MTN Q3 2020 trading update

Transcript of teleconference

Friday 30 October 2020

MTN Group Q3 2020 trading update teleconference | 30 October 2020

Operator

Good day ladies and gentlemen and welcome to the MTN Group update for the quarter ended the 30th September 2020. All participants will be in listen-only mode. There will be an opportunity to ask question later during the conference. If you should need assistance during the call, please signal an operator by pressing * then 0. Please note that this call is being recorded. I would now like to turn the conference over to Thato Motlanthe. Please go ahead, sir.

Thato Motlanthe

Thank you very much. Good afternoon to everybody. Happy Friday and thank you very much for taking the time to dial into this call to discuss our group quarterly trading update for the period ended September 2020. I am Thato Motlanthe, group head of investor relations. On the call with me are Ralph Mupita, who is our group CEO, and Sugen Perumal, who is our acting group CFO.

A reminder that our trading update was published this morning on the JSE and is also posted on our website. And you would have also seen the releases from MTN Nigeria and MTN Ghana over the past few days. We've got the usual sequence for the call with Ralph providing an overview of the business performance, Sugen will then cover some financial highlights before we loop back over to Ralph who will have some closing comments and outlook. We can then proceed to Q&A, which will be facilitated by the operator, and just a final note that the call is scheduled for an hour.

With that, over to you Ralph.

Ralph Mupita

Thanks very much, Thato, and a very good afternoon to everybody from me as well. I trust you are all well and managing and coping under the pandemic conditions that still prevail across our markets and are likely to be with us for some time still to come.

I would like to start off by highlighting the encouraging performance of the business under quite challenging conditions, especially given the impacts of the COVID-19 pandemic on lives and livelihoods across our markets. Through the period, the group has continued to demonstrate strong operational execution and resilience and we are pleased to have delivered a really solid performance in Q3 to September.

If we unpack our performance, there are a number of areas that we would like to discuss with you today, firstly, to highlight **commercial execution**. The second is the **COVID-19 pandemic impacts** that we've seen. The third area is on **financial highlights. Strategic progress** will then follow, an update on key **regulatory matters**, and then I will touch on the **management changes** announced earlier this week.

Firstly, if we have a look at the strong **commercial execution,** we continued to drive good subscriber growth with net adds of 12 million in Q3. I think if we reflect back this is one of our strongest quarters in adds for some time. Just to disaggregate the number a little bit, South Africa had positive net adds of 1,9 million. Nigeria was

3,9 million. When we look at the SEAGHA region, that was 3,8 million, and within that Ghana is 1,9 million, so 50% of that. The WECA region also had strong net adds, 1,5 million, and MENA 0,9 million. I think that you can see that in the quarter all of the regions added to subscriber base growth. And our view is that with the quality networks that we have and offering good value to customers have been part of the success in the quarter that we've seen under these COVID pandemic conditions.

Based on our analysis, we have gained further market share across the footprint highlighting the continued strength of our relative performance. We also added 5,3 million active data users during Q3, which increased our total base to over 107 million and you will appreciate that data is the key driver of growth in our business in the near term.

We achieved an important milestone in building out our financial services business by surpassing 40 million MoMo subscribers. During Q3 we added 3,5 million users to end at close on to 42 million. This was driven by greater adoption brought on by COVID-19. More people used MoMo because of improved distribution as well as enhancements to the functionality of the MoMo app. If you look across our footprint, the number of transactions increased by around 23% in September quarter against June. What is quite exciting is the sequential acceleration in the quarterly trends, which highlights the strong momentum we are seeing in the business. In terms of our fintech strategy in Nigeria and scaling of the agent network there – we increased the number of registered agents by 90 000 in Q3, and that number stood at close to 312 000 at the end of September. This is already ahead of the full year target we had in place.

Anticipating the Q&A on the PSB, there is no progress to report at the moment, but we remain encouraged and positive around Mobile Money in Nigeria and the progress we've made particularly around the distribution when the PSB eventually comes across.

It's important in this environment to update you on some of the **impacts of the COVID-19 pandemic**, which is the second point I would like to highlight. The pandemic has had a major impact on the economies we operate in, but above all we remain focused on the wellbeing of our people, the customers and broad range of stakeholders. The resilience and capacity of our networks are also key priorities along with continuously driving efficiencies.

