



MTN Nigeria Plc



Market MEMORANDUM

**Beyond The Noise: MTN's Post Listing Reactions,
Gaps in Rules and Lessons Learnt**

May 2019



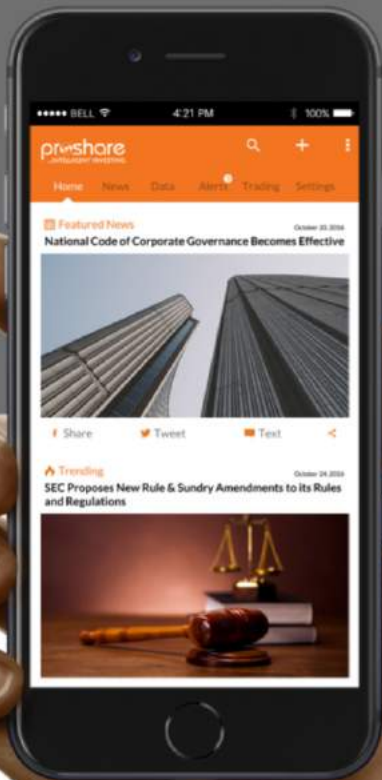
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Executive Summary

"Your thoughts carry you wherever you want to go. Weak thoughts don't have the energy to carry you far!"

- Israelmore Ayivor

A significant milestone was achieved on **May 16, 2019** when MTN Nigeria Plc (a part of the MTN Group headquartered in South Africa), Africa's leading cellular telecommunications company listed 20.4bn units of its ordinary shares on the floor of the Nigerian Stock Exchange (NSE). It was exactly eighteen (18) years ago, specifically **May 16, 2001** that MTN became the first GSM network after paying \$285m for one of the four GSM licenses issued by the Nigerian Communications Commission (NCC) in January 2001. It launched its full operations in August 2001.

The road to this listing has been a long journey and thought the road finally taken to achieve this speaks to the challenges around efforts to establish a nexus between economic sector players and the market, the arrival was welcomed by all stakeholders in the capital market.

In the first day of trading, MTN's stock price rose by 10% from the listed price of N90 to a day one post-listing price of N99 after a few minutes of 'trading'. This appeared to ordinarily reflect a consequence of the momentum built up around the stock. This show of strong market momentum continued on the next day with the equity gaining a further 10% leading to a second day closing price of N108 per share.

Over the weekend however, word on the street had it that brokers in the market were concerned about the speed at which the stock was gaining daily value against the background of the 'slim' volume of shares available for trading. By the night of Sunday May 19, 2019; the NSE caused to be sent, a Public Notice addressing head-on what it understood to be misplaced concerns from the brokers community which having filtered into the public space required a response. NSE's notice represented that the accusations about the market being rigged and that MTN shares were either being hoarded to promote a higher share price or that the Exchange was complicit in the refusal of existing shareholders of the company releasing larger volumes for trading; was inaccurate.

NSE represented in the aforementioned release published by Proshare that:

“Since the listing of MTN Nigeria on Thursday, May 16, 2019, a total of 105,301,759 shares valued at N12,231,997,316 have traded in three (3) days. These trades were carried out by ten (10) Dealing Member Firms in 134 cross deals/negotiated deals.”

The Exchange went on to explain that, “According to the Rulebook of The Exchange, when a Dealing Member or Authorized Clerk has an order to buy and an order to sell the same security at the same price, the Dealing Member or Authorized Clerk may “cross” those orders at a price

at or within The Exchange's best bid or offer. A variant of this is the negotiated deal, which describes a situation where a cross deal is executed between two Dealing Member Firms at a price which may be within The Exchange's best bid or offer or with the approval of The Exchange, outside the best bid or offer”

Obviously worried about the extent to which most of the transactions on the stock were done by way of cross deals, the Exchange further noted in its release that, **“Because cross deals involve clients of the same Dealing Member Firm on both sides of a trade, significant issues have been raised that Dealing Members who have not been involved in the cross deals have been unable to trade on behalf of their clients. The Exchange is not unconcerned about this state of affairs. Indeed, Council members of The Exchange urged brokers to discuss with their clients about possible sales of shares.”**

This response by the Exchange appeared to confirm the concerns ab initio.

For some, it was condescending, as it suggested that the Exchange was not in a position to ensure that the listing company complied with the norms and accepted market etiquette of selling some shares on the floor of the Exchange at the point of listing as was the case with the previous listing by introduction; a case in point being that of DANGCEM on October 26, 2010. Other stakeholders described the admittance as an error of omission, rather than commission given the expediency of the listing. Either way, whatever blind spots about and around the potential price distortion that could occur, if the company decided not to offer a 'feel good' number of stocks to satisfy investor's short-term expectations and long-term aspirations has manifested and it is important we approach the fall-out from a market learning perspective.

On the third day post-listing, Monday May 20, 2019; the stock had gained a further 9.96% to close at N119.75 per share in apparent disregard to the Exchange's concern. MTN Plc also found it necessary to issue a public statement on the same day, to address concerns as it affected the company and its listing.

By Tuesday May 21, 2019 when the market gained another 9.98%, *Proshare's* Market and Intelligence Unit was inundated with enquiries from stakeholders seeking for information, explanation and insight over what was clearly an agitation over practices or conduct that suggested an overreach or stretching of the rules of engagement on MTN's share price. The key message discerned was the threat of a breach of sensible market thresholds with MTN's daily average price increases by just under the 10% limit, resulting in a 60% capital gain within four (4) days of trading.

Providing Clarity

It was against this background that Proshare decided to seek answers to the underlying questions with a view to gaining an understanding of the facts, gather evidence and provide clarity to its audiences. The analyst team was expanded and mandated to contact a network of financial market professionals and entities involved in the listing value chain to obtain clarity

about MTN's share price movement(s), the lack of traded liquidity in the stock resulting in perceived abnormality in daily price movements and the notion of a contrived scarcity in a play to game the market.

This market memorandum reflects our modest effort to meet the above objectives.

A foundational truism established was the motivation behind the listing by introduction route taken. As trite as it may be, it is pertinent to establish that MTN's earliest inclination (preference) was to list its shares on the NSE by way of an Initial Public Offering (IPO) which would have ensured that the company was priced within a valuation model that would have choked off excess demand and allowed for adequate market liquidity. The decision to adopt the LBI and expeditious listing are better explained by the company and the approving authorities; even as we postulate on the linkages in section 1.4 of the market memorandum.

That the prices moderated on Thursday offers a sign that reason and a return to normalcy may be on its way. The indicators are that MTN's share price will settle between N150 and N180 per share as the stock's daily price increase fell from **9.8%** on Monday to **2.87%** on Thursday 23, May 2019; as at the time of signing off on this report. The slowing down of price growth suggests recalibration of the balance of power between sellers and buyers; but more importantly, a cessation of a situation where only one house transferred the shares from nominee account(s) to the beneficial owners and invariably kept increasing the price without selling a single unit to the market.

Buyers are now less enthusiastic to buy at the higher prices while sellers continue to assume that they still command a dominant negotiating position. By Thursday, the market began to see the first signs of open trading (in contrast to the earlier closed cross deals). The pay-off play between both buyers and sellers will establish a temporary equilibrium that may hold until the company announces a date for its IPO.

Nominal Share Price of 2kobo

Not a few brokers expressed concerns about the nominal price of No.02kobo for MTN. It is our contention that the rules of The Exchange allows companies to list at nominal values below the previous minimum of 50 kobo per share. That said, MTN chose to list at a nominal market value of 2kobo per share, even though the nominal value prior to listing and as contained in the company's listing memorandum was 100kobo per share. The communication of this would have addressed the curiosity of the market even as a re-read of the rules offered clarity for the professionals and market enthusiasts interested in due process.

Late Announcement of Listing Date

Similar to the observation above, concerns and dissatisfaction with the timing of the listing, premised on the claim that a one-day notification of the listing of an offer of MTN's magnitude was inadequate; appears factually incorrect. The brokers' network had been intimated about

the listing of MTN stocks on the NSE, at least a week before the Thursday 16, May 2019 date.

If there was a point of convergence we were able to establish, it was that MTN and its advisers were unable to make firm statements on a specific listing date much earlier, due to a lot of back-and-forth between the company and the Exchange over a precise date. This would appear not to be an uncommon development experienced by companies wishing to list on The Exchange, neither should it have appeared unusual for brokers.

That said, there is a clear need for The Exchange to develop a smoother approach to diarizing market listings to provide investors with early guidance on market action. The absence of clarity over listing date and lateness in updating brokers on the nature and terms of public offers is unhelpful to building a culture of market transparency and efficiency for which the NSE appears committed to.

The need for faster response to specific market changes and general market developments (that is price sensitive) has been established in this case. Both SEC and the NSE would have to include in its annual review mechanism, a process for reviewing market developments as a basis for rule and internal governance practice modifications. No clearer incentive is needed that the example provided in this case study where a nominee account manager crossed tens of millions of units of a listed stock over a four day period amongst existing nominee account holders at a 10% upward price adjustment on a daily basis resulting in upwards price movements.

Fair practice and transparent governance demands that such transaction execution ought to have been administered as follows:

- ❗ The nominee manager of MTN shares transfers such shares to a designated Registrar;
- ❗ The Registrar on receiving the shares and schedule of share ownership would deposit the shares with the Central Securities Clearing System (CSCS) before the public listing of the shares; and
- ❗ The CSCS would create a digital registry of beneficial share ownership and make those shares available to holders either in an ordinary or special account.

By not transferring the shares in the nominee accounts of existing shareholders to a Registrar and the CSCS; it invariably created a trafficking of MTN shares in an opaque market arrangement that forced up the price of the company's shares on the basis of shadowy considerations.

Stretching The Rules of Listing Creatively

Whilst it would appear no rule (without prejudice) was broken by the Nominee Account manager/financial adviser, the spirit of openness and fairness was compromised. Though MTN was not required to offer existing shares to the general public from its listing by way of introduction, it was quite a bold move for the Nominee/financial adviser to begin trading in the

stock and crossing shares among existing shareholders while moving the market price of the company up by 10% on a daily basis, whilst the shares were not with the registrars/CSCS. This created an obvious situation of price discrimination against prospective shareholders who did not have access to the shares at the time of listing but would have to pay an **oligopolistic** market price when the shares become available to a wider community of buyers and sellers.

The nuanced determination of share pricing within this off-market context needs to be addressed by both the SEC and the NSE to avoid a repeat of a situation that deliberately discriminates amongst different groups of shareholders. The problem is not that of legality but one of equity, fairness and good governance. The act (either by omission or commission) of allowing some investors get a head start in earning capital gains within a supposedly fair market context goes against the spirit, if not the letter of the stock market's central ethos of providing a platform for the free competitive trade in assets, where price is determined by the dynamics of unfettered demand and supply. A carefully controlled and choreographed process of price bulging cannot be seen as consistent with the NSE monitored market.

It has been argued and evidence advanced, that an option, open to MTN and should have been advanced by the financial advisers was the creation of additional shares by increasing the authorised share capital to the extent of free float it intend to make available on listing date. This, they contend was achievable during the timeline established for the listing.

Understanding Cross Deals and MTN's Share Price Increases

The major storm over the lack of market liquidity in MTNN stocks may have blown over from Thursday as reduced price momentum appears to be headed towards a market correction of MTN's enterprise value. The issue of dominant cross deals on the shares of the company over the past week however still leaves unanswered questions on why the market the price of the stock continued to rise despite the fact that most of the transactions were completed off-market? Which stocks were cleared-for-trading on these days? Who precisely was selling the stocks?

The latter question is important because it speaks to the transparency of the share pricing process since it is an open secret that over the past five trading days; existing shareholders of MTN have not been in the mood to offer their shares for sale. Answering the question of how the market suddenly found shares for offer on Thursday after investors and brokers alike bitterly complained about the lack of the stocks liquidity would be a good starting point?

This goes to the heart of the problem about market governance and transparency within the context of the latent capacity of well-heeled investors to exploit the weaknesses within the existing listing architecture to make huge value gains at the expense of the rest of the investing public. Cross deals normally do not influence share price movement on the Exchange (caveat: except they are in excess of 10,000 units as has been the case with MTN) as they are usually 'sweetheart' arrangements between investors that are clients of the same stock brokerage firm. The cross deals done by the Telecom giant's Nominee managers over the past week has brought

to the fore the need for the apex capital market regulator and the NSE to insist on companies coming to the bourse for listing to demonstrate good faith and commitment to fair practices by transferring nominee shares to a Registrar in preparation for trading.

We believe there exist another opportunity for this upon the resolution of issues between the AGF and MTNN over an alleged \$2bn charge. The company would be free to list by way of an IPO and this should in turn create opportunities for wider public ownership.

Section 1 of this report reviews the listing process of MTN and regulators response to alleged market manipulation. While no case of outright wrong-doing or illicit manipulation was established, the manner in which MTN's Nominee account manager/financial adviser was allowed to cross several million units of the company's shares at incremental rates of 10% per day for four days was a strong pull at the limits of elasticity of the understanding and concept of share price manipulation. After reviewing the extraneous factors around the listing, the report concluded on the need for a review of the listing conditions that refer to listing companies providing free float of 20% or a market value of N40bn on the date of listing. This rule appears not to reflect the **size of a premium board listing**. In the case of MTN for example, the entity listed 20.4bn units of shares on the floor of the Exchange at N90 per share which meant it was very easy to meet the N40bn rule, just as most entities contemplating and qualified for listing on the Premium Board will equally easily scale the N40bn threshold. This invariably means that there is **no incentive to comply with the 20% free float rule**. This situation would create the challenge of an early spike in listed share prices of new stocks listed on the Premium Board if not addressed. Finally, the message/lessons deduced here points to the need to reduce the shelf-life of NSE's rules in a dynamic environment where smart investors and players have the capacity, resources and willingness to continually test the robustness and pliability of the rules as evidenced in this case.

