MTN Group Limited
Quarterly Results Presentation
DATE: 25/04/2014

Operator	Good afternoon, ladies and gentlemen, and welcome to the MTN Group quarterly results. All participants are now in listen only mode, and there will be an opportunity for you to ask questions after today's presentation. Please note that should you wish to request assistance during the conference call you may press star and then zero. Please also note that this conference is being recorded. I would now like to hand the conference over to Nik Kershaw. Please go ahead.
Nik Kershaw	Hi. Good afternoon. Nik here. Thanks very much for joining us today to discus MTN's performance for the three months ending 31 March 2014. On the call today is Sifiso Dabengwa, group President and CEO, Brett Goschen, group CFO, Zunaid Bulbulia, CO of our South African operations, Ahmed Farouk, Chief Operations Executive and Mike Ikpoki, who is the CO of our Nigerian operation. Sifiso will just provide a few details on the group's performance. Thereafter we will move on to a Q&A session which the conference call operator will facilitate. A detailed version of this announcement is on the website as well as on SENS. Over to you, Sifiso.
Sifiso Dabengwa	Thank you, Nik. Good afternoon, ladies and gentleman, and thank you for joining us this afternoon. You would all have read our SENS release, so I will very briefly touch on the highlights for the period and then outline a few additional points. The group delivered a broadly satisfactory subscriber performance, but South Africa in particular was below expectations. We continue to see good data growth supported by competitive offerings and improved network quality and coverage. Our operating environment, however, remains challenging with persistent price competition and regulatory challenges. Subscriber numbers increased marginally by 1.1% quarter on quarter from December 2013. This was mainly due to the ban on sale of SIM cards in Nigeria during March, the disconnection of approximately 973,000 non-revenue-generating subscribers in South Africa, and slower subscriber growth in Iran. Data revenue was increased by 43.3% year on year, and we saw an encouraging progress in Mobile Money with total registered subscribers now at 16.6 million. Looking to our operations, the South African operation continued to face competitive challenges in the prepaid segment. Our competitive responses in Q1 were not as effective as expected, and thus we revised our offers at the beginning of Q2. We believe this will enable us to gain relevance in the prepaid segment and will result in improved subscriber acquisition and retention performance. Performance in the post-paid sector was satisfactory and we maintained our market share. The post-paid segment grew subscribers by 3.7% to 5.2 million. Data continues to bolster revenue growth with data subscribers increased to 14.5 million. Furthermore, we remain committed to seeking a permanent resolution to the recent mobile termination rate glide path and asymmetry regulations announced by ICASA which came into effect on 1 April for a period of six months. Our Nigerian operation grew its subscribers by 0.8% to 57.2 million. This was a

Speaker	Narrative
	satisfactory performance given the one month ban on sale of SIMs imposed by the NCC for three of the four GSM operators. Encouragingly we have seen strong subscriber growth post the lifting of the ban. During the quarter there was continued focus on network rollout with 483 2G and 597 3G sites added. Local currency data revenue also continued to grow strongly, increasing 21.1% year on year. This was mainly attributable to the growth in 3G enabled devices on the network and improved 3G network quality and coverage. We were pleased with the performance of the large and small OpCo clusters which both showed good growth momentum. Our net addition guidance for the full year remains a total of 16.75 million subscribers. Thank you and we will take questions now.
Operator	Thank you very much, sir. 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 of Barclays. Please go ahead, sir.
JP Davids	Hi. Good afternoon. The first question is on the South African business. Can you talk about the progress you're making reshaping your cost base for a tougher revenue environment? And then related to that, can you provide some colour on how you arrived at the 79 cents price point for prepaid? Then a separate question on Mobile Money. It looks like there has been some renewed momentum there. Can you provide some colour or insight into what has caused the improvement in those trends? Thank you.
Sifiso Dabengwa	Zunaid will deal with the first two.
Zunaid Bulbulia	On the issue around the cost management we continue to make good progress in that space. Obviously we don't give numbers out in that space at this point in time, but I'm happy to report that the cost saving and the cost performance that we showed during the second half of 2013 has continued in the first quarter of 2014. And we are very confident that we can maintain that for the rest of the year. In terms of the 79 cents it has really been a glide path that we have been following in the context of being able to make ourselves competitive and make the prepaid offerings more relevant. We went from R1.50 down to R1.20 and then down to 79 cents. So we are very confident that there is sufficient elasticity in the market and sufficient demand in terms of customers coming back to the MTN network that will allow us to be able to potentially in the short term see some erosional revenue but then long term bring back the revenue performance to where it should be. So that is the main thrust of what has driven us down to 79 cents.
Sifiso Dabengwa	Just on the question on Mobile Money, I guess the first thing is that there has definitely been an increase in terms of management attention to Mobile Money services. We now have a stronger team in the centre and we have also allocated a bit more in terms of budget. And we are also ensuring implementation of best practises in all the operations where we have the license to operate Mobile Money.

