MTN Group

Transcript of call on Q3 2022 trading update

4 November 2022

Operator

Good day, ladies and gentlemen, and welcome to the MTN Group trading update. All participants will be in listen-only mode. There will be an opportunity to ask questions later during the conference. If you should need assistance during the call, please signal an operator by pressing * 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, and good day to everyone, and thank you very much for taking the time to dial in to discuss MTN Group's trading update for the quarter ended September 2022. My name is Thato Motlanthe, Head of Group Investor Relations, and on the call with me is Ralph Mupita, our Group CEO, as well as Tsholo Molefe, Group CFO. Also joining us on the call is Charles Molapisi, who is the CEO of MTN South Africa, as well as Dineo Molefe, who is the CFO of MTN South Africa, as well as Serigne Dioum, who is the CEO of MTN Group Fintech.

A reminder that our trading update was published this morning on the JSE. And it is posted on our website on the investor relations page. I trust that you have all seen the Q3 releases from our listed Opcos in Nigeria, Ghana, Uganda, and Rwanda, which are part of our regular reporting. They reported over the past week. They published results and their investor calls over the past few days.

For today's call it is my pleasure to hand over to Ralph and Tsholo who will provide an overview of the business as well as the financial performance, and then give you some outlook remarks. We can then open the lines for Q&A, which will be facilitated by the operator. Finally, just to note that this call is scheduled to wrap up in about an hour's time. We might spill over a little bit. We've got a lot to get through. But on that note, let me hand over to Ralph.

Ralph Mupita

Thank you very much, Thato, and a very good afternoon from me as well. I trust that everybody's keeping well. We appreciate you taking time to join us on this call. If you've had a chance to go through what we think is a comprehensive trading update SENS that we published earlier this morning, and if you read it fully, you'll see that it's been quite a busy quarter for us here at the MTN Group. After our trading update, we remain encouraged by the resilience of the group as we delivered solid operating and financial performance across our markets under very difficult macroeconomic, geopolitical, and regulatory conditions.

We are however pleased with the continued robust growth in data traffic and fintech transaction volumes, bearing testament to the structurally higher demand for data and fintech services in our markets being sustained during this challenging period.

Operationally, the Group has delivered solid results for the nine months ended 30 September 2022, in line with our medium-term targets with double-digit service revenue growth in constant currency terms. We maintained positive operating leverage in the period with an improvement of the EBITDA margin supported by our expense efficiency programme. The Holdco leverage improved slightly, remaining well within guidance.

We continued with the progress on cash streaming and repatriated a total of R1.5 billion from Nigeria post the quarter-end at an average exchange of approximately ₦560 to the dollar. Tsholo will update further on the cash upstreaming in the period.

Over the course of this call, we will unpack our performance covering five broad themes, starting with how we are **navigating through the difficult trading conditions**.

The **solid financial and operating performance** recorded will be the second theme that I'll cover. Thirdly, an update on a few of our **strategic priorities**. At that point, I'll hand over to Tsholo to talk you through the fourth and fifth themes, which is **unpacking the financials** and our **financial resilience** respectively. That will include some details on the financial performance, covering the key markets and regions. After that, I'll come back to wrap up with **outlook** and any concluding remarks.

So, starting off with **navigating the difficult trading environment**. Most of you will be aware of the global developments over the past few months and quarters that have created a more challenging operating environment across our markets. Inflationary trends in particular have continued to put pressure on consumers and our business during the period. To give you some colour, the blended inflation rates in MTN markets rose to 15.3% by end-September 2022, and this compares to 9.1% at the start of this year, so an increase of more than six percentage points year to date.

We've also had some supply chain disruptions, compounded by the weakening of local currencies and limited availability of dollars in many markets. Our regulatory environments have also been challenging. There is ongoing implementation of SIM registration regulations affecting some of our key markets, as well as the e-taxes and levies in some of our key fintech markets that have slowed the momentum of revenue growth in the short term.

I'm sure you all have heard Karl and Selorm talk you through some of these issues in their calls for Nigeria and Ghana respectively. At our interim results, you may recall that I spoke about the key initiatives we're executing on to mitigate some of the risks and impacts of our trading environment. These interventions include selective price reviews to help sustain our commercial momentum in the current inflationary environment. There are a number of noteworthy markets such as South Africa, Nigeria, Ghana, Uganda, and Côte d'Ivoire where we are engaged with regulators in this regard. This is supported by our CVM efforts, which are designed to also optimise effective tariffs achieved as well as managing churn.

We have programmes in place to mitigate these risks to our supply chain, and the disruptions we're seeing globally. We rely on our scale and partner relations to ensure rolling coverage for critical spares that sustain our networks and operations. We are engaged with some key suppliers on changing price books to local currency, rather than USD- or euro-based pricing. We are impressing on the suppliers that this is critical for longer-term ability to invest sufficiently in our networks and platform. So, it's good for us and also good for them.

We've also accelerated capex in key markets in areas with an aim to support growth, as well as manage supply chain and foreign currency risks. We are managing the effects of energy costs and currency fluctuations on our network proactively with our tower companies. We are in discussions in markets like Nigeria, Rwanda, Ghana, Uganda, South Africa, Cameroon, Côte d'Ivoire, and Zambia to renegotiate some of our tower agreements, focused on power and mix of local currency and hard currency elements through unit prices. Our focus is to ensure terms provide some protection to the business from the impact of inflation and foreign currency volatility going forward.

In South Africa, specifically, our second largest market, the unprecedented levels of loadshedding have negatively impacted the overall network availability and some business functions. However, we've made good progress in the implementation of our network resilience plan, which we expect to mitigate the impact of persistent power cuts in the country. I have Charles Molapisi online as well, so you can ask him questions as to how he's making progress with regards to loadshedding.

Moving on to the expense efficiency programme and working capital initiatives. These are being progressed well and help to cushion the effects of elevated inflation on our business and safeguarding cash flows. This underpins the ongoing work to strengthen our financial resilience which Tsholo will talk to. So that's a high-level overview of our macro and trading environment and how we are managing the business within that context.