Section 2 of the report takes a look at the pace at which the regulators seem to lag market operators in revising market action, enabling unusual market conduct that unsettles traders and investors alike. The section takes a detour by looking at how adversarial investor action supported by financial advisers could destabilize the time-worn niceties of public listing, thereby, creating a classic Nash equilibrium problem or what some people prefer to call a prisoners dilemma. The section also takes a look at the consequence of the delay in the resolution of the company's problem with the Attorney General of the Federation (AGF) and its sundry contingent liabilities and their likely effect on future share pricing.

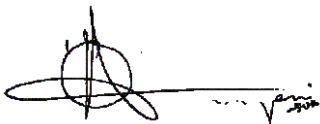
Section 3 takes a deeper dive into the issue of free floats and how it may likely impact fair market pricing. The ability of a company to list on the NSE without creating a framework for establishing a free market determined price for the shares breaks notional rules of market transparency and price fairness. This is not a statement about whether the practice of listing without tradable security is legal or not, but it is a conceptual review of the spirit of trading in assets claimed to be public. It would appear to be a grave anomaly for shares to be publicly listed but unavailable for trading. This is regardless of whether the shares came to the floor by way of introduction or public offer. The concern is that assets on a market must be priced within a framework that open enough and can be understood by the average investor based on publicly

available information. The information asymmetry that characterized the listing of MTN shares could have been better, with the benefit of hindsight. This is not a revisionist approach but a 20/20 reflection that offers an opportunity for market regulators to tweak existing market rules to ensure that a similar situation of market rule stretching does not reoccur.

Section 4 looks at the forward earning potential of the company and reviews Q1 financials with a view to understanding the primary corporate growth points and adjusted free cash flows that will likely affect the company's future market price. The section also looks at the company's business strategy, competitive market space, accounting practice and its recent activity timelines that could impact performance.

Section 5 concludes the report and summarizes the outcome of *Proshare's* investigation into the listing of the company and events that have served as postscripts to the offer. It makes a few bold statements about investor protection, regulator proactivity and the elevation of market governance practices. The report is complemented by relevant references and links for further reading.

We hope you find the report useful. Thank you.

A handwritten signature in black ink, appearing to read 'Olufemi Awoyemi', with a stylized flourish at the end.

Olufemi AWOYEMI

Market Concerns and Findings

The listing of Nigeria's largest telecommunications firm, MTN, on the local bourse (NSE or The Exchange) is to all intents and purposes, a game changer; it was one of the many long in the works listings that finally came to fruition.

With the advantage of establishing a nexus between the firm and the public, it is able to build on the affinity with consumers (investors) as it expands into the mobile money business, serving a unique market segment that is headed northwards. MTN should be in poll position of market competition as it build upon the investor benefit proposition.

The last four days of trading however has revealed the highs and lows of being a public traded company. The Telco's stock price has jumped from its listing price of N90 per share to N149 per share by Thursday May 23 2019. The reaction that ensued offers both a teachable moment and a learning opportunity.

1.1 A Market In A Muddle

In reaction to the audible complaints from the brokers' community about spiraling share price (*the stock gained 20% in its first two days of trading*) in the absence of liquidity in tradable shares of the company, the NSE noted in a public notice that MTN's listing procedure was consistent with its rules regarding Listing by way of Introduction and that no special consideration was given to the telecommunications giant.

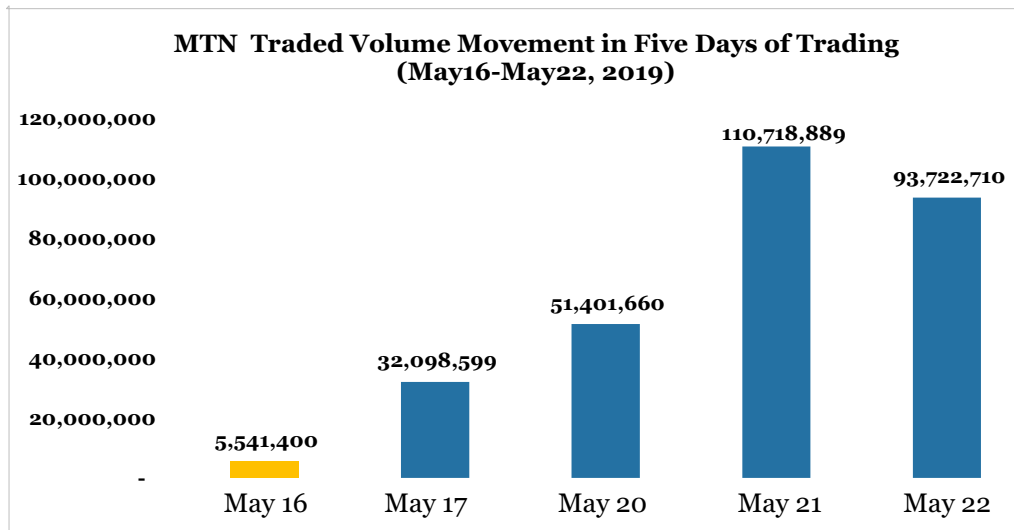
The Exchange stated that: *“MTN Nigeria Listed by Introduction. Where a company lists following an Initial Public Offering, shares are expected to be available for trading on the day of listing. **In a Listing by Introduction, however, no shares have been offered for subscription by the company prior to listing. Thus, without any intervention, it is possible that there will be no shares available for trading on the listing date. Indeed, currently, no rule of The Exchange compels shareholders in a listed company to tender their shares for trading. Shareholders are at liberty to trade their shares at any time and price suitable to them. Thus, in order to stimulate trading in the shares of companies that List by Introduction, the NSE's practice is to urge the company to make shares available on the day of listing.** In the case of MTN Nigeria, the NSE had requested the Company as part of the listing process to make shares available and The Exchange **expects** the company to do that.”*

This response from the exchange, a self-regulatory organisation, surprised not a few. For one, The Exchange could have ensured that at least 2bn units or about 10% of the 20.4bn units listed was available for day-one trading, or as officially agreed with the MTN Board and the shares warehoused for trading before the listing date. This is standard practice or deemed to be a fair

practice. To do otherwise would appear to either be a failure of negotiation or/and a misreading of the consequence of not doing this by the regulators and company itself.

The responsibility for pricing stability, monitoring and determination resides with the Exchange. 'Stability' does not and should not connote 'control', but it establishes a well-modulated and generally acceptable framework for the purchase and sale of MTN's equities allowing for a modest day-to-day rise in the company's shares or a large one-off leap that allows the market to cool off over a number of trading sessions, as marginal investors fade away at increasingly higher unit prices.

Chart 1 –MTN Traded Volume May 16-May 22, 2019



“Traded volume rose for 4 straight days before a reversal on the fifth day”

Source: NSE/Proshare Market

The problem with the approach adopted for MTN's Offer by way of Introduction, according to market professionals, was its systemic validation of enlightened self-interest of existing shareholders of the company, projection of conflicting investor interests and the 'aiding and abetting by omission' of market exuberance.

They reason, and we agree, that blame for the current imbroglio however must be equally shared across the market value chain, for trading in a cloud of aspirational desires which led to the dumbing down of institutional processes.

1.2 NSE: Good Intentions; Weak Execution

The NSE has been a hardworking and consistent promoter of market growth and development over the last decade, seeking to establish the nexus between the economy and the capital market; led by Oscar Onyema, its chief executive. We have no reason to doubt the management's motives, desire and commitment to best practices and the institutionalising of a virile, corporate governance propelled and technologically driven exchange.

At times, The Exchange, however, gets in its own way and in its hurry to see the actualization of its mission, it has the occasional slip-ups, which as a learning organisation it recovers from and resets itself to better address.

This seems to be the case with the MTN listing. It appears to discerning members of the investing community that The Exchange should have pre-empted the post-listing bid pressure on the company's equity (as part of its risk management diligence) and ensured that a market support mechanism was put in place to require existing shareholders of MTN to show 'good faith' by offering up about 5 - 10% of the 20.4bn units of ordinary shares outstanding for trading on the floor on the day of official listing, the exigencies notwithstanding. This would have meant that about 1bn - 2bn units of shares would have become readily available for trading in the first week of the listing; salving the pent thirst of new shareholders able and willing to buy the shares at prices ranging from N90 to N150 per share.

The Exchange correctly noted that MTN has not broken any rules concerning the paucity of shares offered for trading on the floor of the Exchange. Whilst this is true that the letter of the rules have been respected, the spirit of the rules and practice guiding price actions appear to have been left unattended to. **The whole reason for ensuring that market float exists is to allow for a proper price discovery process; not allowing for free and regular trade in a company's shares based on established norms voids this key characteristic of a transparent and efficient market.**

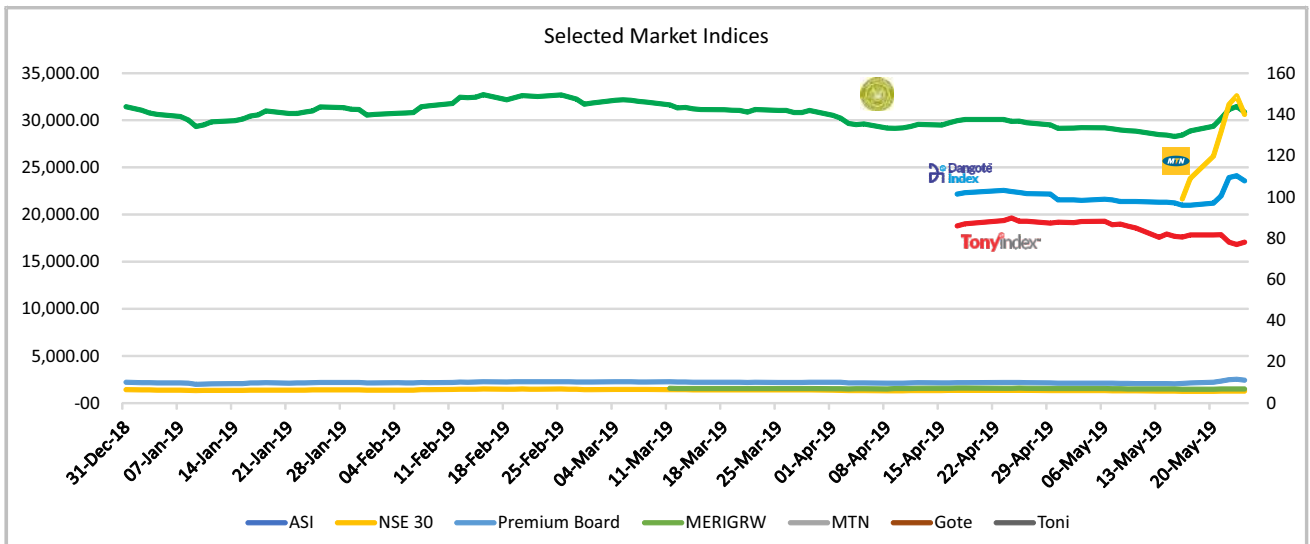
The NSE's heart seems to have been in the right place but its thoughts appear to have been consumed by the excitement over the potential addition to market capitalization that MTN would bring and the possibility of reversing the downward trajectory of the All Shares Index (ASI) for the remaining part of H1 2019. These expectations have been borne out by market trends since May 16, 2019 when MTN listed its shares (see table and illustration below which shows the correlation between MTN's gain and NSE ASI).

Table 1: NSE ASI WoW Growth

Date	NSE ASI Index	% Change
16-May-19	28,438	
22-May-19	30,218	6.26%

Source: NSE

Illustration 1: Selected Indexes vs. NSE ASI



Source: NSE Official List/ Proshare Markets

1.3 Investor Indolence

While the NSE may, in a sense, be said to have been stuck in the letters of the rule over its responsibility to ensure price stability in early trading in MTN shares, new investors were blind-sided by the absence credible market information. Contrary to some perspective, new investors were not indolent, they were simply helpless.

When The Exchange announced the listing of the security, it would appear even if brokers and their clients took a pause to ask pertinent questions about the volume of shares guaranteed for early bird trading or the likely price at which those shares will be listed; they had no power to influence decisions taken by the company and its financial advisers. If people did ask questions, and answers were not forthcoming; it would be proper to look into the channels in place for expressing such important observations and improve on them.

From the outside looking in, it appears that the euphoria of listing lured most into a blissful slumber, which is not surprising given the herd culture around investment decisions. The awakening occurred after Friday's trading last week (at least publicly) when word started getting around about the thinness of shares available for trade, and a subsequent uproar of market manipulation became the noise that drowned out the initial excitement.

1.4 Clever Advisers; Defensive Pricing

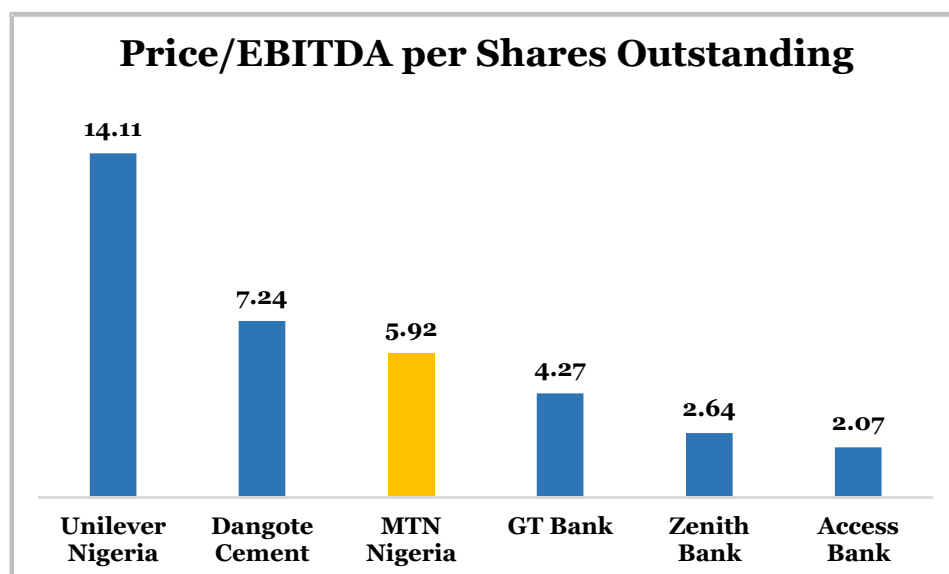
The Advisers to the Offer would appear to have engaged in a clever sleight of hand by applying a defensive pricing process. Investigations suggest that in order to avoid problems related to issues surrounding contingent judgment liabilities related to disputes with the office of the Attorney General of the Federation (AGF), the advisers chose a low-base price of N90 per share as the listing price. *Proshare's* interpretation of sourced intelligence suggests that the

relatively low entry price was a tactical manoeuvre to dissuade existing shareholders from offloading equities to third parties who may have the means of cornering a significant proportion of these equities at a higher price, thereby allowing politically exposed persons (peps) take large stakes in the company. This would appear reasonable under the circumstances to avoid problems associated with the disruption of the smooth operations of companies which befell other politically exposed entities in the sector. If there is a group much more interested in the sellers and buyers of this stock beyond the market anomaly described in the report, the smart money will be along these interests. We however situated this observation under 'conjectures around the evidence'.

