MTN 2018 results conference call transcript

Date: 07 March 2019

Speaker	Narrative
Operator	Good day ladies and gentlemen and welcome to the MTN 2018 results conference. All participants are currently in listen only mode and there will be an opportunity to ask questions later during the conference. If you should need assistance during the call please signal an operator by pressing star and then zero. Please also note that this call is being recorded. I would now like to turn the conference over to Nik Kershaw. Please go ahead, sir.
Nik Kershaw	Hi. Good day everyone. Thanks very much for dialling in. With me today is Rob Shuter, group CEO, and Ralph Mupita, group CFO. I think you would all have seen our results were released on SENS this morning. We also had the presentation. All the information is on our website as well as on the JSE. Rob will provide some introductory comments and then we'll hand over to Q&A. Thanks very much.
Rob Shuter	Good afternoon everybody and welcome to our results. I think we're very excited to share with you the progress we've made last year and also our plans for the future. There are six key themes I want to touch on before we move to the Q&A. They are: • commercial momentum; • stabilising leverage; • tackling the difficult stakeholder situations; • portfolio optimisation; • extending the BRIGHT strategy for accelerated growth; and • our enhanced investor guidance. For the **commercial momentum** I think we were pretty pleased with the momentum in 2018. Overall subscribers went up 16 million, so that takes us up to 233 million across the markets. Active data customers, a key metric, were up by 10 million to nearly 80 million. And we also expanded the active mobile money base to 27 million customers. This commercial momentum really drove a 10.7% increase in service revenue in constant currency. Remember that was 7.2% in 2017 and more importantly

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	is above the average rate of inflation in our markets. So it means we are delivering real growth in service revenue. Momentum also enabled us to hit our target of a wider EBITDA margin, so we drove a 14% reported growth in group EBITDA. In reported growth, so actually there not even adjusting for constant currency. So, with good commercial momentum we have met all our medium-term targets and have also delivered on our dividend guidance of R5 per share. And that's why you saw the second part of that now declared, 325 cents for the second half. The second theme, **stabilisation of leverage**: You will remember that at the end of June our holding company leverage was at 2.9x. We have brought that down to 2.3x for the full year, so that's well within our target range of 2.0 to 2.5x. It's also worth noting that the group's overall gearing is at 1.3x. So that is comfortably within emerging market telco benchmarks. So, on balance, we believe that we are now at sustainable levels and are not aggressively geared, bearing in mind our growth profile and the portfolio of markets. The third theme is around **tackling the difficult stakeholder situations**. We knew when we went into the year that we had work to do, specifically in Benin and Cameroon. In these markets we made good progress in resolving the issues with frequency fees and in finalising the licence conditions. Of course during the year we faced a number of new challenges, the most material of which was the Central Bank of Nigeria dispute on historical dividend repatriations. This was resolved and we announced in December that we had agreed to implement a notional reversal of the 2008 private placement and consequently made a resolution payment of $53 million. So clearly, for 2019 we will need to put more work into our remaining issue with the Attorney General in Nigeria as well as a very difficult situation in Uganda with the licence extension and some other ancillary matters. The fourth big topic is about **portfolio optimisation**. And important to say that we focused on simplifying the group, reducing risk and improving returns. With that in mind, we had an extensive review in 2018 of, firstly, our opco portfolio, so the consolidated subsidiaries; secondly, the associate portfolio; and thirdly, our e-commerce and tower company investments. As part of that review we announced last year the sale of MTN Cyprus which didn't fit the portfolio. And we also had a localisation transaction, a listing event in Ghana. And in that opco portfolio we see further localisations ahead, specifically in Nigeria, Zambia and Uganda in 2019.

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We also committed to ensuring that in the conflict markets, or markets affected by sanctions, that these operations are self-funding. The final main point of focus in the opco portfolio is to achieve a turnaround in our West African portfolio, and I think we've got good plans to do that.

For the associates we focused on the Irancell repatriation, delivered an inflow of R1.3 billion there in the first half. And we also announced in these results that we will be disposing of Mascom, which is our associate company in Botswana. We don't have a control position there, it is not MTN branded, and we are consequently not able to execute our BRIGHT strategy. It is fortunate there that our long-term partner, Mascom Econet, made an attractive offer and so we will be disposing of our investment there for around $300 million.