The second theme is a **solid financial and operating performance** delivered in Q3 in challenging trading conditions. We have been encouraged by our sustained commercial momentum and solid execution across our market with disciplined cost control. And this has been underpinned by the structurally higher demand received for our data and fintech services. On Group service revenue, as you will have seen, that was up 14.3% in constant currency with sustained operating leverage which saw our EBITDA up by 14.7%, with a slight margin improvement of 0.3 percentage points to 45.3%.

This performance was in line with our medium-term targets and supported, as I mentioned earlier on, by the disciplined cost control. Again, Tsholo will unpack this a little bit later. But you will have seen from our SENS and reports in the past week the resilient performance from MTN SA as well as strong results reported by Nigeria and Ghana. I'm very pleased to see MTN SA growing subscriber market share, and Charles and Dineo are on the call, as I said, and can provide you with more colour on where the growth is coming from and how that will deliver value over time.

In our commercial trends, overall subscribers grew 6.8% year on year to reach just shy of 285 million subscribers. This was good growth despite the increased technical churn in MTN Nigeria brought about by the new SIM regulations. It was mitigated by the acceleration of gross connections in the market as we ramped up the capacity to manage SIM registrations and NIN enrolments. We anticipate the moderation in churn in Q4 with a recovery in the MTN Nigeria subscriber base.

Growth in data traffic and fintech transaction volumes continued to be robust, demonstrating the point we've made around the structurally high demand for our services across our markets. Active data subscribers increased just slightly under 15% year on year to over 135 million, and data traffic was up 39.7%. And within that traffic mix, South Africa's traffic was up 36%, MTN Nigeria up 71% and Ghana up around 28%. So, we continue to invest in the capacity and coverage of our networks to drive this growth.

In the third theme of **strategic priorities**, I just want to start by reflecting on the development of our fintech business, which links to our commercial performance. The top line growth of fintech was 12.9% in constant currency, where the momentum is facing some short-term headwinds we have spoken about before. The introduction of new taxes and levies are slowing down revenue growth in some key markets such as Ghana, Benin, and Cameroon. In addition, we've seen some aggressive price competition in Côte d'Ivoire.

Unpacking some of these and starting with Ghana, the largest MoMo market in our footprint, the introduction of the e-levy in the market and a 25% tactical reduction in P2P fees to cushion the impact puts pressure on top-line growth. But we are encouraged by the recovery in the trends where fintech revenue grew by approximately 7% year on year in Q3, after declining 4.4% in Q2 in that market. This was supported by a good momentum in the ecosystem KPIs, with active users up 16%, transaction volumes up 57%. And this corroborates the impact of the interventions that we've put in place in that market.

In Côte d'Ivoire, the decline in service revenue we've spoken about over the past year or so was impacted by intense competition which saw us having to reduce P2P pricing as well as for withdrawals. We are encouraged by the notable active user growth just under 24% for the nine months, and the ongoing recovery in transaction volumes which have increased by 113% in Q3. Based on this trajectory we are seeing, we anticipate that our fintech service revenue should return to positive growth by the end of the quarter. Excluding MTN Ghana and Côte d'Ivoire, impacted by the issues that I mentioned, fintech revenue growth was actually up 21.4% in the rest of the portfolio.

In MTN Nigeria, the MoMo PSB business is key to our fintech growth ambitions. It continued to gain traction with strong growth in the registered wallet base, which more than doubled to 9.9 million, demonstrating good underlying momentum. We saw a bit of short-term pressure on active wallets in Q3 as we focused on enhancing control systems to enable MoMo PSB to reopen the NIBSS interface. We expect them to reopen in Q4 of this year, which will boost active wallet growth and activity levels in Nigeria.

Eli Hini, who has been the CEO of our fintech business in Ghana, has just been appointed CEO designate for MoMo PSB in Nigeria, and brings a lot of experience with basic and advanced services that will support the expansion and scaling of this business. It is also worth noting the performance of MTN Uganda's fintech business, our second largest MoMo market by service revenue. Transaction volumes there increased by 30.7% with a focus on advanced services.

Just talking about the Uganda fintech business, as I mentioned, the transaction volumes have increased by 30.7%, with a focus on advanced services, and we've seen a growth in active users of 19%. And this has helped to drive revenue growth to 23.4%. So, we're particularly pleased with this outcome, which was delivered despite a new entrant coming into the market.

So, we are seeing that our fintech strategy is effective and resilient despite increased regulatory and competition. If we look at the overall picture, our MoMo users grew by 23.3% to 63 million. The number of transactions through our fintech platform increased by 32.7% to 9.5 billion. The number of active MoMo agents and merchants rose by 27.4% and 64.4% respectively, both to over one million each. Those are the trends in our ecosystem that make us excited about the strength and growth of our fintech business, and our priority to drive financial inclusion in our markets.

In terms of other initiatives, our JV with Sanlam reached a significant milestone when it closed on the first of this month, following the performance of all conditions precedent, as well as competition and regulatory approvals across all the markets we operate in. We are also broadly on track with the managed separation of our fintech business and we are in the second phase of engagements towards binding offers from potential strategic investors into the Group fintech business.

You may also have seen that we have sent today a 'save the date' for a capital markets day on 6 December where we will provide an update on not just our fintech business but our ESG across our business.

Briefly on MTN Global Connect, this is also progressing well as we scale fixed connectivity and also mobility services across our continent. We rolled out approximately 5 000 kilometres of additional fibre, taking our overall tally to 105 000 kilometres as of the end of September 2022. So, we are well on our way to our target of establishing 135 000 kilometres of fibre across our markets by 2025.

We are working on having the separation of the fibre business by the end of next year. Within the context of Global Connect, we're also looking to create a data centre company, or DC-Co, that will house our major data centres. We will seek a strategic and financial partner for scale and experience of managing large data centres within the DC-Co, and we'll provide more update on that in Q1 of next year.

A very brief update on our portfolio transformation. As part of our orderly exit of the Middle East and pan-Africa focus, we have now entered into agreements with M1 for acquisition of the MTN Afghanistan shares that will see us exit the market in an orderly manner. The binding offer is for gross proceeds of US$35 million, and the transaction is subject to various conditions precedent, including the conclusion of a contingent agreements and regulatory approvals. We should close the transaction in early 2023.