We have previously provided the market with some detailed guidance in our previous reporting, so I will just give you an update on how some of our key commercial indicators have trended, particularly since the lows experienced in April. We have spoken to three key areas of impact, and in staying with those themes:

Starting with <u>data traffic</u>, data traffic held up well, and if you compare the level of monthly activity in September against the April data traffic for the group, it has increased by 10,2%, and was up 8,9% quarter-on-quarter in Q3. The sequential monthly trends have been increasing and traffic has been resilient at elevated levels, although we are seeing some levelling off in the rate of growth, as consumer spend starts to revert to other areas, given lockdown arrangements being eased.

Secondly on voice, we previously indicated a V-shaped recovery, which has endured through Q3. For the group, traffic in September was 11,5% higher compared to April and on a sequential quarter-on-quarter basis, Q3 was up by 7,3% versus Q2.

Finally, on fintech trends, after some initial softening in April the trend in our fintech transactions has been strongly positive. Transaction volume in the month of September was around 39% up on the April number, while Q3 was 23% higher than Q2. In terms of the value of transactions flowing through our ecosystem, this was around 65% higher in September versus April; and increased just under 34% quarter-on-quarter as of the end of September.

So overall on COVID, we continue to manage the risks but remain very focused on strong commercial execution around the opportunities that we see. I think it is already evident from some of the trends that I've just discussed that we are quite well positioned for the acceleration that we see for broadband access and digitalisation across our markets.

The third point is the **solid financial performance** we have delivered. Sugen will provide a bit more detail, but in terms of some highlights: we grew constant currency service revenue by 11,4% year on year in the nine months to September – the reported growth was more like 20,3%. EBITDA increased by 13,9% as our efficiency programme helped to improve the margin by 1,4 percentage points. So, we are tracking in line with our medium-term guidance of growing service revenue in the double-digits and improving margins.

On consolidated group gearing, that is comfortably within covenants and we have managed to keep our holdco leverage steady at around 2,6x. This continues to be impacted by timing delays in upstreaming cash from the opcos, particularly from Nigeria, but at this stage we are cautiously optimistic that the cash in Nigeria will start flowing over the next few quarters given the engagements we've had with the Central Bank as well as banks and authorised dealers that we deal with in Nigeria. So, I think we are in solid shape in terms of our funding and liquidity, which is also a key pillar of our COVID-19 considerations, but Sugen will unpack that a bit further in his comments.

Turning to the fourth point, which is **strategic progress**, the key highlights in this area include the continued turnaround of the South African business, which delivered a very strong Q3, underpinned by the underlying momentum in the consumer businesses, both prepaid and postpaid, as well as the enterprise business which is continuing to grow. And we are now well into our fourth quarter of positive growth in the enterprise business. Within WECA, the recoveries of MTN Cameroon and Ivory Coast are now entrenched and those businesses are now on a solid footing for future growth.

In terms of our digital business, we continue to make steady progress with our instant messaging platform, Ayoba. We increased our active users by around 300 000, or circa 19%, in Q3 to 2,3 million, having now launched the integration of MoMo in Ayoba in three markets. I have already highlighted some of the progress in our fintech business, so quite encouraged by the momentum we are seeing in these important pillars of our group-wide growth strategy.

I am also pleased to report some progress on our asset realisation programme, where we have completed the exit of our position in Jumia for a consideration of approximately R2,3 billion. We're quite proud of our partnership that we have had with one of Africa's pioneering online marketplace businesses, and we plan to continue that relationship with ongoing operational partnerships in some of the markets where we both have a footprint. We have also concluded a sale and purchase agreement to localise 8% of MTN Zambia for net proceeds of R204 million, an important step there as part of our broader localisation objectives. Finally, we have also agreed to sell down a further 12,5% of our shareholding in MTN Ghana as part of our progressing again of our localisation objectives.

The fifth issue to cover is to update you on some of the significant **regulatory and legal matters**. Starting with the Afghanistan matter – you will recall that the plaintiffs in the case had come back in June to file an amended complaint with additional allegations and defendants in the case. As guided previously on our likely response, in September we filed another motion to dismiss, which takes into account their amendments. We have made this filing on the same basis as our initial motion to dismiss, namely that the court lacks jurisdiction over MTN and that the complainant does not allege any conduct by MTN that would have violated the Anti-Terrorism Act. We remain firm in defending our position on this particular matter.

