/disposals	3,483	765	0	0	0
Other	0	-3,970	0	0	0
Investing cashflow	**-20,616**	**-27,059**	**-27,941**	**-23,312**	**-22,458**
Dividends paid	0	0	0	0	0
Financing cashflow	**-9,386**	**-5,759**	**0**	**0**	**0**
Net change in cash	**4,401**	**-14,093**	**-6,675**	**2,059**	**5,291**
Free cashflow to s/holders	**6,223**	**-3,187**	**-6,675**	**2,059**	**5,291**

For further data queries on Citi's full coverage universe please contact Citi Research Data Services at CitiRsch.DataServices.Global@citi.com
For definitions of the items in this table, please click here.

Powered by: dataCentral

Due a breather after a strong run – Downgrade to Neutral

Downgrade to Neutral, TP cut to R190

We have trimmed our target price to R190 (from R195) and downgrade our rating on MTN to Neutral, from Buy. This is in light of a strong run in the stock and a fuller-looking valuation as a consequence. While we are still upbeat on the company's medium-term fundamentals, the share's valuation is less compelling especially considering the likely negative skew of nearer-term catalysts in our view.

Figure 1. Valuation Comps, CY

	PE		EV/EBITDA	
	2013	2014	2013	2014
EM AVERAGE	14.7	13.5	6.1	6.0
CEEMEA AVERAGE	10.6	10.4	4.4	4.6
DVPD EUROPE AVERAGE	11.1	10.5	5.5	5.3
MTN	14.3	12.9	6.3	5.9
Vodacom	12.9	12.5	6.9	6.5

Source: dataCentral, Citi Research

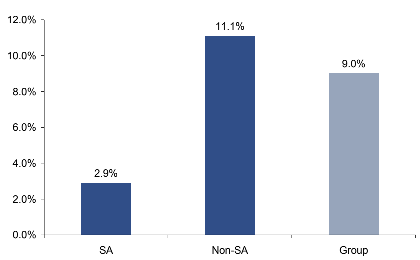
MTN still our preference

It is now a closer call given the relative performances of the shares over the past 12 months, but we continue to prefer MTN over Vodacom (VODJ.J; R111.60; 3). We base this on more favourable fundamentals and a better medium-term earnings growth outlook, on our expectations, which we believe support MTN's valuation better. We would start turning more positive again on MTN's rating and valuation in absolute terms closer to the lower-R170's.

Positives remain (medium-term)

MTN's allure, in our opinion, lies within its twin offering of growth and yield (*Still in The "Sweet Spot"*, 29 August 2012). This remains intact. On the earnings front, MTN's 75% exposure to markets outside of SA (EBITDA) – while carrying its own risks – should drive decent overall growth for the group. Figure 2 shows our group forecast of 9% pa EBITDA CAGR for MTN between FY 2012 and 2015; stemming primarily from the group's non-SA operations (+11% pa) on our estimates.

Figure 2. MTN EBITDA CAGR breakdown



Source: Citi Research Estimates. *FY 12-15*

Tailwinds from ZAR weakness blow strongly at the moment, which does a lot to counteract the near-term weakness in major markets like Nigeria (*Nigeria – Good Outweighs The Bad*, 18 February 2013). Citi forecasts a R9.31/$ average for 2013, compared to R8.15/$ in 2012 – a 14% forecast ZAR depreciation, and a potential tailwind to offshore earnings growth. The YTD average is R9.26/$ thus far, so spot being around the R9.85/$ supports the Citi forecast; and there could be even more of a boost if weakness persists.