Finally, on 19 October 2022, we updated the market that our discussions had been terminated regarding a proposed acquisition of the entire share capital of Telkom for shares or shares and cash. The discussions were terminated, as we communicated, as we were not able to align with the counterparty on the way forward for the potential transaction. We are obviously disappointed that we could not progress, but we are highly convinced that this transaction would have created compelling value for all stakeholders in an industry that is consolidating and will require scale to deliver returns above what is now a rising cost of capital.

Perhaps on this note it is worth providing some high-level colour on how we think about our MTN SA strategy, particularly 'own the home'. This is underpinned by our MTN SA business leveraging 4G fixed LTE, Tarana Air Fibre, 5G fixed wireless access and fibre to the home. In other words, acceleration in the segment will be driven by leveraging both fixed wireless access and fibre to the home technology, and MTN SA will thus continue to invest in both technologies to advance its 'own the home' strategy. Charles is on the call, as I mentioned, and can take questions that you may have around this home strategy.

Overall, we believe that MTN SA remains very well positioned to capture growth in the consumer, enterprise and wholesale markets and deliver on its medium-term guidance.

At this point, let me hand over to Tsholo, and I'll come back at the end to make some concluding remarks.

Tsholo Molefe

Thank you. Ralph, and good afternoon to everybody. I have the pleasure of taking you through some **key financial highlights** for the period. Ralph gave you some of the headline numbers, which I think is important to reiterate that these results were delivered against ongoing challenging trading conditions. So, continuing with our theme for this call, I will now cover our financial performance in a little bit more detail. And as usual, I will refer to constant currency trends.

Just to briefly recap the group performance: service revenue grew by 14.3% and EBITDA by 14.7%, again, in a very tough trading environment, with a margin improvement of 0.3 percentage points to 45.3% really underpinned by the expense efficiency programme. With Nigeria and Ghana having already provided comprehensive reports of their performance, as we indicated, they grew service revenue by approximately 20.7% as well as 28.3% respectively, with healthy EBITDA margin development in both markets.

It is worth highlighting some of the detail from MTN South Africa, which is our second-largest market. MTN SA recorded service revenue growth of 3.5% with a resilient quarterly growth rate of 2.2% year on year. Given the pressures in the trading environment and loadshedding experienced, we have been pleased with the resilience that the market has shown, delivering solid performance in this period. The results were underpinned mainly by growth in data of 13.5% on the back of increased data traffic.

In the consumer business unit, as anticipated, the consumer prepaid business remained strained with service revenue growth of 0.4% year on year, and this was down 1.2% for Q3 year on year as consumers felt the impact of economic pressures and job losses. This was further exacerbated by the persistent loadshedding which has really had a significant impact on the voice growth in particular.

Postpaid service revenue grew by 4.2% year on year, and by 2.6% for the quarter on an increased uptake in data-oriented packages. This growth was delivered despite deteriorating consumer spending and credit conditions in the market.

The enterprise business delivered another strong performance, service revenue growing at 19.7%, really underpinned by robust growth in the core mobile business from strong data product propositions.

Wholesale revenue increased by 0.7%, underpinned by the national roaming deals with Cell C and Telkom. You will have seen the announcement in September 2022 that Cell C concluded its recapitalisation. The performance of wholesale and MTN SA were more broadly impacted by concessions to support the Cell C recapitalisation and help the sustainability of that business. The term of these concessions are obviously confidential and not disclosed.

You may have picked up in the SENS an amount of R82 million that may have been confusing. This amount is actually the quantum of outstanding national roaming revenue due from Cell C that were previously referred to as unrecognised revenue under the cash basis of accounting. As we have communicated in the past, the recapitalisation will significantly improve Cell C's financial position. Therefore, based on the recapitalisation and Cell C's improved payment profile, MTN SA has assessed that it is now appropriate to recognise revenue from roaming services on an accrual basis of accounting. BTS rental revenue from Cell C will, however, remain on a cash basis of accounting for now.

The national roaming agreement with Telkom, aligned with the Group's work to monetise investment in networks, took effect on the 1st of November 2021. Off a low base, it has gained traction in the nine months to September this year, increasing its contribution to revenue and scaling steadily. MTN SA has sustained is EBITDA by 0.7% and demonstrating its resilience as supported by commercial execution and continuous cost efficiencies.

The EBITDA margin contracted by 1.4 percentage points to 40.2%, which includes the once-off gain on disposal of the SA towers. If we exclude this gain effect, the underlying EBITDA margin would have been 39.5%, which is down 2.1 percentage points. This is within our target of 39% to 42% EBITDA margin corridor, which is encouraging, impacted by higher cost of sales from device sales as well as increased opex associated with network resilience interventions.

Just briefly on the regional performance, you will have noticed that growth was quite healthy as well. All regions delivered double-digit top-line growth, with the SEA region up by 10.9%, WECA up 12.8%, and MENA growing by 63.3%. The latter excludes MTN Irancell, which we equity account for. That Opco grew service revenue by 35.1%.

EBITDA margins across regions were resilient in the context of the sharp increase in inflation in most of our markets and the economic pressure on consumers. This has been supported by our Group-wide expense efficiency programme, which I will speak about later on. Ralph has also covered some of the detail in our fintech performance where revenue growth was 12.9%.

I will just reiterate that we are encouraged by the ecosystem development, which builds the foundation for revenue growth over the medium term, especially as we drive advanced services, as we focus on growing our banktech, payments and e-commerce, remittances as well as the JV insurtech verticals. Because of the solid user and usage growth, coupled with the effect of price reductions, which are expected to be lapped in the fourth quarter, we anticipate that fintech revenue should start returning to growth by the end of the last quarter of 2022.

Very quickly on corporate capex, before I talk about our balance sheet: we've capitalised R23.8 billion in the last nine months, ensuring that we sustain our second-to-none network and technology platforms while prioritising the coverage and capacity of our 4G networks and the rollout of our 5G sites. This is key in supporting the growth and our overall 2025 ambition, as we continue to note that the demand for data is sustained at structurally higher levels.