Operator	Our next question comes from Thato Motlanthe of Citigroup. Please go ahead.
Thato Motlanthe	Good afternoon. I've got three questions. Maybe I should just ask them one at a time. They are all on South Africa. The first one, just some clarity on the disconnection of inactive SIMs. As I understand it this should be an ongoing process. I just want to understand this year it is a particular factor in terms of the impact on subs growth.
Zunaid Bulbulia	Okay. It is an ongoing process. In fact, we disconnect customers on a daily basis based on our rules. We had not reviewed those rules for a number of years. And in line with a review that was done we found that we had some customers who were real customers who were registering activity on the network but who did not meet our definition of a revenue-generating subscriber. So in that context the cleanup of the base was then effected. We have now put in place an audit mechanism that will allow us to ensure that the definitions are being complied with on a bi-annual basis. That has now been put in place in order to mitigate any further deviation from the rules in terms of how we define a revenue-generating subscriber.
Thato Motlanthe	Thanks. My next question is just on elasticity. So it has been relatively muted if you look at the past couple of years, even negative at times. I just wanted to find out if you have had any progress in terms of stimulating that. I think we've seen Vodacom has managed to turn that around more recently. Have you had the same sort of benefit? And then just related to that on the 79 cents per minute, it is obviously early days but what sort of response have you seen in terms of that as well?
Zunaid Bulbulia	So on the 79 cents you're absolutely right. It is early days. We launched just prior to the Easter period. With all the holidays and slowdown in activity it has been a bit difficult to develop a trend. We are quite encouraged by what we've seen in the context of initial reaction from the market. So that's a very good positive sign. The elasticity question is a bit more difficult to answer without the passage of time. So in the next couple of months we will be in a far better position to comment on what elasticity we've seen based on these latest moves. Certainly our experience has been that in the low-value segment elasticity still does exist and there is propensity for demand in that space. Maybe not so much on the high value, but certainly in the medium to low value there is elasticity there.
Thato Motlanthe	Thanks. My last question is on...you mentioned the execution of your infrastructure sharing strategy in South Africa. Could you elaborate on this, obviously given some of the information that we've gotten from a Telkom perspective, and possibly give us a better sense of timelines that you're looking at?
Zunaid Bulbulia	The timelines are now a function of lawyers. I guess what is happening at the moment is the lawyers from both teams are now sitting in a room and negotiating the long form of the agreement. That could take a few months in the context of the sheer size and scale. The result of that is it will take us a few months to close that. We are not anticipating any competition or any regulatory issues, so in that context I would say probably between three and four months.