Attractive dividend at between 4.7-5.2%

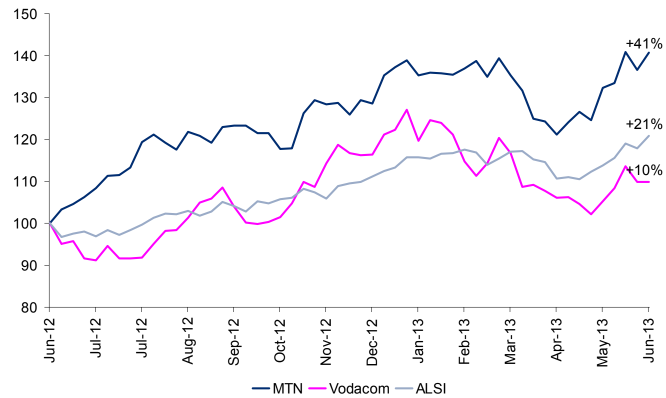
MTN's dividend policy (absolute growth of 5-15%) implies a forward DY of between 4.7-5.2% at the current share price. We have assumed the upper-end of that guidance – the middle infers a yield of 5%. The stock's DY, thus, remains above market averages of 3-3.5%. MTN has also had its general authority to repurchase up to 10% of its shares renewed, which could provide some additional yield. The company bought back 16mln shares, for cR2.1bn, during 2012.

… But near-term risks, and valuations, have risen

MTN has performed strongly, outperforming Vodacom by c30% and the ALSI by c20% in the past 12 months

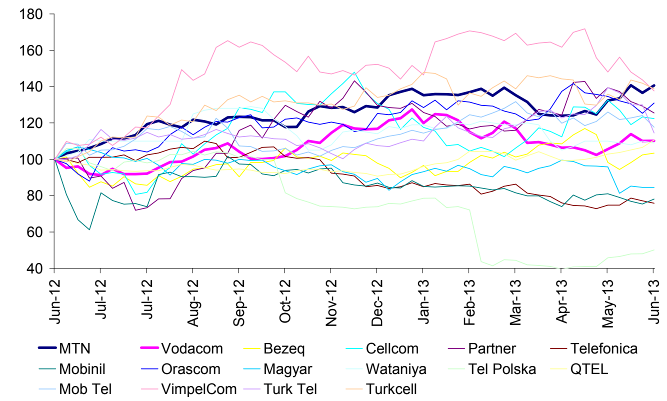
Over the past year we have argued that MTN's positive fundamentals (outlined above) were backed by an attractive valuation. This profile has been duly rewarded with the share rallying c40% in the last 12 months, touching a high of cR186 along the way. This has seen MTN outperform Vodacom by c30% over that period, and the ALSI by c20% (Figure 3). Even in a broader CEEMEA context, MTN (the thick dark blue line in Figure 4), has been a strong performer in local currency terms; the significant ZAR weakness would tarnish the overall $-return profile.

Figure 3. Indexed 12-month Share Performance vs Local Index



Source: dataCentral, Citi Research

Figure 4. Indexed 12-month Share Performance, CEEMEA Context

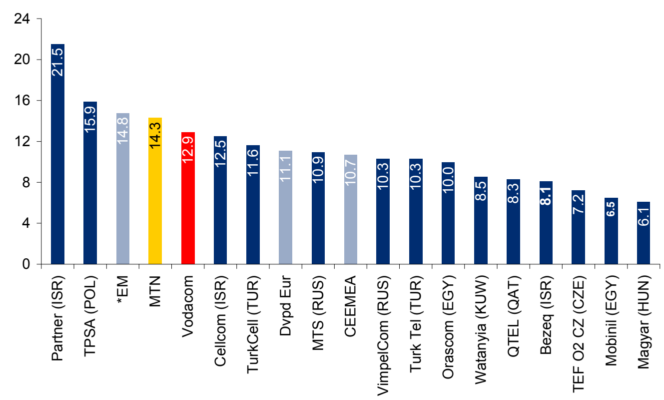


Source: dataCentral, Citi Research. *In local currencies*

MTN now among the more highly-rated stocks in our telecoms universe

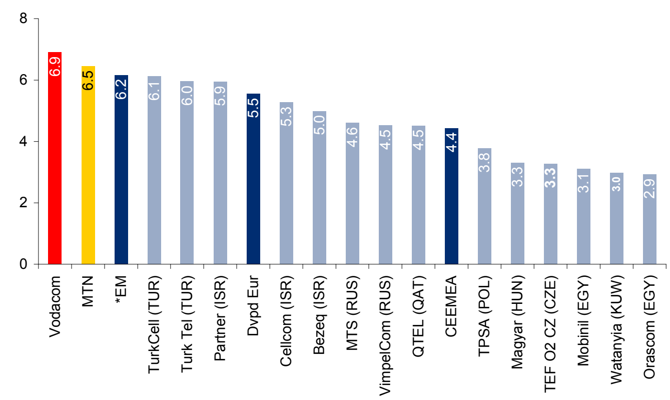
The strong run in MTN's share has seen the share shuffle to the upper reaches of comparison ranges in terms of one-year valuations (Figure 5 and Figure 6). On Dec-13, for instance, MTN has now joined Vodacom at the most expensive end of our comparison universe on an EV/EBTDA basis.