Turning to fifth theme, the momentum in our **financial resilience** initiatives is firmly entrenched and we are accelerating our expense efficiency programme with a continued focus on savings in our network, IT, sales as well as distribution costs. In the third quarter, we realised efficiencies of R930 million across the Group, bringing a total of a year-to-date R2.8 billion in savings. We continued with our efforts as well to optimise working capital. And in terms of these initiatives, we concluded an agreement to sell a part of the MTN SA device receivables book to a commercial bank in October 2022, enabling us to release R1 billion in cash.

Our balance sheet is very resilient with a healthy liquidity position. At a consolidated Group level, our net-debt-to-EBITDA ratio was 0.5x as at September 2022, versus 0.4x at June 2022 which remained comfortably within our covenants. Holdco leverage remained stable at 30th September since June 2022 at 0.8x, well below our medium-term guidance. We are pleased that in September 2022, we also executed on liability management of our 2024 maturity eurobonds and early-settled a US$300 million in non-rand debt from the existing US dollar cash balances.

In addition, we raised R2.6 billion of long-term rand-denominated bonds in South Africa with a domestic medium-term note bond auction. In the past week we also completed the update of the DMTN programme for the latest JSE listing requirements and regulatory updates and increased the programme size to R35 billion from R20 billion. So overall, these interventions helped to further advance our balance sheet strategy with a focus on reducing non-rand debt and mitigating refinancing risk by smoothing and lengthening our debt maturity profile.

To update you on our upstreaming progress, we managed to repatriate dividends and management fees amounting to a total of R2.1 billion from our operating companies in the third quarter, specifically, bringing the year-to-date total to R11.5 billion as at the end of September. While no cash was upstreamed from Nigeria during the last quarter, we did receive R1.5 billion of cash from Nigeria post these results at an average rate of around ₦560 to the dollar, as Ralph mentioned earlier, post the period end, which then brings the total year-to-date cash upstreamed from Nigeria to now R6 billion. So, I'm pleased with the progress that we've made so far, and really remain confident that we are well positioned to maintain our financial resilience given the challenging operating environment across our markets. At this point, I will then hand over to Ralph.

Ralph Mupita

Thanks so much, Tsholo. So, let me make a few concluding remarks. The first point is that we're encouraged by the resilience of a business with a solid performance in a very difficult macro backdrop that I think you're all familiar with.

I think the second point is that given the inflationary environment in most of our markets, we will continue to execute on our initiatives to mitigate the impacts on the business. I did go through some of the detail. As I mentioned, we have got very clear plans that are under the buckets of commercial, supply chain, network resilience, and then power management being the other part.

For South Africa, as I said, I'm very pleased to see South Africa gaining subscriber market share. The business is growing very solidly in the enterprise space. We've made some concessions, which as Tsholo said are obviously confidential. But they are obviously material to help support Cell C's recapitalisation.

The consumer postpaid is relatively resilient, but there is obviously pressure that you see in the prepaid market, particularly at the bottom end of the market, where consumers are obviously battling to manage with inflation on food and energy and transport costs against other expenditure including telecommunications. But we still believe that this business will deliver quite strongly and particularly guarantee at the Group level a solid cash flow being upstreamed by the Opco, and continuous strengthening of the network to ensure that we don't lose the 'best network' claim that we've currently had for several years.

On Nigeria, the focus has been on commercial momentum. Karl and team, you have spoken to them earlier in the week. They've got very strong commercial momentum in the business. I think we've seen data growth coming through and we're able to monetise that. On fintech, once we've completed the next interface, we should see the effective wallet growth there. So, we feel pretty bullish and confident that we should see growth on fintech into the new year that's ahead.

On fintech, again, the Group fintech process, as we mentioned, we're focused on now looking to conclude the binding offer phase. There are several parties that we believe can help us accelerate the growth of the business, and then taking a minority shareholding that will probably be approximately somewhere up to a maximum of about 20%, if not slightly lower.

And we're going to continue investing in our networks to meet growth ambitions that we have. And we'll spend a total of R35 billion capex. So, this is unchanged from our previous guidance, maintaining our capex intensity in the target range of 18% to 15%. And so, to this end, and despite the near-term uncertainties we are seeing in the operating environment, we remain confident that structurally higher demand for data and fintech services are supporting our medium-term growth outlook, medium term being three to five years.

And we continue to focus on the Ambition 2025 strategy to drive growth, de-lever the Holdco balance sheet, and unlock value that we see in our business. And for those who wonder whether the dividend guidance is part of the medium-term guidance, in the year it is, and obviously we feel quite comfortable to deliver to shareholders 330 cents per share for FY2022. That declaration point comes after the full-year results are released in March of next year. And with that, Thato, over to you and I think we can open up for Q&A.

Thato Motlanthe
Yeah, thanks for that, Ralph. And just once again, apologies to everybody on the line for the experience on the call. We will ensure that it's a better experience going forward. With that, I think we can open up for Q&A and I'll hand back over to the operator.

Operator
Thank you very much. Ladies and gentlemen, please note that if you wish to ask a question, you're welcome to press * and then 1 on your touchphone or on the keypad on your screen. If you however wish to withdraw the question, you may press * and then 2 to remove yourself from the question queue. Once again, if you would like to ask a question, you may press * and then 1. Our first question is from Jonathan Kennedy-Good of JP Morgan. Please go ahead.

Jonathan Kennedy-Good
Good afternoon, and thanks for the opportunity to ask questions. The first one is on the fintech investment into first quarter next year. I'm just trying to understand what type of investor you are targeting. Obviously, we've seen the typical investment from Visa, MasterCard, etc. in your competitor businesses. I'm just trying to understand what kind of investor you may be targeting given the fact that ratings on these assets have declined so much in the past year. I'm trying to understand the urgency for a capital injection there at the moment given it doesn't seem that you really need it. So that's question one.

And then just on South Africa, around the network. In terms of the sale of the tower assets to IHS, did that exclude provisions or agreements on a service level agreement for power supply in South Africa? And a follow-up there. I think your strategy on energy is a battery-lead backup system. Can you try and explain to us at what point to what kind of level of loadshedding battery backup starts to fail, and you need to rely on diesel?

