



MTN Group Limited

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MTN Group Q3 Trading Update





Speaker	Narrative
<p>Operator</p>	<p>Good afternoon and welcome to the MTN Group third quarter trading update. All participants are now in listen-only mode and there will be an opportunity for you to ask questions after today's presentation. If you should need any assistance during the conference then please signal and operator by pressing star and then zero. Please also note that this conference is being recorded. I would now like to turn the conference over to Debbie Miller. Please go ahead.</p>
<p>Debbie Miller</p>	<p>Good afternoon and thanks for joining us. This is Debbie Miller, head of investor relations for the MTN Group. Thanks for joining us. It's our Q3 results that we'll be going through today. We've got Phuthuma Nhleko, the group President and CEO, Sifiso Dabengwa, the group COO, Nazir Patel, the group Finance Director, as well as Jamal Ramadan, VP of the MENA region on the line. We are expecting Ahmed Farouk from the WECA region to be dialling in as well. I'm not sure if he's on the line but I do expect that. Phuthuma will give us a brief overview of the group's trading performance – you will have seen our SENS announcement – as well as a bit of an outlook for the group. And then we will move on to a Q&A session which the conference call facilitator will arrange for us. Over to you, Phuthuma.</p>
<p>Phuthuma Nhleko</p>	<p>Thank you very much, Debbie. Afternoon, everybody. We would really like to say that the performance for this quarter is quite satisfactory. We have increased our subscribers by 4% to 129 million subs at the end of this quarter. Most of the operations have increased or at least maintained their market share, despite what has become increasingly aggressive competition, and of course with regulators also being quite firm on a number of things including SIM registration.</p>
<p>Phuthuma Nhleko</p>	<p>We do believe that a lot of the solid performance in the last quarter as I mentioned earlier being in a position to maintain or increase our market share is really a result of amongst other things getting the benefits of the investment in the network. That's allowing us to provide on a comparative basis high-quality networks and also having the capacity to increase the net adds, having put out quite a lot of new and fairly attractive value propositions in the market. Another fairly important factor has been the efficient distribution network that we have revamped in quite a few countries. We think that has served us well in the last six months. As I said, the last quarter has also been fairly solid.</p> <p>We have had a significant drive on mobile data usage across most operations. You may recall quite a lot of operations are below 10% in terms of data excluding SMS as a percentage of revenue. So we made an effort to drive the data usage. We also launched Mobile Money across quite a number of operations, and we believe that this has helped in some cases to mitigate the churn and create some stickiness with our customers. The Mobile Money exercise has now been launched in eight countries and we have over 3 million subscribers that are now registered Mobile Money users.</p> <p>If we look at ARPU across the group, by and large those have remained relatively robust in the larger operations in particular if you compare June</p>



Speaker

Narrative

2010, in both local currency and US Dollars.

On a regional basis the Southern and East African Region was very much driven by South Africa, which contributes 59% to the region's total subs added 670,000 subscribers to its base for the quarter.

This was driven mainly by growth in the prepaid segment, which accounts now for the 90% of the net additions for the quarter. In South Africa the MTN Zone Mahala proposition and much higher brand awareness has assisted in the fairly strong showing in the prepaid segment. We're also happy with the launch of the iPhone which happened in September. And we certainly believe that smartphones in general, but the iPhone in particular, will enable MTN SA to further drive mobile data usage.

MTN South Africa's ARPU remained relatively flat or stable at R152 in June 2010, and the prepaid ARPU in fact showed some positive growth even though we've been seeing a slight decline in post-paid ARPU. As we indicated at half year the economy has had an impact on that, but it is also an issue of quite a lot of people going onto the hybrid products like MyChoice and also choosing low-cost products on post-paid.

Uganda is also a meaningful contributor to the SEA region. Uganda increased its subs by 5% despite a fairly competitive market with 7 now in Uganda, but notwithstanding that we have by and large maintained market share overall. And I think that bodes well for the operation.

The West Africa and Central Region again is driven primarily by a single country, in this case Nigeria, which contributes 60% to WECA region's subs and continues to perform well having added 1.8 million subs in the quarter. In this case again the quality of the network and highly efficient distribution has enabled us to entrench our position in the market.

Ghana is also a large contributor to the WECA region.

In Ghana we had a slight decline in subs because of the SIM card registration which was implemented starting the 1st July. The impact of these new requirements initially lowered gross connections, resulting in net negative subscriber growth in July and August, and this has begun to normalise in October. We have seen a very similar impact in South Africa as well last year.