Figure 5. CEEMEA PE Comparisons, CY 13



Source: dataCentral, Citi Research. **EM includes LatAm and Asia*

Figure 6. CEEMEA EV/EBITDA Comparisons, CY 13



Source: dataCentral, Citi Research. **EM includes LatAm and Asia*

Against the above backdrop, we believe MTN faces some challenges in the coming year or so, which seem to be ignored by the stock's present valuation. A quick reminder of some of these challenges:

Tough consumer environment, competition and regulation in Nigeria are important headwinds in the coming year

- **Nigeria risks**: A difficult consumer/economic environment compounded by sharp MTR cuts and the prospect of further price cuts. Increasing regulatory pressures in general, and on MTN in particular (domination determination by the regulator). The weakening ZAR mitigates, but these factors could see performance in Nigeria come in worse than expected. More on Nigeria – which contributed 38% to group EBITDA in 2012 – on page 6 below.

Some of MTN's businesses have suffered from major currency devaluations, which could continue to be a factor

- **Currency risks**: Sharp devaluation in the currencies of Iran, Syria and Sudan remain a factor in their respective operational performances in 2013. Some of these have continued to depreciate in 2013 (and could continue to do so), which could weaken their respective performances further on reporting. Collectively, these markets comprised 12.3% of group EBITDA in 2012. This is compounded by the negative impact on some assets/liabilities, including dividends receivable, and increased restrictions on repatriating these.

Dividend forecasts are pegged at the top end of management's guidance and present only downside risk as a consequence

- **Dividend risks**: MTN has given itself some flexibility in changing its dividend policy to one of absolute growth. We view this as a good thing in the greater scheme of things; but also read it as an acknowledgement by the company of increased uncertainty in this regard. This could stem from expectations of increased pressure on operating earnings and cash flow in some operations, currency movements, higher capex requirements as well as the prospect of acquisitions all of which could become factors in the dividend decision.

  For our part, we have assumed the top-end of management's dividend growth guidance – consensus has done similar. This means there is only downside risk to dividend expectations based on current parameters.

Longer-term investors may, thus, wish to "ride" the potential volatility that could lie ahead. For "new" investment in the share, however, it could be worth holding out for more attractive entry points if some of the above potential negatives play out.

Catching up on some recent newsflow

- **Business update** (28 May): This came on the back of MTN's AGM and updated on how things have been in the first four months of the FY. In terms of the main points: subscribers increased 4% to 197.4m; group sales (including operations that will be equity accounted) were up 5.6% y-y, on the new reporting basis revenue growth was stronger; Nigeria faces increased challenges and was down in local currency but up 15% y-y in ZAR; SA faces continued pressures and EBITDA margin declined in the first four months. Some of the group's finance cost volatility relating to forex will be reduced due to changes in accounting for it (now through balance sheet).

  Much of the commentary is consistent with what we have factored into our projections.

- **Management/board reshuffle** (29 May): Also on the heels of the MTN's AGM, former CEO Phuthuma Nhleko takes over as Chairman while the company has appointed Karel Pienaar as Chief Strategy Officer for the group overseeing all operations, he was formerly the CEO of MTN SA. Zunaid Bulbulia, former FD of MTN SA, has been elevated to CEO of the local unit. Both are founding members of MTN.

  There should be continuity despite the executive changes. On the Chairmanship, media reports have raised questions around governance given Nhleko's strong links with the company while issues of "managerial jurisdiction" might arise, though we view this as a positive development on balance.

- **Myanmar developments** (31 May): Vodafone and China Mobile have pulled out of the running for the Myanmar mobile licence as "the opportunity does not meet strict internal investment criteria". This leaves 11 remaining bidders, including MTN, to fight it out for the licence. One of the bidders was reported to have estimated the required spending at c$2bn to develop a Myanmar network. Requirements for the licence include 75% geographic coverage within 60 months.

