MTN Group

Q3 2023 Trading Update

Date: 7 November 2023

Thato Motlanthe

Good day to everyone and thank you for taking the time to dial-in to discuss MTN Group's trading update for the nine months ended September 2023. My name is Thato Motlanthe, Head of Group Investor Relations at MTN, and on the call with me is Ralph Mupita, our Group CEO, as well as Tsholo Molefe, Group CFO.

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 also seen the Q3 releases from our listed Opcos that published their results in their respective markets over the past couple of weeks as well as had their own investor calls.

For today's call we will keep a focused overview of our Q3 performance, reiterating the key highlights, and Ralph will run you through the agenda, and that is before we open up for Q&A.

So Ralph will kick us off with an overview; followed by Tsholo with brief financial highlights. Ralph will then round up with some forward-looking comments and our key focus areas before we move on to Q&A. We are scheduled for about an hour for this call.

On that note, it's my pleasure to hand over to Ralph.

Ralph Mupita

Thank you, Thato, and a very good afternoon from me as well. I trust that everybody's keeping well. We would like to cover six areas in our overview commentary before Q&A. These areas are as follows:

1. Overall performance highlights
2. Momentum in MTN SA
3. Impacts on MTN Nigeria margin and guidance
4. Momentum in fintech
5. The FX revaluation in Nigeria, which Tsholo will cover with her financial overview, and
6. She will also cover the tender offer for outstanding 2024 eurobonds, where we released the respective communication on the Irish Stock Exchange.

1. <u>Overall performance highlights</u>

If we look at performance, the macro remains challenging with inflation remaining elevated and local currencies under pressure. On inflation, we did see some encouraging signs of easing, as inflation started to subside in markets like South Africa, Ghana and Uganda.

In terms of exchange rates, the key impact was the devaluation of the naira, which closed at around N780 to the dollar at the end of September.

Although loadshedding in South Africa was a lot more severe on a year-on-year basis, we were encouraged by the progress made in MTN SA's resilience programme. This is tracking slightly ahead of plan and helped to push availability in the network above the 95% threshold. We closed September 2023 at 96.2% as a national average availability. We have largely completed Johannesburg and Western Cape, and very good progress in Pretoria and KZN and all of those are areas that deliver the largest revenue contribution to South Africa.

If I zone in on our performance, we have been focused on execution operationally and strategically. We've sustained our investment in deploying R26.2 billion of capex in the nine months, excluding leases. And this is reflected in our network NPS scores where we hold the number one position in 11 of our markets as at the end of September.

This includes some of the larger markets like Nigeria, Ghana and Uganda. SA remains number two, but – significantly – with a narrowing gap to number one given the progress we've made on the network resilience plan. Overall, our capex intensity of 15.9% was within our target range of 15-18%.

On our commercial metrics – very strong. Again, you will have seen this in our release but let me call out some of the key areas. Data traffic was up 20.1% YoY in the period, and even stronger at 35% when you exclude the JVs. Fintech transactions grew by about 34% YoY, reflecting the ongoing robust development of our ecosystem. You would have heard us say in the past that these trends really underscore the structural growth opportunities we see for our business for the medium to longer term.

Overall, this helped us to deliver solid topline growth of 14.2%* in constant currency terms, which is within our medium-term target of mid-teens growth. If you exclude Sudan, the growth was even much stronger. EBITDA was up 11.2%, with the underlying margin down a percentage point to 43.2%*. I will leave it to Tsholo to provide some colour on this, but a really resilient performance in difficult conditions with solid topline growth, as well as EBITDA.

2. <u>Momentum in MTN SA</u>

One of the key highlights of our results was the pleasing momentum that we saw in the SA business; particularly relative to what we had previously communicated. Over and above the progress on the network, the first thing to note is the year-on-year service revenue progression over the three quarters to September. Q3 in particular had service revenue growth of 4.1%, compared to 1.3% in Q1 when we started the year, and 2.5% in Q2.

The second call-out is the margin of 37.1% - again we would highlight the gradual improvement against the first two quarters, when EBITDA margin was in the order of 36%.

So, we are very encouraged by this progress. We believe that the business is well positioned to continue its trajectory of steady improvement in service revenue growth and EBITDA margin expansion. We continue to anticipate that the network resilience programme will be substantially complete by the end of Q1 next year, might slip a little bit into Q2, with an overall envelope of R4-R5 billion having been invested, now we are close to 13 000 sites that we have across the country.