So, good progress on the subsidiaries and the associates.

Insofar as the e-commerce ventures and investments in tower companies are concerned, we have concluded that although a tight commercial integration with our mobile assets is necessary in the overlap markets, we do not need to own them in the longer term as we work to build a digital operator.

And so, if you consider the localisations in the opco portfolio, the work we're doing to optimise the associates, and the fact that we don't see e-commerce and tower company investments as strategic for the long term, we announced a target to deliver at least R15 billion in asset realisations over the next three years. It's important to say that this number does not include any proceeds that may come from the investment in HIS. That alone is carried in our books at just over R23 billion.

The fifth key theme is around the **accelerated growth strategy**. So we committed to the BRIGHT strategy. The three key metrics we are targeting and have always spoken to you about is '300-200-100':

- That is growing the sub base to 300 million customers from 233 million right now;
- We would like two-thirds of them to be active data customers, so that give us 200 million rather than the approximately 80 million we have today; and
- We are very focused on building a proper portfolio of digital and fintech services with a target of having 100 million active customers in the digital space.

So there are some quite important new investments for 2019:

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	• On the digital side we are going to be rolling out our own MTN music streaming business across most of the markets after piloting it in SA towards the end of 2018; • We have also announced that we have built an MTN instant messaging platform, and that will be deployed across our markets starting with the two WECA markets in the next month, and we are also planning to integrate MTN MoMo into the messaging platform, the first step in building what we call the "WeChat of Africa". So the main focus within the digital area is really these three key components of media, of which music is an important part, messaging or advanced messaging with payment integration, and we're going to continue our efforts in mobile advertising. On the fintech or mobile money side, the key development for 2019 is that we will roll out our services into another four markets from the 14 today to 18 in total. Key roll outs are in South Africa and Nigeria. In South Africa, we are due for a pilot launch at the end of March. So that is only about 24 days away. And in Nigeria, we have applied for a payment service banking licence. And on the basis that we can get that in the next few months we would be looking to deploy in the middle of the year. And we will also be deploying in Afghanistan and Sudan in H2. We have also set out very clearly that we see a major opportunity to continue building a much more significant enterprise business and also to build on the launch of MTN GlobalConnect last year to use our assets and infrastructure to build a pan-African infrastructure provider. The final point to unpack is what we call our **enhanced market guidance.** Considering our improved performance in 2018, as well as our growth strategy for the years ahead, we have decided to increase and expand our formal guidance to investors. So first up, we are going to increase our guidance on service revenue growth from high single-digit growth in constant currency to double-digit, obviously building off the 10.7% you see now in 2018. We are going to maintain the guidance for improvements in EBITDA margin and continuing improvements in capex intensity. We have introduced a third guidance element, which is the R15 billion worth of proceeds in asset realisation over the next few years excluding IHS.

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	And finally, we have taken cognisance of investor concerns around earnings growth, returns and investment discipline. After recording a return on equity in 2018 of 11.5%, we are guiding to improve that to over 20% in the medium term, which is the next three to five years. So, with that as background information, I will hand you back to the operator so we can take the Q&A.
Operator	Thank you very much, sir. Ladies and gentlemen, at this time if you wish to ask a question please press star then one on your touchtone phone. If you decide to withdraw your question please press star then two to remove yourself from the queue. Our first question is from JP Davids of JP Morgan. Please go ahead.
JP Davids	Hi. Good afternoon guys. A couple of questions from my side and maybe just some clarifications. I suppose the key question before I move on to the clarifications is really around the fintech opportunity in South Africa. Obviously you and others have tried on several occasions around things like mobile money. Maybe you can explain very briefly how this is going to be different, what is the addressable market for this fintech opportunity in South Africa. And then in terms of the clarifications, just two of them please. Firstly on the capex guidance you've given for 2019 I just want to check that's not yet including IFRS 16 and maybe just why that's a small bump up on 2018. And then finally just to clarify whether the dividend received from Ghana was included in the holdco leverage calc, so the ₵1.1 billion from the IPO. Thank you.
Rob Shuter	Thanks JP. I will take the first one. I think it's obviously a good question. We've seen in the SA market M-PESA launch going all the way back to 2010 or 2011. MTN has tried two forays into digital banking a very long time ago in a joint venture with Standard Bank, more recently with MTN MoMo. We took a good, hard look at the market, and I think what characterises our success in the other markets is that we set ourselves up to compete with cash. So we go and look for areas where there are large cash economies, large unbanked populations or underbanked populations, and where there is a decent penetration of 2G voice and a distribution system for accepting airtime. And when we looked at the South African market we still believe that segment exists. And possibly the mistakes that we made in the industry in the last few times is we're not building mobile money for Sandton or Cape Town.