Ralph Mupita
Okay. I'll take the first question and then pass on the network one to Charles. Jonathan, it's a great question that you asked. I guess maybe to reframe how we thought about the fintech process, we've always said that as we transition from basic services to advanced services, that process can be accelerated by a few select partners who bring capability and scale that can help us proceed with our strategy even faster. So, a partnership-based approach. And a partnership-based approach is looking at in the underlying verticals of fintech, insurtech, banktech, e-commerce & payments, and remittances, that we have some global partnerships in each of these verticals to help acceleration in the markets.

So, that's one of the trends across the market. But we've also seen that at the TopCo level and for a minority investment, we've always said that we wouldn't seek to do more than 30. As I mentioned, I think you can read from what I've said that we're looking more like towards 20. We could bring in some of those partners into the TopCo level as partners. As you quite rightly say, we don't need the money. But we wanted to execute our strategy. So, we're very mindful of the valuation process. And hence, we said we didn't want financial investors. So, you will hear us saying that this process is only for strategic investors. If we were looking at financial investors, we wouldn't be running this process whatsoever.

So, I think as we conclude the process, you should anticipate that we have thought through the valuation issues, and there are enough points of data out in the markets on what we think our own investors would think a reasonable or good valuation for this process would be. If we can't get that, we won't proceed. Now, as I've mentioned, we're now in the second phase of that. So, we have a sense that we'll get a valuation for approximately up to 20% maximum that would not reflect the valuation that you see in companies such as Klarna and others. And hence, we are looking for strategic investors who are going to be with us for the long term.

These are all parties that we've engaged with, and some of them approached us etc. And we said we only want partners who can see their way through a five-year-plus period of partnering. So, that deals with the question of the type of investor. They bring capability and skills in a particular vertical. They have an interest also to be the part of the Group fintech business as it scales across the markets. And they have the capital, and they have an understanding ultimately of what we think fair value for this company would be. And to your point, we don't really need the money. We're not doing it as an asset realisation programme. So, I think we should come back early Q1 with the outcomes of that process. We are in the final phase with that as we speak. Charles, on network.

Charles Molapisi
Just on the two questions asked, let me first start with the IHS 'power as a service'. The question you're asking is whether we have signed 'power as a service' included in the agreement with IHS. The answer to that is a definite 'yes'. It is not just about tower management. There is a separate 'power as a service' agreement with them. You will appreciate the fact that they only started to take over the operations from the 1st of August. And I think during that period we have now done almost two phases for battery rollout in terms of resilience. So that covers I think that part of the question.

We are buying from them – just to be very clear – service availability. We are not necessarily buying the tech. And I think I'm just saying this to your next question, because you said the strategy is basically battery-led. You know, our essence is that we buy availability. We don't buy the technology. So, it's a mix. In some sites, we deploy batteries because obviously it's about prioritisation. But some sites we look at it differently in terms of what we need to deploy. And the question about at what level does a battery that we deploy fail, we do quite well I think stage one to stage four. And then we begin to struggle in terms of the battery around stage six.

But as we move forward, they decide to put more rectifiers. And then we can put a bit more resilience on the network. Either you overlay that with diesel, or you overlay that with solar, beyond just the battery. So, the mix eventually will be determined by the level of availability of the site. But it is not necessarily just all pure battery-led. Just on those questions. Thanks.

Ralph Mupita
Just to top and tail that point, Jonathan, Charles can also buy is called platinum service. So, as he said, he buys availability, and however IHS delivers that availability. But he will have a base rate, but he can also have platinum. And once you're above level six, Charles is wanting to make sure he's got a good network quality. We'll move towards more of the platinum-type service, which is looking to guarantee availability. And it's up to IHS to configure batteries and gen sets as they need to meet the availability. We are buying availability from IHS.

Jonathan Kennedy-Good
Thanks very much. Thank you.

Operator
Our next question is from Madhvendra Singh of HSBC. Please go ahead.

Madhvendra Singh
Yes. Hi. Thanks for taking my questions. A couple of questions. Firstly, on the data revenue growth trends, there is a slowdown in the third quarter compared to second quarter. So, I'm just wondering if that is a temporary thing, or is this just a natural moderation in data revenue growth due to the base effect and so on. So that's the first one. And secondly, the South African market, if you could talk about the underlying growth trends, that will be very helpful. What I mean by that is, you did have a couple of issues like loadshedding and Cell C recognition changes and all that. So, if you could talk about the actual underlying overall service revenue growth trend, that will be helpful. Thank you.

Ralph Mupita

Let me start with the second question first, and then I'll ask Charles or Dineo to provide that. If you look beyond the ins and outs of South Africa and the change in accounting, I think you've got to look at the state of the consumer as well as the enterprises. So, let's start with the consumer. There is more resilience in the mid- to upper-end of the market. And you see that in the resilience of consumer postpaid. We've had decent net additions there and decent data growth in particular.

And Charles can talk about that a bit more. On SA prepaid, which is also at the low end a proxy for the consumer at the lower end, there's certainly pressure there. And you'll see if you decompose the service revenue growth, that in Q3 actually you had negative growth in Charles and Dineo's business in the consumer prepaid. Voice in particular was impacted. So, prepaid voice we anticipate will grow negatively. But we want that number to be less than -9%, if you know what I mean. But that's a double-digit number on voice. And it's also been affected by not just the consumer pressure, but also on network. Those consumers tend to be also in areas that are probably even more remote. They are using data services. Sometimes the network is not...

The enterprise, in our experience, seems to be a lot more resilient. And Charles would like to offer them more ICT services. The large enterprises look fairly resilient to us. So, the real pressure point we've seen is actually the consumer prepaid, but the lower end of that. Charles, Dineo?

Charles Molapisi

Thanks so much. I will ask Dineo also to come in. I think let's talk about some of the parameters. I mean, if you look at the number of subs, we have grown the subs by 8.1%. And then if you look at market share gains in the quarter across all the regions, I think there is good performance on those. Then you get the active data subs. The business delivered 11.7% in terms of active data subs. Enterprise business, what is very pleasing about this business is that across all layers, whether it's large enterprise, the public sector, or SME, there's a very good, significant growth across all the layers. So that makes it a bit more resilient in terms of the challenges that we face in the economy today.

