MTN Group

2021 Annual Results Presentation

Transcript

Date: 9 March 2022

Thato Motlanthe

Good afternoon and welcome to MTN Group's results presentation for the year ended 31st December 2021. I trust you're all safe and well as we continue to navigate life as we currently know it. My name is Thato Motlanthe and I'm the Executive for Investor Relations for the MTN Group.

I'm pleased to say that for the first time since the beginning of the pandemic we're hosting a hybrid presentation. So we're happy to welcome a small audience who are with us in the MTN Innovation Centre. It includes some of our colleagues as well as some of our shareholders who took up the invitation to come and join us. A warm welcome also to the MTNers across our markets as well as everyone who has dialled in through the various channels, through the webcast or watching on BDTV and the MTN YouTube channel.

Let's first get through some of the housekeeping before we get started. On the screen you should be seeing our standard disclaimer and safe harbour statement, and that covers the presentation for today. For those of us who are in the room, just a quick reminder of our emergency exits. There is one to my right and one towards the back of the auditorium. Hopefully we won't be needing them.

Just turning to the period under review and just to set some context, obviously the past year has brought continued challenges in the context of the pandemic. It has brought challenges for companies around the world including MTN. Our business has demonstrated true resilience as we continued to roll up our sleeves and to swiftly respond to many of these challenges, taking the lead in evolving the landscape we find ourselves in. We're driven by the belief that everybody deserves the benefits of a modern connected life.

The presentation today will reflect on last year's operational, financial and ESG performance and provide some thoughts on our positioning for the coming year, 2022. In terms of some of the agenda items, the programme will run as follows: The MTN Group President and CEO Ralph Mupita will come on stage and he will provide us with some strategic and operational overview.

Following this Tsholofelo Molefe, our Group CFO, will come and provide some financial highlights. And then Ralph will come back to provide thoughts on some of our key focus areas for the coming year. We will then open the floor for questions and answers which Ralph and Tsholo will respond to. Just a note at this point that those who have dialled in through our webcast can actually submit the questions through that platform.

For those of us who will be tweeting during the presentation, the hashtag is #MTNAnnuals21 and the Twitter handle is @MTNGroup. It is now my pleasure, having gone through all the admin, to welcome to the stage Ralph Mupita, our Group CEO. Thank you very much.

Ralph Mupita

Thato, thanks very much. And a very good afternoon from myself as well, extending a warm welcome to everybody who is dialling in. As Thato has mentioned, we do have a change for the first time in the last two years where we do actually have guests who are at 14th Avenue. As Thato said, we have a couple of shareholders who are here. So we want to extend our thanks to you for joining us here at 14th Avenue.

We also want to extend thanks to the MTNers around the 19 markets who are the real heroes of the strong results that we've delivered over the past year. A strong Y'ello from myself and Tsholo, and thanks for the strong contribution that you've provided in terms of the very pleasing results that we've released today. I'm sure the shareholders have now had a chance to read the SENS and taken a view on how the company is doing.

Before I start the operational review I wanted to start off by providing a context and a rationale to the enhanced guidance that we've provided today as well as the changes that we've made to the dividend policy. There is a very strong interaction between the way we're thinking about the business and the growth opportunities that we see.

We're very encouraged by the performance of the business, showing strong resilience in a challenging macro. But we feel confident enough to be able to enhance the guidance on the back of the structural trends that we're seeing. And that obviously has an interaction with our capital allocation framework and therefore how we think about dividends going forward.

So let me start there and provide a context to how we as MTN are seeing the future and positioning ourselves for growth. As I said, we are remaining resilient and accelerating growth in actually quite challenging environments occasioned by COVID-19. I think we've seen that there has been subdued economic growth across many of our markets. That obviously is a statement that goes broader than Africa, more globally. We have seen currencies weakening, particularly against the dollar as well as against the rand, which is our reported currency.

We have seen volatility in oil prices and we're beginning to see inflation coming through. But we've been encouraged by the reopening of the economies that we're seeing across our markets and just the sheer resilience of the business in how it's positioned to be able to take advantage of what we're seeing as a structural acceleration in digital services. As a reminder of where the company is, we have second-to-none networks that are well invested in. We have a leading brand and very strong market positions. Those in combination with the people that we have in our company have given us the resilience to be able to deliver the strong results that we have.

At the core is that even through this COVID pandemic and the reopening of the economies we've actually seen the acceleration remain structural and actually accelerating even further than where we were during the COVID pandemic. I want to share a slide that provides some context to how we're seeing what we're called structurally higher demand for the services that we offer. Our results have been driven predominantly by data traffic as well as by the fintech transaction volumes.

So what you have on the left-hand side of the chart is an indexation of the data traffic through our network pre-COVID, into the period where COVID was relatively intense, and then the easing of lockdown. Now, the data point on the easing of lockdowns we've used Google trends, mobility trends, we looked at transportation across our markets. So it came out that it's more around the end of Q4 2020. So last year was actually a year where you can consider in our markets that they were actually relatively open.

So when you look at it and you look at the indexation to Q1 2019 and to the start of COVID-19, on a quarterly basis we were getting about 267 petabytes of data through our network. COVID came along. We accelerated to 556 petabytes. The economies opened further. Yes, there were still some lockdowns. And we moved to 781 petabytes. So an acceleration in terms of the demands of our services and how the business actually has performed.

There has been a lot of narrative that the growth that we've seen is because of the lockdown arrangements. What we want to say is our markets are actually relatively open. South Africa may be a bit of an outlier, and Uganda, which has now opened up, will become an outlier. But the main point that you see here is that actually there's an acceleration. And you index back to Q1 2019. We actually have five times the data traffic on our network.

I think what has also been pleasing in the way that we've performed is taking on this load of data traffic we've been able to do it with a reasonable capex budget. And you've seen our returns improving over time. So the data traffic has not resulted in poor financial performance of the company. We've been able to manage our capex envelope, our investments, the expense efficiencies in the business to see accelerating growth.

If you move to the right and look at fintech transactions, again indexing to Q1 2019 the pattern is the same. 2.5x the volume of fintech transactions. Last year we had 10 billion worth of transactions through our fintech ecosystem. Again the trend is very clearly accelerating. And the trends that we've seen and the performance of the business is what has given us the confidence within one year to be able to enhance the guidance that we provided last year.

The main guidance points, you will be familiar with our medium-term financial guidance which we released last year. And we're making some amendments to that to reflect the structural growth trends, the performance that we have, and our views on what will happen over the next three to five years with the company. The first change we made is Group service revenue moving from low to mid-teens to mid-teen performance. You know that in 2021 we did 18.3%, so really above that guidance.

South Africa we've maintained the same, which we generally read as 4% to 6%. Within the current environment we think South Africa delivering within that range would be very good performance. Nigeria upgraded their guidance at the end of January, so you know that number of at least 20%.

On the Holdco leverage, I think what we've been pleased with is the faster deleveraging that we wanted to see on the balance sheet actually has happened over the last 12 months. Our focus is on faster deleveraging of the non-ZAR debt that we have. We paid down some of the 2022 bonds early last year. We do have both 2024 and 2026 bonds that are still part of our capital structure, and probably about R20 billion equivalent if you look at current exchange rates. We're signalling that we want to have as little dollar debt as possible on the balance sheet to give us more financial flexibility to pursue the growth that we see.