In Ghana, you will be aware that MTN Ghana was declared a significant market player. The latest update from the past couple weeks is that we have withdrawn our legal challenge filed at the Supreme Court in light of further engagements we have had with the NCA and the Ministry of Communications in Ghana. We remain encouraged by the discussions we have had with the NCA in seeking a resolution that is win-win and sustainable for MTN as well.

In South Africa, ICASA released the full terms of the spectrum auction and WOAN with the auction scheduled to take place in March next year. We welcome the planned auction, which will be important in further broadening access in South Africa cost effectively and deployment of 5G technologies in the future. Also quite positive is that the allocation of temporary spectrum issued as part of COVID-19 relief will be extended from November until the planned auction in March 2021.

The sixth and final issue is on the announcement on **management changes** earlier in this week. We announced two important appointments, namely the new CEO designate of MTN Nigeria and that of the group chief risk officer, which is a new group exco position. Both of these changes will be effective from 1 March 2021.

Karl Toriola, who is currently the vice president of WECA, will take over as CEO of MTN Nigeria from Ferdi. Karl has been with the group since 2006 when he started in Nigeria as the chief technical officer of MTN Nigeria, and he's held a number of senior roles in the group. As VP of WECA he's been instrumental in overseeing the strategic turnarounds in Cameroon and Ivory Coast that I mentioned earlier. Karl has been sitting on the MTN Nigeria board for a while and we are very confident that he will lead this business and build on the work that Ferdi has done over the past five years.

Ferdi has been very strong and excellent in leading MTN Nigeria over the past five years and has put the business on a very sound platform for future growth. He will return to South Africa, where he will assume the new role of group chief risk officer and lead the evolution of our enterprise management systems. He brings significant strategic, financial and operational experience to the role. As was mentioned in the announcement, Ferdi will remain on the MTN Nigeria board, and in due course will be appointed to the boards of the major subsidiaries as part of our focus on further strengthening risk management across the group.

Both of them will remain members of the group exco and in the meantime we will announce Karl's successor after the group strategy review is completed by the end of November this year. With those updates, let me hand over to Sugen for more details on financial highlights.

Sugen Perumal

Thank you Ralph, and good afternoon everyone. It's important to reiterate that the strength and resilience of our financial performance has been quite encouraging in challenging trading conditions, especially the momentum in Q3. Starting with a recap of group service revenue, we reported a solid performance with growth of 11,4% in constant currency for the nine months to September, with an acceleration in growth to 15,5% year on year in Q3. Group EBITDA margin improved by 1,4 percentage points to 43,3% on the back of top-line growth and efficiencies, which helped to drive operating leverage.

In terms of the larger markets, starting with MTN South Africa, service revenue grew by 2,1% with an improved performance in Q3 when it increased by 11,8%. This was driven by the strong underlying performance of the consumer and enterprise businesses, but also helped by the fact that there was no additional national roaming revenue in the Q3 2019 base. The movements in wholesale revenues continue to be a factor and if these are completely stripped out, service revenue growth would have been 3,4% for the nine months ended September, and 5,7% year on year for Q3.

Overall, we recognised around R1,3 billion in national roaming revenue for Cell C. We continue to account for Cell C on a cash basis, resulting in approximately R698 million of revenue being unrecognised as at the end of September 2020. We continue to implement phase 2 of the Cell C national roaming agreement, which grants them broader access to our network in South Africa, and this commenced on 1 May 2020.

Briefly on the consumer prepaid business in South Africa, the performance was boosted by strong operational execution which resulted in growth of 3,1% for the nine months ended September, and 5,7% year on year in Q3. This was driven by customer additions, greater adoption of data packages and higher data usage on the back of customer value management initiatives. Consumer postpaid grew service revenue by 3,1% for the nine months, while a similar growth rate for year on year Q3, in a highly competitive market and benefited from the uptake of data-rich contracts and efforts to reduce churn.

On the enterprise business, we've seen increases in revenue of 17,2% for the nine-month period year on year and 21,1% year on year for Q3, which was the fourth consecutive quarter of growth. The performance was underpinned by customised data deals for universities to aid with 'learn from home' initiatives and the uptake of 'work from home' solutions. Some of the university deals were originally offered on a short-term basis, resulting in some churn in the quarter. However, we see underlying growth and it's fair to say that the enterprise business is now on a strong footing.

Looking at the performance of these business units, it is pleasing to see that the consumer prepaid, consumer postpaid and enterprise have all delivered positive growth for the year and for the quarter. The EBITDA margin in SA expanded by 2,7 percentage points to 39,3%, boosted by reductions in device volumes through the COVID lockdown period as well as channel optimisation and execution of the cost efficiency programme. It's important to note that with the increase in device sales, the benefit to margin seen in Q2, for example, does abate in Q3 and Q4.