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Thato Motlanthe	Just in terms of from your perspective what you're getting out of the deal, the potential deal.
Zunaid Bulbulia	I think we've reiterated in the past as well that in this context for us it is about the ability to use the benefit of scale and to use the benefits associated with a shared network as opposed to two separate networks. In our context in the long term it means capex avoidance, which is a significant benefit to the South African business, in particular with regards to a network for data purposes in terms of 4G and beyond that as well. So in that context it is about capex efficiency in the medium to long term.
Thato Motlanthe	Thank you very much.
Operator	Our next question comes from David Lerche of Avior Research. Please go ahead, sir.
David Lerche	Hi. Good day, gentlemen. The first question...I've got two if I may. Firstly, can you give us some guidance on what the subscriber addition run rate in Nigeria was through January and February? Obviously March was a disorganised month, but just what was it through Jan and Feb so we can get some kind of idea of the trends there? And then secondly, has any progress been made on getting a Mobile Money licence in Nigeria? If you could just give us some colour on that as well please.
Michael Ikpoki	Okay. In Nigeria I think like I said March was a fairly difficult month. We did 458,000 in Q1. So we did something close to about 150,000 or 180,000 on a monthly basis for January and February. But I think like we said in the statement we are seeing a very positive uptake in Q2 already, so we are turning that around. On the Mobile Money situation, not much has changed. There is a new Central Bank governor who should be assuming office soon. As we mentioned at the last engagement we already have a Mobile Money type product almost ready to be launched with one of the major banks. We are doing a pilot now for the next six weeks and we expect that by late May or early June we should be launching.
David Lerche	Great. Thank you very much.
Operator	Our next question comes from Madi Singh of Morgan Stanley. Please go ahead.
Madi Singh	Yes. Thank you. Two questions. The first question is on Nigeria. I just wanted to follow up on the subscriber run rate in Nigeria. Your guidance would imply a much higher run rate on a monthly basis. So would you expect a significant acceleration in the coming quarters or months? And if so, in which quarters do you expect most of the acceleration will happen? And secondly on South Africa, I was wondering what have been the recent trends on the data side? You mentioned the low-end smartphone deals and that you were going to focus a lot on that. What kind of progress have you made there? What kind of market share are you seeing in that smartphone space? Thank you.
Michael Ikpoki	On Nigeria I think it may be a bit speculative to give an indication of which quarter we expect to see a massive growth. But suffice to say that post the ban from the NCC we have launched in the market on 1st April and we are seeing some very positive

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	numbers. So I'm sure by the end of Q2 you will see the numbers. We're quite encouraged by what we've seen so far.
Brett Goschen	If I may add, I mean for the first two weeks in April Nigeria recorded net additions of 500,000. But admittedly there is quite a bit of an overhang of pent-up demand from March. But still very encouraging.
Zunaid Bulbulia	Just on the trends on smartphones, obviously we unlocked a bit of an unconquered front when we launched our *Steppa* handset in December. I'm very glad to report that it has actually gone exceptionally well. We have sold more than 200,000 of those handsets and have a very clear plan for the rest of the year in the low-end smartphone part of the market. It is a very key part of our strategy in the context of being able to drive adoption of data on the low-end part of the market, particularly on the pre-paid side.
Madi Singh	Thank you.
Operator	Ladies and gentlemen, a reminder, should you wish to ask a question please press star and then one now. Our next question comes from Craig Hackney of Noah Capital Markets. Please go ahead.
Craig Hackney	Thank you. Just looking at South African ARPU that you reported, R100.47, the 973,000 subscribers that were disconnected, were they in the subscriber base when that ARPU was calculated or have they been excluded for the whole quarter?
Nik Kershaw	Craig, it is Nik here. Those subscribers were only disconnected at the end of the quarter so they artificially depressed the ARPU number that you saw. So the underlying ARPU just arithmetically if you strip those subscribers out would obviously be quite a bit higher. So if you want to get a better indication you need to adjust your subscriber base to see what the underlying ARPUs would have been.
Craig Hackney	Okay. Thanks, Nik.
Operator	Our next question comes from Franca di Silvestro of HSBC. Please go ahead.
Franca di Silvestro	Hi. Sorry, I just have a question to Zunaid from an earlier comment he made. He mentioned the fact that there is going to be a new bi-annual audit process in place to make sure there isn't deviation from what you would classify as a revenue-generating subscriber. Can I just ask what has necessitated a new audit process to be put in place that wasn't there before?
Zunaid Bulbulia	Thanks for that. What we have had si we've had our own systems that have been hard-coded in terms of the definition that we've had. We've never really had an independent look at it from an outside point of view. So in order to make sure that there are no unforeseen surprises that come through there...we change our business quite rapidly and quite often. Often the systems we use in order to count customers are not updated as frequently as they should be. And it is not just one system. It is often five or six systems that are connected to each other. What we have decided to