Now, as much as we're signalling the growth and also signalling that the capex envelope will move a little higher from where it was today, we are also committing to our shareholders that we are responsible allocators of capital who ultimately will deliver returns higher than what you've seen. So in this prior year we did 19.6% as return on equity. We are committing to our investors that within this growth trajectory that we see as structural and stronger, and we see returns improving, the additional capital that we are putting into our networks and platforms ultimately would deliver greater returns.

We think that that framework is what we can deliver over the next three to five years, and we're committing ourselves to that. The capital allocation framework is obviously the underpin of how we think about growth and how we need to make decisions. At the end of the day, one of our major responsibilities is allocating capital judiciously and into areas of faster growth. So we have a very specific batting order which is going to drive and discipline us over the next couple of years. We are going to put capital to the fast growth areas that we see in the business that will drive the return.

And that's what we call batting order number one around our organic growth. The leverage point is certainly batting order number two. And then the return of cash to shareholders through dividends is batting order number three. We believe that the first two provide more value and growth for investors over the medium term, and hence re-emphasising the priorities. M&A, share buybacks and special dividends follow through within that batting order.

And with that outlook, with the capital allocation framework, we have revised the dividend policy. And I will come back to that, but first of all cover the dividend declared for FY2021. We did commit to investors that we would deliver a minimum of 260 cents. Given the suspended dividend of the prior year I'm pleased to announce that the board has approved and made the decision to pay an ordinary dividend per share of 300 cents, 40 cents higher than the minimum we guided.

We believe that this is a very balanced decision in light of our capital allocation priorities and batting orders. This balance is also progress we've seen on the asset realisation programme, the cash upstreaming we've seen, particularly in Nigeria, the faster deleveraging that we've been able to deliver, and leaving liquidity headroom for investments in the near to medium term. So the 300 cents we feel is appropriate and creates the right balance.

In terms of the future dividend policy, we're announcing the dividend policy which we're calling an annual dividend declaration where the board guides on a minimum dividend in the year ahead, again aligned to the capital allocation priorities. And we're saying that we anticipate paying a minimum ordinary dividend per share of 330 cents for FY2022, and that will be paid as a final dividend – no interim dividend – in the calendar year 2023. I wanted to start off with these announcements because I think they're super important in positioning how we think about capital allocation and also the linkage to the growth prospects we have.

Just moving on to the operational review and focusing on the major salient points. I won't cover the financial highlights. I think you've read them, and Tsholo will take us through them in much detail. Just calling out faster earnings growth that we've seen, adjusted headline earnings per share up just shy of 27%. Again faster deleveraging that we've seen on the balance sheet, the Holdco leverage now at 1x, down from 2.2x same period on the prior year. And then obviously cash flow, operating free cash flow growing at about 35% on an organic basis. And then the returns, as I mentioned, improving to 19.6%. So all in all, strong financial delivery which Tsholo will take us through in her section.

If I look at our major markets starting with South Africa, I think the issue of a challenging macro is well known in South Africa. Unemployment particularly in the second half of the year where we saw job losses in some of the industries that were affected by COVID restrictions. We as MTN South Africa focused on investing in our network, put R9 billion of capex into the network for capacity, coverage and resilience. And that helped us to maintain our number one position.

I do want to make a call out here that we're very pleased by the South African performance where all core businesses contributed to the growth. The service revenue growth of 6.5% is above our guidance range. To the SA team, very well done in 2021. All in all, the South African business is doing very well. Some pressure towards the end of the year around prepaid, particularly the lower end, but our CVM initiatives I think should bring us back into a decent position. That's a function of the pressure that you're seeing at the lower end of the market. But all in all, very strong growth coming out of South Africa.

Nigeria, again I'll touch on the key highlights. You've seen these results from Karl and the team. The major issue in the Nigerian context in the last year was really the NIN/SIM registration issues. I'm pleased to say that at the end of Q4 we started seeing net additions back in the Nigerian base, 1 million net additions after de-growth of the business because we couldn't register any new subscribers.

The trends we saw in Q4 have come through in the first two months of this year, so we're encouraged that we're seeing Nigeria back in subscriber growth. We saw very strong 4G build-out of the network. We did allocate more capex to them on the back of strong growth that you've seen in the data, and obviously picking up a lot of data traffic – 85% data traffic growth on the prior year.

We are also pleased to see that we had some progress on the PSB. As you are aware, we had approval in principle. This is what we've been looking forward to in the last two years, to get our fintech business in Nigeria also scaling over time. And we've been interacting with the Central Bank of Nigeria to get all our approvals in place, and we await the decisions of the CBN. So very strong results from Karl and the team in Nigeria, encouraging us as we have upgraded the guidance for service revenue within that business.

The other markets, looking at SEA, WECA and MENA, I think we've seen broad-based growth across the regions. I think a couple of highlights to pick up. All the regions are growing obviously above the Group service revenue performance of 18%. SEA is very strong, and WECA strong as well. In WECA we also have to remember that many of the markets are basically indexed to the euro, so very low inflation environments. So getting an 18.4% growth has been very strong. All the regions have been accretive from an EBITDA margin perspective, so driving profitability all the way to the bottom line and cash flow.

If I look at fintech, again a very strong story and performance around our fintech business. Just again re-emphasising the strength of that ecosystem, 10 billion transactions, $239 billion worth of transaction value. And the main verticals within the fintech business, wallet, banktech, merchant payments and e-commerce are performing very well. We signed up a joint venture with Sanlam on insurtech, going through regulatory approvals now. So we should be able to launch that in the second half of this year and also start to see the insurtech business growing strongly.

And we secured partnerships that are really helping us in particular drive the merchant ecosystem, which I'll talk to, which is critical for the growth of this business going forward. Still on fintech, as I mentioned, a really important part is the ecosystem expansion that we've seen in the business. We had 57 million monthly active users at the end of the year, up from 46 million. One of the key strategies has been that we want to see base penetration, and we feel that we'll get the business growing very strongly when we get to about 70%.

What we saw on the base penetration is we moved from 40% to 46%, so we're starting to see an acceleration of our own GSM customers using Mobile Money services. Obviously a big progress was to get the PSB AIP in Nigeria. The merchant and agent ecosystem is really the area that I think we should focus on as we think about the ecosystem effect. What was very pleasing for us was to see the build-out in particular of the merchant network.

And we've seen the acceleration of the informal merchant acquisition and the rollout of self on-boarding with our open API framework. And if you look at the transaction value column, I think you will also see there that we had 45 million API transactions from partners in 2020, moving to 155 million API transactions from over 1,000 partners, scaling and building out the effect of our fintech ecosystem.

In the year we've also made progress with the structural separation of the business. I just wanted to pause and talk to the structural separation so that all investors understand what we mean by it and what we don't mean by it. The structural separation of the business has been about creating the accounting separation of the fintech business out of the GSM business, and with that creating its own set of financials, its own set of commercial agreements with the GSM business.

Both businesses still have a lot of value that depends on each other's business. You see for example airtime sold through MoMo actually is increasing. So that process of accounting separation, legal structure set-up and then the contracting has been a process that has been ongoing. And we're very well advanced with that process, and we anticipate we will complete that process end of Q2 this year. And ideally we complete that with a PSB announcement having been made, and obviously that's subject to the regulator.

