HTA Q3 Results Call

Monday, 27 November 2017

Kash Pandya: Hello, let me start by introducing you to the team; joining me today is our Chief Financial Officer, Tom Greenwood, our Chief Commercial Officer, Alex Leigh, and finally our Head of Corporate Finance and Investor Relations, Jeffrey Kriek. So I'm going to go straight to the key highlights on the executive summary on slide five. We have had a very solid third quarter built on the momentum from Q2 that we spoke about on the previous call.

Our revenue increased overall in the quarter by 2%, and 28% year to date, so we have had strong revenue growth. As you would expect our EBITDA has increased significantly higher than the revenue growth and we have seen 8% growth in the quarter and 49% growth year to date. Our margins continue to improve and we have added 3 percentage points on Q2 margin, coming in at 36% in Q3, with our overall year to date margin up to 34%.

In terms of our number of sites we have added around 1% of new sites to our business. We have seen a slight reduction in the colocation numbers which is driven by the consolidation of an ISP in Tanzania which has had limited impact on the financials of the business in the quarter. I am pleased to say that our overall colocation growth in the year has been about 10% year-on-year and we are pleased with the momentum we are generating overall in the year in terms of adding new volumes.

Final point on this slide is that our gross leverage has reduced by 0.5% quarter on quarter which is driven by the EBITDA improvement in the third quarter, and Tom will talk in more detail about this during the course of the presentation.

Moving on to slide six, in terms of recent developments, we have concluded the Vodacom buyback after receiving FCC approval in Tanzania in October this year. Moving on to the Tanzanian listing, the IPO listing requirement, we were waiting for the FCC approval for the share buyback from Vodacom which we have now concluded and we now need to go into a second submission, which is effectively to get approval for the capital reorganisation with the revised share structure. This process will continue and we will submit a draft prospectus in due course once we have had FCC approval.

As you know we executed the Zantel sale and leaseback M&A back in September 2016 and we have had our first closing on 28th July of 86 sites, and we have added 15 further sites in October bringing total sites closed off on that sale and leaseback to 101. That programme will continue over the next few months as we close more CPs.

Our business excellence programme that we have spoken about previously continues to gain traction and is starting to become institutionalised in our business. We have trained more people and created more expertise in deploying Lean Six Sigma. Our operational improvement programme has led to us rationalising our maintenance partners with fewer better partners to help us drive the performance of our business. We have introduced digitised tools to the organisation with field teams now able to track and monitor what happens with our maintenance partners, and we are able to manage our business much more efficiently on an almost minute by minute basis. Our headcount productivity, doing more with less in our business, has led to us driving improvements in offices space reductions as well as operational power up time delivery performance.

Our capex driven opex saving programme in terms of power savings initiatives in the form of solar, hybrid and grid connection is on track, with solar delivering 400 units by the end of Q1 2018, so far we have rolled out 165 solar sites. Regarding hybrid and grid connection, we are progressing well with these programmes and expect to be on target for year-end completion of committed volumes.

A final point under slide six is that we have introduced a new KPI regarding amendment colocation revenue. Amendment revenue is where our customers add new equipment which is outside of their lease space, and we have started to see additional growth in this area. We have outlined amendment revenue and colocations in the appendices and this updated KPI will be monitored on an ongoing basis during our update call. So that gives you a high level overview of our business and the performance in Q3. I am going to hand over to Tom now to talk in more detail on the financials.

Tom Greenwood: Thanks Kash. On page eight we see very strong quarter on quarter growth and if you take a look back over the last few quarters, you can see this really is relentless ongoing growth each quarter. The revenue increasing 2% since Q2, and then in previous quarters, having increased by 3% and 4% as indicated on the bottom left chart. That then feeds through to EBITDA growth and margin growth, as we see on the right chart with 6% quarter on quarter growth into Q1 this year, 5% which we delivered in Q2, and 8% now that we have delivered in Q3. This really demonstrates the organic and operational leverage strength of our platform and we really do see this growth momentum continuing.