Briefly on MTN Nigeria – you would have seen the numbers that were reported a few days ago. Service revenue in constant currency grew by 13,8% for the nine months ended September, accelerating in Q3 to 16,6% year on year. This is similar to the growth rate achieved in Q1. EBITDA increased by 7,9% with the margin down to 51% from 53,7%. This was impacted by the increased lease rentals resulting from increased 4G site rollout and adjustments in exchange rate, the effect of a 2,5% increase in VAT relating to those leases and increased bad debt provisions relating to COVID-19 risks, and bank and enterprise customers.

In terms of the other markets, from MTN Ghana's Q3 release you would have seen they produced strong service revenue of 18,8% year on year for the nine months, with growth of 17,7% year on year for the quarter, and a 3,2 percentage point improvement in EBITDA margin. The rest of SEAGHA, excluding Ghana, also delivered healthy service revenue growth of 19,6% in constant currency for the nine-month period and 22,0% year on year for Q3. WECA service revenue grew by 7,8%, and accelerated to 9,3% year on year for Q3. Importantly, this was well above the blended inflation of the region, which was around 3%. MENA grew its service revenue by 22,7% in the nine months to September and 24,7% year on year for Q3. Data was the key driver of this solid outcome in a difficult operating environment.

We deployed R16,1 billion of capex in the nine-month period to September, bearing in mind the interruptions to our new network rollout from lockdown restrictions, especially during Q2. We continue to focus our investment on network capacity and resilience as well as modernisation of our IT systems in support of our strategy to deliver sustainable growth across our markets.

If I turn to our funding and liquidity, our balance sheet strength and resilience has been evidenced in our ability to weather the volatility brought about by the COVID-19 pandemic. As at the end of Q3, our consolidated group net debt to EBITDA had improved to 0,9x and remains well within our covenant of 2,5x, while our interest cover was 9,0x and also comfortable relative our covenant level limit of no less than 5,0x.

At a holdco level, our leverage ratio was 2,6x at Q3, which marginally improved on the June 2020 ratio of 2,7x. This continues to be impacted by timing effects of upstreaming cash from our opcos in Q3, especially Nigeria where we have the equivalent of approximately R5,4 billion that we still need to upstream as at September 2020. However, as mentioned by Ralph, we are optimistic about the situation improving in the next quarter or two.

Our liquidity remains a key priority and we adopt a prudent and focused approach to cash preservation. As at end September 2020, our holdco liquidity headroom stood at approximately R39 billion comprising of R13,4 billion in cash and R25,6 billion in undrawn credit facilities. Year-to-date, we have successfully fast-tracked and closed more than R18 billion in funding to mitigate refinancing risk around upcoming maturities. This was achieved in challenging and volatile market conditions. So overall, we are in a solid position in terms of our liquidity and maturity profile over the next 18 months or so.

On the whole, we remain committed to our disciplined capital allocation framework and I think it has been demonstrated in our actions. As a priority over the medium term, we will continue to focus on reducing our leverage and particularly our exposure to US dollar debt, which will be supported by proceeds from our asset realisation programme.

Perhaps just as final point, coming back to capex for the remainder of the year: as the overall visibility and ability to roll out our network investment in our markets has improved following the relaxation of COVID-19-related regulations and restrictions, we have updated our capex targets for 2020 and look to spend at least R26 billion for the year. On that note, I will hand back over to Ralph for his concluding comments.

Ralph Mupita

Thanks very much Sugen. I would just like to conclude by reiterating a few points. Firstly, despite the relaxation of lockdown restrictions, the operating environment remains challenging and uncertain. We will, however, continue to build on our operational and financial resilience and ensure that our networks provide reliable connectivity and digital services to our subscribers.

The second point I would like to make is that the COVID-19 pandemic has created changes and opportunities that we plan to leverage and participate in. We are in the process of completing a strategic review that will build on the commercial and financial progress of the last few years. We will have a comprehensive communication of the strategy update in the new year, aligned with the release of our FY2020 results.