When we complete that process is when we go into the second part of our process of setting up the fintech businesses separately. And that is when we are going to be seeking partners who will help us accelerate the business, particularly in areas such as merchant acquiring and the acceleration of that part of our business. So that is the part that we've said that we would focus in the second half of the year once we've created the structural separation.

At the end of this year we want to have completed two aspects of the fintech, the completion of structural separation by the first half, and then bringing on board strategic partners to help us accelerate the business. And we will report on the progress of that as we go through our H1 results.

If I move to the portfolio transformation, just a few call-outs. Good progress was made in terms of IHS being listed in New York. We are obviously disappointed with the current valuation of the business. If that valuation persists we wouldn't be selling down as per the right that we have at the next window. There is an April window for current existing shareholders to sell down. But given the state of the balance sheet we're under no pressure to sell at values that we think materially undervalue the business. But the listing has created a liquidity platform that we can tap into in future. And obviously we have the next three years plus that we can think about the monetisation of the asset.

We've made good progress on the SA tower transaction and we're awaiting Competition Commission approval on that. Net proceeds on a successful transaction would be about R5.5 billion. The call-out I would have on the portfolio transformation has really been about the Nigeria sell down. We sold down about 3% of the Group holding in Nigeria, and net proceeds of that is approximately R3.6 billion. And we anticipate that that will flow in the first half of this year.

In terms of simplifying the portfolio and really driving our pan-African focus, progress was made in Yemen and Syria. Afghanistan, we continue to evaluate options. The events post August last year complicated our ability to engage with some of the parties that we were talking to, but we are continuing discussions and will be able to update investors on our progress there. We said we wanted to exit in an orderly manner, and that is something that we will obviously be focused on.

Then on creating shared value I think investors are now familiar with our framework in terms of our ESG responsibilities. A few points of call-out here. Firstly, we're making good progress on greenhouse emissions reductions, 16% on Scope 1 and 2. We are rebasing Scope 3, and so for last year we are reporting on Scope 1 and 2. But for Scope 1, 2 and 3 we're still committing to our reduction levels of 47% by 2030, and so good progress there.

Rural broadband, great progress was made in the year, 83% broadband coverage. That is access to at least 3G technology. And we have a target of 95%, so good progress in the year. And then our diversity and inclusion measure is women in senior management in the management layers. We made a 1% improvement from 38% in the prior year to 39%. Still a long way to go to get to the 50%, but we have got very clear plans at the Group and in all the operations to get there.

One of the important things we took feedback from investors is about how we link the ESG agenda to executive remuneration. As of 2022 the LTI has a 25% linkage to ESG, the three-year LTI pay-out structure. And it has three components which is: net zero; diversity and inclusion; and then on the rural broadband. And many thanks to our colleagues for the great progress that we had and improvements in our ratings in the year past.

Then finally just to talk about some of the numbers before I hand over to Tsholo to take you in more detail. On our old guidance structure we are pretty much green on the service revenue. We outperformed on service revenue. Fintech is on track. This movement to 9.3% is actually above what our expectation was. We spoke about Holdco leverage and also spoke about returns, so good progress on delivering on the guidance that we committed to investors. With that, let me pass on to Tsholo, and I will come back with a look forward view after Tsholo presents.

Tsholo Molefe

Thank you very much, Ralph. A very good afternoon to everyone joining us in person, virtually or on various platforms today. And a special y'ello to all our MTNers across all our markets who are joining us for these results. I'm going to take you through our very pleasing results, the financial performance for 2021, and I will cover the following.

Firstly, what are the material items that have impacted on our reported results? I will then take you through some of the salient features on the income statement, and then share with you some of the performance of our two largest markets, particularly South Africa and Nigeria. I will then move on to the key line items specifically in a bit more detail on the income statement, and lastly share with you how we've been able to generate strong cash, manage the balance sheet as well as improve returns.

Now, if we start with the material impact on our reported results, you will notice that from a currency movement perspective the stronger rand on average exchange rate basis resulted in Group service revenue being impacted negatively by 17% relative to constant currency. The rand was also stronger against the Nigerian naira by about 18.5%. The rand also closed weaker against the dollar, impacting balance sheet items but also impacting on Holdco leverage negatively. We also recorded forex losses of about R2.6 billion during the year largely due to currency devaluation in various markets relative to the stronger rand.

We also had some significant once-off items. Some of these were reported on during our interims. We had a gain on disposal of BICS of R1.2 billion and we recorded a loss on de-recognition of MTN Syria when we lost control at the beginning of the year, a loss of R4.7 billion. Yemen, as Ralph indicated, we have exited and has been assessed at nil. And we have recognised some impairments on goodwill as well as non-current assets totalling about R1.2 billion.

We also made some COVID donations during the year of R486 million with R383 million to the AU for COVID vaccines as well as R103 million from MTN Nigeria to Coalition Against COVID. We also provided for a multi-year arbitration settlement during the year amounting to R536 million. All these significant once-off items have had an impact on our expenses, EBITDA, EBIT as well as headline earnings per share.

Some of the items that are key to note is also the significant appreciation in the Group share price, which has impacted our staff cost significantly due to the share-based payments of roughly

R1.1 billion resulting in a reduction in EBITDA margins of 0.6%. We also upstreamed a total of R18.4 billion from our operations with a total of about R7.8 billion coming from Nigeria dividend upstreaming. An additional R430 million was also upstreamed from Nigeria post December 2021. So the progress with upstreaming has positively impacted our Holdco leverage, which I will share with you later.

If we then move on to the income statement, you will notice that on your left-hand side you have the year-on-year movement on key line items on an IFRS reported basis. And on the right you see the movement in constant currency. As we said, we delivered good, solid service revenue growth of about 18.3% to about R171 billion, which is ahead of our medium-term target in constant currency. This was really largely driven by double-digit growth that we saw in Nigeria and Ghana. We also saw pleasing results from South Africa with service revenue of about 6.5% in line with their medium-term target of between 4% and 6% compared to a growth of 1.6% in FY2020.

On an IFRS basis, if we look at EBITDA, which decreased by 6.3% but in constant currency before once-off items, as we mentioned earlier, EBITDA increased by 23.7%. And this was really driven by healthy operational results across all markets. The 7.6% increase that we see in depreciation, amortisation and goodwill impairment was largely driven by increased capital expenditure additions that we did in prior periods, but also, as I mentioned earlier, the goodwill impairment which we recorded in the period for Yemen.

Net finance cost you will realise that it decreased by 12.5% in constant currency largely due to a reduction of R2 billion year-on-year in forex losses, but also due to a lower interest rate environment and the significant reduction in net debt which I will share with you later.

The share of results of associates as you can see increased by 80% to R2 billion, and this was driven primarily by the strong underlying performance from Irancell which is an associate.

Income tax expenses grew by about 25% largely due to withholding taxes as well as an increase in non-deductible expenses in other markets. The Group effective tax rate, however, was 41%. Really this was impacted by non-deductible losses particularly from the de-recognition of MTN Syria that I mentioned earlier. On a normalised basis we saw Group effective tax rate being at 35%, which is really in line with our target of mid-to-high 30s.

Adjusted earnings per share grew by 26.6% in the period, and this was impacted positively by some of the adjustment on non-operational items totalling 123 cents per share that I mentioned earlier.

So if we unpack our Group service revenue in a bit more detail, you will see that we saw pleasing revenue growth across all areas with voice, data and fintech being the main drivers of the growth. You will see that voice revenue grew by 5.2% supported by growth in voice traffic. The performance was also supported by our well-executed customer value management initiatives as well as segmented customer propositions.