The concluded equity price of N90 per share for MTN on Introduction at the NSE was about -18% lower than the recent company valuation carried out by *Coronation Merchant Bank's Research Department* for example; using a discounted cash flow (DCF) corporate valuation technique. Coronation's cash flow assessment placed the value of the company (before adjustments for contingent liabilities resulting from challenges with the office of the AGF) at N110 per share.

MTN appears to have thus been listed at a price of N90 by financial advisers to reflect both the interest of preference share holders whose holdings were deducted from the shares outstanding as at the time of listing and the off-market (unlisted) traded value of the equity of \$13 per share (*down from \$24 per share before the 2018 penalty charge*). The advisers, who must have realised that a lack of liquidity in the secondary market would drive the stock's price up as Nigerians raced for a piece of the pie, have since urged investors to wait until the future IPO before jumping into a buying binge. Yet, it still does not explain how the limits of market fairness was stretched by engaging in serial cross deals that 'qualified' to push up the price of the stock by as much as 10% daily for a week.

Chart 2: Price/EBITDA Per Share (FY2018)



“P/EBITDA for selected companies on NSE Premium Board”

Source: Audited Financial Statements FY 2018

Understandably, the admonition of the Financial Advisers is lost on investors as many perceive the cross deals done by the Nominee Manager/Financial Adviser to the offer as front loading capital gains to the benefit of existing shareholders.

Sources within the advisory network represented that *“MTN is a long term play and the current market frenzy though admirable is unhelpful. MTN trades at about 5 times its earnings before interest and tax or EBITDA which is relatively cheap based on global standards for Telcos that typically trade at 7 times their EBITDA, but more importantly MTN has significant headroom for added growth in operational earnings on the basis of Nigeria's domestic demography and service use”*.

“Nigeria has one of the youngest demography of all MTN markets and with a relatively low data use density on the platform, raising data usage among so called netizens and tech migrants will pull in the big future revenue numbers. Nigeria's average age of service user is 18; this means that there is an additional 7 to 10 years of rapid growth for investors to benefit from if they buy the company's stock even at a price higher than the current N131”. This is a stock that parents need to buy for their children with a long term game plan in mind”.

This is a classic case of 'asymmetric market information' where some investors have access to better all-round information on the intrinsic value of an asset than others and are taking strategic decisions on the basis of this understanding. This explains why investors have had to set up camp outside the offices of stock brokers in a mad rush to buy the shares of the Telco, despite the fact that the market rules and existing shareholder preference continues to keep a large chunk of the company's stock off the floor for the Exchange.

So far about N20bn worth of MTN shares have been traded in the last five days mainly via cross deals; meaning that a broker buys and sells shares on behalf of his or her own client within the same firm. This narrows the opportunities for new shareholders to buy the stock on the floor of the bourse. To address this problem the Exchange may have to consider fresh insights into managing LBIs in future.

1.5 NSE's Fresh To-Do-List:

- 📌 Draw up new rules concerning cross deals by ensuring that at least 10-20% of the shares of a company available for offer by existing shareholders which must be offered on the floor of the Exchange. For example, an individual with one million units of MTN shares for sale at the prevailing market price must offer for sale at least 100,000 of those units to traders on the open market floor while whatever amount he/she desires can be crossed by his or her broker within the brokerage firm, subject to price trigger rules.
- 📌 Insist that any company wishing to list on the market by way of introduction must be prepared to sell at least 5% of the shares of existing shareholders on the floor of the exchange on the listing date; this will be a condition precedent to any

listing by introduction.



Review the listing conditions that refer to listing companies providing free float of 20% or a market value of N40bn on the date of listing. This rule is not reflective of the **size of a premium board listing** for example. MTN listed 20.4bn units of shares on the floor of the Exchange at N90 per share it was easy to meet the N40bn rule and most companies contemplating listing on the Premium Board will equally easily scale the N40bn threshold, meaning that most will have **no incentive to comply with the 20% free float rule**. This would create the challenge of an early spike in listed share prices of new stocks listed on the Premium Board.



WebTV

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The Regulators Burden



The Regulators Burden

In Proshare's August 05, 2010 market Memorandum titled "*A Future Foretold - NSE and the Challenge of Self Regulation*" we posited that "The Regulators of the NCM i.e. the SEC and NSE are almost silent about its biggest apparent failure, just as public attention on the failure is at its greatest." This was an extract publication from the August 21, 2009 comprehensive report on the financial crisis aptly titled "– *The Bull in the China Shop – A New Paradigm in the Nigerian Financial Markets*" which detailed case studies around the nexus between regulation, brokers, investment community and the exchange. As reasoned in section 1.2 above, The NSE's responsibility for ensuring a credible, robust and reliable price discovery mechanism remains ever so crucial.

Prior to the listing of MTN by way of Introduction, the responsibility for insisting on an order to guarantee a credible post listing price discovery process was that of the NSE.

The options for this, amongst other mechanisms, can be in two ways, viz:

- ❶ The existing shareholders needed to sell at least 5% of their current holdings in MTN on a pro rata basis. This means that existing shareholders will make available /sell off 5% of their equity holdings to other entities.
- ❷ MTN creates additional shares for the sole purpose of meeting minimum float requirements for post-listing trading by increasing the authorised share capital to the extent of free float it intend to make available on listing date.

The Exchange should have committed MTN's Board to a firm IPO date; this would have slaked off anxiety built into the recent pricing of the stock. The problem here, however, is that because of the issues with the AGF and the company's reluctance to list an IPO with a contingent exposure that does not factor the liability into the company's share price, prevented it from setting an IPO date, according to the company's management.

The consequence of a non-action on float has exposed The Exchange to an unnecessary accusation of deliberately permitting MTN's shares to rise in a sustained manner on the basis of poor availability of tradable shares. There was no evidence to support such a claim from our enquiries so far.

The unintended consequence, however, is reflected in the outcomes, where it appears the bourse's posture played into the hands of some existing shareholders of the Telco, who are likely to refuse or not motivated to sell their stocks until the price reaches a "trigger" value at which they can cash out at significant premium ahead of a(ny) potential IPO.

2.1 MTN's Prisoner Dilemma

Economists will recognize this problem as a traditional *Nash Equilibrium* problem (equally referred to as a prisoner's dilemma).

How do you enable new shareholders buy at lower than existing shareholders required “trigger” price (whatever that is) without making existing shareholders “feel bad”. The global optimal solution is a price that allows new shareholders buy into the company without making present shareholders worse than before. Present shareholders in MTN have no reason to want to sell large chunks of their shares in the company while new shareholders have every reason to want to buy MTN shares as long as market value is below a discounted cash flow (DCF) valuation of the company's shares of a one year forward earnings basis. Both forces are clear about each other's intention and strategy and at the moment have no reason to shift ground. However, existing shareholders have a dominant play, placing them at competitive market advantage.

In this context the NSE and the Securities and Exchange Commission (SEC) have the opportunity to reflect on what they could have done better.

Table 2: NASH Equilibrium-A Primer

		SELLERS	
		SELL MTN STOCKS@N144	NOT SELL MTN STOCKS@N1.44
BUYERS	BUY MTN STOCKS	1,1	0,1
	NOT BUY MTN STOCKS	1,0	0,0

Source: Proshare Content/Research

 Optimal Strategy

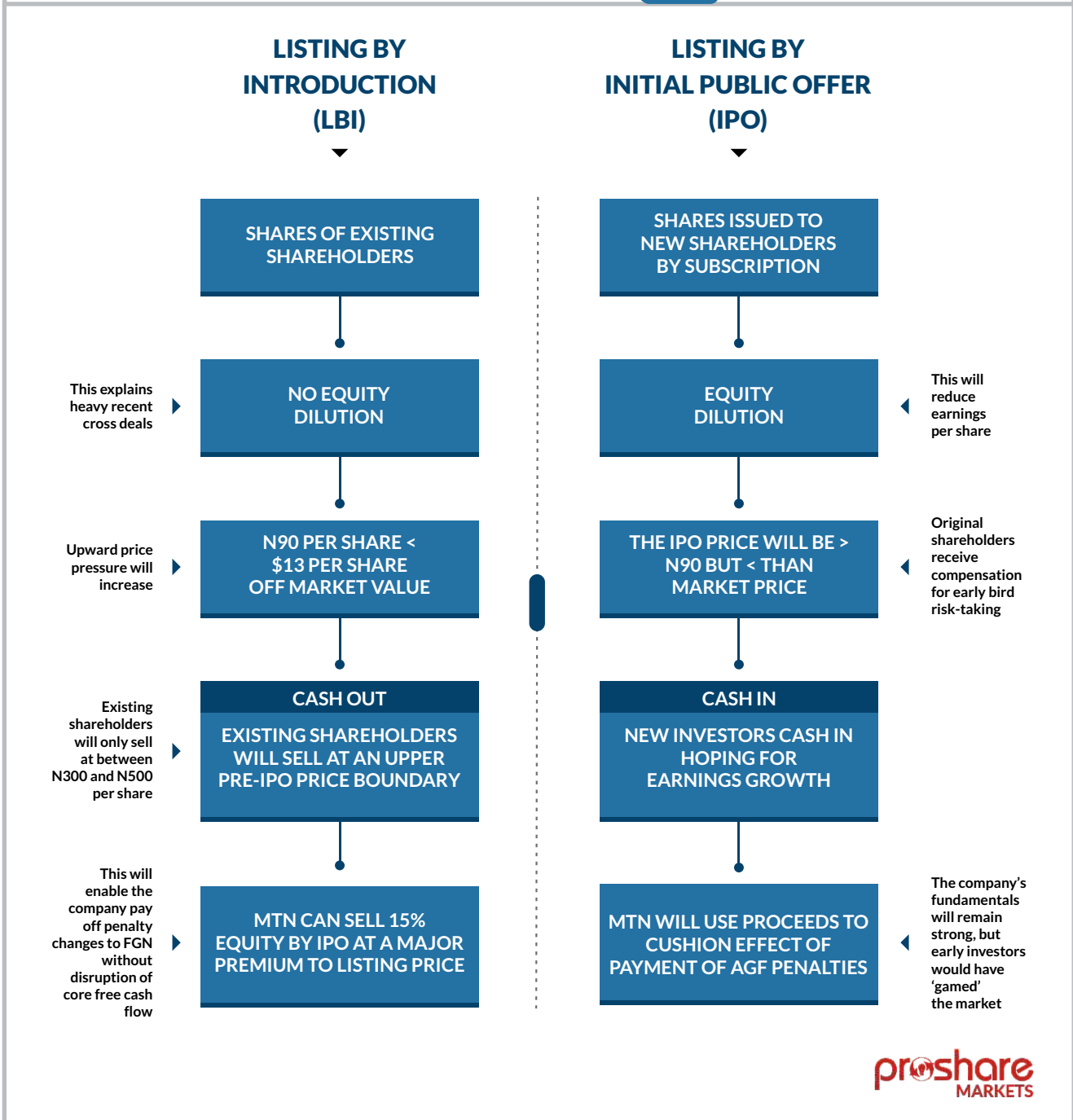
There is often never a Nash equilibrium in the stock market; which is why the market is so volatile since people go there to make profit from superior market information or unconventional strategy or both. If sellers decide to sell and the investors decide to buy at current market price, both are better off as both the sellers and buyers gain. But, if buyers decide to buy and sellers decide not to sell; this will propel the share price to rise as demand for the shares is higher than the supply (as with the case of MTN share even at N144 per share or 60% above its listing price). This scenario will make sellers better off as long as prices continue to rise, and buyers worse-off due to the competitive demand for MTN shares.

If buyers decide not to buy but sellers decide to sell, the few buyers willing to buy will thus create a situation of more supply and less demand. This can result in a drop in share price and will lead to buyers gaining and sellers losing. If however, the buyers decide not to buy and the sellers decide not to sell, no one is better off and no one is worse off (a temporary option that we believe was preferred by Financial Advisers to the 2019 MTN listing).

It is left to sellers to take profit from dividend payments which are not predictable and buyers to decide if they want to hold on to their cash or invest in other assets. This is a complicated Nash equilibrium solution involving a mixed strategy. The case of **(buy, sell)** involves a lot of risk and requires trusting the buyers that they will be willing to buy based on previous market trends. The case of **(not buy, not sell)** however, involves less risk for the sellers and less risk for the buyers. This does not however make it the perfect Nash equilibrium since **(buy, sell)** is also a good, and perhaps superior, choice to make. It all comes down to trust and levels of investor risk aversion; hence our focus on the price determination mechanism and process engaged in this case.



ART OF THE GAME: UNDERSTANDING THE MTN LISTING ON THE NIGERIAN STOCK EXCHANGE



Source: Proshare Content/Research

2.2 Head Shaving

As things stand currently, investors really keen on laying their hands on MTN shares will be prepared to have their heads shaved as they bid the price of the stock upwards with marginal players falling out of the process at each bidding stage.