Thirdly, it's important to give you a steer on the shape of the fourth quarter and some base effects to be aware of. In Q4 of last year we started to see the momentum picking up in some of the key areas of our business. You will remember that we started seeing a positive growth in the enterprise business which was the first quarter of positive growth that we've seen in a couple of years. And we also had a very strong base in wholesale from the Cell C revenues that came in in Q4. And in Nigeria we started to see the strong pick up in data revenue in Q4 last year after we had accelerated the 4G rollout at the back end of H1 2019. And we also started to see some momentum in the WECA recovery, so just a point of caution on the Q4 base driven by those factors.

So, year-on-year growth will come up against a harder base in Q4, although the underlying trajectory of the business is still very good. Also consider, as we look forward, that our cost base derived some benefit from short-term postponements in opex and cash preservation in response to COVID-19 and some of these savings will not be permanent into 2021.

Finally, we remain focused on executing on our portfolio optimisation and asset realisation programme with the objective of simplifying the group, reducing risks and improving returns over the medium term. And with that I want to thank you for listening to both Sugen and I, and we will open up for Q&A.

Operator

Thank you. If you would like to ask a question please press * then 1 on your touchtone phone or on the keypad on your screen. If you decide to withdraw the question, please press * then 2 to remove yourself from the list. Again, ladies and gentlemen, if you would like to ask a question, please press * then 1. The first question comes from Jonathan Kennedy-Good from JP Morgan. Please go ahead, Jonathan.

Jonathan Kennedy-Good

Good afternoon. Thanks for the opportunity to ask questions. Just touching on South Africa, obviously a lot of moving parts there with the 12% growth in the quarter. Presumably we should be looking at the 5% to 6% as sustainable into Q4 and into next year as you head into the tougher comps. So, I'm just trying to get some clarity on the service revenue trajectory in light of very strong prepaid growth, I think quite a bit better than expected, which seemed to be coming in ahead of your guidance.

Then on net debt moving down to R60 billion odd, I'm trying to understand what the split is between dollar debt and rand debt. What is the absolute dollar amount that you have on the books? I'm just trying to understand how much was due to exchange rate movement with the rand strengthening versus actual repayment of debt.

Ralph Mupita

Okay. I'll ask Sugen to pick up the first question on SA service revenue.

Sugen Perumal

Thanks Jonathan. On SA service revenue, as you rightly pointed out we're not going to maintain the 11% or 11,4% growth that we see in Q3. And that is predominantly due to the base that we've got for Q3 and what I pointed out for Cell C where there was no revenue in the base. I think for Q4 what we do need to consider is there are some base adjustments included, one of them being a very strong Q4 for Cell C. In Q3 we moved into cash basis of accounting in 2019, and if you look at Q4 we had a very strong year last year.

In addition to that, for the enterprise business the recovery started in Q2 last year and we also had a very strong Q4 in that base. So I just want to highlight those two points relating to the base for Q4. That, hopefully, will give you some guidance of where we're targeting. We do believe we'll maintain our current trajectory on the rest of the revenues.

Ralph Mupita

Jonathan, on that SA service revenue I think Q4 will also be a function of where we end off with Cell C. They are looking to do their recapitalisation, and we've always indicated that we would apply our minds to return to the accrual basis of accounting on the basis of their recap and them being on a much more sustainable liquidity profile for the business. So that's also a factor to think about in terms of what happens in Q4, early into Q1. It's a matter that's not in our control, but obviously we will continue to watch.

On the debt, the dollar debt has remained largely in place. We haven't paid down further. So it's approximately $2 billion and that's about 52%. So that has not changed materially in the period.

Jonathan Kennedy-Good

Great. Thank you.

Operator

Thank you. The next question comes from Preshendran Odayar from Nedbank. Please go ahead, Preshendran.

Preshendran Odayar

Hi gentlemen. Thanks for the opportunity to ask questions. Some good results. Just three questions if I may. Obviously some good news on your ARP programme that you're executing. Can you give us an update on BICS and Syria please? I know IHS is beyond your control, so I won't let you answer that one. Then I was pleased to read that you plan to get your R5,4 billion out of Nigeria by the end of the year. Can you give us some colour on the mechanisms that you plan to use to get the cash out?

And similarly to what Jonathan asked around your SA service revenue, I'm just trying to get my head around this. It seems that your big kicker was the Cell C revenue, because from what I was reading – and please correct me if I'm wrong here – you didn't recognise any Cell C roaming revenue in Q3 of 2019, but for the second half of last year it was R900 million of Cell C revenue that you recognised. So was that all recognised, in Q4, therefore your base last year is essentially two quarters' worth of Cell C revenue that you recognised on a cash basis? That's obviously going to be a big impact going into Q4 for 2020. I just want to clarify that if I may. Thanks.