We saw stellar growth in data revenue which grew by 36.5%, underpinned by a surge in data usage as you saw in Ralph's slide, 53% growth, with about 6.4 GB per user per month and active subscriber growth of 11 million to now close the year at 122 million subscribers. Digital revenue also increased by almost 23%, and this was supported by an improved uptake in our digital offerings in our markets. We saw a good increase in service revenue from fintech driven by a base growth of about 10.4 million in our active MoMo users to now 56.8 million.

Wholesale revenue also grew by about 49.7% on the back of a strong national roaming in MTN SA. And I'll take you through that later on. Other revenue also included ICT and enterprise connectivity which grew by 14.5%, benefiting from increased data users on the back of strong performance in fixed access data, cloud security and hosting services, particularly from MTN South Africa, and some turnaround in some of the SME segments across our markets.

Now let us look at fintech in a bit more detail. You will have seen the operational performance, and this is how it translates into the financials. As you will see, fintech, which now contributes 9.3% to Group service revenue, rose by 30.9% in the period as we continued to scale up our mobile financial services. The bulk of the fintech revenue, as we see on the pie chart, mainly came from withdrawals at 57% of the total revenue.

EBITDA growth was 31.5%, in line with solid service revenue growth, with on a pro forma basis the EBITDA margin is at 46.7%. We do expect that the EBITDA margins will rebase over time as the growth picks up and we start allocating the full cost associated with running the business once we have structurally separated the fintech business. But a key metric here to look at is actually our free cash flow which was strong at 29.8%, which is really important given the economics of the business which is really capital light. And you will notice that we spent R200 million in capital expenditure towards the fintech business.

So if we move on to the financial performance of our two major operations, I will start with South Africa. The slide illustrates the trends that we saw in service revenue, expenses, EBITDA as well as capital expenditure. You will notice that MTN SA delivered solid performance overall with service revenue of 6.5% enabled through commercial and operational execution across all business units.

If you look at various revenue bearers you will see that voice revenue was actually down by 5.2%. This was driven mainly by consumer prepaid voice where the push for bundle usage is diluting out-of-bundle usage. The prepaid in-bundle revenue increased but was not sufficient to offset the reduction that we saw in out-of-bundle. The decline, however, was also due to the impact of a 4.6% decline in prepaid users as customers migrate to voice over IP as well as data substitution.

We saw an increase of 13% in data revenue supported by a 58% growth in data traffic and the growth in active (data) subscribers of 12.5%, now totalling 17.7 million subscribers. Core digital grew by 19.9%, benefiting from a number of growth initiatives including billing optimisation as well as other new products that were implemented. Fintech revenue started to pick up and it comprised of airtime lending fees, which grew by about 3.5%, and this was also driven by an increase in Xtra Time lending fees with MoMo picking up in South Africa.

Wholesale revenue grew by 36% and this was driven mainly by notable improvement in Cell C. MTN SA recorded R2.7 billion in roaming revenue particularly from Cell C, which was an increase of 33.9%. We continue to account for Cell C on a cash basis and we had unrecognised revenue of about R236 million at the end of the period.

If we look at the expenses from MTN SA in a bit more detail you will see that cost of sales only grew by 3.5%, which was way below the service revenue growth. The main increase was in handsets and device costs as well as commission expenses off a lower base due to COVID impacts in 2020. The device cost of sales was higher by about 5.6%, and this was largely due to the LTE device distribution during the period with an increase of about 24% in LTE devices sold. MTN SA has been able to improve its gross margins through the optimisation of device subsidies which contributed about 0.5% to the EBITDA margins.

Commission expenses were up about 6.4% due to increases in device distributions and activations during the year. If we look at operating expenses, it grew significantly by 13.1% year-on-year, but this was mainly impacted by staff costs that grew by 43% as a result of the increase in the share-based payments as I indicated earlier because of our increase in our share price. If we exclude this item, staff costs in South Africa would have only grown by 1.1%.

Other drivers of the opex increase were due to network operating expenses which increased by almost 5% predominantly due to rand utilities as well as maintenance. And this was really driven by high electricity tariffs of about 15% over the period. We saw MTN therefore achieving an EBITDA growth of 6.8% with an EBITDA margin of 38.9%. The EBITDA margin of 38.9% was actually impacted by the share-based payments. If we excluded that, we would have seen a margin of 41.4% in South Africa, which is really within the guidance that we've always given of between 39% and 42%.

MTN spent a total of R10.4 billion, and this is on an IFRS 16 basis with continued investment in 3G as well as 4G and a rollout of 5G sites of about 843 during the year. This resulted in capex intensity on an IFRS 16 basis of 21.4%. If we look at it from an IAS 17 perspective, capex intensity was at 18.8% this year.

If we look at all the segments across South Africa, currently you will see that the consumer prepaid business was up 2.1% during the year, slowing down in the fourth quarter. The business's performance was however supported by strong data revenue. However, this was really offset by pressure from voice as I indicated earlier, voice substitution, challenging macroeconomic conditions as well as an increased split of consumer wallet share that we're seeing.

The consumer postpaid business delivered service revenue growth of 4.5% in a highly competitive market. The focus on subscriber additions was driven by channel expansion, well managed churn and a consistent drive for SIM-only deals as well as data rich packages which contributed to this growth.

Enterprise service revenue remained on a positive trajectory with growth of 16.8%, now recording growth for more than nine consecutive quarters. The business continues to grow through fixed data deals, strengthening the SME CVM initiatives as well as sustained recovery of the ICT business.

If we briefly touch on Nigeria, I will only just touch briefly because you would have seen the results of Nigeria at the end of January. MTN Nigeria as we can see delivered double-digit service revenue growth of 23% in constant currency, and this was mainly driven by voice, data as well as fintech. Voice revenue grew by 8% due to higher usage in active SIM base with a 10% growth in minutes of use.

We saw a solid data revenue growth of 55% underpinned by increased usage from the existing base with impressive data traffic growth of 85% supported by the acceleration of 4G rollout and enhanced network capacity. Fintech revenue also had commendable growth of 57% due to sustained growth in the use of Xtra Time and broader fintech services by customers.

In terms of expenses you will see that we saw an increase of 17.5%. Cost of sales grew due to higher commissions and distribution costs in line with the revenue growth which was up 14%, and regulatory fees went up by 23%, also in line with the revenue growth that we are seeing. We saw an increase of 21.7% in operational expenditure due to higher network costs from accelerated site rollout but also due to the devaluation of the naira and CPI impacts on the current BTS rentals.

MTN Nigeria also continues to implement expense efficiencies aimed at driving margin expansion in the near term, thus improving the EBITDA margin to 53% by two percentage points. Total capital expenditure in MTN Nigeria was about R14.9 billion for the period, as I indicated, due to the accelerated rollout of 3G and 4G sites resulting in capex intensity of 24.8%.

Now if we turn to Group expenses, which were well managed during the period, you will notice that cost of sales was up 10% largely driven by increase in commissions and distribution costs, as I indicated, mainly in Ghana and Nigeria, as well as an increase in handset costs in South Africa off a smaller base. The increase in commissions and distribution was mainly driven by the strong growth in our MoMo business and increased activations compared to 2020.