3. FX in Nigeria

Karl and team covered their results last week, but I will spend a bit of time to just frame the EBITDA margin development there. MTN Nigeria covered this but let me provide further detail here. The first point is that you will have seen that Q3 margin came down to 47.8%* in constant currency terms. This compared to around 53% in H1, which meant that the year-to-date average came to 51.7%.

Now this trajectory is in line with what we guided with our H1 results, in that you would have margin compression in the next few quarters, due to FX and other effects.

We also explained that Q4 would likely see the full impacts given the spread of towerco leases, some of which pass through the FX effects based on the quarter end-rate; while others take the average of the preceding quarter. As I say, this means that the full effects of the naira devaluation will come through in Q4.

In terms of the guidance provided with MTN Nigeria's results, that the full year margin should be between 47 and 49%; this was designed to provide the market with a tighter steer as to what was the likely margin for the full year 2023. We have flagged, probably since last year, that there are factors that could push our near-term margin in Nigeria to fall below the 53-55% corridor that we target over the medium term.

As I read the market reaction and commentary, there has been a little bit of confusion about the implied Q4 margin. Let me unpack some of the key dynamics at play, and these points will be covered more fully by Karl and Modupe at the CMD in Abuja next week.

There are probably three key ones to call out, over and above the normal inflation as well as factors like network rollout effects and the acceleration of MoMo PSB.

The first, is the FX impact, which we have discussed in the past, and the sensitivities there I think should be relatively well understood. We have indicated that broadly, a 10% movement in the naira vs USD results in an impact of about 1.3pp on the EBITDA margin on an annualised basis.

Then we have the VAT on leases, which is the second effect. This was introduced at the beginning of September and has a negative impact on EBITDA margin of about 1 percentage point, also on an annualised basis.

The third important factor baked into the FY 23 Nigeria margin guidance, is that a provision is expected to be raised in relation to the FIRS VAT assessment whilst the matter is under appeal. This we have done to be prudent, and this has been in the news over the past couple weeks. This provision amounts to an annualised EBITDA margin impact of about approximately 1.3pp. Of course, this would all be provisioned in Q4 2023.

Some of you would probably need to reflect as you're looking at the Q4 margin that this would be seen as something that is once-off and exceptional. But it is in that 47 to 49% guidance, has been some provision to that annualised amount of about 1.3 percentage points.

Over and above what I have outlined, there are a couple factors informing this, which include initiatives being implemented by MTN Nigeria. These are both in topline initiatives and expense efficiencies, which we believe can mitigate the pressures we are seeing where the naira lands up as well as the inflation trajectory.

The coming months will provide us with an opportunity to assess the traction in these in order to provide the market with an updated view on our guidance outlook for MTN Nigeria. But the MTN Nigeria team will talk more to this at the CMD next week, but from these effects you can appreciate that the VAT assessment provision is a once-off that has a material impact on the EBITDA margin. As I say, we are optimistic about our chances of success at appeal.

4. Fintech momentum

We are very encouraged by the accelerating profile of our fintech business. I have highlighted the 34% increase in transaction volumes; our transaction value was up by 57% in constant currency terms. This was supported by good progress in our other ecosystem KPIs like our agent and merchant footprints, which were up by 11% and 79% respectively in the period.

We've seen very good growth in Q3 and I think we've been really encouraged by the growth of advanced services. Advanced services have grown by 61.8% in the period. We've seen good growth in payments and in banktech, and still solid growth that we see in basic services. We continue to be excited by the acceleration that we are seeing and we continue in our discussions with Mastercard towards concluding the minority investment into the Group Fintech. This is taking a little bit longer than we anticipated, and we will be able to update the markets once the process has all been concluded.

Let me pause here and hand over to Tsholo.

Tsholo Molefe
Thank you very much, Ralph and good afternoon to everyone on the call. Ralph has covered some of the headline performance metrics, with a solid topline performance in a challenging macro. Service revenue growth of 14.2% in constant currency and EBITDA growth of 11.2%*.