Ralph Mupita

Thanks. I'll pick up the ARP and the cash repatriation from Nigeria, and then Sugen will comment on SA service revenue there. BICS, as we noted with the half year results: we are in discussions with other shareholders to dispose of that shareholding. Those discussions are still ongoing, so there is nothing further that we can report right now. So I think that's a very simple statement on BICS.

And Syria is pretty much the same. Obviously, Syria is a very complex environment with the Caesar Act in place, but we still are working on the plan to dispose of our stake to Tele Invest. So that will be the update on BICS and Syria. And as you quite rightly say, the IHS process is not something that is within our control even though we are a significant shareholder.

On the upstreaming from Nigeria I think what we have said is that we are encouraged by the interactions we're having with the CBN and the bank's authorised dealers within Nigeria. We are starting to see some dollar liquidity coming back. It's not ample amounts of liquidity that we're seeing. And our position, to be clear, is that in Q4 or Q1 is when we believe that we'll start seeing the repatriation of some of the dividends that are still trapped in the market. So it's not that it will happen by the year end, but certainly Q4 or Q1 is where we're working towards. SA service revenue, Sugen?

Sugen Perumal

Just to provide clarity on the SA service revenue, we've recorded R1,3 billion in revenue from Cell C for the nine months, of which approximately R480 million was recorded in Q3 compared to a base of zero. As you rightly pointed out, the base next month or for the next quarter has R900 million of Cell C revenue included in that base. So to the point I was making earlier, it is going to be a significant amount included in 2019 that we will be compared to in Q4.

Preshendran Odayar

Thanks very much, Sugen and Ralph. That clears up some of my confusion. Thanks guys.

Operator

Thank you. The next question comes from Myuran Rajaratnam from MIBFA. Please go ahead, Myuran.

Myuran Rajaratnam

Thank you. Hi guys and thanks for the opportunity to ask questions. I've got three quick ones if I may. I see the normalised growth in South Africa about 5% odd. Just your thoughts on whether you maintained value share in the South African market given that sort of growth. And the second one is also on South Africa. Your margin uplift, can you give some colour on what sort of mechanisms you used in the channel optimisation to the extent that you're able to? And I think you've answered the third question on repatriation, so it's just two questions from me. Thanks.

Ralph Mupita

The value share question, Sugen, do you want to pick that up?

Sugen Perumal

I think on value share we have maintained it or slightly increased the value share for the period in South Africa.

Ralph Mupita

Just to build on that, certainly as we've looked at both subscriber revenue share growth and in particular on SA prepaid where we've got the bulk of our net adds, we would be of the view that we've certainly picked up not just subscriber share but also value share as we look across the business. And I guess on the margin question the real issue around margin would be driven by how we accelerate device sales in the period. Sugen, do you want to build on that point around some of the priorities that we have on devices going into Q4 and some that we've already achieved in Q3?

Sugen Perumal

Thanks Ralph. I think relating to devices, as I've mentioned earlier, we do expect the margins to abate a little bit in Q4. And that's driven by increased device sales that we're putting into the market in Q4 compared to the lockdown period where for example in Q2 we had very little device sales when stores were closed. So we do expect the margins to come back a little bit, I think somewhere between 0,5% and 1% for MTN South Africa relating to that. I think it's also important to know that on the device strategy that we have in MTN South Africa we are now looking at less subsidisation, so at least making sure that devices are on a breakeven or profitable basis.

Myuran Rajaratnam

A follow-up on the second part of the question. I also understood there was some take back of distribution margins. I was just talking about that specifically. Or did I misunderstand that?

Sugen Perumal

Yes, we have implemented a new commission model in MTN South Africa which is called the smart commission model where we incentivise revenue and growth. So a slight change in the model, which has helped in improving margins as well.

Ralph Mupita

I think the big driver on the margin outlook will really be driven by devices. We're always looking for efficiencies in commissions and the distribution side, the cost of SIMs, etc. But the big driver here will really be the extent of devices and device subsidies. That will be the big driver.

Myuran Rajaratnam

Great. Thank you so much, guys.

Operator

Thank you. The next question comes from Dilya Ibragimova from Citi. Please go ahead, Dilya.