What is pleasing about the WECA region is that the two large contributors, Nigeria and Ghana, have had relatively stable ARPU in both US Dollars as well as in local currency terms.

Of course the competition and regulatory challenges in Cameroon and Cote d'Ivoire are there, but both operations have seen operational improvements notwithstanding that, increasing their subs by 4% for Cameroon and 3% for Côte d'Ivoire.

Lastly, the MENA region. The key drive is the Iranian operation which contributes over 66% of the MENA region's subscribers. I'm happy to say that IranCell had a very strong quarter as well. They have increased their subs by 5.6% to 28.4 million subs. One of the contributors to that have been



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	<p>attractive value propositions during the Ramadan period. Notwithstanding the high growth rate and seasonal trends, Iran's ARPU continues to remain relatively stable at \$8 as the network rollout benefits have come through.</p> <p>In the MENA region Syria has also increased its subscribers by 6.8% to 4.7 million subscribers. Again I think brand awareness was strong. And of course as we mentioned at the half year results we have made more progress now in Syria on the BOT as well, so that bodes fairly well for that.</p> <p>I think in summary and in conclusion I would say that it has been a fairly good quarter for the larger operations under very challenging trading environment and fairly high competition. And I would say that the guidance of net adds that we gave in June we have increased further from 21.1 million subs to 22.9 million subs. So in brief that's really our overview of the performance during this quarter. I would like to hand over to Debbie, and then we can take it from there.</p>
Debbie Miller	<p>Thanks Phuthuma. I think that actually completes our overview and we'd be happy to answer any questions. Over to you, operator.</p>
Operator	<p>Thank you very much, Debbie. Ladies and gentlemen, at this time if you would like to ask a question please press star and then one on your touchtone phone. If you then decide to withdraw your question please press star and then two. Our first question comes from JP Davids from Barclays Capital. Please go ahead.</p>
JP Davids	<p>Thank you. JP Davids here from Barclays Capital. Two questions please. The first one on ARPU trends, and specifically in Nigeria. To what extent is the stability coming from data growth as opposed to voice stability? And particular within data growth are you seeing any contribution from Mobile Money at this point? My second question is on the equipment side. You recently signed a small deal with Huawei to roll out some rural equipment in Nigeria. Can you comment on the change in pricing you've seen over the last 12 months in terms of rural rollout? Whether it's 10% cheaper now than it was 12 months ago or 50%, that sort of clarification would be very helpful. Thank you.</p>
Phuthuma Nhleko	<p>I'll ask Sifiso to answer the first question. You're asking what is keeping our ARPU stable, if that is through expansion of increased usage of data and so on. And then your second question, you're asking if our pricing on equipment in the rural areas is coming down. I don't think that we would give out any specific detail on that second part of your question. Suffice to say that pricing of equipment and software is always on a downward trend for us because we ensure that we try and improve year on year on pricing.. Sifiso, do you want to talk about the ARPU?</p>
Sifiso Dabengwa	<p>There is a reality that in Nigeria ARPU is driven primarily by voice. The data contribution is still low. It is really still driven primarily by voice and additional subscribers.</p>
JP Davids	<p>Okay. Just to follow up on both those points. Firstly on the Nigerian ARPU. At the first half results you mentioned that your marginal customer was a \$7</p>