So, there are a number of parameters of the business. If you were to normalise the performance of the prepaid business that you are concerned about, if you were to normalise that outside loadshedding, practically 1.5% to 2% potential growth per quarter. But that just shows you that the underlying metrics of the business, sub connections, market share growth, good enterprise business, good wholesale business, data growth, all those remain very healthy. They are just affected by the key macros in terms of customers' ability to spend, and in the end in terms of loadshedding. I'll ask Dineo maybe just to overlay that a little bit. Thank you.

Dineo Molefe
Thanks Charles. I think you've largely covered it. However, if you look at that quarter performance, you would have noticed that for prepaid, you do see a softening trend from Q1 of 1.5%, then Q2 of -1.2%. But as Charles says, if you normalise for loadshedding, that -1.2% would have been in fact about 1.7%. So, quarter on quarter, you would have seen a better performance had it not been for loadshedding, noting that the biggest impact of loadshedding was in Q3. It was almost 50% of the impact residing in Q3, and Q1 having had almost no impact at all. And if we look at the total service revenue performance, we reported 3.5%. If you normalise that for the impact of loadshedding, what we would have reported is 4.8%. So underlying service revenue performance is quite strong. Conservative.

Ralph Mupita
Tsholo, do you want to take the question on data revenue trends?

Tsholo Molefe
Yeah, I mean, I think what we are picking up is that obviously there has been good momentum. I think what you need to take into account as well is that the base is growing. So, you will see a slight softening as you grow. But we feel encouraged by the fact that data now obviously in terms of the Ambition 2025 strategy we are starting to see it growing as a percentage of total service contribution. So, I think that's the important part. And because we see data traffic growth increasing, supported by the structurally high behind demand for those data services, we do expect that to continue to grow.

Ralph Mupita
You are asking the question across 19 markets, so it's quite difficult to give a simple answer. But I would say to top and tail what Tsholo has said that, as I mentioned, our SA prepaid voice, in my mind, the reported result is more than what we would have expected in terms of the loadshedding impact. And the prepaid data business had a similar effect. That's the one area I watch on a monthly basis what's happening there. So that's the only one I would call out. There isn't anything systematic across the markets that I'll be concerned on in terms of data growth.

Operator
Thank you. Our next question is from Cesar Tiron of Bank of America. Please go ahead.

Cesar Tiron

Yes, hi everyone. Good afternoon. Thanks for the call and the opportunity to have questions. I have two if that's okay. The first one would be for Ralph. If you can please repeat the countries where you're making changes to the tower agreements? And also, let us know how long do you think this will take? And how do you expect this to impact margins in the medium term?

And then the second question will be on the Nigeria margin trends. What actually changed in the past couple of months, so that the margin ultimately looks actually better for the second half this year as it looked a couple of months ago? Thank you so much.

Ralph Mupita

I'm sorry. You may be one of the people who was taken out of the call on the web link. So, I'll repeat the markets that we're talking to the towercos. That's Nigeria, Rwanda, Ghana, Uganda, and obviously South Africa, Cameroon, Côte d'Ivoire, and Zambia. Those are the markets. And then on the margin side, I mean, we had communicated with the half year results that you should anticipate softer margins. But that was the premise of us doing quite an aggressive acceleration on fintech. We pulled back on that cost of sales investment. Serigne and team were very focused on making sure that we get the NIBSS interface integration to work as perfectly as it can. So, because we pulled back that cost of sales acquisition that's been supportive of the margin.

So, all things being equal, Karl should be able to deliver this margin profile to the end of the year. But the big driver there has been a fact that we pulled back on much more aggressive customer acquisition. Once Serigne has completed with the team in-country the NIBSS integration, for sure we'll push that. And that you should anticipate in the second quarter or early next year. And I will communicate further on when we've completed or are now fully open and launched NIBSS inbound and NIBSS outbound. I don't know Serigne if you’ve got anything to add.

Serigne Dioum

Yes, on NIBSS we had some technical glitches and we've now slowed down the commercial activities to do the integration, which is now almost done. And we are looking at relaunching it commercially before end of the year for the inbound and the outbound. And also, in the meantime we are also working on really making sure that also we get more ready in terms of financial on the distribution network, customer acquisition framework.

Ralph Mupita

Finally, on your question, I realise that I didn’t answer fully your question, Cesar, as to how long. I mean, these discussions on towercos, they don't get done very quickly. But I think we should be able to talk about progress with Q1, where we are. I'm hopeful we would have done all of them, but certainly we would have done some of them. And what we're trying to achieve is focusing on two aspects. One is power, and how we are managing the power, where do we take diesel pass-through and where not. You've heard Charles talk about he buys availability. And then importantly, what is the mix of local currency and hard currency elements to the use fees. Not all elements or cost of production are hard currency indexed. We were sensitive to that. But you know, we get the right mix of local currency. And these are discussions we actually have to have and actually have started to have across these markets. So, we should be reporting progress with full year results when we release in Q1.

Operator
Our next question is from the Nadim Mohamed of SBG Securities. Please go ahead.

Nadim Mohamed
Good afternoon and congrats on a resilient set of results. Just two questions from my side. Firstly, just a bit of a follow-up to Madi's question earlier. So, I'd like to unpack prepaid a little bit more. So, I do understand that loadshedding and poor network availability weighed in on prepaid. But there's still quite a big disconnect between subscriber growth and revenue growth. I would just like to understand. Is there maybe a high incidence of churn in the market or maybe low value subs being acquired? If you could give a sense of why there's such a big disconnect between the two.

And then secondly, just if you could provide some colour on the MoMo taxes in Cameroon and Benin. I'd like to get a sense of the quantum and how fintech progressed post the tax being implemented, and what is MTN's reaction to those? For example, did you do any price reductions in the market? And how long do you think it will take to get back to the same level of growth that you had pre-taxes? Thank you.