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	We're building mobile money in South Africa for more rural communities, cash economies where there is still a lack of more formal banking penetration. There are segments of the population that are unbanked or previously banked, because they had a banking solution they have abandoned because the cost of service is too high. And this is going to be the main focus of the deployment in South Africa at least for the first year or two. So we're not trying to compete with the digital banks, the commercial banks. We are not in the same game as the Discovery, Thyme or Bank Zero. For us the competition is cash. And if we beat cash then everybody wins. I think I will hand over to Ralph for the rest of the questions.
Ralph Mupita	Okay. I will pick up the two questions. On the capex guidance we are still using the IAS 17 basis, I guess, JP, for comparability so you can see. If we had put IFRS 16 numbers you wouldn't be able to compare them. But from the half year point I think you will see us reporting it on an IFRS 16 basis. The increase that you saw there, to the points Rob spoke about, the areas that we want to invest in, predominantly that increase is going to GlobalConnect. You heard Rob speaking a little bit earlier on that we think we can build an infrastructure group where we take our wet and dry assets and leverage them more fully across the market. So there is a bit of capex that is going into what you see there as group and digital as well as wholesale. So GlobalConnect is the big number there. And then on the holdco calc we calculate the management fees and dividends that came out. Through the Ghana IPO there was a dividend out of some of the cash we had there. So that would be in the holdco calc that you saw that gave us the 2.3x.
JP Davids	Thank you very much.
Operator	Thank you. The next question is from John Kim of UBS. Please go ahead.
John Kim	Hi guys. Two questions here. On the dividend guidance floor for growth of 10% to 20% for the next few years can you help us quantify or estimate how dependent that is on the asset sales? So M&A is very hard to predict, particularly in timing and completion, but when we range bound the dividend profile how important are the asset sales? And I have two follow-up questions on the asset sales please.

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Rob Shuter	Yeah. Maybe I will pick up with that. When we re-based the dividend from R7 to R5 we said that that dividend would be covered by operational cash flows in the third year of the forecast period, which always meant for the first couple of years there was going to be a delta between the operating cash flow generation and the cost of the dividend. And we said that we could do that and still maintain the conservative leverage ratios. And that equation is still very much intact, because basically what's happening is the EBITDA, which is one of the key metrics, is growing much faster than any of the other metrics. So I don't believe we have a significant dependency on the asset sales simply because of the trajectory of EBITDA. You say in these results almost 16% in group EBITDA in constant currency, around 13% in reported currency. Now, having said that R15 billion over three years – R5 billion a year – also would take a lot of pressure off those ratios. And we don't think that's a demanding number at all if you consider the fact that we've got R40 billion of now declared non-strategic assets in the e-commerce joint ventures and in the tower companies. And you've got over time proceeds from the localisation transactions in the markets. And to be honest just Mascom alone would generate the first R5 billion for the year that we're in. So we feel very comfortable with the R15 billion commitment and we really feel that the dividend is very safe considering the operational momentum, the gearing coming under control, the strong growth in EBITDA affecting the ratios, and the fact that the R15 billion should not be too demanding to realise considering all of the options we've got.
Ralph Mupita	John, just to build on the points that Rob has made, I think in the presentation today we did make the point that the way we think about it is when the dividend is covered by operating free cash flow excluding any M&A proceeds. And to Rob's point, in our modelling – you guys can do the maths yourselves – in 2021 growing that dividend at the lower end of the range it will become covered. The dividend will be covered by operating cash flow. So we're excluding M&A. And obviously the M&A just helps de-gear, or the asset realisation helps de-gear the balance sheet and support the dividend as well.

