

MTN on the offensive

Sectarian violence in Nigeria is posing a threat to the MTN Group's operations. Suspected members of the Boko Haram sect, which wants a stricter version of Islamic sharia law imposed on the whole country, have attacked the towers and cut the fibre connections of several mobile operators, including MTN, in the past few months. The sect claims operators are supplying its members' subscriber information to the Nigerian security authorities.



The latest attack took place on 23 December 2013, when a car laden with explosives blew up near a switching station in the northern city of Kano. This was preceded by several other attacks in September in the north eastern part of the country, when high-speed fibre belonging to MTN was severed and its towers were vandalised. There were no casualties in any of these cases.

The group says it is taking measures to secure its facilities and staff. "MTN Nigeria has the full cooperation of the security and intelligence agencies in the country, and the joint task force in various northern states is providing security for all telecommunications infrastructure until further notice," says MTN Group spokesman, Rich Mkhondo.

Nigeria is an important contributor to the group's earnings, accounting for about 28% of total half-year to June revenue of R66,42bn and R11,64bn of total earnings before interest, tax and depreciation of R29,79bn.

Such sabotage is not the only challenge MTN faces in the West African country. The group has to deal with increased competition, which puts pressure on prices. It has also taken flak from the Nigerian communications commission, which threatened to fine it for poor service delivery.

This pressure to improve its level of service has caused MTN to ramp up capital expenditure as a percentage of revenue from 18% to 23%. But Spiwe Chireka, programme manager at International Data Corp, speculates that generating a return on capital investment might take longer than expected because the attacks mean the company now needs to replace its equipment sooner than it had hoped. The attacks also inflate operating costs, especially when it comes to providing security.

The targeting of mobile operators in civil conflicts is somewhat unusual, as combatants tend to use telecommunications

infrastructure to co-ordinate their activities. Commanders in the civil war in the Democratic Republic of Congo in the 1990s, for example, organised attacks using text messages.

MTN operates in several conflict zones - Syria, Sudan and Afghanistan - and has not deliberately been targeted by the warring factions.

However, the company has been facing legal battles in other parts of the world. It is involved in a court case in the US, where it is defending the way it obtained an operating licence in Iran, which opposing parties allege was through corrupt means. Its board of directors and senior management were also accused of tax evasion in Uganda, but a high court judge later declared the criminal summons of MTN Uganda null and void.

Though MTN is exposed to political, currency and regulatory risks, the spread of its operations should diversify these to a certain extent and analysts believe the share offers value trading on a historical p/e of 15,5. The consensus of 12 analysts polled by I-Net Bridge is to buy the share, which trades at around R175,09 and is underpinned by a healthy 4,3% dividend yield.

Source: Financial Mail

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