Two investors with existing shares in MTN who spoke with Proshare on the issue of choice and decision criteria, said that they would be prepared to place a few million units of shares on the market if the price crossed a trigger price of **N200** per share or if an IPO date was announced with an indicative offer price.

It is possible to deduce from the above (relative small sample size) that investors willing to buy into MTN must weigh-in at a bid price of between N150 and N200 per share or wait for an eventual offer by subscription which conventionally will be priced at a discount to the prevailing market price. The practice is designed to compensate shareholders for the increase in the number of shares in Issue and for a subsequent decline in earnings per share (EPS) after the Offer. Indeed to further increase liquidity at a higher market price, the Telecoms behemoth may need to introduce a combined Issue of an offer for sale and an offer for subscription. The offer for sale will involve existing shareholders off-loading part of their current portfolio while the offer for subscription will involve new shares being offered by the company to fresh investors.

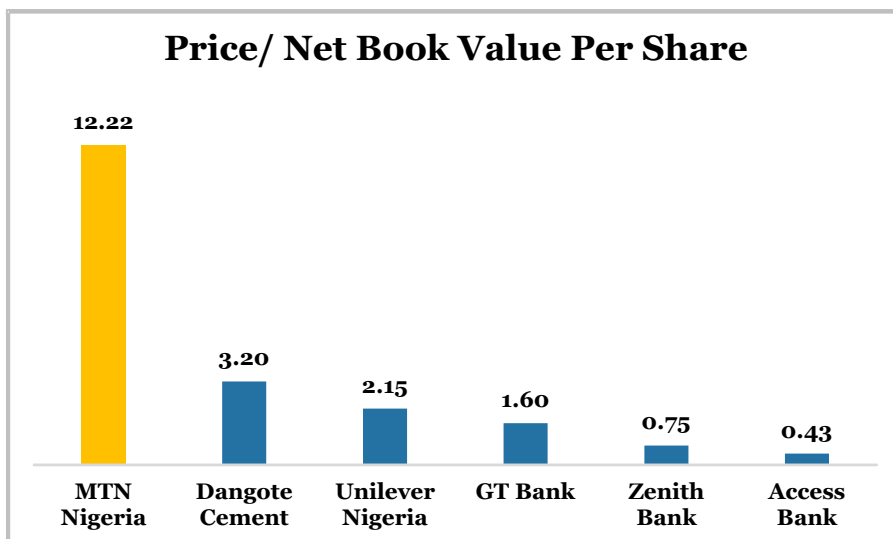
Table 3: MTN Share Price and Volume Traded From May 16th 2019

MTNN PRICE MOVEMENT					
Date	Price (N)	Volume	Price Change	Volume Change	
16-May-19	99.00	5,541,400			
17-May-19	108.90	32,098,599	10.00%	479%	
20-May-19	119.75	51,401,660	9.96%	60%	
21-May-19	131.70	110,718,889	9.98%	115%	
22-May-19	144.85	93,722,710	9.98%	-15%	
23-May-19	149.00	34,226,952	2.87%	-63%	

Source: NSE

An offer for sale may not influence future price of MTN stocks but an offer for subscription (an IPO of new shares) will definitely drag the Telcos stock down a notch. The ongoing battle between existing shareholders and new investors in MTN may lead to a market contest between the **'bigger fool'**, with new investors coming off with the short end of the stick as they push the stock to extremely high price-to- book values (P/BV) or outlandish price-to-earnings (P/E) ratios.

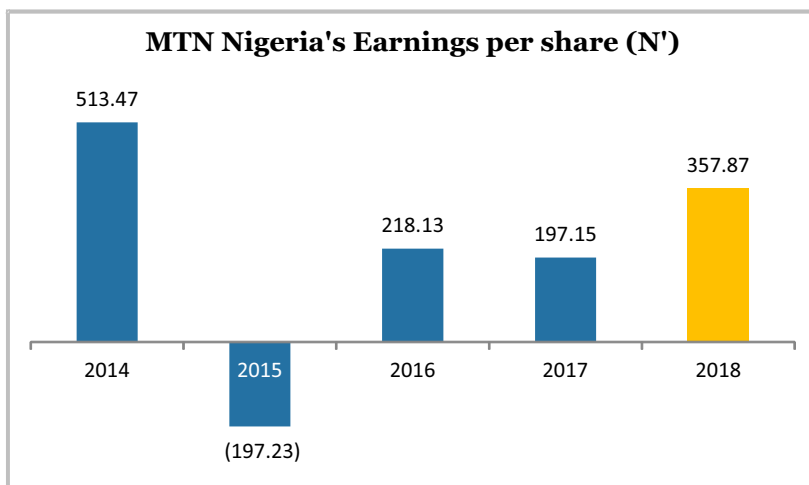
Chart 3: Price/ Net Book Value of Selected Stocks



“MTN has the highest recent price/BV for premium listed stocks on the NSE”

Source: MTN Nigeria Listing Memorandum

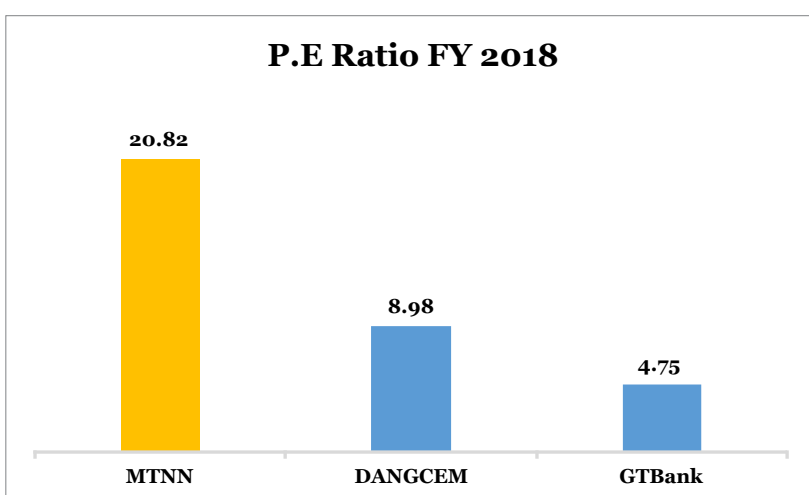
Chart 4: MTN Earnings Per Share 2014-2018



“MTN's earnings per share has grown steadily over the last three years after a negative value in 2015”

Source: MTN Nigeria Listing Memorandum

Chart 5: MTN P/E Ratio (Twelve Trailing Months)



“Comparative P/E Ratios of Selected Premium Board Companies”

Source: MTN Nigeria Listing Memorandum

MTN's price earnings (P/E) ratio based on FY 2018 earnings per share (EPS) of N357.87 and its recent market price of N90 confounded a lot of analysts. A P/E of less than one(1.0) for the second largest stock listed on the NSE makes little, if any, sense at all. Dangote Cement (DANGCEM), the Exchange's single largest capitalized stock trades at a price of N185 and a P/E of 8.35. DANGCEM's price to book value is currently 3.04.

If DANGCEM reflects a reasonable P/E for a market-dominant firm listed on the premium board of the NSE, then applying a P/E of 8 to MTN's recent (FY 2018) earnings per share would suggest a market value of **N2, 862. 96** (this, of course, is a price that is a bit of a market absurdity). But by applying a P/E of 2 (in other words adjusting for the likely impact of judgment liabilities on future earnings), the shares would still perhaps trade at **N450** on a fair value basis, according to analyst's calculations.

What would likely pull the price down a few notches lower would be an IPO that increases the number of shares outstanding by another 15%, and therefore, reduces MTN's future earnings per share (EPS).

If the above were held true, this explains the following:

- ❗ Why new investors are persistent in their demand for MTN shares;
- ❗ Existing Investors are holding back from selling below best perceived tradable price;
- ❗ Analysts' belief that there was something fundamentally wrong with the Financial Advisers initial entry price for the stock; and
- ❗ The perception that MTN Nigeria is still **trading at a significant discount** to its fundamental value may perhaps be wrong after all, as analysts believe the company is worth between \$5.2bn and \$5.5bn. Indeed, at a recent market price of N131.75 per share and with 20.4bn shares outstanding, the current market value of the stock at a NAFEX rate of N364/\$ would put the company at \$7.4bn.

2.3 IPO: Waiting For The AGF

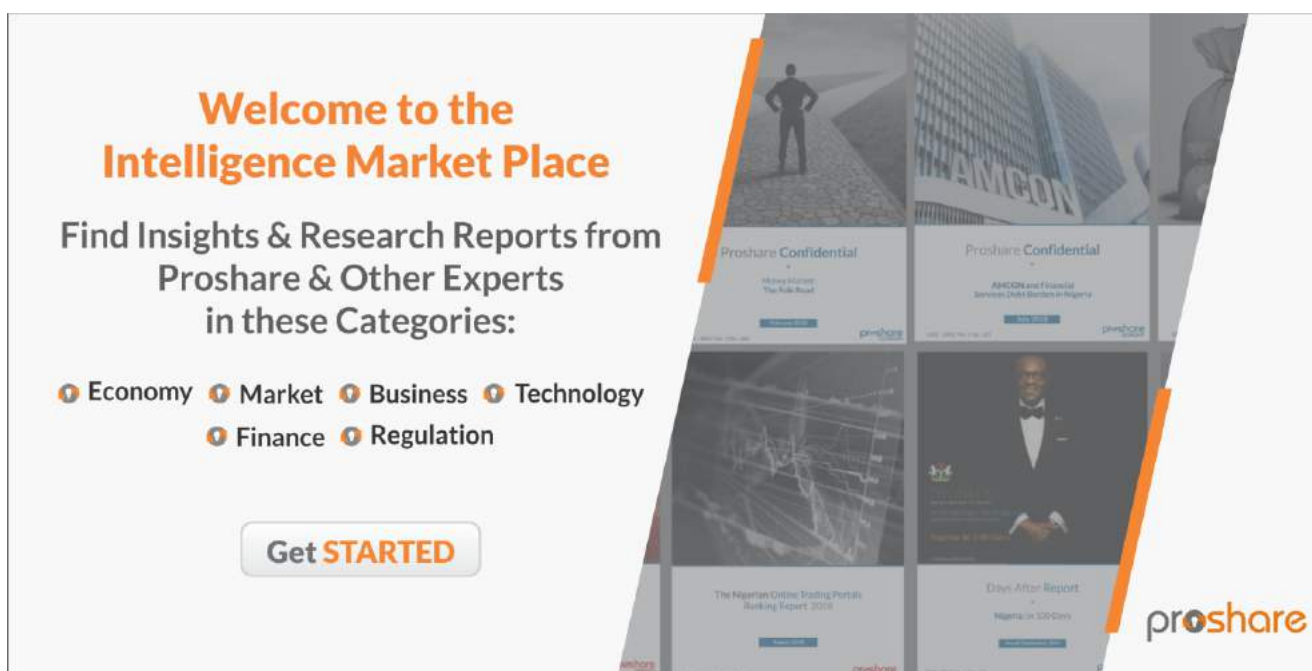
Understandably investors and stock brokers alike have called on MTN to announce a date for an IPO to reduce bid pressure and assure the market that more shares would soon be made available. Unfortunately, this may be a tall order for the company.

Market enquiry suggest that a lot hinges on the outcome of the tussle between MTN and the office of the Attorney General of the Federation (AGF) over alleged unpaid back taxes by the company and the repatriation of \$8bn alleged to have been illegally transferred from the country. While MTN with the support of local authorities in charge of tax assessments and corporate governance, FIRS and FCRC; have all absolved the company of illegitimate transactions; the office of the AGF seems to think differently.

This has invariably stalled the IPO process as Financial Advisers to the company represent that it would be unfair to new shareholders if potential liabilities emerging from the resolution of the conflict between the office of the AGF and MTN were not priced into the IPO. This argument appears more of a defensive market play than a strong justification for a delayed listing of fresh shares.

If it desires to move forward, MTN could price the IPO offer with a clear caveat that a contingent liability of a certain amount could be charged against the company's profit and loss account in the event that the outcome of litigation or arbitration results in a certain sum agreed as either penalty, amount payable for repatriation or a cancellation of the demand for payment. This would clearly be consistent with IFRS9 Accounting rules.

In the main, what appears to be playing out appears to be a tactical manoeuvre in which MTN does not want to be boxed into making payments based on proceeds of its public offer, which could subject it to class litigation by shareholders who would argue that the company raised funds from the general public to pay off obligations on fines and foreign exchange repatriation expenses. Besides, raising funds before the resolution of the issues with the office of the AGF, affirms the capacity to pay any potential penalty or FX repatriation demand. MTN therefore appears to be prudent in avoiding the trap of soaking itself in palm oil in preparation for judicial roasting. In other words, it would be easier to negotiation a better settlement term before an IPO than after one. This chess move indicates leverage in a negotiation, which a company's board has the right and responsibility to deploy in fulfilment of its fiduciary duties.



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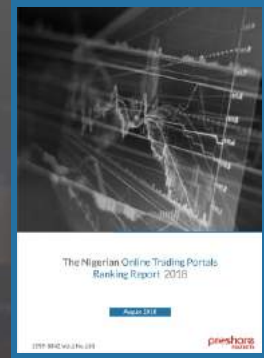
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Busting A Myth



Busting A Myth

A number of investors and shareholders who complained about market manipulation by MTN may now want to avail themselves of the principles set out in section 2 above.

The accusations remain unproven (without prejudice) until established otherwise by the SEC who should now be encouraged to exercise oversight over the transaction process and outcomes as a market confidence reinforcement move.

That said, and while we await the apex regulators intervention and prompt clarification; the debate will benefit from the intervention we have offered here.

The one area of consensus, as elucidated in previous sections, speaks to the larger issue of market integrity and transparency of the price determination, supervision, and enforcement architecture; especially around the 'now preferred' Listing by introduction (LBI) route.