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John Kim	Okay, great. Just a point I missed on the localisation efforts this year. You mentioned Nigeria, Zambia and which country?
Rob Shuter	And Uganda.
John Kim	Uganda. Okay.
Rob Shuter	Maybe just a little bit of flavour on those. In Nigeria we actually will have to implement a capital restructure before we implement the listing. And I think the market knows well that we have a structure with 400 million of preference shares and then the ordinary shares. And ideally we'd like to do a redemption before the listing. So part of what is going to assist in this programme is not so much a sell-down of the equity investments in Nigeria. It is more the capital restructure. And then we would have proceeds from Zambia and Uganda on top of that.
Ralph Mupita	Just to help you with the maths there, John – you don't need much help – we've got 78% of those prefs. So a back of the matchbox would give you a calculation of between R4.5 billion and R5 billion in that regard of simplifying the capital. So it's important for us to message that this is not dependent on the sell-down of Nigeria. We have committed that beyond listing by introduction we would seek to do a public offer. But we are very mindful of the investment discipline that we would need to be able to get a proper valuation on the Nigeria business, which we think is a premium business for sure.
John Kim	Okay. Very helpful. Last question just on the resolution of the tax dispute in Nigeria. The first court case is late March of this year. Assuming no settlement what sort of timeline are we working against here? The last time we chatted I think we were looking for an injunction in the next 12 months. Is that still the timeline and the expectation or how it unfolds?
Rob Shuter	Look, I think if you look at our history for complicated tax disputes they can take years, because you end up going through this tribunal, that tribunal etc. Now, of course what's odd about the Nigeria situation is it's not the Commissioner for Inland Revenue that we have the dispute with. It's the Attorney General, who is really not mandated to collect tax. So the legal process is basically saying you're playing a game that you're not meant to be playing. And when we talk to the tax authorities they have no particular quarrel with where we are with our various assessments. So either we get the thing

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	chucked out early on and the issue is finished, or it is just one of these lingering things that rolls around in the system for a while. And personally I don't know which way it's going to play out. I'm just absolutely adamant that we're a responsible company, we have paid the taxes we had to pay, and the tax authorities themselves aren't saying that we owe them anything. So I think we've just got to stare this one down.
Ralph Mupita	John, the audit committees of both Nigeria and group, as you can well imagine, have gone through this very thoroughly in terms of all our tax exposures. And we certainly do believe... And it's the second time we've looked at this. We looked at it at the half year when it was then a tax assessment before the letters came in August. But we still believe there isn't even a remote exposure that we would put in contingent liabilities. But I think it's important to re-emphasise the point Rob raised. In the course of having any tax disputes with the authorities these things can take years. So if this thing rolls on it's no different from a transfer pricing matter you may have a dispute with an authority in country x, y, z.
John Kim	Very helpful. Thank you.
Operator	Thank you. The next question is from Vyacheslav Degtyarev of Goldman Sachs. Please go ahead.
V. Degtyarev	Hi. Thank you very much for the call. Two questions. Firstly, you mentioned intensifying competition in South Africa this year. Can you please elaborate on that, who is driving that and how do you expect your market share to evolve throughout 2019? And do you think that the competitive landscape may further change after the 4G spectrum allocation? And the second question is on your digital and fintech. Where do you see your competitive advantage, and who are your potential competitors in your view? Do you think that your number one or number two positions across all of the markets are crucial to become a digital or fintech leader in the respective markets? Thank you very much.
Rob Shuter	Okay. Let me have a go at that. I think intensifying competition in South Africa we saw primarily on the data front. And a lot of that was driven in our opinion at least by Telkom, who have very aggressive mobile data offerings. These are what we call more fixed line replacement. So it is not so much integrated bundles with an iPhone or a smartphone.