Dilya Ibragimova

Thanks very much for the opportunity to ask questions, and congratulations on the strong quarter. Three questions from my side if I may. The first is on the capex guide increase. Could you give colour on what's driving that? I would think that you decided to change the outlook seeing the opportunity to drive growth. Maybe you could give colour which geographies you're looking to spend more comparing to the budget that you've presented in August.

The second question is on South Africa on consumption. In your presentation pack you've mentioned that you're seeing growth levelling off as we go into Q4. Could you give some colour on what you're seeing in South Africa specifically on the consumer side on enterprise mainly based on the trends in October so far?

And the last question is on Ghana SMP regulation. If you could make a comment here as to what would be an acceptable solution from your side based on all the things that have been proposed by the government. What would be the best and the worst case scenario in your view, if you could comment on that? Thanks.

Ralph Mupita

I'll provide comments on all three questions and Sugen can top and tail if I forget something. The capex increase, we are basically forecasting R10 billion in the final quarter. The real drivers are the fact that we've got much greater visibility on the supply chain. We did highlight at Q1 reporting and at the half year that there were some supply chain constraints where we were shipping RAN equipment to ports and our ability to get that equipment from ports into the regions and deployed. So that supply chain visibility is much better than we had in Q1 as well as at the half year. So that's a big driver of that.

I guess the second and partially related is that across our markets we are pretty much back to pre-COVID conditions in terms of lockdowns in terms of the economic activity. So the difficulties we saw in Q1 and in Q2 of our engineers being able to go and build new base stations, or the tower companies, that is less of an issue. And the third area is basically demand and wanting to ensure that we maintain the headroom within our networks that can be able to deal with what is growing, both data traffic and to a lesser extent voice traffic. So those are the drivers. And the main markets we see the increase is Nigeria, South Africa and Ghana. They will take the bulk of the delta in our forecasted capex.

In South Africa, I think the thing we're pointing out is on the consumer side, particularly on the prepaid side with the COVID relief measures that have been put by the government at R350 per month that has been put in place and extended, we believe that will be supportive to prepaid growth. On our consumer postpaid, I think you will see that there have been some job losses in South Africa, so we remain a bit cautious about how that will play through into the postpaid base.

And then on the enterprise side, we've had really strong growth underlying from corporates, but the university deals have been actually quite material to allow learners or students to learn from home and out of the classrooms. So we're just cautioning on that basis around the dynamics. As Sugen has mentioned, there is a base effect in Q4 to note.

On Ghana SMP, as you well know – maybe you joined the call with our colleagues from Ghana – the regulator has set out about seven points or proposed remedies which start with asymmetric interconnect rates for a period of two years. Other items there are setting floor pricing for voice, data, SMS, mobile money etc. The other area is review and approve all pricing by MTN is required. And then the other one I would highlight is presenting a national roaming plan for execution over a 90-day period. So those would be the ones that I would highlight the most.

Now, we've obviously been engaging with them on all of the proposals. On the asymmetric interconnect rate, which we have also had in South Africa for some time, the time that Cell C was starting, and also in Nigeria, the discussion we will be having with them is what the percentage of asymmetry is and the period, and being quite specific on that period and whatever glide path we would have with that interconnect rate.

Floor pricing we've seen in Nigeria. We've had floor pricing on voice in Nigeria. That has actually been supportive to pretty much all the operators. So if the discussions are really around floor pricing – and that's above our cost of production – for sure that will be something that we would lean into.

Then on national roaming, national roaming is part of our strategy going forward of infrastructure sharing. We are already doing that in South Africa right now with Cell C, and we've just had a proof of concept approved by the NCC in Nigeria to do national roaming between MTN Nigeria and 9Mobile. So that gives you a little bit of colour around what we're discussing.

And I think it's very early days to frame what could be worst case impacts because these discussions are ongoing and the detail still needs to be fleshed out and then we will be able to model the impacts as and when. I just want to remind again that MTN Nigeria has been dominant in voice and wholesale…since 2013, so a dominant declaration is not a mortal blow to a company. We have been able to trade back into strength on the back of that.

Dilya Ibragimova

Thank you very much. That's very helpful.

Operator

Thank you. Ralph, do we have enough time to take perhaps one more question?

Ralph Mupita

We can take probably two.

Operator

Okay. That's fine. Thank you. The next question comes from Ziyad Joosub from Nedbank. Please go ahead, Ziyad.