Operating expenses increased by 15.9% and this was led by a higher network as we continue to roll out sites across all our markets. The IFRS charge for the share-based payment also would have had an impact on staff costs, as I indicated earlier. We continue to see relentless focus on cost management across all our markets despite the growing business with our expense efficiency programme continuing to drive margin expansion.

In the year we realised R3.7 billion worth of efficiencies with the largest savings coming from MTN SA as well as Nigeria. The savings in opex were largely realised in the network area environment. We continue to target savings in network and IT costs, sales and distribution, as well as energy efficiency going forward as we anticipate that these will contribute significantly to targeted savings of a further R5 billion over the planning period off a 2020 base.

If you look at the EBITDA then you can see the drivers of Group EBITDA both in absolute terms as well as margins. Overall Group EBITDA on core operations was up 23.7% in constant currency, as

I indicated earlier, before once-off items. The growth was really broad-based against all the performance from all the markets, in particular Nigeria, South Africa, the SEA region as well as the WECA region.

At an operational level the EBITDA margin expanded by 2% with positive contribution from all the market supported by solid service revenue growth as well as relentless focus on cost. So the Group reported EBITDA margin declined by 4.1% on a reported basis, and this was mainly impacted by the de-recognition of MTN Syria as well as the losses that I indicated on impairment of Yemen.

Moving on to the adjusted headline earnings per share analysis, this table provides a reconciliation of our attributable earnings per share through to adjusted headline earnings per share. And this gives more visibility to our strong underlying performance during the year.

The difference between attributable earnings per share, which declined by 19.3%, and basic headline earnings per share, which grew by 31.8%, is due to the significant once-off transactions that I mentioned earlier, being Syria losses, Yemen impairments and some gains on disposal of investments and acquisition of a subsidiary, thus resulting in basic headline earnings per share of 987 cents.

A further adjustment to reported headline earnings for forex losses, COVID donations and arbitration settlement resulted in adjusted HEPS of 1,110 cents per share, giving an increase of 26.6% year on year, which is an indication of positive operational earnings momentum.

If we look at capital expenditure, as we indicated we remain focused on building the largest and most valuable platforms and increasing the capacity of our network. We capitalised R32.7 billion during the year across all markets, which is higher than our original guidance to the market, achieving a capex intensity of 18%. We accelerated the rollout of 3G and 4G sites in support of the growth that we are seeing mainly in Nigeria, Ghana as well as Uganda. We rolled out a total of 3,566 (3G) sites, which was 90% more than we planned, and about 9,158 4G sites, which is about 36% more than we planned.

So if we look on the pie chart you will realise that network expansion, which is the RAN transmission, the core network as well as site infrastructure, accounted for a total of about 76% of the total capital expenditure. Investments in IT modernisation, including the development of product tools to support our growing platform business, accounted for about 24% of the capex. As

I indicated, in MTN SA they continued to invest in the 5G network rollout with about 843 sites that were live during the period.

So our Group capex guidance for 2022 will be R34.4 billion, and we expect the intensity to reduce over the medium term as the business continues to grow, guided by our disciplined capital allocation framework with Group capex intensity expected to be in the range of 15% to 18%.

If we look at our cash flows you will notice that operating free cash flow before the spectrum as well as licence acquisitions grew by 35%. And this was due to strong cash generation from operations to R67.3 billion, which was an increase of 15% driven by solid operational performance across the markets. You will see that our licence renewals and spectrum acquisitions, which was mainly from Nigeria 5G spectrum acquisition, amounted to R6.2 billion in the year.

We also saw an improvement in our working capital of R4 billion, and this was largely due to the timing effects relating to payment of vendors and suppliers mainly in Nigeria. Working capital will remain a key focus area for us as we continue our efforts to preserve cash during these challenging trading conditions.

You will also see the key cash outflows. We paid a total of R22 billion in taxes as well as interest, net interest paid on borrowings. This excluded the capex excluding lease payments of about R29 billion. The movement in financing activities as you can see was R24 billion, and this was largely driven by net repayment of debt and settlement of lease obligations of about R6 billion. During the year we actually settled R44 billion in debt which was offset by new borrowings of about R24 billion. The R44 billion also included some refinancing. So this was also positively impacted by the proceeds from the Uganda listing of R2.3 billion.

Other investments of R4.3 billion were driven mainly by proceeds from disposal of investment in BICS of about R1.8 billion, realisation of fixed deposits at head office of about R1.4 billion, and from Nigeria of about R3.5 billion. And these were offset by movement in restricted cash of about R1.5 billion mainly in Nigeria relating to letters of credit.

If you look at the Holdco net debt we continue to improve the strength of our balance sheet with progress in cash upstreaming and the faster de-leveraging of the Holdco debt. On the top left-hand side you will notice that the Group progressed well over the last two years, reducing Holdco debt from R55 billion in 2019 to now R30 billion. The Group leverage improved to 0.4x from 0.8x in 2020. This was supported by strong cash generation from operations. The Holdco leverage also improved to 1x from 2.2x in 2020, positively impacted by the progress that we've made on cash upstreaming as well as settlement of borrowings.

We've also made improvement in our debt mix as we also said we would like to make sure that we have a mix of 60% rand debt relative to non-rand debt. And we continue to reduce our exposure to US dollar debt and improve the funding mix at Holdco level. If you recall, we also redeemed a 2020 Eurobond of about $500 million which was due to mature in February this year.

During the year we also utilised the proceeds from our ARP, which is our Asset Realisation Programme, and cash upstreamed from operations to be able to repay our debt in Holdco. This comprised about R12.6 billion in US-denominated debt as well as about R8 billion in rand-denominated debt. We also concluded about R5.6 billion in debt through a combination of local debt capital market issuances as well as bank facilities. This allowed us to extend and maintain a smooth maturity profile as you can see on the right-hand side, as well as enable us to improve our cost of funding and further improve the Holdco debt mix going forward.

Looking at the statement of financial position I just want to highlight some of the major movements on the balance sheet. The increase in intangible assets and goodwill was largely due to the acquisition of the 5G spectrum in Nigeria. Included in other non-current assets is our investment his, which we fair valued at about R19 billion during the period. As Ralph indicated, the devaluation of IHS was largely due to the negative share price movement following the IPO listing on the New York Stock Exchange.

The MoMo deposits and payables amounted to R39 billion, and this was due to increased cash-in deposits in line with the growth in our MoMo business. And you will see that the increase in our cash and cash equivalents resulted from increased cash generated from operations across the Group. Non-current assets held for sale comprised of the MTN SA tower sale and leaseback transaction.

The interest-bearing liabilities decreased, which was a 16% decrease mainly as a result of the settlement of debt. Other liabilities increased by 16%, and the growth is mainly attributable to accrued expenses mainly from Nigeria as a result of unsettled foreign-denominated liabilities. Non-current liabilities held for sale is in line with the non-current assets held for sale that I indicated. These are lease liabilities relating to MTN SA tower sale.

Now if I can conclude my presentation, let us look at the progress we've made on the return on equity. We see an increase from 17% in December 2020 to now 19.6%, really driven by operational earnings growth from the consolidated subsidiaries. The notable drags on the ROE were the higher Group effective tax at 41%, and the movements in non-controlling interests driven mainly by the Rwanda as well as Uganda reduction in shareholding, and the foreign currency translation reserves as a result of the weaker rand on the reported results. We are pleased with the ROE evolution, which is really just shy of our medium-term target of over 20%. Ladies and gentlemen, I will conclude my presentation here and hand over to Ralph.