5. Financial overview

I just want to highlight some of the salient underlying features of our financial performance. The first highlight is our expense efficiency programme, where we realised about R1.5 billion in savings in the period, which underpinned our strong performance. This achieves the target we set for ourselves for the full year, and as we have indicated previously we target a further R7-8 billion from 2024 onwards.

The second point to make is on our balance sheet, where we reported a consolidated Group net debt-to-EBITDA of 0.5x. This was relatively steady on our last report and remains very comfortably within our covenant levels of 2.5x. Our Holdco leverage was also flat at around 1.5x, underpinned by upstreaming in Q3. We upstreamed about R3.8 billion in Q3, bringing our total up to R8 billion year-to-date.

A short while ago, just before this call, we announced that our treasury team has kicked off the process to early-settle our 2024 dollar-denominated eurobonds. We issued an invitation to eligible noteholders of the $750 million notes, of which $450 million remains outstanding, to tender their notes for repurchase by MTN. You will recall that we did a $300 million early settlement of these notes last year.

We are very pleased to get the ball rolling on this as we have discussed with the market previously, as it aligns with our priority to improve the currency mix of our Holdco debt.

My final point before handing back to Ralph is on the FX revision that was announced last week with MTN Nigeria's results. We outlined this in our Group announcement as well. As a recap of what you saw in our announcements:

MTN Nigeria utilises trade lines to fund the establishment of confirmed irrevocable letters of credit for its largely US dollar-denominated network capex investments that sustain revenue growth. The business then holds naira-denominated cash cover with banks, to support these facilities, essentially cash collateral.

The significant depreciation of the naira against the US dollar, following liberalisation in June 2023, therefore, gave rise to unrealised forex losses relating to these trade obligations. There was therefore an incorrect application of how this should be treated in our interims of this year, where all MTN Nigeria's trade lines were remeasured after offsetting the naira-denominated cash collateral.

We highlighted the impacts expected on H1 2023 of between 64-65 cents per share on our metrics; and this will be made formally when we report interim results of 2024 next year. To remind investors, this is a once-off adjustment relating to unrealised effect that is non-cash in nature. So, on that note, I'd like to then hand over to Ralph. Thanks very much.

Ralph Mupita
Thanks so much Tsholo, and, as you mentioned, we're pretty pleased with the progress we've made now on the deleveraging, it's second in our capital allocation priorities, we've said that we want to extinguish, you know, reduce maturity, to dollar exposure of our Holdco balance sheet to dollar debt. So very pleased that we're launching that tender offer, it's an any-and-all offer, that you'll

see all the details on the Irish Stock Exchange, and hopefully we'll be able to close that out in the next couple of weeks.

So just on an outlook basis, maybe a couple of key messages.

I think, firstly, the operating environment, we think it will still remain quite challenging. We have a business that is quite robust in scale, to be able to navigate through some of those challenges. South Africa, again, pleased with the network resilience programme, and slightly ahead of our own plans, and making very good progress as we work through region by region. The big regions have substantially been completed, and the resilience is really showing off in the network availability in the regions, quite a bit of work still to do in the Northern Region, and in the Eastern Cape. That's all work that we're pushing to close out in Q1, slightly early Q2 next year. So, the big thing to watch out is network. And as we look at even some of the progress we've seen in the October numbers, again, we've seen that performance from South Africa coming through. So that's the one area that I'll focus on the outlook is the network availability.

Nigeria, we focused a lot today in covering the margin set of issues and how to think about what is once-off within that margin guidance. As I said, I think for those who are doing modelling and looking through to next year, you've got to take out on an annualised basis that 1.3 percentage points, which basically refers to the conservative provisioning against the tax matter which we're appealing. I do think it's also important to note that whilst we have been waiting for the tariff increase, and we remain highly engaged with authorities, we have launched several data bundle plans in Nigeria, in more recent weeks, that should really help us improve the yield. And so, we'll continue with that optimisation work and the new plans, as well as to seek the tariff increase with the authorities. And as I mentioned twice in my remarks, we have a capital markets day, next Tuesday and Wednesday in Nigeria, and I think the team will give you a lot more colour around the progress we're making there as well as MoMo PSB.

If I look at the financial resilience points that we put in our outlook, we are pleased with having made progress on the expense efficiency target for this year. We are well arranged to pursue the next R7-8 billion, that's over the next three years. These targets have been built up, kind of bottom up, across the markets, as well as head office, so we should be able to show you some meaningful progress over and above the R1.5 billion that has been achieved, already by the end of Q3. We will continue to seek out these efficiencies.