Ralph Mupita
I'll distribute these questions, the SA prepaid to Charles and Dineo to talk about that and balancing the trends in revenue in prepaid data and sub acquisition. And Serigne on Benin and Cameroon. And I think it would be useful to top and tail. Maybe I can come in there on our discussions on e-levy in Ghana. We've been talking to the authorities there.

Charles Molapisi
Look, the number of customers we've connected, we said about 800 000. So that number, the precise number was about 884 in thousands. And if you double click on that number, you'll see three numbers. You'll see the prepaid number, the postpaid number, and the telemetry number.

The prepaid number is about 272 [000] out of the 884 [000]. So, the biggest number, of course, is the telemetry followed by postpaid. And that's what you're seeing on the postpaid numbers, which is really good. And prepaid is 272 [000].

You will also understand, I think with the market of South Africa, which is so highly penetrated, that pretty much every operator at the moment to connect at this scale, we are connecting low-ARPU customers. So, if you look at the ARPU level on the prepaid side, last year this time I think we'd seen about 76 [rand], and we are now on 70. So that will also help you to explain why the loading of so many customers does not result in a direct translation in terms of revenue conversion.

So, it's just the type of subs we are connecting. But also, to say that the total bucket of connections are not all prepaid. And if you look at postpaid, excluding telemetry, we've managed to hold on the ARPU, in fact a slight increase on the ARPU level on the postpaid side. So that just shows you that prepaid customers are customers that are under pressure. They are looking for deals. So, they're moving from one network to the next and looking for deals. Also, in terms of the types of bundles they're looking for and the completion of bundles. So that's just where it's coming from. I hope that answers the question.

Dineo Molefe
Maybe just to add to what you're saying, we also then start to see the effective rate per minute from a voice revenue perspective a steady decline compared to prior quarters. Really just watch out, as articulated, for affordability factors coming in for the prepaid consumer.

Ralph Mupita
Now, just to maybe close in on that point, I think South Africa's probably in a kind of market-prepare mode, Charles, if we are honest with ourselves. And I think one or two of the competitors have been talking about price increases. So, I think the market should be more rational going forward at that end of the market. So, the way we monetise those customers is actually trying to get better churn outcomes from that market. Serigne, do you want to talk on Cameroon and Benin?

Serigne Dioum
Sure. So, this year on fintech in MTN, I would say we are very unlucky with taxes, because we got taxes in lots of markets in the same year, which doesn't happen so often. And also, it happened in some of our biggest markets. You asked about Benin and Cameroon, but also, we've got e-levy tax in Ghana. So, what we did is that when we got the taxes at the beginning of the year in Benin and Cameroon, we adjusted the prices to make sure that the services stayed affordable for our

customers. And also, we have been seeing some elasticity since we adjusted the prices, and it took a bit of time. But now we are seeing growth back in both Benin and Cameroon.

So unfortunately, in Cameroon, the competition is also becoming very aggressive as well. So, we find a drop in prices, but we'll see how we react to that. But we are seeing growth again in both markets. And I also think the tax which impacted us very harshly was the e-levy in Ghana that we had in May. We put a lot of support in the market. We dropped the part of the P2P pricing by 25%. And also, we did have a lot of engagement with customers to educate them, to explain to them how it is working. And now after two or three months we're seeing also lots of growth back in Ghana. And hopefully that growth will be sustained for next year. And overall, also what we are doing is that we are really engaging ourselves on the journey of pushing the advanced services... so that we can also continue growing the activity.

Ralph Mupita
One final point. We have been engaging regulators on price increases, as we said, and Karl mentioned in Nigeria. In Ghana, we are talking to the authorities and sharing our experiences. What we said when we saw them last week, is that the trend for these taxes is that they actually are regressive forms of tax and hurt the poor and actually potentially can impact the development of the ecosystem. We'll continue to engage with them and share data and experience. We have shared the reports from Tanzania, the work done by the GSMA.

But I think to give you a sense, we keep saying some of these are short-term impacts. I mean, we're seeing Uganda now growing very strongly. Uganda did have a withdrawal tax that impacted for a couple of quarters. But we're seeing healthy growth. That's what gives us the conviction that in the medium to long term, this fintech business and opportunity remains very solid. Thato, are we still taking questions?

Thato Motlanthe
I think for our sins, for the quality of the call, we can give them...

Ralph Mupita
I blame the quality of the call on you [laughs].

Thato Motlanthe
We can take couple of questions, operator.

Operator
Thank you. Our next question is from Ziyad Joosub of Nedbank CIB. Please go ahead.

Ziyad Joosub
Hi, everyone. Thank you for the call. If you could just maybe help me in understanding your South African wholesale revenue line a bit more. I know Cell C is still in the middle of a transition and Gauteng and Natal still need to be fully transitioned. I think that's the bulk of their traffic. But I was under the impression that there has been some form of network transition taking place over the last three months. So, I was a bit surprised at the 0.7% revenue growth for the wholesale business. Is Telkom roaming less on MTN's network? Or do you expect the Cell C roaming traffic acceleration to take place over the next 12 months given that the business has completed the recapitalisation? If you could just maybe give me a steer on how we should be modelling this going forward the next six to 12 months?

And then the second question is on your strategic partner for fintech. You mentioned there are specific verticals you are looking at. Would you be able to maybe disclose what are the two or three verticals that you are most keen on getting a strategic partner for? Thanks very much.

Ralph Mupita
[Laughs.] Ziyad we are not going to fall into your trap, so that you can try and figure out who these people are. So, on your second question, if you don't mind, we won't answer that one. We are in the process. But as you said 'partner'. I mean, obviously, we are talking 'partners'. It is not one investor. We don't think of it as one investor. Charles, what do you think about the dynamics in wholesale?

Charles Molapisi
Maybe just to say this: we still have about 40% of Cell C's traffic to come on the network, or 40% of the entire profile. So, there's still a lot of room there. I mean, we've been quite pragmatic in terms of how we on-board the traffic in terms of the deployment of capex, and also just to allow them to complete the recap. You'll see much better acceleration coming into next year. So that line I think has got very good runway going forward.