Ralph Mupita

Thanks very much, Tsholo, for taking us through a very comprehensive view of our financial performance both at the Group level and looking at our major subsidiaries. I think as investors you will all appreciate we're a large group, but I trust you are all familiar with the performance after Tsholo's presentation. Just a couple of points before we close, just looking ahead.

Obviously we are a couple of months into 2022. The context that we see in our operating environment would be as follows. I think we will continue to see sluggish economic performance in many of our major markets. I think South Africa did a bounce back in GDP growth last year off the low base of 2020, but constrained by the unemployment issues and issues related to structural reforms coming forward.

I think we are strongly encouraged in South Africa that as we speak right now we are in the middle of the spectrum auction process. The main auction proceeds tomorrow. But structural reforms overall are much needed in South Africa to get GDP growth rates.

In Nigeria I think it's anticipated that again we will see sluggish growth. The thing I would say here is that these were pretty similar economic outlook positions as last year, and us as MTN notwithstanding the COVID effects and the sluggish economic outlook were able to be resilient and able to take advantage of the opportunities we see with mobile and fintech acceleration that I painted earlier on.

So the macro context we see as potentially challenging through the year ahead, but the business has resilience, strong networks, strong brand and economies of scale that allow us to withstand shock if we see such as the year progresses ahead. So a similar kind of macro context as per 2021.

If we look ahead specifically to MTN, what are our priorities? Our priorities largely stay the same. We are focusing on looking to accelerate the growth that we see in South Africa and in Nigeria. South Africa, as I said we would be very pleased if the business is growing within the 4% to 6% range and getting the EBITDA margin in the 39% to 42% range. As Tsholo said, if you took out the IFRS 2 charge, actually South Africa was a business that was growing at 41% in terms of the EBITDA margin.

We will see pressure in consumer prepaid. We do have CVM initiatives that we believe will help us stabilise the pressure that we saw in the consumer prepaid particularly in Q3 and Q4. That is pretty much across the SA market. But the South African business we believe is well invested and will be resilient to deliver good growth in the year ahead.

Nigeria we're seeing accelerating growth, hence we upgraded the guidance there. The rollout on 4G we've been able to monetise, and having procured the 5G spectrum it is a plan to build out on 5G services both for individuals and businesses. It will be a story talking to you about the progress we've made at the half year.

As I mentioned on fintech there are two big things: complete the structural separation, the accounting, the intercompany agreements, the full set-up of Group fintech and ideally the PSB within that construct. That's our first step. And then secure strategic partners to support the acceleration of the Group fintech. We have always positioned that in some of the platforms we will seek partners to help accelerate the growth and to better manage those businesses in the form of those platforms. So quite a lot of focus and attention from us as a management team around that.

Obviously we've delivered R15 billion of the R25 billion on the ARP. We have still got some way to go. We are looking forward to progressing with the Nigeria sell down series 2 in the course of this year. And obviously we would want to see the series 1 cash come up. But executing on the localisations remains a focus for us. And then the exit of Afghanistan done orderly is also a priority for us.

The networks remain the bedrock and foundation of the company, so we're putting a full investment profile of R34 billion. We will be within the capex intensity range that Tsholo spoke about, 15% to 18% over time. Capital is well invested and efficiently invested to deliver the returns. Obviously we still have a set of complex litigations in the Middle East in Afghanistan that we're dealing with and Turkcell, so we will be working around those.

And then finally, our ESG initiatives and priorities, to bed those down and actually take on progress. This is the list of our priorities which we will report back on progress at the half year. Suffice to say that these priorities are pretty much similar to the ones we had in the prior year, so we are trying to drive momentum and doing the same things that we've done and not throwing our strategy around too much.

Just in conclusion, I just wanted to leave you as the audience, investors and stakeholders with six key points. The first is that in the year under review we've seen very strong operational execution and sustained commercial momentum. That translates into the base growth that we've seen and into the financials including return improvements both at an equity level as well as cash flow level. The business now has a lot of financial flexibility if you look at where the Holdco leverage is.

But we are maintaining the liquidity headroom to be able to take advantage of the opportunities to invest in growth, but also to be able to withstand shock in this current geopolitical context where there is a lot of uncertainty still. But we are pleased with the shift in the debt mix as well as the fact that we now have predominantly ZAR debt at the centre.

Progress in ARP and portfolio transformation has been made in the year. We still have quite a bit to do. As I mentioned, the focus on fintech and growing that ecosystem out is something that we're very focused on. Creating shared value, driving further our ESG work, as well as the localisation has been something that we've been focused on, and we're very happy with the progress.

The final point linked to my earlier statements about the enhanced guidance is we are seeing growth, and we think that that growth is structural. We are going to invest into that growth and deliver improving returns for shareholders. Hence we are enhancing the guidance from FY2022 as I communicated at the start of my presentation.

Just to remind investors of what we see ourselves as MTN. We see ourselves as a compelling Africa growth story. We see tremendous amounts of growth both in data and fintech and more broadly across the company. So we believe the investment case for MTN remains intact, a unique company that is able to deliver growth on the digital and financial acceleration that we're seeing across our continent. So with that I just want to thank you all for listening intently to myself and Tsholo for over an hour. We will just invite Thato to manage the Q&A that you may have. I'll ask Tsholo to join me on the stage.

Thato Motlanthe

Thanks very much, Ralph and Tsholo, for the presentation. Maybe we'll just start the questions with your final point on your six points. It's really just some clarity around the growth guidance. You have upgraded your Group revenue growth guidance. How much is that due to the Nigeria outlook versus the other markets? Maybe that's the first question.

And then the second question is on Nigeria. Can you give us your assessment of the availability of USD in the Nigerian market and how it's impacting on repatriation? Maybe you can just add in the average rate that cash was upstreamed from Nigeria.

Ralph Mupita

The average rate I will leave to Tsholo. She will remember all those numbers. On the first question around the outlook, Nigeria is obviously material. It's a third of the Group. So when we enhance guidance and all things stay the same, you would enhance guidance for the Group. But we did enhance guidance for Ghana as well. As I said, we are seeing structural trends throughout our portfolio of rising demand for data and fintech services. So it's not only Nigeria. It is a material point. Ghana is another material point. But we're seeing it broad based.

The market where our guidance remains largely intact will be South Africa. And that is why we have not touched South Africa. Think of it as 4% to 6%. I don't anticipate that we will be above 6% this year, to be clear to investors. But we will be within the corridor of the 4% to 6% in terms of South Africa.

Coming to the point of liquidity, hard currency liquidity, in Nigeria we took the dollars as and when we were able to get them under the CBN structures that we are able to repatriate. I would argue that nothing has changed materially from the half year. Our team go to the window and they get $10 million or $15 million. That's how we've been able to get it. Last year we had R7.8 billion coming out. And post the year-end we have R500 million.

We anticipate that series 1 outside of any shocks we should be able to clear that in the first half of this year. We want to commit to series 2 in Nigeria only when we have money out from series 1. We wouldn't be committing to series 2 and having more cash trapped in Nigeria. So we are still able to get dollars. Obviously, the team are getting dollars and using LCs for their capex programme. Tsholo, on the average exchange rate?

Tsholo Molefe

We externalised at an average of about ₦480. And I think it's very important to understand that there is a premium and the size of the externalisation is also a factor. If you think about the fact that we've been able to upstream R7.8 billion including about R430 million post December, it is quite a large size. So we're quite happy that we've been able to clear all the outstanding dividends from 2019.