  This strengthens MTN's chances though probably raises the question of why Vodafone/China Mobile seem more nervous about the bid ("does not meet strict internal investment criteria"). It also highlights the potential for further investment requirements by MTN (should it succeed) – over and above a possible licence cost of $200-500m, per MTN's estimate – which may have implications for the company's cash flow and gearing and, thus, potentially dividends.

Figure 7. Nigeria Research (links)

Report	Date
Nigeria and MTN – A Blend of Opportunity and Risk	20/05/2013
Nigeria – Regulatory Screws Tighten Further on MTN	06/05/2013
Notes from the Frontier: Nigeria	12/04/2013
Nigeria – Good Outweighs The Bad	18/02/2013
Nigeria Macro View	22/01/2013
Crouching Tiger: Pouncing in India, Stumbling in Africa	11/12/2012
Nigeria: Gloomy Near-Term Before A Brighter Medium-Term	22/11/2012
Hello Nigeria, How Far Now?	29/09/2011

Source: Citi Research

Nigeria – Checking in on the noisy neighbours

We have done a few pieces focusing on the Nigerian market (see Figure 7); we re-visit the theme here this time taking a specific look at one of MTN's competitors in Nigeria, Etisalat. To a large degree, the progress made by the likes of Etisalat encapsulates the stiff challenge that still lies ahead for MTN in Nigeria. We believe that this is further indication of the rough ride MTN faces in the year ahead.

"…while MTN saw Bharti as the main competition two years back, it now considers Etisalat as the main competition despite the big difference in their market share"

- Crouching Tiger: Pouncing in India, Stumbling in Africa (11 December 2012)

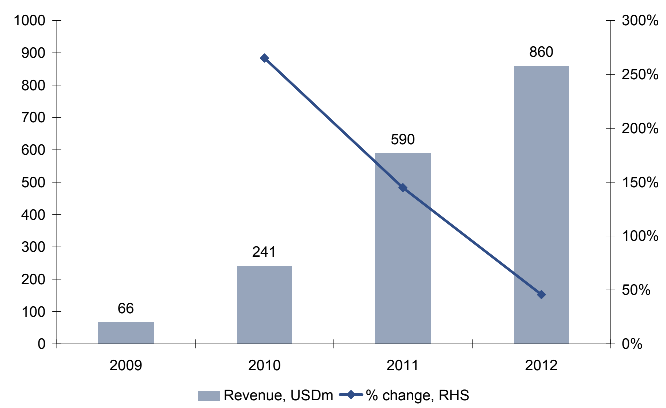
Etisalat has gained major ground, and aims to gain more

UAE-based Etisalat is the newest of Nigeria's telecom operators and has gained the most ground. According to Nigeria Communication Commission (NCC) data, Etisalat has grown its market share from less than 5% in 2009 to the current c15% (end-2012). In 2012, Etisalat managed to gain 30% of new adds – twice its current market share.

Etisalat has made major inroads in the Nigerian market, while MTN momentum has slowed

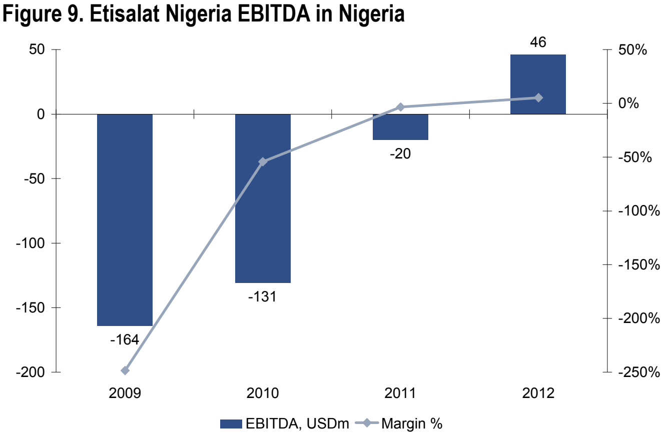
In the process Etisalat has enjoyed a 13-fold increase in revenues between 2009 and 2012 (Figure 8), finally turning a profit in 2012 (EBITDA, Figure 9). This trend of profitability, which started in Q4 11, has continued into 2013. Over the same period, MTN's $-revenue in Nigeria rose by 20% (+6.3% pa); with EBITDA up 18.2% reflecting a 1pp decline in margin.