And then on the deleveraging, we're looking to close out on the 2024 eurobonds, and once that's done, we'll set our sights on 2026, sometime in the course of next year, and into 2025.

And then our strategic priorities, what's our focus? Complete the Afghanistan exit; we continue the work on the small WECA markets to simplify the portfolio. And the work that we're doing with Mastercard, all winning and all of this to be largely done in the course of this year.

On the small WECA markets, that will probably take us a little bit into next year; these things do take time. But we remain committed to keeping the portfolio a bit simpler than it has been and committing all our efforts in human and capital towards that.

And the final point really is around the medium-term guidance. Two points to reiterate, the capex guidance remains unchanged from last time. So, this should keep us in the capex intensity range of 15-18%, and the board continues to anticipate a full year dividend for 2023 of a minimum of 330 cents, paid in April 2024. So, with those outlook remarks, Thato, maybe we can switch over to the lines and take some questions.

Thato Motlanthe
Thanks Ralph, thanks Tsholo. I'll ask the questions in banks of two or three. Before we do that there's just a question on clarity to be absolutely clear: In terms of the Nigeria margin discussion, so is the 47 to 49% margin guidance for Nigeria inclusive of all the three points mentioned?

Ralph Mupita
Yes, it's inclusive of all the three points mentioned. The big delta is that the provision that we've taken, as I said, we are still confident of our appeal position, and we're being prudent, and that's in the 47 to 49%, which takes into account all of those items.

Thato Motlanthe
Thanks, Ralph, then just moving on to a couple of other questions. This is for Tsholo, please give us a breakdown of upstreaming? And where that came from? Number one. And then number two, which is in relation to SA, maybe for you Ralph, good progress on network resilience in SA. Do you have a target of what percent you're looking for, and how much more you want to spend on it? Just some clarification points there. Tsholo?

Tsholo Molefe
As I indicated, we've been able to upstream R3.8 billion in the quarter, just over R1 billion from South Africa, Uganda also just over half a billion Rwanda, Ghana. Ghana, as you know that obviously we wait for the central bank to help us with the conversion to dollars. So it is sitting in our cedi bank account. So we've been able to upstream there as well, just under a billion rand. Cameroon, Côte d'Ivoire, Benin, so quite pleasing to see all the markets coming to the party.

Ralph Mupita
This year we will probably spend R10 billion of capex in South Africa, as per our guidance. R2.5 billion of that will go into the resilience initiatives that we've had. We've always communicated that we'll spend R4 billion to R5 billion [on resilience]. So in early Q1/Q2 next year I anticipate another R1.5 billion to R2.5 billion [investment] to get us to what we would say we build resilience, at that stage five, six level too.

We target ultimately, the network of this quality, we want to be able to get 99.7%. Anything above 97% starts looking respectable. But to get to the number one NPS, I think we'll have to be about 99%. And that's obviously assuming that we don't have loadshedding substantially above level six for a prolonged period of time. But very good performance from Charles and the team in the network rollout and resilience.

Thato Motlanthe
Thank you both. There are a couple of questions just around IHS: With the move of sites from IHS to ATC in Nigeria, how do you think about the risks related to that transition? And then, are you able to give a progress report on the IHS governance matter, and what MTN has decided to do to move forward on the matter?

Ralph Mupita
Let me start with the governance matter. The governance matter is still a work in progress. We've had numerous engagements with the IHS management, management to the board. We've also spoken directly to the largest shareholders in IHS – probably the top six, seven shareholders, who will probably hold pretty much north of 80% of IHS stock – in relationship to our governance matter our understanding is when they'll have done similar on their own governance matter.

On the 2 500 sites that we've just signed with ATC now, to transfer from the 1st of January 2025, a key consideration was the operational risk of not being able to move all our equipment off the sites to an appropriate ATC site. So we've applied our a minds obviously very clearly onto this: which sites do they have proximity, and therefore, we know which ones just move across the way, so to speak.