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	It is more get 30GB a month with another 30GB outside of hours with a modem or a MiFi. So that mobile broadband segment of the market is very competitive right now. And we've stayed a little bit out of that, and I think we've lost a little bit of subscriber growth there. But that really is a race to the bottom. In terms of overall revenue market share we are absolutely not going to surrender any further market share in South Africa. We have to draw a line on that. We had a business in not great shape three years ago. We have put almost R30 billion worth of capex in three years. We've invested a lot in people, in infrastructure, and we have enough now to compete. And we will ride the market with the rest of the industry, but I absolutely am not prepared to see further market share losses, and I don't think we will see them, quite frankly, revenue market share. On the spectrum auction I don't see major changes there because we've all densified our networks considerably in the last few years. We have 4G population coverage in MTN of more than 80%. It's not that different for the other guys. And between Cell C and Telkom where they don't have network they're also roaming on the big networks. So it's probably just going to relieve some congestion on the networks, improve the capex profile because you will need less densification, give the customers a better experience. We will offload more from 3G to 4G with more spectrum which will help a lot with 3G voice. So I don't think major competitive differences when the spectrum finally gets released. Your second question was around digital and fintech. And we spent quite a lot of time on that in the presentation this morning. We believe that we are uniquely positioned to carve out a proper place for ourselves in these two segments. In the digital space because we have large mobile access networks we can bundle the digital services in with the underlying data. We think that's a big differentiator. We've got the largest customer base to cross-sell into. We've got the billing relationship with the customer so we can collect subscription services. And we're also confident in our ability to build a suite of digital services. We bought the music streaming business just because it saved us a year to 18 months of build, so we were very quickly in market. With instant messaging we decided to build it from scratch, and that's already on beta pilot and due for launch next month. So we're excited about the digital business. And it has a lot of potential to drive data adoption and also to generate more revenue streams.

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	But the more transformational opportunity is fintech, and we have a scale business there already. Almost R8 billion worth of revenue, 27 million 30-day active accounts, deployed across 14 markets. And that result was achieved before we had a deployment in our two largest markets. And the big trick with the fintech is that we are repurposing the mobile infrastructure for financial services. That really is just the bottom line. We take a customer who has got a basic phone, who is communicating via USSD with his prepaid airtime wallet on the system, and he was going to an agent to recharge. And we just repurpose that system so the prepaid airtime wallet becomes a prepaid money wallet. The USSD becomes a ubiquitous low-cost channel to communicate and to send money, receive money, pay remittances etc. And the airtime agency network becomes an agency banking network that can receive cash for both airtime and e-money and dispense cash for e-money. This is the classic MTN mobile money deployment across the markets we're in already. And that's why we are uniquely successful, because nobody else owns the USSD distribution. They don't have the distribution network. They don't have the installed base. And they can't do the repurposing I'm speaking about. So in general the competition tends to be the other operators who replicate a similar model, whether that is Airtel or Orange or Glo. And once you're into that discussion it is all about execution, level of ambition and investment. And we really have very material plans for fintech across MTN in the next few years.
V. Degtyarev	Thank you very much.
Operator	Thank you. The next question is from Alistair Jones of Newstreet Research. Please go ahead.
Alistair Jones	Hi. A couple of questions. Firstly on Nigeria. You've obviously had some great traction there. I've just been tracking the data revenue profile and on a sequential basis you've obviously been growing pretty sharply. This second half of this last year, 2018, there definitely seemed to be quite a big slowdown. There wasn't nearly as much of an uptick in terms of data revenues. It looks like your traffic has continued to ramp up pretty strongly, but pricing seems to have come under pressure. I just wonder if there's anything specific that's going on there that led to not weakness in revenues but less growth I guess than I may have expected.