Figure 8. Etisalat Nigeria Revenue in Nigeria



Source: Company data

Figure 9. Etisalat Nigeria EBITDA in Nigeria



Source: Company data

Etisalat's intention to press on points to continued stiff competition in Nigeria

Eitisalat has expressed its intention to keep up the momentum and aims to increase its market share to 17% by the end of 2013. The company acknowledges that this means that the market will remain fiercely competitive and suggests that ARPUs are likely to fall further over the medium-term to around $5, from the current $6-7 level.

Risk of further price declines remains given MTR cuts, and the success hued from this strategy by Etisalat (in combination with network investment)

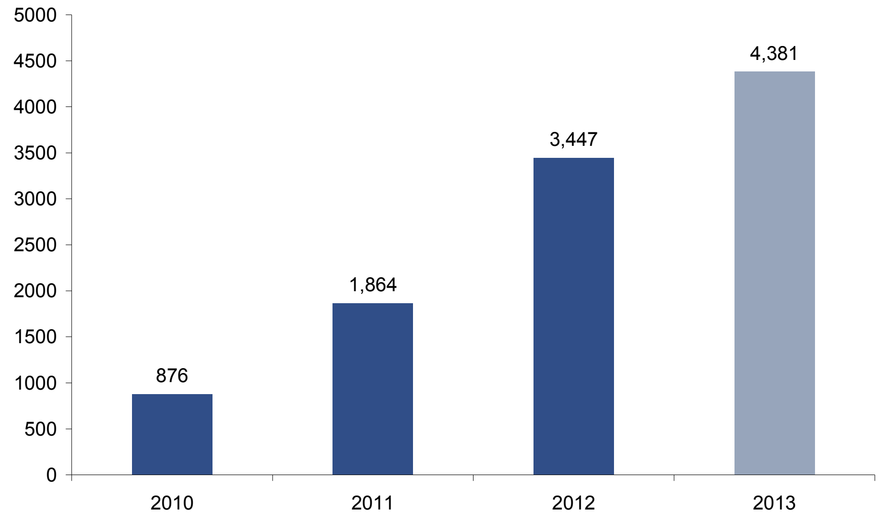
In this respect, we believe that there is a risk of further price declines in the Nigerian market – Etisalat could be the instigator. The market in general has become more circumspect in its pricing strategy given the value destruction of the past two years due to aggressive price cuts. Bharti has said it would take a step back in being a price aggressor and focus more on network quality and capacity. Etisalat may have a similar stance but has acknowledged in press and financial reports that it would still need to offer a competitive product in order to make further inroads. Further MTR cuts in Nigeria, thus, should allow Etisalat to continue with its strategy of competitive pricing and network building.

Investment the key to success

Etisalat has invested aggressively in Nigeria, even gaining some capacity advantage on a relative basis

Etisalat Nigeria has maintained a high level of investment with capex intensity at nearly 50% in 2012. This has enabled the company to increase its population coverage to c75% (from 45% in 2010) in a relatively short space of time. It has also seen Etisalat, along with the other operators, overtake MTN in terms of relative network capacity and quality. This was borne out in some of the sanctions meted out by the regulator, which also saw MTN receive some specific attention around quality concerns.

Figure 10. Etisalat Nigeria Base Stations



Source: Company data

Investment looks set to continue, and is well funded

Etisalat is not resting on its laurels and plans to spend another $500m in on its network in 2013. The operator has raised a $1.2bn medium-term facility with 12 banks to fund this investment. Meanwhile MTN is on a drive to claw back some network capacity by spending aggressively as well – management has said that MTN should be back on an even keel by Q1 14.

MTN is playing catch-up, but may be easier said than done given Etisalat's continued spending

This does not, however, imply a straightforward regaining of its relative advantage for MTN (because Etisalat is also spending aggressively), so the coming year is still likely to be very challenging. In particular, MTN does not presently have the capacity to absorb the increase in traffic from sharp price cuts and faces an increased risk of revenue share losses until its network is up to speed, if competitors become more aggressive on pricing.