And where are there are some new site builds? And where there's new site builds, what risks do we take, and is there some sort of guarantee that ATC would provide us? So we thought about all of that, and the MTN Nigeria team have had to think about everything in the realm. What kind of lease rates do we want? Nigeria wants a lease agreement that's space and power and technology-based pricing. So that has a meaningful NPV over a 10-year period. And so we thought about all of those, including operational risks, and the team on the ground feel pretty strongly that these are risks that can manage, can also manage it with the radio planning, etc. So, the team have thought about the operational risks, and they're manageable.

Thato Motlanthe
Thanks, Ralph. Just a couple of questions around voice in South Africa: there's a question that says 'it looks like it remains under pressure, despite the scaling of Xtratime and improved resilience, is there a more permanent shift in behaviour?'

And then another question for Tsholo, 'can you provide a rough guide on how the R1.5 billion expense efficiencies were split across the Opcos?'

Ralph Mupita
If I start on voice in South Africa, a big drag on growth in South Africa has been prepaid voice. And I think in many platforms, we've spoken about the holy grail for us on prepaid voice is to get it high

negative single digit. Just knowing how mature South Africa is, a victory on prepaid voice would be a growth that's more like anywhere between -7, -9%.

So as you can see in Q1 of this year voice was more like -16%. So that was really a big challenge, now it's come down to just over 10%. So, on a trajectory basis, I think we are moving in the right direction. On Xtratime, we've changed providers, that's made a big difference since June, we're seeing Xtratime increase as part of the recharge. We're not at the levels of Vodacom. I think they're in the very high 30s if not in the 40s, if our intelligence is correct. We're still in the mid-20s.

There's obviously an optimal level of which you want Xtratime as a percentage of recharge. But I think we are still under-indexed. As we look at the progress we've made (just in a month, which doesn't make a season), but when we look at the October numbers, we are encouraged that the trend on voice should be getting us in Q4 towards what we always looked for, which is high negative single digits. So that's -7 to -9% where we would see it. So, trajectory-wise, and with this Xtratime provider I think we should be able to get there, if not in this quarter, certainly in Q1 next year.

Tsholo Molefe
On the expense efficiency, about 50% came from our two large markets, Nigeria and South Africa, probably mostly from South Africa. Across the board, we have been very deliberate in terms of making sure that we cut down on expenses that can be deferred/delayed, including non-critical vacancies that we can shift across all the markets. So, I think suffice to say that, but the larger savings came from network, about a third of the expense efficiencies came from network. About another just over 15% from sales and distribution.

Thato Motlanthe
Thanks, Tsholo. A couple of people asking, can you please elaborate on the developments at Mastercard, and where we are in the process?

Ralph Mupita
As we said the last time in August, that we were going to go through a kind of due diligence process, that's where we still are, so it's not completed, but these things can take longer. So that's where we are. On the commercial side, we've done quite a lot of work around the proposition. And I think we were probably a few weeks out towards launching in Rwanda, to initiate the commercial relationship. So, it's taken us a little bit longer, but we are still in train, and I guess when we have completed that process, we'll come back to investors on where we've concluded, and all the usual detail that investors want to understand, what's the investment amount, etc.

Thato Motlanthe
Just a question on capex year to date, the delta of R20 billion in capex guidance on IFRS versus IAS, is much higher than in past years, can you share any thoughts on why this is?

Tsholo Molefe
We have indicated our leases have gone up, and part of the reason is that we did do a renewal of the tower contracts in Ivory Coast, as well as Cameroon. There obviously have been an increase in volumes in Nigeria, so that would have taken our leases up, and as a result increasing the IFRS 16 capital expenditure.

Thato Motlanthe
Tsholo, another question on SA, can you comment on how much the residential business contributed to postpaid growth? And in the wholesale business, the entire Telkom traffic in KZN now runs on your network. What other regions are you likely to onboard over the next 12 months? We don't disclose the contribution.

Ralph Mupita
Yes, we don’t disclose that.

Thato Motlanthe
On the Telkom traffic, just how are you thinking about the arrangements in terms of wholesale then?

Ralph Mupita
We continue to engage Telkom as we do with Cell-C. Network-as-a-service is part of our strategy, and in South Africa that's where we have started it. So, we've seen good progress. We will take incremental growth as and when it comes. They are looking to renew their wholesale contract. I think it's coming up end Q1/early Q2 next year. We'll sharpen our pencils and see if we can have more than just the KZN province. We've been pleased with the growth there. But we'll continue to try and get more of the growth, because we have the ability to carry that level of traffic, Cell-C on the prepaid side, and then also Telkom but obviously these are competitive dynamics in play.