Speaker	Narrative
	The second thing is I wonder if you could spend a couple of minutes running through the situation you are seeing in the WECA region. A turnaround in that business would certainly be helpful. I'm just trying to understand what the key issues are and what strategies are in place to turn around that. And then the final question – apologies – is coming back to the holdco leverage. It's just looking at repatriation. If I back out the repatriations out of your numbers I think in 2017 you got about R4.5 billion out of your opcos and in 2018 that went up to R9.3 billion. Coming back to JP's question, how much of that relates to one-off repatriations relating to asset sales? Or is it just only operational repatriations that you put into that analysis? Thank you.
Rob Shuter	Okay. I will leave the last one for Ralph and the team. Maybe just on the first two. I think a little bit of a slowdown in Nigeria data in the second half. I think that's fair enough. We had some network issues in December for sure. We lost some traffic there. We do still see some price competition, largely driven in our opinion from Airtel, who I think are trying to demonstrate some short-term momentum considering their own capital market plans. A few regulatory changes around auto-renewal of bundles etc. that had an impact. But I don't think anything structural. I think once you get a few more quarters under the belt you will see some stabilisation there. In general in Nigeria the adoption is low. The pricing is very low…So with increased adoption, increased usage and relative price stability I think there is still very good opportunity to monetise data. In the WECA portfolio the two large markets there are Cameroon and Ivory Coast. And they are accounting for the vast bulk of the performance you see there. They were down both of them around 7% service revenue. The portfolio was down 5%, so you see the others generally were not too bad. And there are different circumstances in each country. Cameroon is more around socio-economic instability and internet shutdowns. Some loss of commercial momentum, but I would say probably more macro than internal. Ivory Coast, some regulatory challenges towards the end of last year with issues around differentiation between on-net and off-net. We responded a certain way in the first half; we changed our approach in the second half. I think we lost some momentum which we started to recover towards Q4. If I look at both Ivory Coast and Cameroon, right towards the back end of last year, January, early February, I think things are looking much more positive.

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	So I think you're going to see a relatively fast turnaround in WECA. And then on the upstreaming...
Ralph Mupita	Maybe to be a bit clearer, if we haven't been so. When we talk about cash upstreaming there are three basic buckets of upstreaming from the operations. Most of the markets – not all of the markets – will have a management fee agreement. It is generally a percentage of revenue. We would have a procurement fee in certain markets – not always in all the markets – and then we have the dividend coming through. That's ordinary dividends. Those are the three clusters that make up the cash upstreaming from the opcos. So if you look at why 2018 would have been higher relative to 2017, you will remember that we then worked with the authorities in Ghana to establish another five years of the management fee. And that kicked in in May last year. So that was an income stream that wasn't there in 2017. We didn't have the H1 dividend in Nigeria in that R9.5 billion. So there have been different factors driving both. But I think the point is it's the normal management fees, procurement fees and ordinary dividends that we roll up into that number. So one-off items that are not of that nature we don't include. The Ghana amount, to be clear on Ghana, is we did have IPO proceeds and dividends out in some of the retained earnings we saw there ahead of listing. So that qualified as the dividend.
Alistair Jones	That's clear thanks. I'm assuming the Cyprus proceeds are not part of that?
Ralph Mupita	For sure not, otherwise we would be below 2x.
Alistair Jones	I was just checking. Perfect. Thank you very much.
Operator	Thank you. The next question is from Andre Bekker of Arqaam Capital. Please go ahead.
Andre Bekker	Good day guys. I just have two questions. First of all, I would just like some clarity around the R15 billion that you plan to get from the asset realisation. Does this include proceeds from the Nigeria listing or is this pure asset sales in there? And the second question is a follow-up on that with regards to your dividend. Should the proceeds from the sales and the localisations not be required to support your current dividend pay-out, would there be a focus to de-gear first, or would you consider a special dividend going forward?