Telkom as well, we're now expanding. It's also a one-year-old deal, not even one. So, it's coming up. I will not necessarily disclose the number. But of course, our slice of that business is still quite small. But we're also encouraged about our discussions that we have with them. I will not necessarily disclose which regions that they've now allocated. But our discussions with them was that we are building from the south and going up. Then we've taken down from the south. And then we are in discussion with them to look at some other areas and regions. So, there is still good runway for this business going forward.

And, also to top it up, there are other MVNOs. These are the key ones of course, but we're talking to a number of MVNOs. We've made very clear around our strategy to become the carrier of carriers, what we call 'network as a service'. And we are building an MVNO as a service platform. What that will do is enable us to actually on-board as many MVNOs as quick as possible. So that generally talks about our ambition. That's why I think the performance and investment in this network will be crucial going forward. So, a very healthy line, I would say. If I was to give any guidance, I would say a very healthy line now and going forward.

Ziyad Joosub
Okay, thank you so much. And is it fair for us to assume that this definitely is… I mean, our understanding is it's quite a margin-accretive line relative to your broader business margin the wholesale business has a higher margin structure.

Charles Molapisi
The formula is this. We have relatively decent network capacity. And we have managed to literally take most of the traffic with minimal level of capex required. And that also comes from the spectrum configurations that the team has done a fantastic job on, the pooling of Cell C spectrum and the pooling of Liquid spectrum which were the only ones in the market, who has provided that capability. That has enabled us to actually overlay as much traffic as possible without any impact on the network. I mean, we still have to make some sort of investment, but relative to the generation and cash conversion, it's really a highly margin-accretive business. Thanks.

Dineo Molefe
Just to add on what Charles has mentioned, with regards to Cell C you would have heard Ralph mention that we've supported their recap through consideration of concessions. So that has had the impact that year-on-year for Cell C we would have seen a reduction in revenue that we recognise. So, going forward into 2023 and onwards, you will see an increasing trajectory on that revenue specifically. And because, as we mentioned, wholesale is more margin accretive, or Cell C, because we would have seen a decline in revenue, that would have also flowed through to a decline effectively at an EBITDA level as well. That would have had an impact.

Ziyad Joosub
Understood. Thank you so much. It's very clear.

Thato Motlanthe

We can maybe take one more question.

Operator

Thank you. Our next question is from Jono Bradley of Absa. Please go ahead.

Jono Bradley

Thanks for the opportunity to ask questions. Three from me, please. And apologies if you've already covered some of these. My line cut out earlier. So, if you could just clarify on the rate at which you repatriated funds out of Nigeria? And secondly, if you could tell us how much revenue was unrecognised at the quarter end from the Cell C BTS rental contract? And then lastly, on your fibre, if you could tell us what your plan for fibre to the home in SA is. Are you looking to roll out your own network in South Africa or perhaps looking at other inorganic opportunities? Or are you open to going back to the table for a deal with Telkom?

Ralph Mupita

So, let me take number one and number three, and then Tsholo can pick up and Dineo on Cell C unrecognised BTS total revenue. On Nigeria, for the R1.5 billion the rate was average ₦560 to the dollar. Tsholo, do you want to talk about Cell C unrecognised?

Tsholo Molefe

Yeah, I think we indicated in my brief earlier on that we had about R82 million of unrecognised revenue relating to national roaming. And that obviously would have been a part of the cash-based accounting in the past, as we make it clear that we would now move to the accrual basis of accounting as far as that is concerned. But the BTS rental is still on a cash- basis of accounting.

Dineo Molefe

The BTS unrecognised value is R205 million at the end of September. We've chosen to remain on cash accounting for BTS in order that we give ourselves enough time to establish a credible payment history because we don't feel as comfortable with payment history as we do on roaming.

Ralph Mupita

Just on fibre strategy, not to rehash it for the other people on the call, Charles can talk a little bit about the fibre strategy in South Africa in like two minutes.

Charles Molapisi

We will execute our organic home strategy. And I'm saying 'home' deliberately because I try not to always speak the technology because the battle for the home will be attacked on multiple fronts. There's multiple layers of tech that we are using to get into the home. You've got 5G fixed wireless access, and then you have got fixed LTE. You have got fibre as well. And then we're also fortunate that we are the only ones in the market who have what we call Tarana wireless spectrum. That is unlicensed spectrum with high range and data penetration and propagation.

So, we agree with the business that will prosecute the strategy on two fronts. So, in essence we are digging a tunnel from two opposite ends. So, we've got one digital brand called Supersonic, a very nimble player, 60 000 homes connected at this particular stage and growing. And in that business, we believe there's a lot of potential as a nimble, fixed mobile convergence player. We are also digging from the MTN side as well with fixed wireless access and LTE. And in totality, then we're looking at almost 680 000 customers. This would include home FTTH, FWA, FLTE, and of course, the small routers as well. So, it is a multi-layered approach into the home. We are not ruling out the eventual inorganic, should there be a need to do so. But we are really now positioned very well to actually prosecute the organic potential we have at the moment. Thank you.

Ralph Mupita

Just on your last question there, would we ever rule out any further conversation? I mean, you can never say never. So, one can't be religious. If you think that something can make sense, as MTN we'll always do what we believe is right to deliver value to shareholders and deliver a great customer experience. I'm mindful of the time, Thato. I know that the investors are on the call for a long time, but I'm happy to take more calls.

Thato Motlanthe

No, that was the last question. I'll make sure that the recording is up probably in the next 30 minutes to an hour. I don't know if you've got any closing remarks.

Ralph Mupita

Just to thank each and every one of you. We've spoken to many of you in the quarter. It's been a busy quarter. I think next quarter will still be very busy. We remain very highly convicted of our investment case and the work that we need to do. There's some short term headwinds, but we'll see through all of that, and continue to execute, and to deliver on the guidance and the strategy that we have. So, thanks for dialling in.

For those who battled earlier on, our apologies from our end. And please send any questions you have to Thato, and we'll answer them very timeously. We'll get the script up as quickly as possible for those who missed. And I hope to see all of you, if not most of you, at the capital markets day. We will focus on fintech as well as progress we are making around ESG. Thank you very much.

Operator

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

END OF TRANSCRIPT