Thato Motlanthe
Then a question on Nigeria, given the rate of growth in traffic versus revenue, can you comment on the trend in implied effective tariffs, and how does this reconcile to the objective of increasing prices?

Ralph Mupita
We've been at work across all our markets, Nigeria included, in optimising pricing. So, optimising pricing is a loaded term for many things. One of them is to look commercially at promotional traffic that doesn't generate revenue. So, we've been working on that for a couple of quarters now and reducing the kind of free traffic to increase the effective rate per gig.

In Nigeria in recent weeks, we've launched a whole new portfolio of plans, data plans which should support yields, in terms of data. We had the first full month of it in October, so we'll see it in Q4. So these things are all helpful: reduction of some of the promotional activity, as well as new plans.

Fundamentally, given where we see inflation impacts, exchange rate impacts, particularly in network costs, it is still much needed to have – at an industry level – tariff adjustments for both voice and data. That doesn't change. And I know Karl and team continue to engage the NCC on that. Because it's really an issue about industry sustainability. For sure it's important for us as MTN, but you have a four-player market in Nigeria. And if number three and number four cannot generate sufficient cash flow to fund next year's capex, that market can quickly move from four to two, and even to one, that's the message that we are having with the authorities.

We haven't quite got the tariff increase yet, we've been able to launch these new plans, with the approval of the NCC, let's see where those conversations go. We still feel highly convicted that ultimately those tariff increases will come through.

Thato Motlanthe
Thanks, Ralph. And then some questions on MoMo PSB in Nigeria: What do you expect from fintech growth in Nigeria, and why are the cash shortages still being cited as an issue, given that they appear to have abated in Q2?

Ralph Mupita
On MoMo PSB, we are not happy with where we are. Some are external factors and some our own internal factors. On the external factors, I don't think the cash shortages of Q1 and a little bit into Q2 (but certainly not a Q3 factor) have impacted the way that we thought we would see wallet developments for the full year 2023. But that's kind of out the way, what we've been focusing now on is really do quite a lot of investments towards educating the customers, building the merchant ecosystem, etc. That normally takes time, and we've seen that in other markets. It's not a straight-line development, you've got to create a kind of scale effect for it to push through. We still remain convicted that three years out, we should be able to get 30 million wallets, we haven't lost that conviction. But it has been a difficult start, in a challenging macro, and the team will cover that next week in terms of how we remain super excited about the opportunity. But we are probably slightly behind on the rollout and our own expectation of wallets by the year end.

So, how do we still believe it will develop three years out? We think we would have done a decent job at 30 million. We've had a growth now – 3.6 million wallets – so it's a bit of an improvement since H1, half a million additional, we've provided additional investments in this quarter, now Q4, and that's kind of all in the EBITDA margin that we spoke about.

We didn't want to highlight it, in of itself, but it's not an immaterial amount that we put into really accelerate the ecosystem so that we can start seeing the growth of this, particularly Q1, Q2 next year. I think if I annualise it and the EBITDA margin impact of what we call the booster plan, that's just slightly over 0.5% of EBITDA margin for the full year.

Thato Motlanthe
Thanks, Ralph. Then there's a question on strategic progress. Can you just recap the rationale on the planned exits from the three smaller WECA markets?

Ralph Mupita
We periodically review the portfolio to say what fits into the portfolio? Strategically, where can we add value as a group? And how does it align with our capital allocation priorities, as well as the ability for these businesses to be self-standing and so forth? So, there's a whole host of criteria we look at. And sometime back last year we came to the conclusion that strategically, we weren't the best owners of these markets in the long term. Given our risk framework and risk appetite, we were not probably the best owners of these assets. And hence we took a decision following some outbound interest, that we would explore the exit. I think over and beyond the point of those three specific markets, it's important to reiterate to shareholders that we need this group to be able to add value to the markets, and the markets need to be able to contribute to the group in its totality.

So, we do want markets that can fund their own operations, upstream management fees, upstream dividends. You heard Tsholo talk about the Benins, the Cameroons. There's a lot of focus on South Africa, Nigeria and Ghana but what we've seen in this period is the heavy lifting from the other markets: Uganda, Benin, Cameroon and so forth.