	do now not just in South Africa but group-wide is to ensure that there is a proper audit of that process on a bi-annual basis to make sure that as we evolve our business and definitions change then the systems are kept in line in terms of how we count customers.
Franca di Silvestro	So you're talking about an internal audit process, correct, not an external?
Zunaid Bulbulia	I mean Brett can comment. We are probably going to use external auditors.
Franca di Silvestro	Okay. Thank you.
Operator	Our next question comes from Jonathan Kennedy-Good of SBG Securities. Please go ahead.
Jonathan Kennedy-Good	Good afternoon. Just two questions on South Africa. Given your subs guidance has not changed can we assume that you target to add 3 million net adds in South Africa over the next nine months, given your December guidance of 2 million? And then on MTN Zone, can you give us an idea of what percentage of your prepaid base is on that product and whether they have access to the 79 cents flat tariff?
Zunaid Bulbulia	Jonathan, on the first question, the guidance remains 2 million which means we still think we can do 3 million. Obviously we have taken some very aggressive competitive steps to move in that direction. So that's correct. In terms of MTN Zone roughly about 70% of our base sits on MTN Zone. And access to that tariff is in the context of our discounting on the Zone product. We have renewed our discounting there to drive the effective tariff down so that customers start to experience 79 cents on the Zone product as well. That started at the same time as we launched the 79 cents product last week.
Jonathan Kennedy-Good	Thank you.
Operator	Our next question comes from Gabor Sitanyi of CCL. Please go ahead.
Gabor Sitanyi	Thank you very much. Perhaps just three questions. First on Nigeria, given the first quarter performance and also the pressure on ARPU is it fair to say the 8% to 12% constant currency growth which was your target might be a bit on the optimistic side in FY14? And also similarly in South Africa, just looking at the net adds and also the impact of the new tariff and the impact on ARPU from that, is it again fair to say that in South Africa maybe the top line growth could be either negative or mid single digits negative in FY14? Also on South Africa in terms of the regulation, if you can perhaps elaborate a little bit how does that work in terms of the new MTR and asymmetry? As I understand the High Court ruled that it is illegal, yet it has been implemented. So how does that work, and how long could it work that way and what is the next step? Thank you.
Zunaid Bulbulia	Let me deal with the last question. Nik will deal with the revenue question that you asked. In terms of the MTR regulation, the outcome of the judgement is that the judge found in MTN and Vodacom's favour that the regulations were irregular and therefore

	not valid, but suspended her order for six months, which means that for the six months that started on 1st April that the proposed tariffs have now kicked in, which means that the asymmetry as well as the reduction to 20 cents has now effectively happened. In that six months ICASA obviously has to come back with a revised set of regulations which they have to then put forward for consideration and then for approval. And we anticipate that that process will take them the full six months, after which potentially a new interconnect regime, will come into operation.
Nik Kershaw	Maybe just to comment on the guidance, we are still very comfortable with our guidance that we've given for Nigeria on the 8% to 12% revenue guidance. Two points I've noted in that. Certainly for the first quarter we were in the order of the middle of that sort of range, so there is no problem there. And certainly going forward the headwinds we faced from termination rates, which this quarter on a year on year basis there was a 40% reduction in termination rates, for the next nine months the headwind from termination rates on a year on year basis will only be 10%. So that will also support the relative trend. So we are very comfortable with the guidance both on subscribers and revenues that we've given for Nigeria. And then on South Africa from a guidance perspective I think we're not going to give too much guidance around revenues at this stage. I think it is a little unclear. We need to see how things pan out around these tariffs we've implemented now. But fair to say the quantum of the trend will be difficult to say, but a similar trend to what we saw in Nigeria where the month you implement lower tariffs your revenues go down and then revenues will start to trend up from that on a month on month basis. So we will give a better update around South Africa by the time we get to the middle of the year.
Gabor Sitanyi	Thank you. Perhaps just one quick follow-up. In terms of the MTR and asymmetry is that simply a process issue? So if ICASA is able to demonstrate that now they're correctly following the process then it is likely that MTR tariffs and asymmetry will be implemented as they planned originally? Or did the judge find that it is not only a process issue but more fundamental, i.e. that they actually have to revise after the six months the actual tariff and asymmetry?
Zunaid Bulbulia	No, they would have to follow the process, which means it has got to be supported by a scientific assessment of cost that informs the level of asymmetry, if any level of asymmetry is necessary. So it is a process supported by a proper cost analysis that has to be done by ICASA.
Gabor Sitanyi	Understand. Thank you very much.
Operator	Ladies and gentlemen, a final reminder that if you'd like to ask a question please press star and then one now. Our next question comes from David Lerche of Avior Research. Please go ahead.
David Lerche	Hi gentlemen, thanks for the chance to have a follow-up here. Michael, in Nigeria are the cost cutting exercises there actually helping to lift margins or are you really just kind of keeping up with the price pain in that market? Can you maybe just give us some thoughts there please?