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Rob Shuter	Thanks Andre. It's Rob here. I think we covered a little bit of that ground earlier on. The potential sources of the R15 billion – let me go through that quickly – come from firstly the localisation transactions in the markets that I mentioned, Nigeria, Zambia and Uganda. We said for Nigeria we think it's more likely that we generate inflow from the preference share redemption. And we have not assumed any significant sell-down of MTN's shareholding in Nigeria. Now, that may happen for sure, but it is not for now pencilled in as being a major contributor to the R15 billion. The second potential source of funds is from the optimisation of the associate portfolio, of which the most material one is Mascom. So Mascom would be accounted for in the R15 billion assuming that transaction closes in the next quarter or so. And the third potential source is realisations from the e-commerce and the tower company portfolio. The portfolio is valued at R40 billion. We've said we're not including IHS in the R15 billion, so you can take R23 billion out of that. That is still another R17 billion. And it is a collection of smaller assets. As I said earlier I feel very comfortable that we will deliver the R15 billion over the three years considering all the opportunities we've got. Now, your second question is: what could that mean for the dividend? I think in the first instance if there was less pressure and the operational performance was good that we would look more towards the growth range and move up closer to the 20% rather than being closer to the 10%. So that's the first place you would see it. I think the second place you would see it is we would probably just generally reduce the gearing. And I think we're really not focused at all on a special dividend at this stage. It is much more the standard dividend policy and a little bit of de-gearing.
Ralph Mupita	Andre, just to help you with the maths for the avoidance of doubt that this is not predicated on the Nigeria localisation, if you take Mascom and say it's R4.5 billion, and the capital release in Nigeria of R4.5 billion, you're already at R9 billion. The ATC loan in rough numbers there rounded up to R1 billion. So you're quickly at R10 billion with just those three things. So to Rob's point, we have communicated quite clearly that Nigeria will have a listing by introduction. And when market conditions are appropriate – we think we can get a fair pricing, not what the market is valuing Nigeria at the moment – we will consider it. But you can say two-thirds at the moment can be delivered by those three broad [unclear] as an example.

Speaker	Narrative
Andre Bekker	Okay. Fair enough. Thank you very much.
Operator	The next question is from Myuran Rajaratnam of MIBFA. Please go ahead.
M. Rajaratnam	Hi guys. Thanks for taking my call. I've got two questions. The first one is on capex on slide 23. I'm trying to get a sense of this smarter capex and the price book savings that you've managed to get, and quantify it if you like. I'm not a numbers guy. It clearly sounds like you're having more robust discussions with your vendors and you're getting more bang for your buck. But I just want to see if I can quantify this in any way. So for example, R1 of spending the previous year got you R1 worth of equipment. But are you getting R105 worth of equipment or is it R110? How much better is it? If you can quantify it is some way it would be great. I've got a follow-up as well.
Ralph Mupita	I mean as I mentioned earlier on, we've done a lot of work and heavy lifting with our global procurement team sitting out in Dubai headed up by Dirk Karl working with the technology team. And we have had vigorous discussions with the big vendors, and we are probably one of the largest 3G/4G RAM customers for these guys. And basically we've been able to get 15% price erosion built in to our procurement savings. So that's a marker out there for you. And the price erosion is a multi-year thing, so it's not just a once-off per annum. That's the way to think about how to model it. If you look at the capex in of itself the big transformation we made in South Africa where we said a couple of years back that we needed to catch up to Vodacom, who was then clearly in the lead. But now that we know that we've caught up and actually are ahead of them, to stay in the position where we're ahead we're probably going to have to spend the same level of capex as they have. So I think 15% is the number that you should pencil in if you're trying to model on the price erosion basis.
M. Rajaratnam	Great. Thank you. And my second question is the mobile money opportunity in Nigeria. I might have read this wrong, but it seems like the authorities are quite keen to get this off the ground. And they have aggressive targets to get financial inclusion of all the people that live in Nigeria. I just want to get a sense of what you've heard and what the lay of the land is here.