Valuation

Our DCF for MTN comes down from R190.88 to R186.51 and we cut out target price to R190 (rounded) from R195 before. This implies an expected total return (ETR) of 9.1% and we downgrade our rating on the stock from Buy to Neutral.

Figure 11. MTN DCF Valuation

					EV/EBITDA	
Country	**WACC**	**Term growth (g)**	**Prop Valn, R**	**Valn % of total**	**FY 13E**	**FY 14E**
South Africa	10.7%	2.0%	97,177	28%	6.3	6.2
Nigeria	12.5%	3.0%	142,866	41%	6.8	6.2
Large OpCo	**12.6%**	**3.2%**	**67,321**	**19%**	**5.7**	**5.4**
Iran	13.6%	3.0%	19,353	6%	5.6	5.1
Ghana	11.8%	3.0%	17,818	5%	5.7	5.5
Cameroon	12.2%	3.0%	10,171	3%	6.9	6.1
Ivory Coast	12.1%	4.0%	6,523	2%	5.0	4.8
Uganda	12.6%	3.0%	7,960	2%	6.0	5.7
Syria	13.2%	3.0%	3,008	1%	4.4	5.3
Sudan	12.5%	3.0%	2,488	1%	4.1	3.7
Small OpCo/Other	**12.6%**	**2.9%**	**38,953**	**11%**	**6.1**	**5.5**
TOTAL			**346,316**		**6.6**	**6.1**
Consolidated net (debt)/cash			5,519			
Valuation - equity (Rm)			351,835			
			37,791	*USDm*		
Per share			**186.51**			

Source: Citi Research Estimates

Forecasts

Earnings

In terms of housekeeping we have cut medium-term earnings by an average of c6%, reflecting currency and tougher operational conditions. We, thus, look for HEPS CAGR of c13.2% pa between FY 12-15.

Figure 12. MTN HEPS Summary

	FY 12	FY 13E		FY 14E		FY 15E	
R/sh		**New**	**Prev**	**New**	**Prev**	**New**	**Prev**
Citi HEPS	**10.89**	**12.80**	**13.76**	**14.15**	**14.87**	**15.80**	**-**
% change		17.5%		10.5%		11.7%	
Consensus HEPS	**10.89**	**12.72**	**13.79**	**14.40**	**14.92**	**16.04**	**-**
% change		16.8%		13.2%		11.4%	
Citi DPS	**8.24**	**9.48**	**9.90**	**10.90**	**10.70**	**12.53**	**-**
% change		15.0%		15.0%		15.0%	
Consensus DPS	**8.24**	**9.48**	**9.93**	**10.81**	**10.95**	**12.11**	**-**
% change		15.0%		14.0%		12.0%	

Source: I-Net Consensus, Citi Research Estimates

Income Statement

Figure 13. MTN P&L Summary

Rm	FY 12	FY 13E	% change	FY 14E	% change	FY 15E	% change
Revenue	**121,865**	**133,845**	9.8%	**144,381**	7.9%	**155,869**	8.0%
Op Profit	**36,683**	**39,529**	7.8%	**42,797**	8.3%	**47,684**	11.4%
Op margin %	*30.1%*	*29.5%*		*29.6%*		*30.6%*	
Net Finance	-3,787	-2,143		-1,416		-1,277	
Assoc	3,009	2,500		2,846		3,173	
PBT	**35,905**	**39,886**		**44,227**		**49,579**	
Taxation	-11,836	-13,162		-14,595		-16,361	
Tax rate %	*33.0%*	33.0%		33.0%		33.0%	
PAT	**24,069**	**26,724**		**29,632**		**33,218**	
Minorities	-3,364	-3,304		-3,736		-4,301	
Net Profit	**20,704**	**23,419**	13.1%	**25,896**	10.6%	**28,917**	11.7%
Headline Earnings	**20,018**	**23,245**	16.1%	**25,530**	9.8%	**28,637**	12.2%
HEPS, R/sh	**10.89**	**12.80**	17.5%	**14.15**	10.5%	**15.80**	11.7%
DPS, R/sh	8.24	9.48		10.90		12.53	