Thato Motlanthe

Thanks Ralph and Tsholo. Maybe just the next two questions to do with fintech. What form might fintech strategic partnerships look like, and on what criteria do you assess partners? That's the first question. And then the second one is a point of clarity. Can you elaborate on the nature of the fintech revenues earned in South Africa versus your other main markets, if there is indeed such a difference?

Ralph Mupita

On the partnership point, as I mentioned what we are looking for are strategic partners that can help us accelerate. What you've got to think about is we have five verticals within the Group fintech. And each of them potentially requires different partners to drive the acceleration. We did show in the slide some of the partnership we've made to drive the acceleration.

For example, we said we think we can grow faster by partnering Sanlam on insurtech. Subject to regulatory approvals they are a strategic partner who can help accelerate. We're not saying that they will be a strategic partner necessarily in the Group fintech, but you need to think of the ecosystem of the verticals and companies that are able to.

We are very focused on strategic partners to expand. We are not looking for financial investment, to be clear. We have the capex to drive our own growth. But we believe partnership is the right model to drive those. So the simple way to think about the strategic partners that we are looking for is the ones that are able to help us grow the verticals or a couple of the verticals faster than we would ourselves. That's the way to think about it. Any capital that comes with that process actually is a secondary consideration.

The primary consideration is the partnership model to scale the verticals. Obviously South Africa is a very different fintech market. In South Africa we need to work with bank partners. We don't have e-licence regimes or PSB-type regimes. So ours is to work with bank partners to focus actually on what we call a proposition of better and safer than cash. So we're not trying to compete with the banks in South Africa. We're actually trying to deliver financial inclusion in largely informal markets.

So the business is right now very nascent, and I think it's a business that we think over the medium term can have monthly active users somewhere between 4 million and 5 million. So it is very nascent right now, but it will add to the portfolio over time. South Africa is a very different proposition to what we have in Ghana and potentially what we're going to have with the PSB subject to regulatory approvals.

Thato Motlanthe

Thanks Ralph. Then maybe two questions on Iran. Can you please comment on what drove the performance in Iran and your expectations for the coming year or two? And then the second one is how much do you have stuck there in terms of receivables? I think we disclosed that at R3.4 billion. What is your strategy in terms of how you look at repatriating that money?

Ralph Mupita

Maybe to start with the second question first, obviously with the sanctions regime being in place for our own sanctions compliance and management of sanctions risk we have left that money trapped in Iran and actually provide it as loans to the company. So if the JCPOA deal is struck it obviously changes the situation where we would be able to repatriate capital. But until such time that cash and the dividends that we are declaring are remaining trapped within that environment. Any movement on the nuclear deal and incorporation of Iran into the global system will obviously be positive.

In terms of the performance of the business I think the core connectivity business remains a market leader, particularly around data services. So we've been investing in expanding that network. Actually we have more traffic going through into that business than in Nigeria, as an example. So it's a very big and strong network supporting 50 million subscribers. The core connectivity business is growing strongly.

What is actually pleasing in Iran is the Snapp business, the so-called Uber of Iran. They have got 3 million daily rides in Snapp. Snapp Foods is delivering 250,000 per day, Snapp Delivery another 200,000 plus a day. So the ecosystem effect of the Snapp business is actually very impressive. But Iran is trapped in this particular structure right now because of the JCPOA it is a ring-fenced market. But very pleasing growth in that business on the back of its own network expansion. 4G services and the smartphone penetration in that market is probably across all our markets leading.

It is well over 80% smartphone penetration within that market. So the business has been well invested and remains very strong.

Thato Motlanthe

Thanks Ralph. A couple of questions for Tsholo. The first one is on capex. Is the head office capex guidance increase to fund fintech growth? And if so, should we expect this to rise further in the coming years? And the second one is just around US dollar debt deleveraging. I think you did touch on it. Do you intend to repay bonds as they mature or possibly through tender?

Tsholo Molefe

So maybe starting with that one, our intention is to faster deleverage the balance sheet as we indicated. So we would like to see the two remaining Eurobonds, 2024 and 2026, reducing to a de minimis balance. So it will be subject to market conditions. We will obviously assess how the market reacts depending on what we have, and we intend to start the process this year based on market conditions. I think that's our focus in terms of the Eurobonds. And then the other question was on? The first one.

Thato Motlanthe

The other question was on capex, the increase in head office capex.

Tsholo Molefe

Whether it has to do with fintech. No, obviously at this point in time fintech has not been removed completely. But as you have seen, the fintech business capex is currently only about R200 million. And as we structurally separate it, the fintech business will be a separate entity – which is the work that we are doing now. And you will have seen that it has grown from R80 million last year to R200 million. So it is essentially within the 24% that I spoke about earlier on in terms of 24% of the total capital expenditure.

Thato Motlanthe

Thanks Tsholo. Then a question on South Africa. I think this is for you, Ralph. Kindly provide some colour on the strong performance in EBU in SA. Are you making any progress on gaining a greater share of the RT15 tender?

Ralph Mupita

To Wanda and his team, the whole MTN South Africa team, a tremendous performance. This performance we're seeing now has this genesis of multi years where we did reposition the business from being ICT-centric actually to being connectivity-centric with ICT on top. That's the work that Wanda and the team have done very well over the last couple of years.

So we have been gaining share in the market firstly in the private sector, the SMME space, and then the large multinationals. We've been able to get share there. And the RT15 contract came into effect last year, and we think we're getting a reasonable share. So that is supporting the growth, but it is not only driven by the RT15. It has to do with the multi-year work that we've been seeing. I even forget if it is nine consecutive quarters of strong growth from that business, but it was indeed growth. So it's sustained performance, getting the proposition right. And for sure the RT15 is helping, but it's not the only driver of growth.

Thato Motlanthe
Thanks Ralph. I'm just going to take a moment, Tsholo and Ralph, to turn around to see if any of our in-person guests have any questions just by show of hands. I won't let it hang for too long. Just wait for a roaming mic if you will.

Ralph Mupita
It's the first time we've had shareholders in the room for two years. It's exciting.

Rajay Ambekar
It's good to see everyone in person again. Thanks team, and congrats on the good set of results. Can you just explain the R3 dividend? I know the minimum guidance was R2.60. How did you get to R3 then? And how is the R3.30 calculated? How should we think about it?

Ralph Mupita
Tsholo will top and tail. As we say, we guided R2.60 because we thought that in reasonable stress scenario – last year remember there were three stress scenarios we were concerned about. One is COVID uncertainties. We had the Delta variant then and we weren't sure how that would impact the markets. The second uncertainty was cash upstreaming from Nigeria. The third is progress with ARP.

All three of those uncertainties have diminished somewhat but have not completely disappeared. We don't know where the next variant will come from and what impact it will have. COVID is not over yet. If you look at Africa you've only got 11% vaccination rates. So we have to assume we can be surprised on the COVID side of markets potentially closing, so we need to have the buffer for that.

The second point is obviously cash upstreaming. We made good progress, but as I mentioned, even into the beginning of this year we're seeing a similar profile where it isn't that the taps have opened on dollar liquidity. So we also need to be circumspect around that. Then obviously the ARP is a function of how we're able to execute particularly around IHS. The IHS share price is very depressed. We are not sellers at the next windows. And if it stays depressed for another year, we will remain with our shareholding and not sell.

