Zedcrest Research

Q2'26 Earnings | MTNN: Margin expansion reinforces earnings strength despite softer revenue growth

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Rating	BUY
NGX Ticker	MTNN
Bloomberg Ticker	MTNN NL
Target Price	₦1,415.24
Company statistics (Q2'26)	
Return on Average Asset	6.55%
PAT Margin	23.55%
Debt Ratio	46.50%
Market cap	₦17.71 trillion

MTN Nigeria's Q2'26 service revenue came in at ₦1.49tn, roughly flat versus Q1 (down 0.24% from ₦1.50tn) and 13% ahead of Q2'25. This lagged our ₦1.61tn forecast (set in our Q1 note) by about 7%. Voice revenue was stable at ₦446.4bn (Q2 up 4.5% YoY) and contributed 30% of mix, while data revenue (₦873.8bn, +24.8% YoY) now makes up 58%. Mobile data ARPU rose to ₦15,688 (up 4% QoQ), reflecting higher usage and price realization. However, fintech/airtime lending revenues collapsed: value-added services (VAS) fell 72% YoY to just ₦12.9bn (versus ₦46.9bn) after Xtratime suspension, and contributed only 1% of revenue.

Other segments were mixed. Handsets and digital revenues grew strongly, while interconnect & roaming were flat. Overall, service revenue growth was broad-based but weaker than forecast as high-single-digit base effects emerged, reflecting conservative pricing and earlier tariff resets.

Operating leverage expands EBITDA margin

Despite revenue coming in below our expectations, MTNN delivered a resilient operating performance, with EBITDA rising 2.0% QoQ and 19% YoY to ₦845.2bn, while EBITDA margin expanded to 57% from 54% in Q2'25 and ahead of our 55% forecast. Margin expansion was underpinned by strong operating leverage, as revenue growth continued to outpace cash operating costs despite inflationary pressures from higher energy prices. Direct network operating costs declined 10.5% YoY and 2.0% QoQ to ₦311.4bn, while other operating expenses fell 16.2% QoQ, more than offsetting significant increases in employee costs (+128% YoY to ₦69.8bn), advertising and promotional expenses (+54% YoY to ₦17.0bn) and discount and commission expenses (+19% YoY). Although depreciation and amortization increased 53% YoY to ₦210.9bn, reflecting continued investment in network infrastructure and spectrum assets, these remained largely non-cash charges and had no impact on EBITDA. Overall, total operating expenses increased just 18% YoY against 19% EBITDA growth, highlighting improved cost discipline and the scalability of MTNN's operating model despite elevated energy, labour and inflationary pressures. The resulting margin expansion reinforces our view of MTNN as one of the strongest cash-generating businesses on the NGX.

Tax expense and profit after tax

Strong operating profit led to pre-tax income of ₦545.2bn in Q2 (up 30% YoY). However, tax expense grew even faster. Q2 tax was ₦193.1bn (up 40% YoY), implying an effective tax rate of 35% versus 33% in Q2'25. The higher tax charge partly reflects the larger profit base and phasing of tax offsets **(possibly including road tax credit utilization)**, but squeezed net margins. After tax, Q2 PAT was ₦352.0bn (23.6% margin), up 25% YoY. This comfortably exceeded our implied forecast (from Q1) and underscores robust profitability, net margin held above 23%. Basic EPS was ₦19.80.
Notably, MTN Nigeria declared an interim dividend of ₦26.00 per share, reflecting the strong cash flow (the company's **free cash flow** was ₦712.7bn for H1 (up 74% YoY).

Data-led growth in Q3 outlook

Looking ahead to Q3'26, we expect service revenue to continue growing in mid-to-high teens driven by data and subscriber gains. At end-June, MTNN had 92.2m subscribers (up 8.9% YoY) and 55.7m active data users (+9.3%), positioning it well for continued uptake. We forecast Q3 revenue of roughly **₦1.61tn** (up 8% QoQ and 19% YoY) as both subscriber numbers and ARPU expand. Cost inflation and FX will remain factors as global oil prices and naira movements can swing diesel and equipment costs, but we expect naira stability around ₦1,380/US$ (as in H1) to hold. We also watch regulatory and macro trends. Nigeria's inflation and high interest rates could temper consumer spending, but telecom remains defensive.

Geopolitically, African markets see elevated uncertainty (especially with energy prices), but MTN's diversified footprint and hedged balance sheet mitigate these risks. Overall, we expect EBITDA margins in Q3 to stay >55% and net profit to rise further, as operating leverage persists.

Outlook

Following Q2'26 results, we have revised our FY'26 forecasts to reflect a softer revenue trajectory than previously anticipated, primarily driven by a weaker-than-expected Q2 revenue outturn and the continued suspension of XtraTime lending services, which weighed on Value Added Services (VAS) revenue. We now forecast FY'26 revenue of ₦6.41 trillion, down from our previous estimate of ₦6.66 trillion, implying a stronger second-half performance supported by continued subscriber additions, sustained data monetization and the increased seasonal demand observed in the second half of the year. Accordingly, we revise our FY'26 EBITDA forecast to ₦3.54 trillion from ₦3.68 trillion previously, reflecting the lower revenue base, although we expect EBITDA margins to remain resilient at 55%+ as operating leverage and disciplined cost management continue to offset inflationary pressures. We also lower our FY'26 PAT forecast to ₦1.46 trillion from ₦1.67 trillion, incorporating the softer earnings profile and our expectation of an elevated effective tax rate going into Q3. While our earnings expectations have moderated, we remain constructive on MTNN's medium-term outlook, underpinned by robust data demand, expanding smartphone penetration, continued growth in active data subscribers and a favourable pricing environment, which should support stronger earnings momentum through the second half of the year.

Investment Recommendation

We maintain a **BUY** rating on MTNN with a revised target price of **₦1,415.24**. MTNN shares trade at ₦845 (Aug'26), giving a trailing P/E 12.6x (TTM EPS of ₦67) and yielding 7.93%. This appears attractive relative to the group's growth profile. Key upside drivers include continued data monetization, cost efficiencies, and dividend yield. Risks include tightening of net foreign exchange conditions or fintech disruptions (e.g. Xtratime regulation). In a stable macro scenario (benign inflation and FX), MTNN's compounding growth should justify a multiple rerating. Our target reflects high cash generation, strengthened balance sheet (Financial leverage of 2.98x as of Q2 vs 5.31x on Dec 31' 2025), and the lack of significant impending regulatory changes, even as we remain vigilant on Nigeria's macro and geopolitical backdrop.

Income Statement (N'mn)	2025A	2026F	2027F	2028F	2029F	2030F
Revenue	5,202,957	6,408,910	7,840,895	9,495,948	11,262,774	13,222,242
EBITDA	2,743,765	3,539,467	4,289,630	5,240,191	6,267,018	7,457,349
PBT	1,696,029	2,249,032	2,926,629	3,692,362	4,477,096	5,468,996
PAT	1,112,846	1,461,871	2,048,640	2,584,653	3,133,967	3,828,297

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