Tables 5 and 6 below shows convincingly that the NSE has had to deal more with LBI's than IPO's; which affirms why the rules around LBI's ought to be at par with or higher than those for IPO's to reflect market condition.

The NSE market is predominantly an LBI market and as such the rules around this route to listing ought to have up-scaled to reflect the development; and creation of boards.

Beyond the noise, there are some uncomfortable truths and related problems we must confront.

First, we cannot say it enough that the actions leading up to and including the conduct of the Nominee Manager/Financial Adviser leaves much to be desired.

Second, the regulatory requirement of at least 20% of the entities of the company's shares be listed for trading on the Exchange or the tradable value of the listed securities is at least N40bn; offers a lacuna that can and will be exploited.

The lag between regulatory provisions and market practice appears therefore to be more of the reality we should confront rather than the myth spun around the transaction.

Two problems exist here:

- ❗ A free float of 20% for any company coming by way of introduction onto the NSE is a myth. The reason is that existing shareholders in a manner consistent with enlightened self-interest will not trade their stocks until it reaches a 'trigger' price they feel comfortable with as has been the case with MTN. Free float requires time and therefore gives early bird investors, especially in proven industries such as

Telecommunications, the opportunity to claw back extra rewards for getting into the company at ground zero or what could be coined as a, '**day one premium**'.

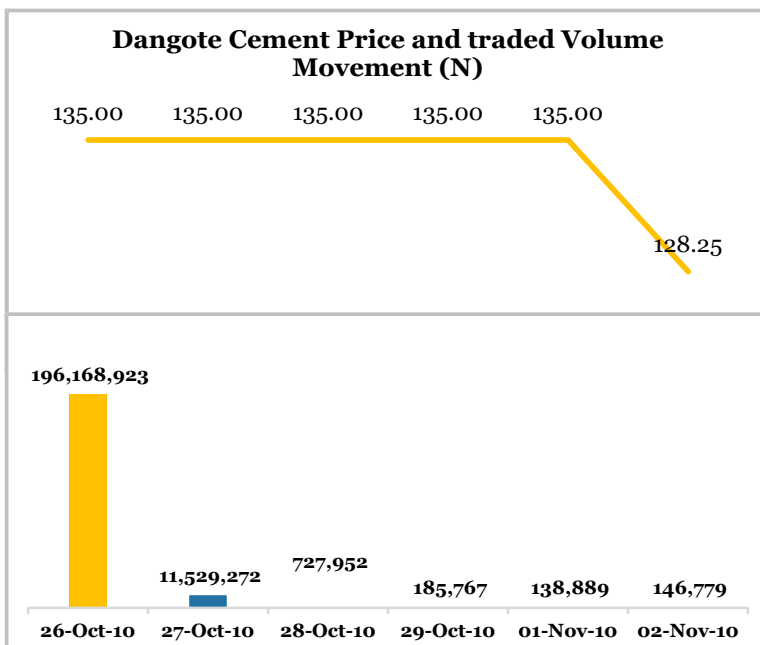


A few commentators have referenced the listing of Dangote Cement shares in 2010 as a template by which MTN shares should have been listed by way of market introduction. This argument is a misguided comparison between apples and oranges. DANGCEM shares were owned by Nigeria's premier business man, Alhaji Aliko Dangote and not over hundreds of individual shareholders as is the case with MTN. Secondly, the Dangote liquidity was created by way of a silent sub-offer for sale of existing Dangote shares to deliberately create liquidity at a prevailing listing price of N135 per share. As was observed at the time within a week the shares of Dangote started to tank as demand topped off.

3.1 Comparing Apples With Oranges – DANGCEM vs MTN

Recall that DANGCEM listed 15,494,0198 billion ordinary shares of 50kobo each at N135.00 by way of introduction on the 26th of October 2010 on the floor of NSE . The first trading day of the company saw a total volume of 196,168,923 units of shares being traded. However, the high expectations for the share price did not reflect into the next day as the share price remained flat; selling at the opening day price of N135.00 and a volume traded of 11,529,272 units.

Chart 6: Dangote Cement Share Price and Traded Volume

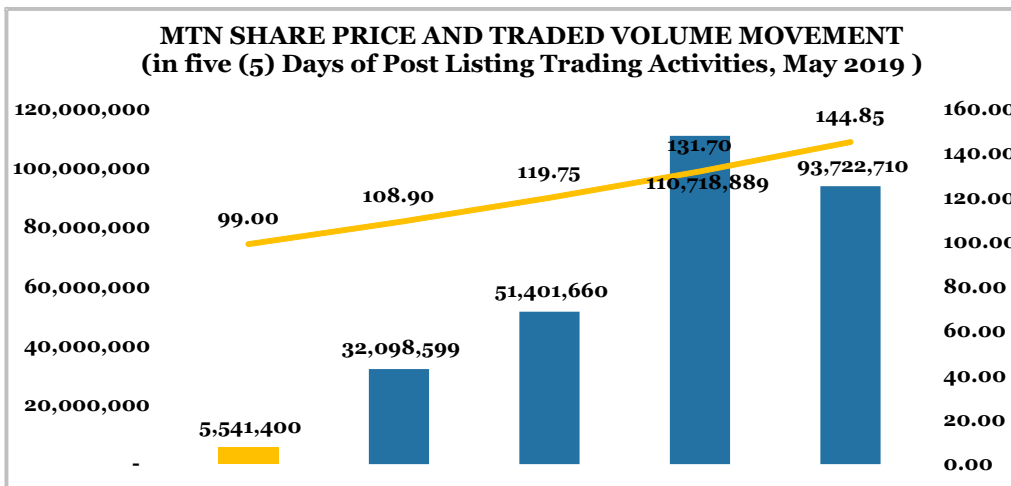


“Share price and volume movement of Dangote cement in the first six days of listing”

Source: NSE/Proshare research

On its third trading day, volume traded dropped by 93.7% to 727,952 units sold at a price of N135.00. The flat price trend, however, continued till 2nd November 2010 when the share price fell by 5% from N135.00 to N128.25 while volume traded rose to 146,779 units from 138,889 units recorded in the previous day's trading.

Chart 7: MTN Share Price and Traded Volume Movement (160519 - 220519)



“Share price and volume movement of MTN in the first five days of listing”

Source: NSE/Proshare research

The recent MTN listing by introduction has, however, followed a different path as MTN's share price has continued to enjoy daily upward spikes. On its first day of listing; May 16, 2019, its price per share stood at N99 and a total volume of 5,541,400 units were traded. Its share price gained another 10.00% to N108.90 on the second day while volume traded spiked by 479% to 32,098,599 units. On May 20, 2019, the share price grew further by 9.96% to N119.75 while the volume traded increased to 51,401,660 units. MTN share price continued its upward trend in its fourth day with a growth of 9.98% to N131.70 and volume traded of 110,718,889 units. The company's share price maintained its growth of 9.98% to stand at N144.85 on its fifth trading day while its volume traded dropped by 15% from 110,718,889 units to 93,722,710 units. **MTN's first five-day traded volume of 293,483,258 units surpassed that of Dangcem's first five-day traded volume of 208,750,803 units.**

Thus, the claim that MTN stock has not traded meaningful volumes since its listing is not validated by the evidence recorded. Indeed, if the records are to be believed, MTN stock actually traded more volumes of shares than DANGCEM over the contemporary listing period in 2010.

The stark difference here is that, unlike in the DANGCEN case, the traded volume in MTN stock has been by way of cross deals within individual stock brokerage houses and this certainly makes it incomparable.

Creating privileged investor silos cannot support the claim of a transparent stock market, no matter the good intention. Regulators are not required to be nice; they are required to be fair. The stock market cannot be seen as a privileged club for the privileged few but a trading platform that values assets in an open and equitable manner.

3.2 The Free Float Conundrum

As the rules currently stand, regulatory authorities cannot compel pre-existing shareholders of listing companies to sell their shares, especially if listing is by way of introduction and not an IPO. That said, and as documented in sections 1 and s above, The Exchange must use its good offices as a basis for pre-negotiated release of shares by shareholders of listing companies as long as the offer price is competitive. **But what is a competitive offer price?**

This is a conundrum both the SEC and the NSE must agree upon, to avoid a repeat of the recent investor uproar over the sale of MTN shares. Quite a number of companies that have been listed on the Exchange by way of introduction are yet to meet the free float requirement of the market, suggesting that their listed prices may not be a full and fair representation of underlying stock value.

Table 4: Companies With Free Float Deficiencies As At May 17th, 2019

Companies With Free Float Deficiencies As At May 17th, 2019			
Issuer	% of Free Float	CSI	Compliance Due Date
A.G. Leventis Plc	11.64	BMF	19th Oct, 2020
Aluminium Extrusion Plc	17.73	BLS	NA ²
Austin Laz & Company Plc	5.51	BLS	NA ²
Capital Hotel Plc	2.99	BLS	31st Oct, 2017 ¹
Caverton Offshore Support Group Plc.	17.3	BLS	31st Oct, 2017 ¹
Champion Breweries Plc.	17.17	BLS	31st Mar, 2017 ²
CWG Plc	15.97	BLS	NA ¹
Ekocorp Plc	11.84	BMF	31st Oct, 2017 ²
E-Tranzact International Plc	10.06	BLS	17th May, 2019
Global Spectrum Energy Services Plc	7.01	BLS	NA ¹
Infinity Trust Mortgage Plc	3.5	BLS	17th May, 2021
Medview Airline Plc	14.16	BLS	NA ²
Notore Chemical Industries Plc	10.02	BLS	NA ²
Portland Paints & Products Nigeria Plc	14.57	BLS	NA ¹
Skyway Aviation Handling Company Plc	19.39	BLS	Oct, 2019
The Tourist Company of Nigeria Plc	1.75	DIP	NA
Transcorp Hotels Plc	6.00	BLS	18th May, 2020
Union Bank of Nigeria Plc	14.94	BLS	18th May, 2020
Union Dicon Salt Plc	18.00	BLS	NA ²

NOTE:

¹ These companies have requested for additional extension which would be presented to the Council for approval.

² The Exchange is currently engaging these companies

Source: NSE X-Compliance Report

3.3 Listing By Introduction - Historical Data

Listing by introduction provides a route for a company that has to apply for listing on the bourse of the NSE, by placing its existing shares in the cleared-for-trading portal of the exchange. Entities are required and expected to meet the minimum listing requirements as set out in the rule book and “guidance for listing” documentation, which includes the minimum free float that affirms the listing.

This mode of listing has been embraced in recent times by entities that have approached the market regulator(s) for listing; in a market that has witnessed far less primary market activities (**IPO listings**) due to a myriad of reasons.

The market witnessed just one (1) IPO all through the year 2018. In total, only four (4) entities have been listed via IPO in the last ten (10) years; three (3) of the four companies recorded negative returns while SKYAVN which was listed on April 23rd, 2019 remained flat till date. No positive traction has been achieved via IPO listing over a ten year period.

Table 5: Entities Listed by IPO on the NSE In The Last 10 Years

S/No	Compan(ies)	Sector	Listing Dates	IPO Price	Shares Outstanding	Current Price	% Chg
1	SKYAVN	Services	23-Apr-19	4.65	1,353,580,000	4.65	0.00%
2	TRANSCOHOT	Services	15-Jan-15	10	7,600,403,900	5.4	-46.00%
3	SEPLAT	Oil & Gas	14-Apr-14	585	588,444,561	520	-11.11%
4	HONYFLOUR	Consumer Goods	20-Oct-09	8.5	7,930,197,658	1.1	-87.06%

Source: Proshare Research, NSE as at May 23rd, 2019

In the last ten (10) years, seventeen (17) entities have taken advantage of the listing by introduction route, the latest being MTN Nigeria.

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Table 6: Entities Listed by Introduction on the NSE In The Last 10 Years

S/No	Compan(ies)	Sector	Listing Dates	Listing Price	Shares Outstanding	Current Price	% Chg
1	MTNN	ICT	16-May-19	90	20,354,513,050	149	65.56%
2	NOTORE	Industrial Goods	02-Aug-18	62.5	1,612,066,200	62.5	0.00%
3	GSPECPLC	Services	27-Nov-17	5	800,000,000	5.75	15.00%
4	JAIZBANK	Financial Services	09-Feb-17	1.25	29,464,249,300	0.47	-62.40%
5	MEDVIEWAIR	Services	31-Jan-17	1.5	9,750,649,400	1.8	20.00%
6	OMOSAVBNK	Financial Services	04-Nov-14	0.55	5,000,000,000	0.9	63.64%
7	CAVERTON	Services	20-May-14	9.5	3,350,000,000	2.26	-76.21%
8	INFINITY	Financial Services	11-Dec-13	1.5	4,170,455,720	1.39	-7.33%
9	AUSTINLAZ	Industrial Goods	29-Feb-12	2.09	1,079,860,000	2.09	0.00%
10	NPFMCRFBK	Financial Services	01-Dec-10	1.5	2,286,000,000	1.34	-10.67%
11	MULTITREX	Consumer Goods	01-Nov-10	3	2,000,000,000	0.36	-88.00%
12	DANGCEM	Industrial Goods	26-Oct-10	135	15,494,019,668	205	51.85%
13	MCNICHOLS	Consumer Goods	18-Dec-09	0.98	201,890,000	0.43	-56.12%
14	UNITYKAP	Financial Services	17-Dec-09	2.38	12,400,000,000	0.21	-91.18%
15	MANSARD	Financial Services	19-Nov-09	3	10,500,000,000	1.8	-40.00%
16	AFRINSURE	Financial Services	17-Sep-09	3.67	16,700,000,000	0.2	-94.55%
17	ETRANZACT	Financial Services	10-Jul-09	4.8	4,200,000,000	2.38	-50.42%

Source: Proshare Research, NSE as at May 23rd, 2019

A review of the performance of the sixteen (16) companies listed in the last ten (10) years prior to the listing of MTN reflected that **25%** or four (4) of such companies recorded positive returns, **63%** or ten (10) of such companies recorded negative returns while two (2) of such companies which were listed in 2018 and 2012 respectively remained flat (No Change in Price) at their listing prices as at May 23, 2019, the date of writing this report.