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	<p>type customer. So I'm just trying to reconcile that \$7 number with the stability in ARPU. Has there been a big change in pricing stability on the voice side that is helping, or a big uptake on usage? And then coming back to the question on Huawei and the equipment side, just to clarify there. Telenor has given some data points on equipment saying over the last 12 months you've seen 2G prices down 80% and 3G down 50%. I was just wondering if you could collaborate those sorts of numbers for a rural rollout in Africa, whether those are the sorts of numbers you are seeing. Thank you.</p>
<p>Phuthuma Nhleko</p>	<p>If vendors are saying they're giving 80% reduction... you said Telenor, the operator. It's very difficult to comment on that. We're not trying to avoid your question, but I must say the issues pertaining to pricing are always more complex than meets the eye. You know, are we comparing apples with apples? Suffice to say yes, I would agree with you that there is always a meaningful downward trend on pricing. 80% would certainly seem to be very significant and more than one would have expected, but again I would caution that by saying it really depends in what context and what they are referring to specifically. I would be hesitant to say they're wrong or right on that, but suffice to say it is on a downward trend.</p>
<p>JP Davids</p>	<p>Thanks. And then just a follow up on the Nigerian ARPU. Given that your marginal customers are \$7 ARPU customers I was just wondering whether you're seeing price stability on the voice side or if it is usage that is driving the improvement here.</p>
<p>Phuthuma Nhleko</p>	<p>It is mainly usage, as pricing is stable.</p>
<p>JP Davids</p>	<p>Thanks very much.</p>
<p>Operator</p>	<p>Our next question comes from Sean Gardiner of Morgan Stanley. Please go ahead.</p>
<p>Sean Gardiner</p>	<p>I just have two questions as well. Firstly data. Can you help us understand what the nine month data growth was in South Africa? And then on that point, have you seen any increased pressure coming in the South African data market? Cell C has launched a number of products recently. Have you seen any change in pricing that you need to follow? The second question is on the cost side. Have you made any more progress in further reducing subsidies on handsets? And what have been the cost trends in the South African market during the quarter?</p>
<p>Debbie Miller</p>	<p>We haven't given out revenue details, but we can give you a general direction. And the other one is on price in South Africa in terms of reducing the handset subsidy.</p>
<p>Sean Gardiner</p>	<p>And any other major cost changes in the quarter for the South African business.</p>
<p>Debbie Miller</p>	<p>So basically asking about margin stability?</p>
	<p>Ja.</p>



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Phuthuma Nhleko	There are really two points. First of all, if you're asking if there has been a radical change in the trends in the last three months the answer is no, not really. Whatever we reported at half year you've seen a continuation. On handsets, again a very similar question to what we've said as far as vendor equipment and so forth. The trend is always downwards. There are all sorts of programmes with a number of vendors where we are getting more and more sophisticated handsets and lower and lower prices, and in particular trying to find the high-end phones and trying to get them in such a manner that we've got downward pressure on that, because obviously that's driving the data programme.
Sifiso Dabengwa	There really haven't been any significant changes in our subsidy approach as far as handsets are concerned.
Sean Gardiner	Just on the data. I think Cell C has launched recently. Have you seen any pressure on that market in the last few months?
Sifiso Dabengwa	Not really. I mean it's still very early. I think it will start becoming clearer in this quarter as we go into the fourth quarter.
Sean Gardiner	Thank you.
Operator	Our next question comes from Nick Kershaw of Deutsche Bank. Please go ahead.
Nik Kershaw	Good afternoon. Well done on a good set of results. I've got four short and simple questions. Firstly, in South Africa can you give us an indication of what percentage of your prepaid subscriber base has been RICA'd? Can you maybe just clarify what the actual cut-off date is for that? The second question is then on Ghana. In this last quarter Millicom had net disconnections of 27,000 and you guys had 264,000. There seems to be a bit of a disconnect, whereas in the previous 12 months your run rate has been significantly ahead of Millicom. And then the last question is on Sudan. I know we spoke about this at the interim period and there was talk about renewed focus on that business. It seems like things are getting worse there.
Phuthuma Nhleko	Let me just say on RICA, in South Africa as you know the operators have taken the view that we will not meet the current deadlines. I think moves are afoot to try and persuade government to give us an extension until next year, maybe mid next year. And we remain hopeful that we should get that extension. But we don't have it yet. We remain hopeful that we should be able to get that. On numbers of RICA'd customers I think that's between 60% and 70% on prepaid.
Nik Kershaw	Between 60% and 70%?
Phuthuma Nhleko	Ja, on prepaid.
Nik Kershaw	Thank you.
Ahmed Farrouhk	The disconnect between our numbers and Millicom's numbers are for two reasons. We still have a historical rate of churn off a much higher base than



