



MOBILE TELECOMMUNICATIONS LIMITED (“MTC”) **IPO Initial Impression** September 2021



Research Analyst:

Danie van Wyk
danie@ijg.net
+264 61 383 534

Mobile Telecommunications Limited

Initial Impression: Initial Public Offer

Target Price (c)

Current Price (c)

850

Year End 30 June	2018	2019	2020	F2021	F2022	Recommendation	n/a
Revenue (N\$ m)	2,498.2	2,613.7	2,683.3	2,810.3	2,950.7	NSX Code	MOC
EBITDA	1,495.8	1,345.1	1,397.1	1,370.5	1,479.8	Market Cap (N\$ m)	3,124
Profit After Tax (N\$ m)	807.7	797.0	772.4	618.6	718.2	Shares in Issue (m)	750
EPS (c)	214.5	211.7	205.2	164.3	190.8	Free Float (%)	49
DPS (c)	99.4	109.6	259.7	109.8	125.8	52-Week High (c)	n/a
DY (%)	5.9	6.5	9.1	6.5	7.4	52-Week Low (c)	n/a
P/E (x)	7.9	8.0	8.3	10.3	8.9	Expected Total Return (%)	n/a
EV/EBITDA	4.3	4.7	4.6	4.7	4.3		

Source: Mobile Telecommunications Company Limited

Mobile Telecommunications Limited (MTC) released their prospectus for their initial public offering (IPO) in which they plan to issue a maximum of 367.5 million ordinary shares at an offer price of 850cps, which will make it the largest listing in the Namibian Stock Exchange's ("NSX") history. Applications open today and will close on the 1st of November, with the listing anticipated to take place on 19 November. The prospectus highlights that selected Namibian institutional investors provided pre-commitments to subscribe for a minimum of 282.9 million shares at the listing price of 850cps ahead of the IPO, although it should be noted that individual (retail) investors will be given preferential allocation.

Established in 1994, MTC is Namibia's largest telecommunications company, covering 97% of Namibia's population, with an active subscriber base totalling 2.469 million subscriptions, made up of 2.31 million active prepaid subscriptions and 155,000 active post-paid subscriptions. Prepaid subscribers contributed 60.4% of revenue in FY20 at N\$56.30 average revenue per user (ARPU), while post-paid subscribers contribute 23.3% of revenue at N\$340.00 ARPU. MTC notes that while the post-paid subscriber ARPU dropped in FY19 as a result of the adoption of IFRS 15, which resulted in the equipment portion of the subscription being reported separately as handset sale revenue and no longer as part of post-paid revenue.

Important Dates

Prospectus Release: 20 September 2021

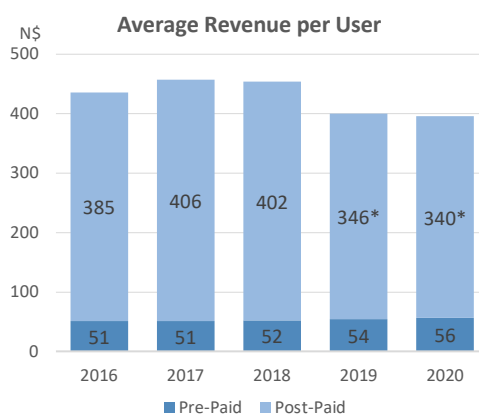
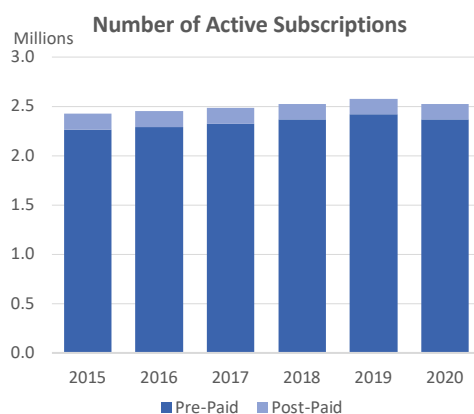
Closing Date of Public Offer: 1 November 2021 (12:00)

Results of the Public Offer Announced: 17 November 2021

Anticipated Listing Date: 19 November 2021

Disclaimer

Please note that IJG Securities (Pty) Ltd is acting as Co-Sponsor of the anticipated listing of MTC on the NSX.