OMOSAVBNK recorded the highest positive return of **+63.64%**, while **AFRINSURE** recorded the highest negative return of **-94.55%**. **DANGCEM**, the most capitalised listed stock as at May 23, 2019 has so far recorded **+51.85%** positive returns to date.

3.4 Lest we Forget - A History Of Listing Challenges

We recall our September 15, 2010 article around the M&A between the Dangote Cement and BCC referenced in section in 3.1 above and reproduce ad verbatim, the article titled **NSE listing requirements & the Dangote Cement/BCC Merger (2)** “ wherein we explained peculiar challenges that occurred then. This should hopefully provide context to the understanding of listing issues on the bourse.

The Article:

It is a concern to us that the issues raised in the first part of the merger commentary <http://www.proshareng.com/news/12003> came up at all. The developments in the stock market have impacted on the psyche of investors to such an extent that we have all grown more pessimistic than the Nigerian character dictates – ever optimistic and hoping that tomorrow will find us in a better place.

For investors, this plays out through the expectation that market actions should help us recover from the downward spiral we experienced and a gradual ascent would commence. This has not happened due to a myriad of reasons that cuts across all strata of the market value chain.

At a time when the global stocks are experiencing 4-month highs, the Nigerian market is hitting 6-month lows. This can test the most experienced investor's confidence.

In this dark abyss in which we seem trapped in however appears some light which we can all march towards. The flicker of light we have seen on the horizon however will need a more constructive engagement with the market from the regulators/operators to sustain the enthusiasm of the new dawn.

During the week, information filtered out about certain aspects of the merger between Dangote Cement Limited and BCC Plc that impacted on this enthusiasm.

We have taken some time to review the NSE listing requirements – the green book <http://www.proshareng.com/reports/2886> and below are our findings.

1. **Fees and Waivers** - The issue about fees and waivers, it would appear, is at the discretion of the council. The point has been made that a part payment was made ahead of the NSE quotations committee meeting and that the balance will soon be paid.
2. **Granting a 24-month moratorium** for compliance with the 25% free float rule must have been based on considerations and facts at the council's disposal; yet it would seem that during such a long period after a listing by introduction, a **one - directional** movement for the stock appears guaranteed. The implication of this given the weight of the market capitalisation of the new entity would prove instructive.
 - a. It is common knowledge in the market that one of the conditions for listing and maintaining listing on the NSE is that a company that applies for listing shall make available to the general public shares representing at least 25% of the issued share capital. See Item G of the General Listing Requirements - <http://www.proshareng.com/reports/2886>.
 - b. Also, given the importance of this requirement, the General Undertaking executed by all listed companies provides that Council reserves the right to remove the name of a company from the Official List if "there are insufficient shares in the hands of the public". See Section 15(a) of the General Undertaking.
 - c. The free-float requirement is not there for fun; there is a fundamental market principle behind it because the pricing efficiency of the market is undermined when the free-float is too narrow. When supply is, by omission or commission, constricted the tendency is for price to go up, even if the fundamentals are at variance with the uptrend.

3. **Procedures for Informing the Market** - Did BCC inform The Exchange (the market) of the proposed transaction before the newspaper publication and before the meeting of the Quotations Committee of The Exchange? Which stock broking firm acted for BCC? Section 1(i)(vi) of the General Undertaking clearly enjoin listed companies to inform the market of developments of this nature (a material development in the pricing of a security) - in order **to avoid the establishment of a false market in the shares of the company**. From published information so far on this transaction, would it be right to assume that one stock broking firm is representing the two companies in the proposed merger? Apparently, we are still to give the concept of Conflict of Interest its due place in our embracement of a new regime of regulatory oversight.
4. The place of **shareholders consent** before approval by the regulators appears to be an oversight worth mentioning. If this had held, a resolution supporting the transaction would have still been obtained as the majority shareholders were in support of the deal and for those, who objected, they would have been bought out as is the standard practice. Not engaging the shareholders at an (E)/AGM for the transaction is a practice we should not encourage going forward.
5. The transaction under consideration is actually a three-in-one deal involving the **merger of two companies, delisting** of one and the **listing** of the surviving entity. The delisting of BCC will occur automatically upon the occurrence of the merger, but the listing of Dangote Cement Plc will not occur automatically; as a non-listed company, it has to first be seen as meeting the Listing Requirements of The Exchange. This is where the 25% minimum free float requirement is important. Also, this is where the issue of Listing Fee will apply. **Was the Fee computed on the basis of nominal value or market value?** At market value, The Exchange would earn 0.3% in Application Processing Fee.
6. Did the application in respect of this transaction reflect the various facets of the transaction? This remains a question yet unanswered.

The aspiration of every market is to reduce information asymmetry through rules, practices and procedures.

The thrust of investor protection initiative in every market therefore leans more towards favouring small investors, as opposed to our extant practice of outright protection/promotion of the interest of big investors; at the expense of the minority - as information on this otherwise welcome transaction would indicate.



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MTN Outlook



MTN Q1 2019 Review & Outlook

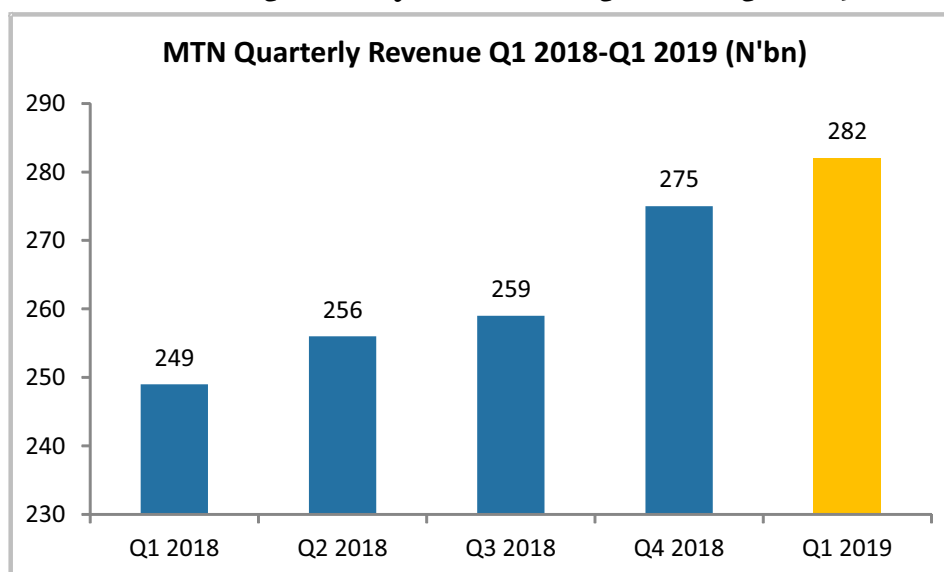
We take a deep dive into the most recent numbers provided by MTN which shows it is likely to see EBITDA rise steadily over the next five (5) years. This means that its share price will also rise. What is unknown, is by how far operational earnings and therefore, market price will grow; a factor dependent on consumer and market sentiment, GDP growth, rise in disposable consumer income, the millennial and post millennial demography shifting towards increased online digital engagement from a variety of activities ranging from paying bills, ordering movies, marketing goods and services; and the trolling effect of a vast array of B2C and B2B engagements.

In the Q1 2019 financial results, the company indicated its potential for strong future earnings growth which we break down below:

4.1 Highlights

Quarterly revenues have grown steadily over the last 2 years with total revenue rising from N249bn in Q1 2018 to N282bn in Q1 2019, representing a rise of **+13.3%** Y-o-Y. Given that call charges have remained constant over the period, the rise can be attributed to an increase in talk and data usage or what amounts

Chart 8: MTN Quarterly Revenues Q1 2018-Q1 2019

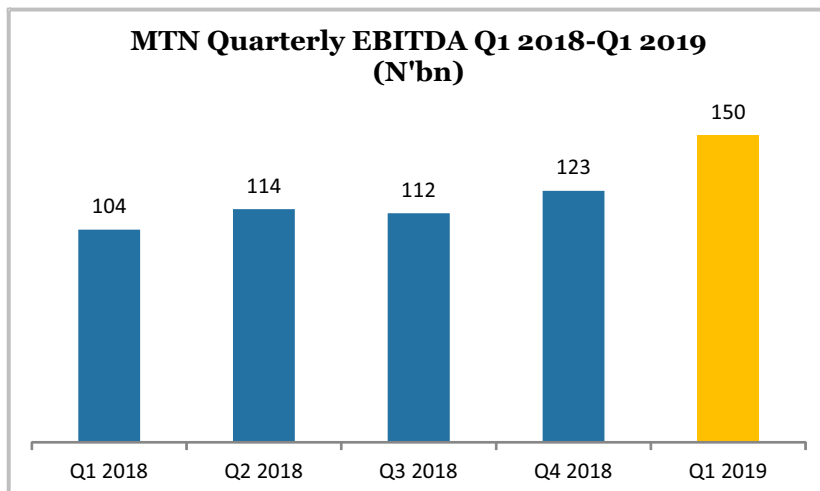


“MTN's quarterly revenues have risen steadily since Q1 2018”

Source: MTN Q1 2019 Conference Call Presentation

The Telco giant was able to increase operating income, Q-o-Q from N123bn in Q4 2018 to N150bn in Q1 2019, a rise of about +22%. But on a Y-o-Y basis EBITDA hopped from N104bn in Q1 2018 to N150bn in Q1 2019, representing a growth of +44.2%.

Chart 9: MTN Quarterly EBITDA Q1 2018-Q1 2019

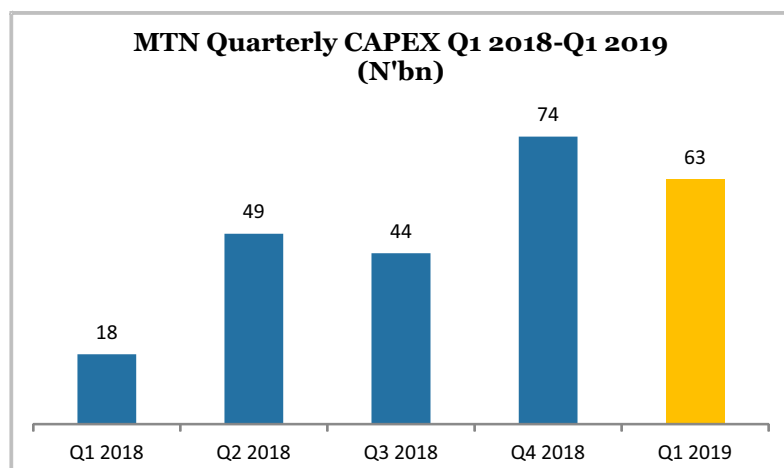


“MTN's EBITDA has continued to rise between Q1 2018 and Q1 2019”

Source: MTN Q1 2019 Conference Call Presentation

Quarterly CAPEX expenditure of the group has been on a forward flight until Q1 2019 when the company appears to have cut back spending, leaving a larger amount of cash on the table for investors. CAPEX rose from N18bn in Q1 2018 to N63bn in Q1 2019, representing an upward bubble of +250% Y-o-Y. But Q-o-Q, MTN controlled the glide in capital costs by bring CAPEX down by -14% from N74bn in Q4 2018 to N63bn in Q1 2019. **This could mean that the company is slowing down expansion (unlikely) or is teasing investors with higher cash dividends prior to listing on the Nigerian Stock Exchange (NSE), a quite plausible explanation.**

Chart 10: MTN Quarterly CAPEX Q1 2018-Q1 2019



“CAPEX for MTN rose sharply between Q1 and Q4 2018 2018 with a mild drop in Q1 2019”

Source: MTN Q1 2019 Conference Call Presentation

Usually investors gloat over a company's rising free cash flow (FCF), because the larger the cash flow the better the investor's return. Higher discounted free cash flows mean higher intrinsic values of shareholder equity. Y-o-Y MTN's adjusted free cash flow has risen from N47bn in Q1 2018 to N87bn in Q1 2019, reflecting a growth of +85.1%. Q-o-Q free cash flow has been bolder in growth, rising from N38bn in Q4 2018 to N87bn in Q1 2019, representing a quarterly leap of +129%.

The company's major source of revenue in Nigeria comes from voice services; this is increasingly becoming an anomaly as global trends in Telco revenues indicate that the largest growth area for telephony businesses is digital data services. MTN still makes over 75% of its revenue in the local market from Voice services while Data services accounts for a relatively small 14.9%, although data as a proportion of revenue has steadily increased from 7.3% in 2016 to 12.2% in 2017 and 14.9% in 2018. This means that the company still has significant headroom to grow data services as a proportion of total revenue.

Table 7: Breakdown of MTN Revenue by % Contribution 2016-2018

Breakdown of MTN Revenue by % Contribution 2016 -2018			
	2016	2017	2018
Other	4.30%	4.20%	4.20%
Fintech	1.60%	2.40%	2.80%
Digital	10.10%	6.80%	2.60%
Data	7.30%	12.20%	14.90%
Voice	76.70%	74.40%	75.40%

Source: MTN Q1 2019 Conference Call Presentation

4.2 Getting A Hold on Strategy

Deconstructing the pace of the company's streams of revenue growth per service offered, shows that its compound annual growth rate (CAGR) for other smaller activities has grown by a relatively modest +14% in the last 3 years, Fintech growth has risen by +50%, Digital by -42%, Data by +64% and Voice by +13%. This signifies a turning point in the company's product mix and business configuration.

With data becoming a faster growing segment of the business, and Fintech equally becoming important to MTN's core activities the company may have to break free from its conventional strategic mindset of differentiation, cost leadership and niche marketing.