If I go on to page nine we see the revenue breakdown, starting with the revenue by customer on the top left, the investment grade or near investment grade customers who are the big five in Africa; Vodacom, Airtel, Tigo, MTN and Orange, and year to date we have had 87% of our revenue from these customers. On the right here we see the revenue breakdown by foreign currency. Here we see a similar story to previous quarters with just under 60% of our revenue being from hard currency, predominantly Dollars and little bit linked to the Euro. This feeds down to our EBITDA, meaning around 80% of our EBITDA is in effective hard currency. You will also notice the power component here that we have of local currency and about a third of our local currency revenue is linked to power prices in our markets, this being the price per litre of diesel and the price per kilowatt hour of electricity, and these items being linked, generally, to dollars in the medium term due to the import of power being paid for in dollars in all our markets. So a good position in terms of dollarization of our revenue and EBITDA.

Finally, bottom left we see the revenue breakdown by country. Again, minimal or no change from previous quarters with around 40% coming from each of our largest markets, DRC and Tanzania, with the balance coming from, Ghana and Congo B.

Next if we move to page ten, we look at the costs and our margin analysis. First of all, looking at the cash flow per tower on the top left up 22% year on year being driven by three factors; firstly our Airtel DRC acquisition, which happened in July 2016, so seeing a full year if that in 2017. Secondly, the strong organic top line growth from colocations that we have seen year on year, and finally the business excellence programme which has been delivering cost saving initiatives both at sites and in our offices as Kash mentioned earlier.

Second of all on this page on the right hand side, we look at the quarterly margin development and as you can see we are delivering a really strong step up in Q3, increasing to 36%. Again, this momentum is driven through both topline increasing through adding more tenancies, and from a costs savings perspective with the roll out of various cost saving initiatives including solar, grid connection and hybrid installations.

Finally, on this page, bottom left we see the cost breakdown. Again, broadly consistent with previous quarters, just over half of our cost of sales or site OPEX being linked to power costs and this predominantly being fuel and electricity, and then the total SG&A being split by market and our holdco costs which is broadly consistent with what you have seen previously.

On page 11 we look at our capital expenditure and the guidance for the year of $166 million remains unchanged from previous guidance given. We see ourselves ending the year roughly around this number as we have deployed capex to plan. We have had $42 million of capex in this quarter which is due to the continued the power saving investments and the Airtel DRC site upgrade programme which is reflected in the upgrade bucket. The reduction from 2016 is predominantly driven by the fact we completed the Airtel DRC acquisition back in 2016 and there has been minimal acquisition costs this year.

If I move to page 12, here we look at the summary of financial debt and pleased to say the deleveraging of the business is continuing and is slightly ahead of track. This quarter we have gone below the 5.0x mark, which is a good indication of the EBITDA growth of our business this quarter that we see continuing. On a net leverage basis, we are still at 3.0x which is similar to the Q2 position, and the cash or cash equivalents we are at $236 million at the end of the quarter.

The main event that due to occur in Q4 is the buyout of the Vodacom minority in Tanzania which is being done for $62 million as previously mentioned. We are investing in capex and the buyouts are in line with what we set out to do when we raised the bond in terms of uses of capital. We see our EBITDA growing and our leverage decreasing in line or slightly ahead of plan here. So with that I will hand back to Kash.

Kash Pandya: Thanks Tom. So last slide before Q&A is the Outlook for Q4 and 2018; our performance for 2017 has been in line with management's expectations and we continue to push hard on the growth we have been delivering so far. Revenue and some of the efficiency driven through the business excellence program is on track through the projects we have mentioned already, and our teams on the ground are being given the skills and capability to continue to drive our performance, not only on the top line but also on the cost lines. Our momentum going forward into 2018, we expect the same level of focus from our business and we believe the market is there for us to continue the growth we have been showing. And adding to this we expect to see an improvement in our capex spend during 2018 from where we were in 2017. So this gives you an overview of our results and I'll hand back to Holly for questions. Over to you Holly.