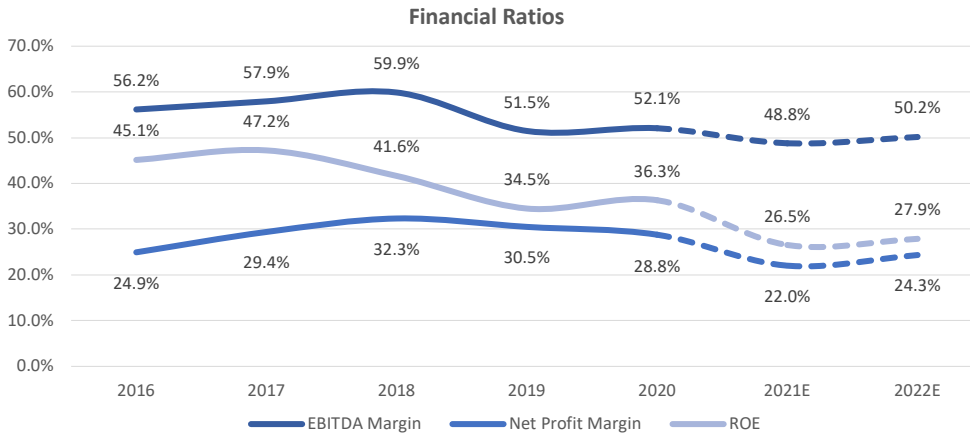


Source: MTC, IJG Securities

MTC, interestingly, has virtually zero debt, with the company managing its funding requirements through retained earnings. While this does signal that the company is cash-flush, it is not a particularly efficient capital structure, as the company is not taking advantage of the tax shield or lower cost of capital derived from debt financing. The prospectus does however mention that the company is investigating "feasible and value-enhancing gearing solutions".

Return on Equity (ROE) has averaged 41.0% over the last five years, while return on assets has been impressively high at 27.9%. ROE could be higher if the company decides to tilt their capital structure to include some debt financing. Despite the economic headwinds, MTC has managed to grow profit after tax at a 5.9% compounded annual growth rate since 2016.

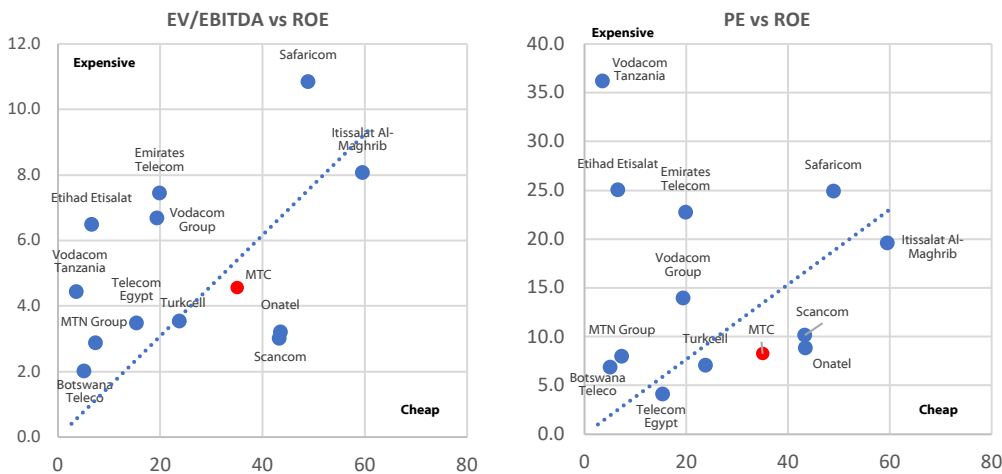




Source: MTC, IJG Securities

MTC does however face some noteworthy risks. Firstly, strict and unpredictable regulatory requirements may dampen MTC’s competitiveness or impact its financial position, particularly in the areas of infrastructure sharing and spectrum allocation. Secondly, the Namibian economy has been in a recession since 2016, with the effect of this being further amplified by the Covid-19 pandemic. This has led to consumer spending and a shift to cheaper prepaid services. Thirdly, the increasing popularity of over-the-top services, such as WhatsApp, negatively affect revenue from MTC’s SMS and voice services. Competition in the telecommunication space has increased over the past decade, and as a result, the industry has more or less reached saturation in terms of the number of customers, which will affect the runway for growth somewhat. Industry directives by the CRAN such as Virtual Network Operators and Mobile Number Portability will further intensify competition if they get implemented.