So on the basis of those uncertainties and the cash that we have at the Group, and having run reasonable shock scenarios, the 300 cents per share made sense to us. And at 330 cents again we were able to do shock scenarios that say we back ourselves to be able to deliver this in reasonable shock scenarios.

But I want to come back to the point that I started with. How best do we allocate capital that the shareholders have given us? As we look at capital allocation priorities, the best investment for a dollar of capital we believe as MTN Group is to invest it in the growth that we're seeing that is structurally higher. We are able to invest that and get a better return.

The second batting order – and we need to make sure that we have resource for that – is to Tsholo's point. We want to really improve the financial risk profile of the Group balance sheet. The dollar debt that sits there is there, but Tsholo and I would like to have none of it. We put that as priority number two from a capital allocation. So when we play the risk scenarios of what can and may not happen, as well as where we should be deploying capital, the 300 cents and 330 cents made sense to us. In reasonable shock stress scenarios we would be able to live with that.

That's why we say it's a minimum of. If we ever have a super fantastic year of cash upstreaming and all of that, we've committed that the last capital allocation priority we would invoke that, which is our willingness to pay specials. But the uncertainties are still with us and the world is not a super certain place at the moment. And we must run our business responsibly. So we think the 300 cents and 330 cents makes sense in current market conditions. Tsholo.

Tsholo Molefe
I think you've covered everything, Ralph.

Ralph Mupita
Did you not want to pay higher?

Tsholo Molefe
I think I'm a lot more conservative.

Ralph Mupita
She is more conservative than I am.

Rajay Ambekar
Thanks. Can I just jump in with one more? On capital structure now, net debt at the Holdco is now down to 1x and you're looking to pay down all the dollar debt. Does that mean you deleverage completely and MTN ends up in some sort of net cash or ultimate cash position? How should we think about the debt levels within the Group?

Tsholo Molefe
I suppose firstly I think important that we emphasise that we will remain at the guidance at 1.5x. It is important that we keep the financial flexibility. And I think to Ralph's point around capital allocation, we still have a business that's growing. So we want to make sure that we support the business from a growth perspective. Obviously there are a number of issues from a risk perspective that Ralph mentioned around ability to be able to upstream from markets. So those are the things we are thinking about. Certainly the US dollar debt we would like to extinguish as much as possible because it does have some risk from an interest rate and forex losses perspective. So the more we can actually reduce it, we increase the rand-denominated debt better. But we do take into account that we are still in a growth phase.

Rajay Ambekar
Thanks.

Thato Motlanthe
I'm just checking if there are any more questions at the back there.

Roy Mutooni
Thanks a lot for the opportunity. My name is Roy Mutooni from Absa. Just on the PSB licence, maybe if you could just give us a little bit of a rundown on expected milestones or the timeline towards full approval. And also is it a big leap from where your current business there is with regards to capex and operationalising?

Ralph Mupita

I've got Serigne in the room who could give you a better answer than I can. But suffice to say we have the approval in principle, and that requires us to interact with the CBN and meet certain conditions. We are meeting those conditions and are quite far progressed. The timeline for moving from AIP to a full licence or nothing else, that is subject to the CBN.

So there is no specific timeline that they work to which says we will complete an AIP process by time X. It's not like when the Competition Commission says a merger we will do by 60 days. Here there isn't a specific timeline towards that. But we have engaged since November quite extensively, and from our side there is nothing outstanding as we sit.

To your point, trying to answer it in short, the PSB is very different from the super-agent licence because we effectively then become a payment services bank. So the float and the wallet economics are with us as the PSB banking structure as opposed to right now our super-agent licence. We are an agent and the float would remain always with the banking partners that we have. So the economics of the two businesses are actually quite fundamentally different. But I'm looking at Thato here who is saying I mustn't give a thesis here.

I think what we are encouraged with is that we have already grown our distribution and got our agents used to taking naira as part of that whole process of them taking naira and giving airtime. So that kind of engagement of our distribution channel is well advanced. And you saw the acceleration particularly in Q4 where we have nine million MoMo subscribers in Nigeria. That's under the super-agent licence regime. PSB licence regime has got obviously much better economics for us. We await the CBN to give us confirmation, but there isn't a timeline that they work to.

Mudiwa Gavaza

Hello. Hi Ralph. Hi Tsholo. Just a quick question. By the way, I'm Mudiwa Gavaza, Business Day Financial Mail. Because you guys are building platform businesses as part of the evolution of the business etc. I wanted to check because as a mobile operator you guys have always had the advantage of being a very cash and liquid business. How are you guys thinking about, if at all, subscription? Simply because a lot of platform businesses are trying to move towards software as a business, some type of annuity revenue, some type of subscription type of model. How are you thinking, if at all, or are you okay with remaining as a cash type of operation?

Ralph Mupita

I think the structure of our markets, Mudiwa, you can do a Netflix subscription and you're going to pay $6 to $8 because you have the money. Our business is largely a prepaid business and we're dealing with customers who have limited amounts that they can spend on communication services. As a data point, if you are in the US a telecommunications customer is spending $40 to $50 ARPU. And we are dealing with $3 to $4, maybe up to $5. So our customers are more financially constrained. So we need to deliver services in much smaller sachets than you would in developed markets.

So from a platform perspective we see connectivity as a platform. I think 5G evolution will turn connectivity absolutely into a platform. Fintech is a platform. The other one that we've spoken about – and you haven't asked questions about it, which I'm surprised – is what we're doing around our FibreCo. That we see as a platform that evolves over time into an open access model as you need the levels of investment to meet the data traffic demands that will come with 4G and 5G evolution and so forth.

So where we are super focused right now is connectivity, fintech and InfraCo. We have a lot of digital services, but our desire is not to develop the content. It's very expensive to do that. We leave it to others. We can curate it and take a margin off that. But that's not going to be a big part of our revenue going forward. Think of the growth of the company being core connectivity, fintech and then the InfraCo, the FibreCo business which we said has progressed very well in terms of its own expansion in the last year.

Thato Motlanthe

Okay. I think we can have the last question. Jay, did you have a question?

Ralph Mupita

You can shout. We can hear you.

Thato Motlanthe

We need it for the broadcast.

Rajay Ambekar

Maybe just on Ethiopia and any plans to re-explore the third licence there.

Ralph Mupita

No, for now you heard us talk about capital allocation constraints and you saw our batting order. The last time there we looked at it and walked away because we couldn't see our way in terms of the financial investment. We've got our hands full right now, and I think we might be spreading ourselves too thinly at the moment. If the licence comes, we will have a look at it. But it's not right up there in our batting order. There is a lot that we have. We only have 24 hours in a day and only R34 billion of capex. Tsholo's balance sheet has only got R20 billion of cash. So right now we have other irons in the fire.

Rajay Ambekar

Perfect. Thanks.

Thato Motlanthe

Thank you very much. I think we've come to the end of our time. I don't know if you've got any closing remarks, Ralph.

Ralph Mupita

Just to thank everybody who has dialled in. It's lovely to see shareholders actually at 14th Avenue for the first time in two years. We just want to thank you for your support over what has been a challenging time. And we trust that the delivery that we have made in the last year satisfies you. We continue to be very focused on taking advantage of the growth opportunities that we see in the market. Thanks very much.

END OF TRANSCRIPT