

MTN Group Limited (MTNJ.J)

Alert: H1 Trading Statement – A Beat, But Is It?

H1 up 20-25% – MTN indicated that a HEPS range of R6.45-6.70/sh for H1 ended June. Our forecast for the FY implies growth of c18%, while consensus indicates growth of c20%. It looks good at first glance, but let's take a closer look at the impact of currency movements.

Forex drives the beat – The company notes that forex movements in the finance costs line play a major role in the strong performance. There was a gain of R1bn in H1 13 compared to losses of R1.5bn in last year's comparative; amounting to a positive R2.5bn swing. Roughly, removing the forex impacts in both years suggests that underlying growth in the first half could be more in the region of -5% to flat.

Consistent with operational dynamics – The underlying growth scenario indicated above could be more consistent with what MTN is seeing operationally. For instance: (i) Nigeria, though helped by ZAR weakness, is feeling pressure in local currency terms where the EBITDA margin of c60% enjoyed in H1 12 could be down in H1 13; perhaps closer to the H2 12 level of c56%. (ii) The challenges in SA have increased, as highlighted in MTN's business update in May. (iii) The impact of Iran currency devaluation (happened midway through H2 12) still impacts on H1 13.

In all – The statement looks slightly positive as currency appears to be working in MTN's favour; the current assumption in our model for the FY is actually for further *negative* forex impacts in the finance costs (though less than last year). We need to see more on the underlying progress. Although we have flagged our concerns about near-term (H1) headwinds – [The Yin, The Yang And Nigeria Again](#), 04/06/13 – we do expect H2 to be stronger. No changes at this stage; Neutral, R190 TP.

Neutral	2
Price (31 Jul 13)	R185.25
Target price	R190.00
Expected share price return	2.6%
Expected dividend yield	5.1%
Expected total return	7.7%
Market Cap	R348,627M
	US\$35,329M

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



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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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MTN Group Limited

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

* Indicates change

	Date	Rating	Target Price	Closing Price
3	29-Aug-12	1	*170.00	157.00
4	18-Feb-13	1	*195.00	177.50

	Date	Rating	Target Price	Closing Price
5	4-Jun-13	*2	*190.00	175.75

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

* Indicates change

Date	Rating	Target Price	Closing Price
2 17-Oct-11	*REM LP	-	132.35

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	Buy	Hold	Sell	Buy	Hold	Sell
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