So, portfolio optimisation is something that's always ongoing, we've already started, we started prior to these three markets. We did communicate exiting the consolidated Middle East markets and Afghanistan is the only one remaining on those. We are going to try and make progress on those three WECA markets, and kind of prune the portfolio better.

Thato Motlanthe
Thank you, Ralph. Just a couple of questions across financial and strategic, one that says 'would it make sense for MTN to diversify away from EM currencies, is this something that you consider?'. And then, 'you're running on a strong balance sheet, has your net debt to EBITDA bottomed at this level, and where do you see this going in the next three years?'

Ralph Mupita
To be on-strategy, we want to focus our resources on a pan-African strategy. We really believe we can be distinctive on the African continent. Ex-Africa, to be frank with you, the board and I have not applied our minds when we're focused on shrinking the portfolio, and allocating capital

judiciously to the markets where we think we can make a difference. There's part of the portfolio that has much more a euro mix. So you see that in Cameroon, Côte d'Ivoire, those markets, they exhibit inflation impacts that look more like Europe, the currency is pretty stable there. If you look at the performance in Uganda, where inflation has been coming down, it's been a really robust performance – Sylvia and team very well done there.

And then obviously, we have South Africa and Nigeria being the two that drive us. But I think specific to your question, it's not a strategic thought for us to expand beyond our markets. And that's part of a strategy that we've taken, which is that we do want to reduce the exposure of the HoldCo to dollar currency mismatch. This whole tender offer is looking to optimise the company's debt maturity profile and currency mix. So that's where we are and once we've concluded the 2026 bonds, I don't think we'll be talking about the Holdco leverage anymore, we'll just talk about group leverage, because everything is pretty much in rand or in naira, at a group consolidated level. Tsholo, I don't know if you have anything to add?

Tsholo Molefe
I think you've covered it. The focus in line with our capital allocation framework has always been to reduce the exposure to the non-rand debt, which is essentially what we are doing, so hopefully we're able to settle the remaining balance of the 2024 bonds. And then we'll focus on 2026 next year, and then I'm sure that framing of the capital allocation will probably be a different priority order in future.

Thato Motlanthe
Thank you, both. And there is another question, which is almost the opposite of that one: Does MTN Group have any plans to obtain new operating licences in new markets, we have not seen any interest since the interest in the Ethiopian market?

Ralph Mupita
We are always looking. We have an M&A team led by Kholekile. These guys are frantically looking at the globe for opportunities. In-market consolidation opportunities, where do they exist? Where we are number one, we can't take advantage of those. Right now, we're very focused on allocating capital to the organic footprint that we have today, and dealing with the deleveraging, ensuring that we have headroom for the cash dividend for shareholders. But we do look, and what we want to be very disciplined on, is capital allocation to markets, as and when they come. And if something does come up, we will talk to shareholders. But it doesn't mean that we're not looking, we are always constantly looking. But we've got such strict financial criteria that very few ideas have fallen through the sieve. Ethiopia is the one everyone will remember. And I think we did look at the market consolidation in South Africa. So, the team is busy. But the financial criteria create a very tough hurdle for ideas to pass through that we will ultimately bring to the purview of investors.

Thato Motlanthe
Thanks, Ralph. Another question on SA, what was the impact of loadshedding on the SA margin, and how do you see this unfolding going forward?

Tsholo Molefe
As we've previously communicated, it's close to about one percentage point. And I think as we improve the network resilience (and we've seen the improvement in Q3), we should be able to meet the guidance that we've given to the market. So over time, we should be able to improve that going forward.

Thato Motlanthe
A couple more questions on Nigeria: In terms of the pricing optimisation that you're seeing in the new plans, are you seeing a similar level of activity from your competitors in Nigeria? And: Is there anything changing in terms of US dollar availability in Nigeria, and when do you expect this improvement?

Tsholo Molefe
From what we understand, there has been a bit of movement, particularly to the relationship banks. So, we're starting to see some movement there.

With regards to the local banks, I don't think they have seen any specific allocation from the CBN yet. But obviously, we will see how that pans out over the next few quarters. From our perspective, we have not seen any allocation to MTN Nigeria specifically. But we're starting to see some movement to specific international banks, to my knowledge, but very minimal at this point.