Speaker	Narrative
Rob Shuter	So for many years in Nigeria there was a mobile money licensing regime, but the mobile operators were not allowed to apply for the licences. So there were many efforts to increase financial inclusion in the so-called 'bank-led' model. I mean our own Diamond Yellow account was an example of that. And there are a couple of reasons why it never scaled, because you couldn't really authorise or authenticate your existing prepaid customers to open up mobile money. They had to come in and be re-registered because you were in a bank KYC programme. And you couldn't leverage the airtime distribution network for mobile money because you couldn't operate it as a cash agency network. So what happened then over the years is that the targets for financial inclusion, or the so-called Findex targets, Nigeria as a country was always struggling to make progress on Findex. And all the countries around that had e-money licensing regimes, like Ghana, like Cameroon, like Benin, made a lot of progress over the same period. I think this is what has really unlocked the regulatory opportunity, that with the new category of payment service banks we can basically deploy our fairly standard mobile money offering. Addressable unbanked adult population in Nigeria is estimated anything between 40 million and 60 million people, so that's obviously an amazing opportunity. But also our experience in the other markets is even banked customers still find the utility of MoMo very attractive. I mean you see that, for example, with M-PESA and Safaricom. They are still making very good returns out of bank customers using MoMo as an ancillary payment mechanism. So we think that we can really carve out a very material business there. And if you add it to the existing fintech businesses we're going to be a scaled player in fintech for sure.
M. Rajaratnam	Great. Thank you very much.
Operator	Thank you. The next question is from Dalibor Vavrushka of Citigroup. Please go ahead.
D. Vavrushka	Hello. Good afternoon. Thanks for taking my questions. Just very briefly in terms of your digital initiatives, the feature thing sounds really interesting. Is this like a revolutionary change that you are making, or is at an evolution of what you have been doing before? I don't know if you can possibly specify the level of investment in R&D or the software teams you have employed to get a sense of how big this effort is.

Speaker	Narrative
	And my second question would be on the localisation just to ask very simply, what is the main purpose if you should name one of these localisations this year? Thank you.
Rob Shuter	Okay. So maybe to talk firstly about the digital strategy. It is a major departure from the group's previous strategy for sure. Historically we have really seen ourselves as a platform business. So we have built things like partner provisioning engines etc. so we could bundle digital offerings in with our core telco offerings. So classic examples of these were Netflix included in high-end post-paid subscription. We've got a couple of markets that have been selling Spotify and Deezer. So we've decided that we want to basically approach this in two ways. We want to continue to build the platform business, so we are not closed to other OTTs. But we feel that considering the very early stage data adoption in our markets with two-thirds of the customers purely surviving on voice and SMS, we have an opportunity to build a digital portfolio that we can compete with the mainstream OTTs. And we've decided to compete in basically media, messaging and mobile advertising. So very focused. We're not going into search. We're not going into healthcare. And we have approved an accelerated investment plan with the board on that. I wouldn't want to go too much into the detail of that, but if you look at the capex alone in the group numbers there is R1.6 billion of capex. That is roughly half of it going into GlobalConnect for terrestrial infrastructure, and most of the rest of it is going into digital commercial builds. So that's quite an investment. And we have also already built up the digital team from around ten or 12 a year ago. They will be 50 or 60 people by the end of the year. We have four scrum teams already working on instant messaging. We have two in South Africa and we have two in Barcelona. So we're scaling up fast, but a narrow portfolio and super focused. The second question was around the localisations. So MTN has always had a strategy to have local partners. And we have local partners in pretty much all of the opcos. And we are tending to find that 20% to 30% is a better place to be. It enables you to have more broad representation. Not just one group; a few groups. For those opcos that have more advanced capital markets it is potential to also do a listing, but that is not the case often. And it makes the opcos feel more

Speaker	Narrative
	local. I think it takes some pressure also off the stakeholder management because then our partner is also playing a role in managing stakeholders. And I think this is a healthy thing, particularly if you look at a market like Uganda. We have only one partner with a 4% holding. And it would be better for a variety of reasons to be more around the 20% to 30% mark in markets like that. Operator, we've probably got time for another two questions. Thank you. There are no questions in the queue at the moment, sir. Okay, well, that sounds like a wonderful opportunity to close the call. I really thank you for your attention. I think we had around 60 people on the call, so we know that you remain interested in our story. I know MTN has been a really difficult ride for our investors in 2018. I think Ralph and I feel very responsible for that situation, although it was not all of our making. And you have our absolute commitment that we're going to build the business, we're going to execute in a very disciplined way, and we feel very comfortable about all the promises we've been making in the last 24 hours. We look forward to chatting to you guys after Q1. Thanks very much. And lastly just to remind everyone about the capital markets day. More details will follow in due course. Thanks very much.
Nik Kershaw	Thank you. Bye.
Operator	Thank you very much, sir. Ladies and gentlemen, that concludes this conference and you may now disconnect your lines.

END OF TRANSCRIPT