Ziyad Joosub

Hi everyone. Thank you very much for the opportunity to ask questions. Just two from my side please. The first one is on your group voice revenue growth. It appears that in Q3 voice revenue has accelerated to 6,5% again. You are essentially at pre-COVID levels. I was just wondering if you could maybe give us some colour on what is driving this. Is it a function of new subscribers or have we seen on a cohort basis is voice usage back to pre-COVID levels? There has actually been a voice acceleration in multiple markets.

And then the second question is around handset sales or equipment sales in South Africa in Q3. Could you maybe just give us an indication of how that has ramped up so we can link it back up to the margin disclosure you provided? Thank you.

Ralph Mupita

Thanks Ziyad. The handset question I'll give to Sugen. He was driving handset strategy a bit as well before he came into the role that he's in in South Africa, so Sugen is well qualified to cover that. Just on the group voice trends that we've seen, as we've said in the statement, we are seeing a proper bounce back since the lows of April. And you will well remember in April particularly in Nigeria it was driven by the intensity of the lockdown level and also that obviously there was observance for the religious holiday or period during that time. We were in the middle of Ramadan at that time and that did impact service revenues.

So what has been driving voice? I would highlight two areas. The first is base growth. You've seen very strong subscriber base growth as I noted earlier on. In Q3 we've probably had our highest sub growth, and it's broad based across all the markets. So that's a big driver always of voice growth. The other is that the lockdown arrangements have been materially eased and in pretty much all our markets the economic activity and mobility of citizens is pretty much down to pre-COVID levels. So I would argue that those two would be the big drivers of the growth. Usage obviously has picked up since April, but it is much more normalised usage that we're seeing on voice. Just on handsets, Sugen, in SA.

Sugen Perumal

Thanks Ziyad. I think on handsets in SA what we've seen is in Q3 about a 50% uplift from Q2 after lockdown. And we are actually trending at similar levels to where we were in 2019 Q3 just on the device distribution. But I think it's also important to factor in the fact that we are not subsidising devices as much as we did in the past, which means these devices are now coming in at a better margin.

Ziyad Joosub

That's very clear. Thank you.

Operator

Thank you. The final question comes from Sunil Rajgopal from HSBC. Please go ahead, Sunil.

Sunil Rajgopal

Sure, thank you. I have two questions, firstly on the EBITDA margins. What is the management expectation on the future quarters? How should we be thinking given the cost savings that you have seen during this last six months? How should we be anticipating the EBITDA margin trends going forward? And secondly, I would appreciate any updates on the IHS tower related IPO.

Ralph Mupita

Maybe I can lead with those two and Sugen and top and tail. Our guidance has always been that we will see improving EBITDA margins over the medium term, and that guidance remains. For sure we've benefited to some extent for delayed cost efficiencies as a result of COVID-19. But I think you can well appreciate that even if some of those costs come back there is a whole bunch of cost categories that we are now looking at and looking to make sure that we take advantage, a new normal, whether it's work from home arrangements, less frequent travel to the markets etc. because you can do all of this online. So there are some costs that we will for sure take out.

Just to remind all the investors, that we did announce that we've got an expense efficiency programme across the group where we're looking to drive greater expense efficiencies. Both of those factors will be very supportive to the kind of margin expansion that we've committed to as part of our medium-term guidance. So we do not see that medium-term guidance on EBITDA margin expansion over time changing as part of our medium-term guidance.

On IHS, as we mentioned earlier, IHS run the process. There are two windows they've tried to look for the IPO, as many of you will know. The first was pre-COVID, and obviously with COVID coming in and equity markets being extraordinarily volatile at that time, that was pulled. That was pre-Q2. They did look at a window just before the US elections which would have happened in the earlier parts of this month. It was felt to be too close to the US elections, which are next week.

And I think it's pretty well known that they are looking to IPO on the New York Stock Exchange when an appropriate window opens for what would be a combination of primary and secondary in their plans. So outlook, you'd have to ask them, but I guess as soon as another window comes through. Obviously they will be engaging investors such as ourselves on the plans to IPO, sell down arrangements etc.

Operator

Thank you. Ralph, I'd like to hand back to you for closing comments before we conclude.

Ralph Mupita

Suffice to say, thanks very much to all the investors and analysts for dialling in. We will see you guys more formally with full year results in early March. Thanks again for the feedback that you provided ahead of this call to Thato. Any questions that you have further, Thato and the team will be available to pick those up. Thanks very much.

Operator

Thank you. Ladies and gentlemen, that concludes today's conference. Thank you for joining us. You may now disconnect your lines.

ENDS