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	<p>they do. That's one part of it and is probably the major reason for it. The second part of it is Tigo have also been aggressive. Interestingly enough they haven't had much publicity. They have also been extremely aggressive on pricing. They initiated a price war in Ghana. So that has contributed to a little bit higher share that they've taken. As we get to the fourth quarter we expect to see a net positive number starting in this quarter, and an improvement as we go towards the end of the year. But it's certainly not going to reverse the net disconnections.</p>
<p>Nik Kershaw</p>	<p>Okay. So at the moment in Ghana we're back to at least marginally positive.</p>
<p>Phuthuma Nhleko</p>	<p>Marginally positive in October. We are expecting improvement in November and December.</p>
<p>Nik Kershaw</p>	<p>Great.</p>
<p>Phuthuma Nhleko</p>	<p>The question on Sudan, Nick, if you were saying we have challenges in Sudan, the answer is yes, we do have challenges in Sudan. But we did say at half year that we were taking certain actions in terms of trying to beef up management and capacity and putting in new products. We have bigger coverage. I'm happy to say that we're in a position now to push very hard on that. But it is a very difficult market, or certainly our position in the market is a tough one. But we still remain quite cautiously optimistic that we'll get to a satisfactory condition in the country.</p>
<p>Nik Kershaw</p>	<p>Thank you.</p>
<p>Operator</p>	<p>Ladies and gentlemen, a reminder that if you'd like to ask a question please press star and then one. Our next question comes from [unclear] of American Century Investment. Please go ahead.</p>
<p>American Century Investment</p>	<p>Good morning. Congratulations on a good set of numbers. I wanted to go back a little bit to Nigeria and Ghana. Can you give a little bit more colour on to what extent pricing is deteriorating due to competition, and what you're seeing in terms of competitive dynamics in the market? You're obviously especially in Nigeria doing very well, but trying to look from outside in it's not very clear how the dynamics are working. And is this just purely your brand name and superior network or are there other forces at play? More importantly, what is the outlook like? Thank you.</p>
<p>Sifiso Dabengwa</p>	<p>There are a lot of promotions in the market. I'll start with Nigeria firstly. The different operators are putting different promotions in the market at different times. Yes, there has been an overall downward impact in terms of the per minute pricing if one looks at it on an effective rate. It has not been that significant from our point of view. But in terms of the other operations in terms of the promotions that they're putting forward they have been quite significant as far as the promotions are concerned. The issue is that it's quite difficult to relate the headline pricing to the actual effective rate for the different operators, as we have to take into consideration issues such as the number of minutes that are used on the different promotions. So yes, there is a slow downward pressure, and that also applies in Ghana where there is effectively a slow downward pressure on the per minute pricing.</p>



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American Century Investment	So your net add expectations for Nigeria, what is behind it? In other words you don't feel that this promotional activity will cut into your ability to grow your subscriber base. Is this a reflection of the fact that you plan some sort of strategic response of your own? Could you give us more clarity here please?
Phuthuma Nhleko	Can you please repeat the question? It was most unclear.
American Century Investment Phuthuma Nhleko	Can you hear me better now? It's a bit better, yes.
A.C.I	Let me repeat that. You have upgraded your net add guidance from Nigeria. So now in the light of these promotions that are made by your competitors is your upgrade of guidance a reflection of the fact that those promotions are not being effective, or is this a reflection of the fact that you plan a response of your own?
Phuthuma Nhleko	I think it's a reflection of our confidence. I'm not saying that in an arrogant way, but I'm just saying it's a reflection of our confidence in where we think we can get to, primarily because we've got the network, we've got the capacity, we've got the quality and we've got the distribution. So why would we hold back?
A.C.I	Thank you.
Operator	Ladies and gentlemen, a final reminder that if you would like to ask a question please press star and then one. Our next question comes from Peter [unclear] of RMB Morgan Stanley. Please go ahead.
Peter	Thank you. Can you hear me?
Phuthuma Nhleko	Yes, we can hear you clearly.
Peter	At the interims you said the announcement of the new CEO was a few months away. Can you give us an idea how many weeks we are from that?
Phuthuma Nhleko	I said before the end of the year, and I did say that that is a board process. They also understand that they have to deal with this thing as rapidly as they can, and I'm sure they will stick to that. So I'm hopeful that they will do that before the end of the year.
Peter	Thank you. Then just coming to South Africa. Quite good numbers really. We have seen your competitors moving towards appearing more simple in their tariffs and so forth, but at the same time switching to per minute billing. Is that something that MTN is considering in South Africa?
Peter	Is South Africa considering moving to per minute billing?
Phuthuma Nhleko	Yes, because that is what we're seeing most of your competitors moving towards.