Source: Company Data, Citi Research Estimates

Divisional

Figure 14. MTN Group Operational Forecast Summary

Rm	FY 12	FY 13E	% change	FY 14E	% change	FY 15E	% change
Group Revenue	**121,865**	**133,845**	**9.8%**	**144,381**	**7.9%**	**155,869**	**8.0%**
South Africa	41,350	42,576	3.0%	44,202	3.8%	45,831	3.7%
Nigeria	38,697	45,059	16.4%	50,119	11.2%	56,037	11.8%
Large OpCo	**25,643**	**27,662**	**7.9%**	**29,477**	**6.6%**	**31,193**	**5.8%**
Ghana	6,862	8,380	22.1%	8,883	6.0%	9,305	4.7%
Cameroon	3,812	4,439	16.4%	5,014	13.0%	5,550	10.7%
Ivory Coast	4,124	4,826	17.0%	5,185	7.4%	5,528	6.6%
Uganda	3,296	3,698	12.2%	4,022	8.8%	4,317	7.3%
Syria	5,391	3,900	-27.7%	3,564	-8.6%	3,379	-5.2%
Sudan	2,158	2,419	12.1%	2,809	16.1%	3,115	10.9%
Small OpCo & Other	**16,175**	**18,548**	**14.7%**	**20,583**	**11.0%**	**22,807**	**10.8%**
Group EBITDA	**52,049**	**57,322**	**10.1%**	**61,932**	**8.0%**	**67,412**	**8.8%**
South Africa	14,476	14,582	0.7%	14,918	2.3%	15,331	2.8%
Nigeria	22,544	25,219	11.9%	28,265	12.1%	32,196	13.9%
Large OpCo	8,960	9,688	8.1%	10,206	5.4%	10,646	4.3%
Ghana	2,516	3,048	21.1%	3,204	5.1%	3,328	3.9%
Cameroon	1,750	1,998	14.2%	2,232	11.7%	2,442	9.4%
Ivory Coast	1,662	1,824	9.8%	1,934	6.0%	2,048	5.9%
Uganda	1,196	1,294	8.2%	1,347	4.1%	1,359	0.9%
Syria	1,238	859	-30.7%	731	-14.8%	643	-12.1%
Sudan	598	665	11.2%	759	14.0%	825	8.8%
Small OpCo & Other	**6,069**	**7,833**	**29.1%**	**8,542**	**9.1%**	**9,239**	**8.2%**
Group EBITDA margin %	**42.7%**	**42.8%**		**42.9%**		**43.2%**	
South Africa	35.0%	34.3%		33.8%		33.5%	
Nigeria	58.3%	56.0%		56.4%		57.5%	
Large OpCo	34.9%	35.0%		34.6%		34.1%	
Ghana	36.7%	36.4%		36.1%		35.8%	
Cameroon	45.9%	45.0%		44.5%		44.0%	
Ivory Coast	40.3%	37.8%		37.3%		37.1%	
Uganda	36.3%	35.0%		33.5%		31.5%	
Syria	23.0%	22.0%		20.5%		19.0%	
Sudan	27.7%	27.5%		27.0%		26.5%	
Small OpCo & Other	**37.5%**	**42.2%**		**41.5%**		**40.5%**	

Source: Company Data, Citi Research Estimates

Companies Mentioned

Figure 15. Companies Mentioned

Company	Code	Share P	Rating	Company	Code	Share P	Rating
Bezeq	BEZQ.TA	4.65	Neutral	Wataniya Telco	NMTC.KW	2.18	Buy/High Risk
Cellcom Israel	CEL.TA	32.40	Sell	Telekom Polska	TPSA.WA	7.94	Sell
Partner Comm	PTNR.TA	22.64	Sell	Ooredoo	QTEL.QA	123.60	Buy
Telefonica O2 Czech	SPTT.PR	289	Buy	Mobile Telesystems	MBT.N	19.18	Buy
Mobinil	EMOB.CA	123.85	Buy	VimpelCom	VIP.N	10	Buy/High Risk
Orascom Telco	ORTEq.L	3.29	Buy/High Risk	Turk Telekomunik	TTKOM.IS	6.78	Sell
Magyar Telekom	MTEL.BU	358	Buy	Turkcell	TCELL.IS	10.80	Buy
Vodacom Grp	VODJ.J	111.60	Sell	MTN Grp Ltd	MTNJ.J	182.80	Neutral