James Barry: Gentlemen thank you very much for your time today and congratulations on a very solid set of results. A couple of questions, the first relates to costs in the DRC, a fairly steady ramp up there, is that partly on the back of the 967 Airtel sites you acquired and factoring that in or should I be thinking about this more in terms of the upgrade package and the 165 sites regarding solar there? Any clarity would be very helpful. And secondly regarding the partial IPO in Tanzania, is there any further timeframe on that than from when we last spoke? Thank you.

Tom Greenwood: Hi James, first of all on the fees and costs in DRC, yes, if you are looking at the year on year, so 2016 versus 2017, 2017 will have the full year effect of the 967 sites we bought from Airtel and therefore will have higher fuel costs than 2016. As well as that, the Airtel network that we acquired in DRC was really more of a nation-wide network, compared to our previous site portfolio that we had originally acquired from Millicom which was more of an urban focused network. So the two were very complimentary, which is partly why we liked the deal so much, but the fuel costs on the Airtel sites are generally a bit higher because they are more in the regional areas and it costs more to get fuel there, so we pay more for fuel. Additionally, the grid performance in the more rural and out of town areas is not as good as in the cities, so there is extra volume there as well. All of this is factored into the lease rate pricing that we agreed with Airtel when we did the deal, but that is what you will see on the cost line.

The second point, on the Tanzanian IPO, we are generally focused there on doing what we need to do to be compliant, but the timing of that is fairly unknown. Vodacom eventually went in August this year and there has not been anyone else yet to go, but we remain ready and available to cooperate with the authorities there if and when we need to.

James Barry: Great and on solar, the 165 sites, are they in the DRC, and then for the remaining 235, are there any CAPEX considerations you can provide us with?

Tom Greenwood: They are all in DRC and we continue to roll out the 400 that we have targeted for DRC. The capex for those 400 are all in the plan this year.

James Barry: Great, thank you very much.

Alexandre Ayoub: Thank you and congratulations for these results. Two quick questions, there were headlines today about potential IPO of the whole HT group. I was wondering is that realistic, is it part of your strategy or not, and if yes, what acquisitions would you be looking to do on the back of this potential IPO? Second question is in relation to the acquisitions you executed recently, one in Tanzania for $60 plus million and Zantel as well, can you give us a feel of how much incrementally EBITDA these two acquisitions are going to bring to your business and if possible where you do see your EBITDA for 2018? Thank you very much.

Kash Pandya: Let me first address the IPO question you had, we announced a strategic review a couple of months ago and that review still continues. We will not be in a position to say anything in terms of what the output from that strategy review is until sometime around February, but we are working with our Board on developing a strategy for the next five years for our business on the back of the solid platform that we have today. Regarding acquisitions, the Tanzania Vodacom $62 million was a buyback of the minority shareholding that they held in Tanzania, which was a legacy of the sale and leaseback transaction we did back in 2014, and we just cleaned up our shareholding and that was part of our bond strategy when we bought the bond debt on. The Zantel acquisition is a small opportunity to acquire unique towers into our business. We are not in a position to release information regarding individual acquisitions and the EBITDA these acquisitions add at this stage.

Alexandre Ayoub: Thank you very much. So given, for example, the Vodacom Tanzania buyout is in Q4, I guess our cash and balance sheet would have decreased for September. Is it fair to assume that the run rate cash and balance sheet is more around $150 million dollars now rather than the $230 million plus we used to see over the last few quarters?

Tom Greenwood: Yes, what you have seen over the last two quarters is money that was raised from the bond which had the use as specified in the bond documents, being the Vodacom buyout of $62 million and other use which were predominantly capex investments which we have been spending in line with the plan. Whilst we are not going to give out forecasts on levels of cash, clearly, the Vodacom buyout of $62 million happened after these numbers here, so yes, you should assume that comes off the total that you see here, which was line with our plan when we raised the bond.

Alexandre Ayoub: Perfect, so, realistically, leverage should increase slightly in Q4 just based on these technical changes?

Tom Greenwood: Again, that depends on EBITDA as well, so we won't be giving out forecasts on that for now.

Alexandre Ayoub: Sure, thank you very much.

Kash Pandya: Thank you very much for joining us on our Q3 update and we look forward to speaking to you all for our Full year call in February some time. Thank you very much, bye bye.