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	<p>The issue is that there will always be an option. Because there are a number of different price plans there will always be an option for either per minute or per second or billing in either ten or 15 seconds. So it can be any of the above.</p>
<p>Peter</p>	<p>Okay. Thank you.</p>
<p>Operator</p>	<p>We have a follow-up question from Sean Gardiner of Morgan Stanley. Please go ahead.</p>
<p>Sean Gardiner</p>	<p>Thank you. I just wanted to ask about capex quickly. At mid-year you felt pretty comfortable with your capex forecast. Can you give us an indication if in any particular markets you feel there are capacity constraints that you might need to address in the next 12 to 18 months. It sounds like Nigeria is very comfortable, but are there any markets where you think the capex might need to rise?</p>
<p>Phuthuma Nhleko</p>	<p>Look, if you recall we revised the number downwards at half year, and that was a very considered view. And we said we'd end up this year at R21 billion for capex. And therefore that remains the case, so there is no radical change in what we have invested in any particular country. It's consistent with the guidance that we gave at the half year.</p>
<p>Sean Gardiner</p>	<p>And just on any trends you're seeing, are you seeing any trends changing dramatically that you might need to start investing in increased capex in some countries?</p>
<p>Phuthuma Nhleko</p>	<p>Nothing out of the ordinary. Obviously as we've always said if for some reason competition or the trading environment had to change so radically that we felt that we had to invest significantly to maintain market share, then that could happen. We can't discount that. But secondly, based on the horizon that we are looking at we expect that downward trend to continue to some extent, having peaked in 2009. And as I said right at the beginning of this presentation, the investment has put us in good stead in the sense that we can now increase capacity as an when we require it.</p>
<p>Sean Gardiner</p>	<p>And just a final point, for Nigeria for 3G and data, I think early you mentioned that it is still quite small, non-SMS data in Nigeria. Where is the network capacity for data services? Is it as good as your voice or do you think you need to invest more in data there?</p>
<p>Phuthuma Nhleko</p>	<p>The data quality in Nigeria, specifically the 3G network, the quality is good. At this stage it's just a question of expanding 3G into the next level of bigger cities. There is no major issue as far as the quality is concerned.</p>
<p>Sean Gardiner</p>	<p>And what sort of speed is the network offering in Nigeria at the moment, data speed?</p>
<p>Phuthuma Nhleko</p>	<p>It's a normal 3G. Maybe we will come back to you. It's the normal 3G speed.</p>
<p>Debbie Miller</p>	<p>Sean, let me just double check. Obviously there is probably variability across the network. We can just check in the major metros what speeds they're</p>



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Sean Gardiner	offering there.
Phuthuma Nhleko	And on data there, the transmission network obviously you've invested a lot in the last few years. Do you think data in Nigeria will [inaudible segment] another leg of transmission in the next 24 months, transmission rollout? Or do you have enough capacity on transmission?
Phuthuma Nhleko	The transmission capacity is there. I mean we don't have any major issues. I think the only thing is that where there has been large growth in terms of capex, where there will be areas which over time, we will be replacing the radio networks by fibre and just using the radio networks more for redundancy.
Sean Gardiner	Thank you.
Operator	Our next question comes from Jan Louw of Afrifocus. Please go ahead.
Jan Louw	Hi, good afternoon. I joined a bit late. I don't know if this question has already been dealt with. Just looking at subscriber numbers of Sudan, could you give me some information regarding the decline?
Debbie Miller	We did actually deal with it.
Phuthuma Nhleko	At the June results it was mentioned that there had been a clean-up of the data of about 600. And during the third quarter there was a change in our intensive structures to the distributors which then discouraged them from selling activations that were not necessarily subscribers. So that's really the reason for the reduction in the third quarter.
Sean Gardiner	Thank you very much.
Operator	Our next question comes from Nick Kershaw of Deutsche Bank. Please go ahead.
Nick Kershaw	Just a quick follow-up question. The MobileMoney business which seems to be getting some good traction, how far away are we from this becoming a revenue stream as opposed to just a specific [unclear]? Is it months away or is it quite a few years away before we start to see that adding some revenue to the group?
Phuthuma Nhleko	Are you talking about MobileMoney?
Nick Kershaw	Yes.
Phuthuma Nhleko	It's not going to be just months. It is earning revenue for the group, but if you're talking about it becoming 5% to 10% of revenue in the group that's going to take a bit of time. So it really depends. And I think it also varies from region to region. As you've seen in the numbers – I think we did give some numbers at half year if I'm not mistaken – East Africa has taken off far more rapidly than West Africa. One of the reasons is that the whole Kenyan [?] experience in East Africa has made people far more comfortable with MobileMoney transfers, whereas it is maybe not as entrenched in West



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	Africa. So we'll have to see. But if you're asking when we will start seeing material numbers, and in my view that's between 5% and 10% of revenue, that is going to take a bit of time.
Nick Kershaw	Thanks very much.
Operator	Ladies and gentlemen, we have no further questions. Would you like to make some closing comments?
Phuthuma Nhleko	Thank you very much for attending the call.

END OF TRANSCRIPT