As the figures below illustrate, at the 850cps price, MTC has one of the lowest price-to-earnings ratios and among higher ROEs in the industry, indicating that the IPO price is relatively cheap compared to the market prices of its peers.



Source: Bloomberg, IJG Securities

MTC’s current dividend policy is to maintain a minimum payout ratio of 70% of profit after tax. Management’s forecast of a 28.08 cents per share dividend for the current financial year translates to a 6.5% forward dividend yield. A full initiation report including a target price and recommendation will follow pending an analysis of the prospectus.





IJG Holdings

Group Chairman
Mathews Hamutenya
Tel: +264 (61) 256 699

Group Managing Director
Mark Späth
Tel: +264 (61) 383 510
mark@ijg.net

Group Financial Manager
Helena Shikongo
Tel: +264 (61) 383 528
helena@ijg.net

Group Compliance Officer
Zanna Beukes
Tel: +264 (61) 383 516
zanna@ijg.net

IJG Securities

Managing Director Designate
Eric van Zyl
Tel: +264 (61) 383 530
eric@ijg.net

Financial Accountant
Tashiya Josua
Tel: +264 (61) 383 511
tashiya@ijg.net

Settlements & Administration
Maria Amutenya
Tel: +264 (61) 383 515
maria@ijg.net

Sales and Research
Danie van Wyk
Tel: +264 (61) 383 534
danie@ijg.net

Equity & Fixed Income Dealing
Leon Maloney
Tel: +264 (61) 383 512
leon@ijg.net

Financial Accountant
Gift Kafula
Tel: +264 (61) 383 536
gift@ijg.net

Sales and Research
Dylan van Wyk
Tel: +264 (61) 383 529
dylan@ijg.net

Sales and Research
Josh Singer
Tel: +264 (61) 383 514
josh@ijg.net

Sales and Research
Kimber Brain
Tel: +264 (61) 383 514
kimber@ijg.net

IJG Wealth Management

Managing Director
René Olivier
Tel: +264 (61) 383 520
rene@ijg.net

Portfolio Manager
Ross Rudd
Tel: +264 (61) 383 523
ross@ijg.net

Money Market & Administration
Emilia Uupindi
Tel: +264 (61) 383 513
emilia@ijg.net

Wealth Manager
Andri Ntema
Tel: +264 (61) 383 518
andri@ijg.net

Wealth Administration
Lorein Kazombaruru
Tel: +264 (61) 383 521
lorein@ijg.net

Wealth Administration
Madeline Olivier
Tel: +264 (61) 383 533
madeline@ijg.net

Wealth Manager
Wim Boshoff
Tel: +264 (61) 383 537
wim@ijg.net

IJG Capital

Managing Director
Jakob de Klerk
Tel: +264 (61) 383 517
jakob@ijg.net

Business Analyst
Mirko Maier
Tel: +264 (61) 383 531
mirko@ijg.net

Business Analyst
Lavinia Thomas
Tel: +264 (61) 383 532
lavinia@ijg.net

Value Add Analyst
Fares Amunkete
Tel: +264 (61) 383 527
fares@ijg.net

IJG Advisory

Managing Director
Herbert Maier
Tel: +264 (61) 383 522
herbert@ijg.net

Director
Jolyon Irwin
Tel: +264 (61) 383 500
jolyon@ijg.net

Aldes Namibia Business Brokers

Broker
Ursula Gollwitzer
Tel: +264 (61) 383 535
ursula@aldesnamibia.com

Broker
Richard Hoff
Tel: +264 (61) 383 500
richard@aldesnamibia.com

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4th Floor, 1@Steps, C/O Grove and Chasie Street, Kleine Kuppe, Windhoek

P O Box 186, Windhoek, Namibia

Tel: +264 (61) 383 500 www.ijg.net

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