The world of digital natives is a clear departure from the world of digital migrants. While natives are young, savvy and impatient, migrants are older, less tech capable and more patient with poor service quality. As natives rise as a proportion of telephony users, data service delivery will become a more meaningful part of the service architecture; AI will be a more plausible

proposition to manage the user's service experience and loyalty will no longer be part of the service equation. The netizen expects and insists on excellence; its absence leads to early and unemotional migration. Since migration costs have become almost nil, the new generation of telephone service users will take the high road as soon as desires (as distinct from needs) are unmet. The company needs to close in on a stronger growth in the Nigerian markets average revenue per user (ARPU) which seems to be lagging behind South Africa, Botswana and Congo Brazzaville.

MTN's forward strategy must crack down on cost and allow consumers achieve customized experiential service satisfaction. In doing this MTN must be prepared to address issues of financial service delivery, and the integration of a customer's retail purchase needs of goods and services (B2C and perhaps even B2B) with instant payment solutions. The folding of communication with finance and consumer retail services will redefine the landscape of telecommunications creating a fresh digital ecosystem with amorphous borders. **Disruption is not to be expected, it is to be anticipated and if MTN is to remain the largest player in the environment it must begin an experiential migration to the future.**

Table 8: Average Revenue Per User (ARPU) Across Countries/Regions of MTN Group (\$)

Country	Q1'17 ⁽¹⁾	Q2'17 ⁽¹⁾	Q3'17 ⁽¹⁾	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18
	(US dollar)	(US dollar)	(US dollar)	(US dollar)	(US dollar)	(US dollar)	(US dollar)	(US dollar)
South Africa	6.34	6.51	6.69	7.12	8.06	7.45	7.06	7.08
Nigeria	3.60	3.61	4.31	4.24	4.14	4.13	4.12	4.22
SEAGHA								
Ghana	2.87	3.67	3.73	4.05	4.50	4.60	4.02	4.70
Uganda	2.11	2.06	2.14	2.32	2.17	2.12	2.25	2.36
Rwanda	1.74	2.03	2.45	2.46	2.32	2.13	2.35	2.54
Zambia	2.27	2.68	3.05	3.14	2.82	2.87	2.90	2.63
South Sudan	1.84	2.19	2.27	3.14	3.60	4.93	4.67	4.70
Botswana (joint venture)	6.17	6.70	6.50	7.60	7.60	7.60	7.24	7.10
eSwatini (joint venture)	7.75	7.72	7.28	7.98	7.78	7.12	7.17	8.02
WECA								
Cameroon	2.98	3.17	3.40	4.32	4.66	4.60	4.28	3.79
Ivory Coast	4.33	4.35	3.99	4.17	4.19	4.10	3.65	4.01
Benin	5.30	5.09	4.99	4.68	5.45	4.88	4.88	4.88
Guinea-Conakry	2.16	2.24	2.21	2.12	2.05	1.93	1.89	1.93
Congo-Brazzaville	6.51	7.43	6.78	5.72	5.94	5.99	6.69	6.38
Liberia	2.44	2.59	2.44	3.88	3.47	3.14	2.67	3.17
Guinea-Bissau	3.48	4.62	3.90	3.78	3.99	4.21	3.52	2.59
MENA								
Iran (joint venture)	3.86	3.84	4.35	4.87	4.32	4.05	2.52	1.98
Syria	1.96	1.98	2.15	2.29	2.37	2.58	2.84	2.54
Sudan	3.59	3.76	3.92	2.79	1.45	1.37	1.45	1.12
Yemen	3.17	3.29	3.11	2.34	2.38	2.58	2.68	2.72
Afghanistan	1.52	1.72	1.84	1.73	1.69	1.90	1.90	1.70

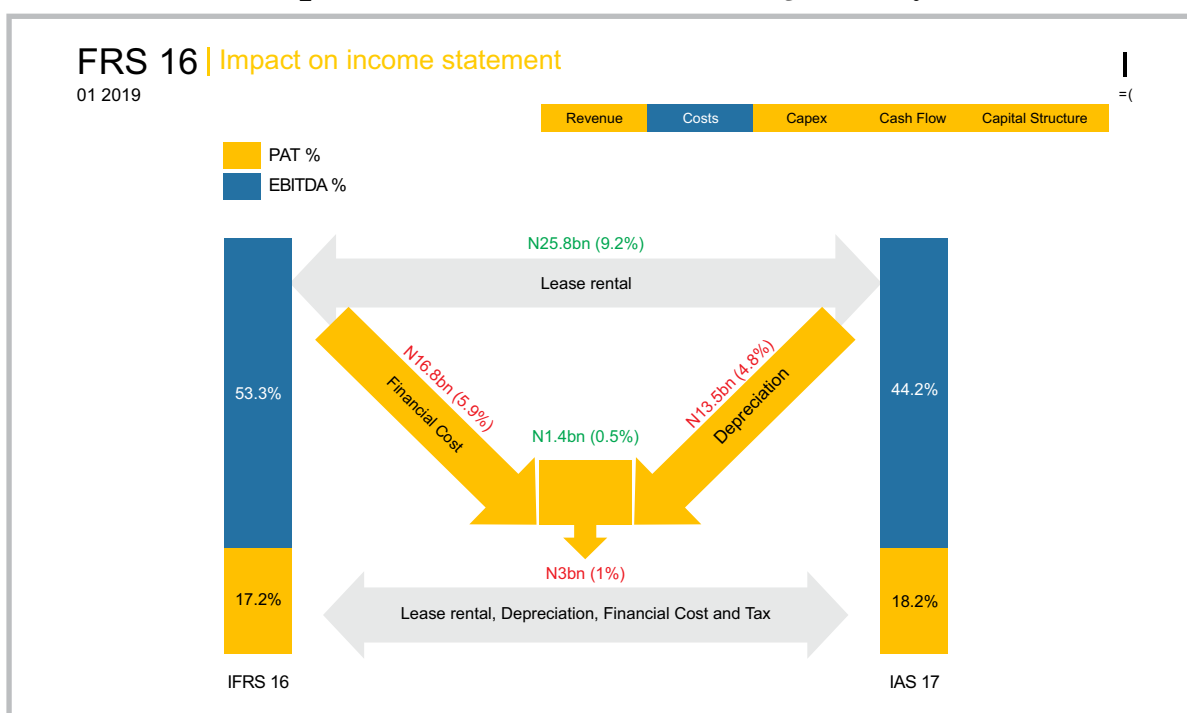
Source: MTN Annual Account 2018

4.3 Eyes On Accounting

In a manner similar to the way IFRS9 led to a disruption of banking sector annual financial statements (AFS) in 2018, IFRS16 will have a similar but if powerful impact on the books of non-financial institutions in 2019, as IFRS16 replaces the old IAS 17.

The new rules change the way companies report lease transactions in their statement of financial position and profit and loss accounts. Application of the new IFRS16 rule drove MTN's EBITDA to 53.3% of revenue in Q1 2019 from the alternative IAS17 rule which would have placed EBITDA at 44.2% of revenue. This also meant that PAT as a per cent of revenue fell to 17.2% as against 18.2% under IAS17.

Illustration 3: Impact of IFRS16 Rule on MTN Quarterly Financial Statement



Source: MTN Q1 2019 Conference Call Presentation

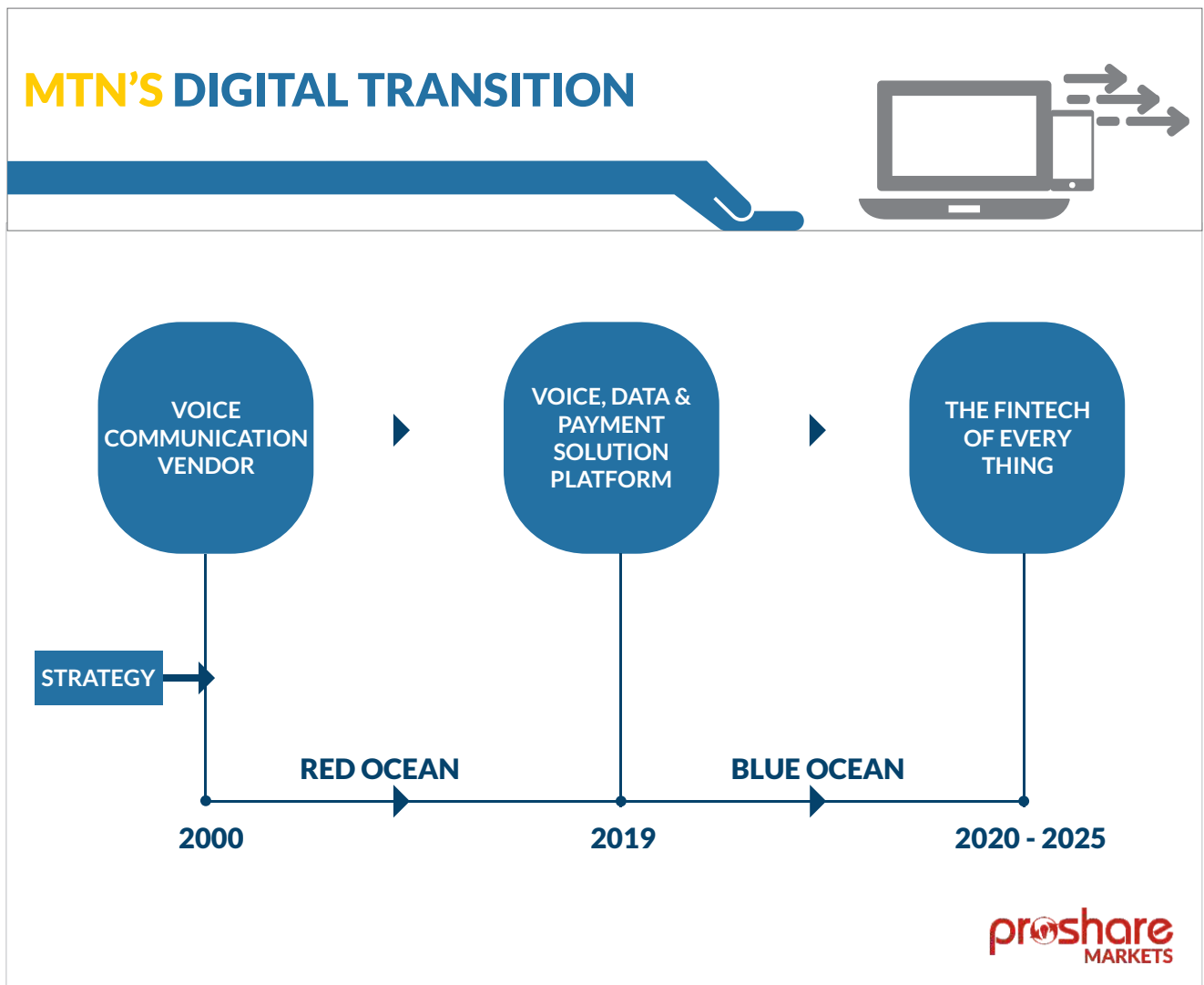
For investors IFRS16 will knock off a few millions from MTN's profit after tax (PAT) in 2019 and will slightly reduce distributable earnings. This would modestly weigh down the price of the company's equity if priced-in by analysts.

4.4 Putting A Shoulder To Momentum

In a world of Fintech disruption, artificial intelligence (AI), data analytics and machine learning, staying at the top of a crumbling business model may not be the smartest way of building an enduring franchise.

This appears to be a refrain that MTN is well aware of and is addressing through strategic growth of its data market, building its 3G and 4G network capabilities and growing its ability to preempt rather than respond to customers mercurial expectations. In the new Telco ecosystem, migrants are becoming extinct and natives are taking charge of the high ground of consumer power. How well MTN takes charge of the new business imperatives will be closely monitored by *Proshare*.

Illustration 4: Different Thinking For a New Market



Source: Proshare Content/ Research

4.5 A Note On Timelines

MTN's challenges with regulators and other notable sundry official parties have dated back to 2014 when the company and its bankers StabicIBTC Bank were mentioned in money laundering accusations. By 2015 the company was requested to pay N1.04trn as penalties for not disconnecting unregistered users of the company's sim cards. This was negotiated from \$bn to

Table 9: News on MTN Nigeria Timeline

S/N	Date	MTN News
1	21/05/2019	NSE Clarifies Concerns on MTN Nigeria's Premium Board Listing
2	21/05/2019	MTN Nigeria Provides Clarity On Its Listing Price and Preference Shares Redemption
3	17/05/2019	MTN signs a 7-year N200 billion Medium Term Facility with a consortium of seven (7) mostly local banks
4	17/05/2019	Bullish Post Listing Market Reaction on MTN Stock
5	16/05/2019	MTN Nigeria was listed on the premium board of the NSE
6	16/05/2019	A Fool's Guide to the MTN Nigeria's 2019 Public Listing
7	15/05/2019	MTN Q1 2019 Analyst Presentation815/05/2019Extracts For MTN Nigeria From The Group Quarterly Statement Update for Period Ended March 2019
9	15/05/2019	MTN Nigeria Receives Approval To List On The Premium Board Of NSE; Listing To Proceed On 16th May
10	09/05/2019	MTN Q1 2019 Conference Call; Key Takeaways, Management Keeps Firm Hand on Profit Machine
11	07/05/2019	MTN Nigeria Vs AGF: Court Rejects AGF Notice of Preliminary Objection1206/05/2019SEC Nigeria Confirms Receipt of MTN Application for Registration of Securities
13	24/04/2019	MTN Nigeria converts from a private company to a public company (Plc)
14	14/03/2019	MTN to List On the NSE Before End of H1, 20191507/03/2019MTN Nigeria releases its results for the year ended December 2018
16	15/02/2019	NCC slams telcos with N74m fines for violating regulations The ...
17	24/12/2018	MTN Nigeria Resolves Issues Relating to Foreign Exchange Remittances
18	12/12/2018	MTN Nigeria deploys CWAN across 139 locations of the Nigerian National Petroleum Corporation (NNPC)1911/11/2018MTN Nigeria and CBN Reach