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Michael Ikpoki	In terms of cost cutting I mentioned last time one of the key areas that we've made some significant changes is on distribution costs. We've been able to optimise our distribution model and we've been able to make some savings in that regard. So a lot of the initiatives that we had in 2013 Q4 in terms of cost management we have carried over into 2014. And it is helping us in terms of maintaining a decent margin. So yes, we have implemented a lot of what we talked about last year, key of which is the distribution cost management strategy. And we are doing a lot of focus around managing the costs in the business as a whole. I would say it is having the right kind of impact.
David Lerche	Fantastic. Thank you.
Operator	Our next question comes from Madi Singh of Morgan Stanley. Please go ahead.
Madi Singh	Thank you. I just have a follow-up question in Nigeria. How has the competition been evolving in 2014, especially given that March had the SIM card sale ban? How did Etisalat react to that? Did they come up with any promotion to benefit from that? And has that changed in the second quarter? What kind of response are you seeing from other operators like Airtel and Glo as well? Thank you.
Michael Ikpoki	Okay. The competitive environment has remained fairly tense. Etisalat in particular because they were the only operator who was unaffected by the NCC decision in March, so obviously they took full advantage of that opportunity and have been going out into the market to do all kind of offers. So generally I would say it has been pretty much the same thing we are used to. Several offers in the market. What we are beginning to see is a lot more focus around data. We are beginning to see some shift since the brand re-launch in February of this year. So the market has remained fairly competitive. We have been also very active in the market in Q2. After the launch we've started a below the line offer to attract new customers to the network with specific focus on the northern part of the country. We've done a brand re-launch, so we have started doing a lot of activities around those lines. I wouldn't say it has been much different. It is the same kind of competitive activity we saw in Q4, maybe a little more focussed around data and value-added services.
Madi Singh	Thank you.
Operator	Our next question comes from Craig Hackney of Noah Capital Markets. Please go ahead.
Craig Hackney	Thanks. Can you give us an update just on the Nigerian regulator in terms of engaging around re-negotiating more reasonable KPIs? How is that process going please?
Michael Ikpoki	Well, it is going fairly well. We've had a couple of meetings with the regulator, not just MTN but the other operators as well. In Q2 we are going to be having additional meetings. I mean what we've done is having a lot more engagement in the sense of sharing information about some of the specific network operational improvements that we are making. And we are hoping that we are having a follow-up meeting with them in about a week or two from now and we are all speaking the same language

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	about the need to reduce the KPIs. We believe that we have a lot better understanding from the NCC now, and we are sharing a lot more information with them. So we hope that that will give them a better view of the efforts and the challenges that we are having as an industry. I think the engagement has been quite positive, quite friendly and constructive. I am confident that we should be able to arrive at some good outcomes out of this.
Craig Hackney	Okay. Thank you.
Operator	Gentlemen, we have no further questions. Do you have any closing comments?
Sifiso Dabengwa	No, thank you very much for your attendance.
Operator	Thank you. On behalf of MTN Group that concludes this conference. Thank you for joining us. You may now disconnect your lines.

END OF TRANSCRIPT