Source: dataCentral, Citi Research

MTN Group Limited

Company description

MTN is the number two cellular operator in South Africa, with 35% of the market and 16.4 million subscribers in South Africa. The total number of subscribers spread over Nigeria, and other sub-Saharan African and Middle East countries has reached over 108m. MTN has a 77% free float, making it a highly liquid share. MTN South Africa is generating significant cash flow, which is allowing the group to pursue expansion options throughout the Middle East and Africa.

Investment strategy

We rate MTN Group Neutral. MTN has been a strong operator, and on an operational basis despite facing tough competition in its various markets. MTN faces increasingly maturing markets, which means having to work harder to generate growth; Nigeria remains key and still offers some impetus on subscriber growth over the medium-term albeit under some pressure at the moment. Some of MTN's other markets are also rebounding from a difficult spell of aggressive competition and could aid medium-term growth.

While we are positive on MTN in the medium to long term, the stock's valuation looks full after a strong run and the company faces some near-term challenges in key markets like SA and Nigeria.

Valuation

Mobile telecoms companies are generally strong operational cash generators. In our valuation approach, we use discounted cash flow analysis to arrive at the valuation of MTN. In the forecast of cash flows, provision is made for ongoing or maintenance capital expenditure, which we believe is a necessary cost of ongoing operations. While in its growth phase, depreciation is seldom as high as the maintenance capex charge when the network is fully rolled out. This is true in MTN's case, as South African operations will require significant maintenance capex even when the network reaches its capacity. Our target price of R190 is based on the sum-of-the-parts valuation of each of MTN's geographic operations on a DCF basis.

Risks

We would highlight the market risk associated with extensive investment in operations outside of South Africa, and the high forecast risk of operations in markets with little third-party knowledge on which to base our assumptions. If the impact of these risks is greater than we anticipate, then the share price might not reach our target price. On the other hand, we believe that MTN might continue to post strong earnings growth and that the market continues to value the stock as a momentum play, rather than on its free cash flow and risk fundamentals. This could cause the share price to rise above our target price. Furthermore, the high risk that we anticipate may manifest itself in a one-off event, either positive or negative. In particular, MTN faces litigation risk in some of its markets including Iran and Nigeria, which may or may not result in cash outflows.

Appendix A-1

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MTN Group Limited (MTNJ.J)

Ratings and Target Price History

Fundamental Research

Analyst: Thato Motlanthe

Covered since August 19 2011

	Date	Rating	Target Price	Closing Price
1	7-Oct-11	Stock rating system changed		
2	7-Oct-11	*1	150.00	131.40
3	29-Aug-12	1	*170.00	157.00
4	18-Feb-13	1	*195.00	177.50

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

MTN Group Limited (MTNJ.J)

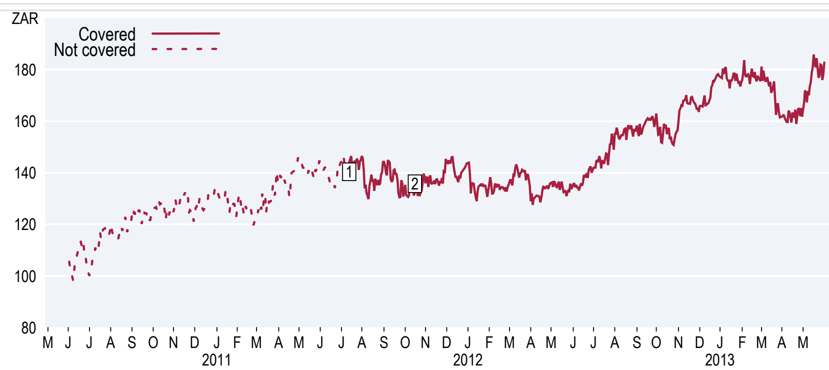
Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Thato Motlanthe

Covered since August 19 2011



	Date	Rating	Target Price	Closing Price
1	13-Jul-11	*ADD LP	-	144.11
2	17-Oct-11	*REM LP	-	132.35

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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