Tentative Agreement on \$8bn Fines

- 20 09/11/2018 MTN Nigeria Sues FGN and AGF For N3billion
- 21 10/09/2018 MTN Nigeria Seeks Judicial Intervention, Sues The Attorney General and Central Bank Over \$10.1b Demand
- 22 06/09/2018 MTN Group Share Price Drops by 21.06%: One Week After CBN Fines
- 23 04/09/2018 MTN Says Nigeria Is Seeking to Recover \$2 Billion in Back Taxes
- 24 03/09/2018 Banks, MTN Engage CBN Over \$8.1b Fine; Factually Incorrect Premises Highlighted
- 25 01/09/2018 MTN Nigeria, Banks and CBN Action – An Update and Initial Commentary
- 26 31/08/2018 MTN Ghana Successfully Completes Its Initial Public Offer
- 27 30/08/2018 CBN Clamps Down on Four Banks; Writes MTN to Refund \$8bn
- 28 30/08/2018 Stanbic IBTC Notifies of Regulatory Fine in Relation to MTN
- 29 30/08/2018 MTN Replies Nigeria's CBN – You Approved The Funds Repatriated
- 30 14/08/2018 MTN Nigeria – Interim Financials For H1 20183109/07/2018Neither MTN Nigeria Nor Any of Its Advisers Has Filed Any IPO Application With SEC Nigeria
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- 34 18/04/2018 MTN-Ecobank Partnership - Diamond Bank Clarifies The Diamond Yello Proposition
- 35 09/04/2018 SIM fine: MTN pays N165bn out of N330bn – NCC - Vanguard News
- 36 26/03/2018 MTN Nigeria To List On The NSE; A Promise Fulfilled – OTC Equity Research
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- 44 29/02/2016 NCC Fines MTN and GLO Over Porting Violations – Channels Television
- 45 10/02/2016 MTN selects Gemalto for first commercial rollout of GSMA Mobile Connect Authentication Service
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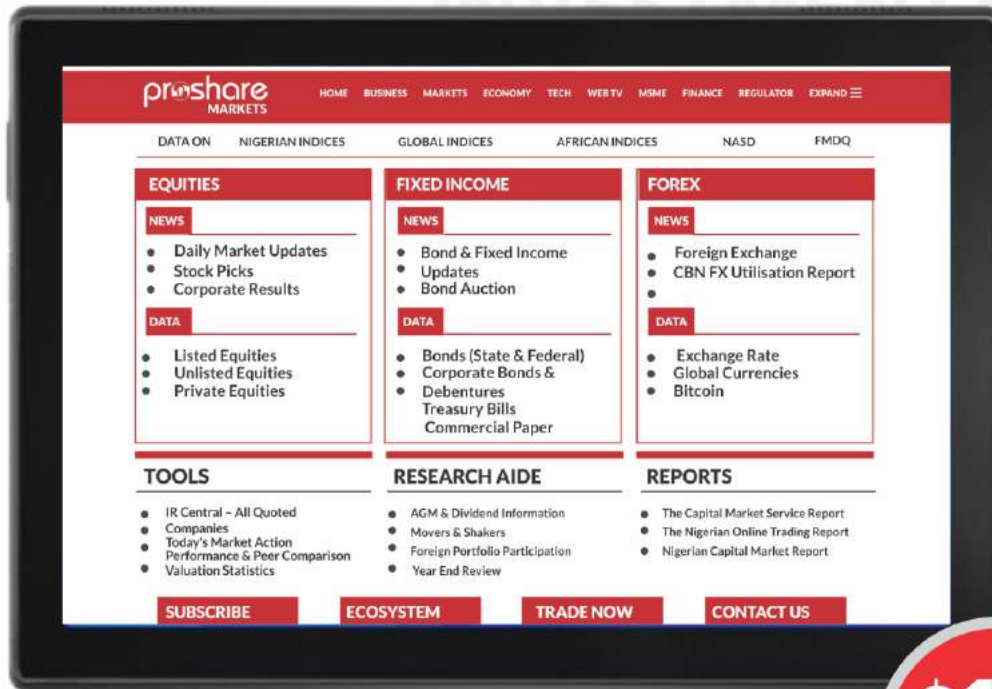
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Conclusion

The MTN offer by way of introduction is a market learning curve of how not to mis-manage a much anticipated offer. The hype surrounding the offer served as a catalyst for the noise that ensued.

Beyond the noise however, there were common truths, inconvenient as they were, for the market to use for a reset, recalibration and realignment of the rules to create a nexus with the practice.

For a market that has, in the last decade, seen listing entities embrace its LBI route over the IPO route; it is inconceivable that the exchange will have to resort to rules (rulebook) to explain away an obvious abnormality.

As we have seen with the CAM Bill, last reviewed twenty years ago, it is unlikely that current practice will be in line with the regulatory intent. It behoves therefore on self-regulated entities and the primary market regulators to take steps to bring the rules up to, if not ahead of the practice.

That said, the review of this case offers a silver lining; one that is premised on self-correction and collective responsibility for the changes required.

A few quick wins however stand out, some of which should not be lost on us.

One, that the necessary follow through and oversight will be completed as an aide memoire to market learning and the justification for the needed changes in rules around LBIs.

Second, the challenge of terminology around the erroneous interchangeable use of the term, Financial Advisers (Sell Side), Nominee Account Managers (Depositories for shares not traded in the formal market) and Investment Advisers (Buy Side) should now be made clearer to engender checks and balances in transaction execution flows. The recent Corporate & Individual Investment Advisers (CIIA) *exposure draft* for professionals in the advisory business could not have come at a better time.

Third, evidence from section 3.2 makes a compelling case for the immediate review and communication of best practice around Listing By introductions (LBI) to the market. We should not stop there, but go head on to review the weights, quantum and size of requirements for companies existing and envisaged on the bourse.

Needless to say, the next few days may witness activities that will challenge it, it must be ready to confront this head on; choosing to act rather than react to developments.

We should not lose this opportunity to build a new market from this experience.

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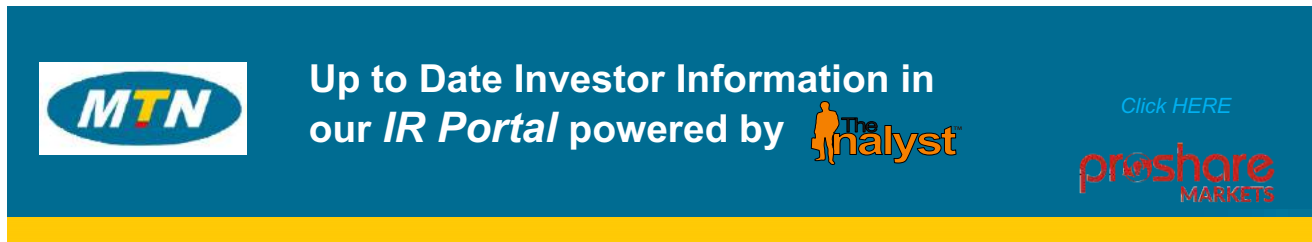
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2. [MTN Nigeria To List On The NSE; A Promise Fulfilled – OTC Equity Research – Mar 26, 2018](#)
3. [MTN - A case study for market-supporting institutions – Temitope Oshikoya – Nov 03, 2015](#)

Third Parties Comments Posts Listing

4. [Ferdi Moolman: The CEO who painted Lagos Bourse - Businessday.ng - May 21, 2019](#)
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7. [Meet The 6 Largest Individual Shareholders In Mobile Telecom Giant ... – Forbes – May 19, 2019](#)

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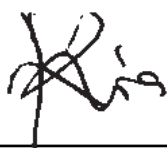
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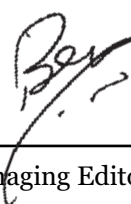
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Head, Research



Managing Editor



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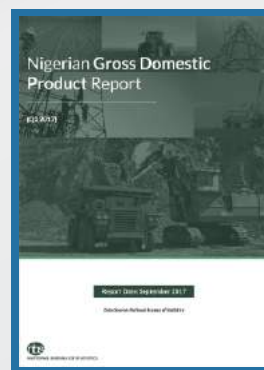
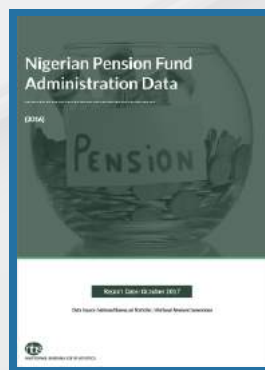
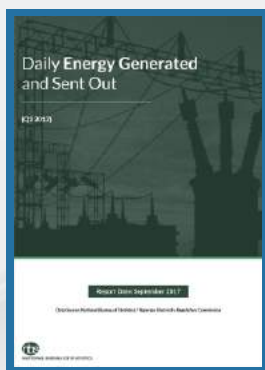
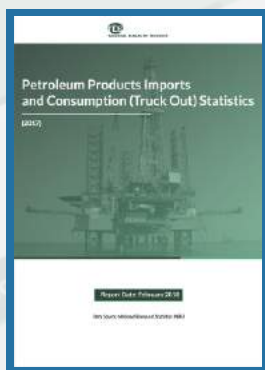
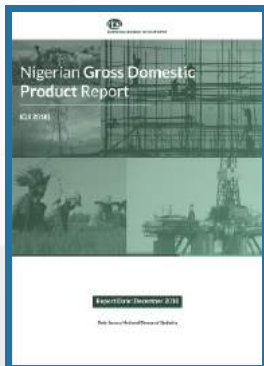


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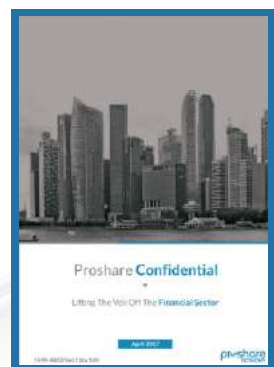
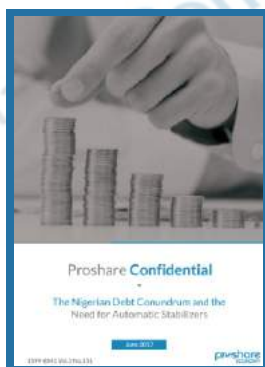
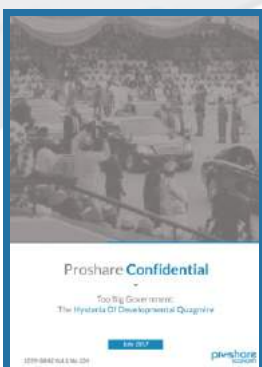
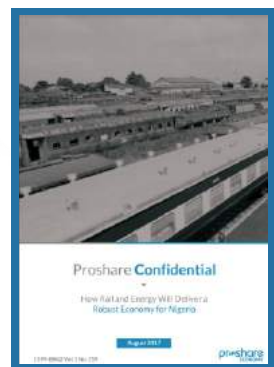
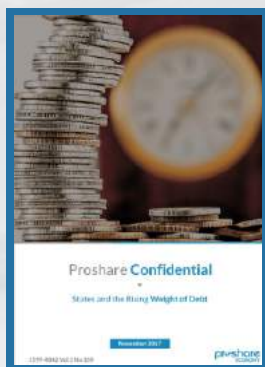
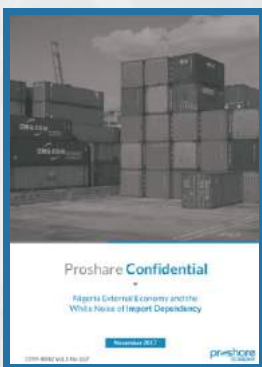
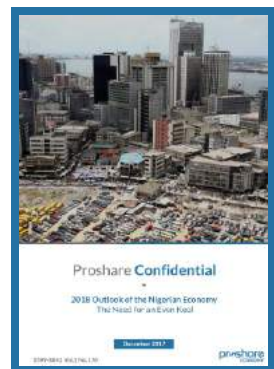
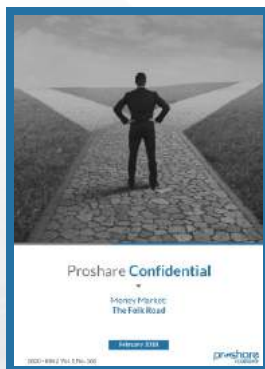
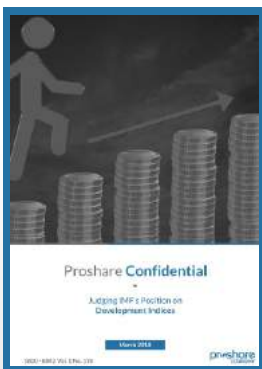
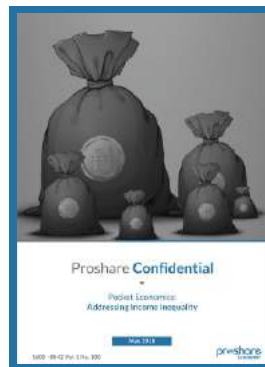
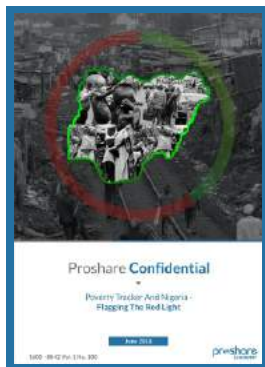
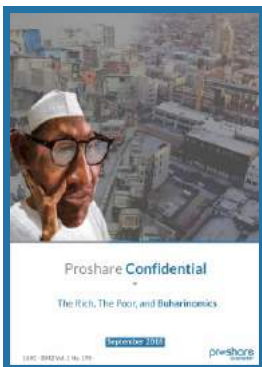
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Contacts

This report was put together by Teslim Shitta-Bey, Managing Editor, Proshare Content, under approval from Proshare Research.


Editorial Team:

Saheed research@proshareng.com


Grace market@proshareng.com

Reshu coo@proshareng.com

Teslim content@proshareng.com

 PROSHARE NIGERIA: The Upper Room
Plot 590b, Lekan Asuni Close Omole
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