Ralph Mupita
The news flow coming out in the last couple of days has been that central bank operations of allocating have started, so that's positive. And to Tsholo's point, you can well imagine that we will be in the queue of foreigners with demands for forex, the so-called 7 billion backlog. Our numbers would probably be there. So, we'll stand behind the queue there. So that's a positive development if it can be sustained.

On the new plans, as I mentioned, in the last couple of weeks we've launched new data plans in Nigeria. These should improve the yields as we get into Q4, come out of Q1. We've launched about 30 plans, so the next couple of months should show whether these are improving the effective rate per gigabyte. So, this should all be positive. But we are still pushing for that kind of base tariff increase. So, this has only been on data, no new plans on voice. As many of you will know, data just exceeded voice in total volume of revenue in Nigeria in August. It's too early to call out fully what the yield will get out of that. But these plans are being sold and been sold for the last four weeks in Nigeria.

Thato Motlanthe
Thanks. The last two or three questions. First one is a clarity point: at what stage might you provide in full for the potential Nigerian VAT amount, what should we be looking out for? Question number two on SA: with the sunsetting of 2G and 3G said to happen over the next few years, what progress has MTN made in shutting down these technologies? And then question number three: any plans to relook at Telkom?

Tsholo Molefe
So, in terms of the provision for the VAT, we will be providing in Q4, because obviously we have received a judgement. So, it is a prudent thing to do a provision. But as we indicated, we are launching an appeal in this regard.

Ralph Mupita
Thanks Tsholo. Just on SA, there's structural trend across the world to move to more 4G, 5G upwards. I think in Africa we will have to have 2G, 4G plus. So, we will need to re-farm the current frequencies we have on 3G over time and create efficiencies. The big thing, and I keep saying this to Charles, is that we should stop selling completely 2G handsets. I mean, if we should really have the government clamp down on 2G handsets, so that for now, there should really be incentives to drive adoption using 4G plus.

So we've done a lot of preparatory work, work with the timelines that the government has indicated around the shutdown, and to the point, medium term this should have quite a lot of efficiency for the networks. 3G is a very inefficient technology, particularly from a power point of view. So, anything that takes us from there, and obviously creates a bunch of efficiencies, 2G, 4G, 5G plus is the configuration that we see five years out.

On Telkom there's nothing to report on what we previously spoke about, in terms of our engagements with Telkom. Nothing at this stage.

Thato Motlanthe
Thank you very much. I think that wraps up the call. I don't know if you've got any final remarks Ralph before we end the call?

Ralph Mupita
Thanks so much for joining Tsholo and me on the call today. I know it takes probably a day or so to read through our SENS and get a bit of a picture of what's happening, and what the outlook looks like. Any further questions you have, please pass them on to Thato.

For the investors who have plans to go to Abuja, we look forward to seeing you from Tuesday onwards next week, where Karl and team will put their best foot forward. They will basically cover the investment case – we still believe the investment case is strong given the nascent demand for both data and fintech services.

I think they will cover in more detail this margin outlook for the year, which then helps you frame what you should anticipate as the margin developments on a 2024 viewpoint. As we said, we would come back with full-year results of Nigeria next year. So anticipate that to happen at the end of January, where we give the guidance. What's important in the guidance, is given where inflation is today, and where exchange rates are, we have a view that the market over the medium term should generate service revenue above inflation.

So, as we said, we would look to update the market on both service revenue and EBITDA margin outlook over the medium term. The team will give you enough to start thinking through that, although they'll only reveal that in Jan.

When we look at the broker notes and commentary, I think another important point we need the team to talk through is the way that we adopted IFRS 16. We took a hybrid methodology, where some of the FX comes above EBITDA and below EBITDA. There've been a lot of questions about why is our P&L more sensitive than other P&Ls, and I think Modupe and team will do a good job to explain that to you guys in Abuja next week.

And we did do a bit of a teach-in when I was Group CFO many moons ago, but I think it'd be good to just dust that up a little bit, particularly around how one looks at that. So much is happening below EBITDA, I think one has to look at EBITDA and PAT at the same time to just understand the economics of the business. All that and more next week in Abuja, look forward to seeing many of you, if not physically, dialling into the call. Thanks so much.

This transcript has been edited for accuracy.

END OF TRANSCRIPT