Helios Towers Q1 2018 Call

Monday, 14 May 2018

Kash Pandya: Good afternoon everybody and thank you so much for making the time to join the call and listen to the Q1 2018 results update. I'm going to take you through an executive summary followed by the detailed financial results and then we'll all have the opportunity to take Q&A at the end through the conference coordinator.

Moving on to slide two. Let me introduce my colleagues who have joined me today I've got Tom Greenwood, our Group CFO, and we have a newcomer to the call today, Manjit Dhillon, who is the Head of Corporate Finance. Manjit has been with our business for some time and has been promoted to this new role. Jeffrey Kriek has moved on to other pastures from our business and we are very pleased to have Manjit grow up in our business and take this leadership role.

If we go on to the key highlights on slide four we see revenue growth of 7% year-on-year in Q1 taking our total revenue for the quarter to $89 million. Our EBITDA continues to grow and it grew 26% year-on-year coming in at $42 million for the quarter. Our margin continues to expand and it has grown 7% year-on-year coming in at 47% for the quarter. The outlook for the remaining of the year is continued EBITDA growth and margin expansion through top line revenue growth adding more tenancies and continuing to leverage our business excellence programme in identifying efficiencies and costs that we can eke out of our systems to grow our margin. Our mission is to take our margin towards the 50% mark by the end of this year.

If I go on to slide five, this demonstrates the quarter-on-quarter growth in our EBITDA margin over the last nine quarters and delivering 47% in Q1 and achieving an annualised adjusted EBITDA of $168 million.

Now going on to slide six. We have seen our tenancies grow by 4% over the quarter through strong pipeline growth in the year taking our tenancy ratio just over the two tenants per tower mark. We are pleased about this and we have seen some significant growth over the last two or three years as we have leveraged our strong position in the markets we are in. We have consolidated some sites in the quarter which has helped us to drive our margin as we have brought duplicate sites together and managed to reduce our OPEX costs on those sites. Going forward we will continue to drive more tenancies through colocations, amendment colocations, and build-to-suits for our customers, for example, in DRC we are expanding our network through the needs of our customers in that market. This will lead to continued margin growth as we move forward.

Moving onto slide 7. You would have heard and noted that we announced our intentions to list our business on the London Stock Exchange and a second listing on the Johannesburg Stock Exchange in early March. After having considerable interest from institutional investors endorsing the business model, strategy, and growth prospects for our four markets, our shareholders decided that at this particular point in time it was not the right time to list our company in terms of offering the shares on the public market and therefore we have deferred from bringing the business on the public exchange.

Moody's and S&P have reaffirmed our credit rating through their annual review and we are pleased that they maintained us at B and B2 respectively. That strong rating is driven by the strong macros in our markets and the growth we have been delivering in terms of not only top line but also margin and bottom line EBITDA growth.

Now you would have heard me mention in the past about the Airtel-Tigo merger in Ghana and I am pleased to say that in February of this year, we were awarded with a 15 year contract with the new Airtel-Tigo Joint Venture. Tigo and Airtel had a market position of number three and number four respectively and the combined entity now is a strong number two player in the market. Awarding us this 15 year contract really speaks to not only our cost competitiveness but also our strong service offering to both of these customers. What we have seen in the market already starting to occur is a very strong competitive dynamic between the MNOs that is leading to more towers and tenancies for us in the Ghana market. Finally, on the Tanzania listing, we continue to progress the listing process and we are currently awaiting a capital reorganisation prior to submitting our revised prospectus and we are working with the authorities on the timescales that they are working to.

I will now hand over to Tom for the details of the financial results.

Tom Greenwood: Thanks very much Kash. I am now on slide nine and just summarising most of what Kash has been through. As he said, it has been a strong and solid start to the year with Q1 in line with expectations. We have seen revenue and EBITDA increase from Q4 with a 26% increase in EBITDA year-on-year from Q1 2017. We have added over 100 colocations in the quarter so it is good to see that progressing. Our capex and net debt is detailed at the bottom of the page which I will come to in a little bit more detail in a few slides time.

Moving on to page ten – revenue breakdown by customer, FX and by country – again, this is very stable and similar to what you have seen in the past with the vast majority of our revenue, 86% coming from the big five mobile operators: Vodacom, MTN, Tigo, Orange and Airtel. Onto the FX analysis, the majority of our revenue, 57%, is in USD or XAF which is pegged to the Euro and when that feeds down to EBITDA we see c.70% of our EBITDA being linked to the these currencies. The country breakdown again is very similar as before the majority, with 80% of the business covering Tanzania and DRC and the balance made up of Ghana and Congo B.

Page 11 shows the EBITDA margin analysis. As you can see, margins have been stepping up each quarter over the last couple of years and this quarter is no different. We have certainly got the 50% margin in our sights as you can see it was at 47% in Q1. As Kash mentioned, we want to surpass 50% EBITDA margin by the end of the year. The costs breakdown for cost of sales is very similar to what you have seen before so we will not go through that.

Page 12 shows the capital expenditure. We have had a capex forecast for the year put out there at $90 million which we told you about back in February. That forecast for this year remains unchanged and we have spent $37 million of that in Q1. The reason that is slightly more than 25% is because we have put the orders out and got things in the supply chain earlier in the year so that they can be rolled out in earlier in the year. You will have noticed the FY18 forecast is substantially lower than the FY17 forecast at roughly half and that is because we have invested in our networks in the past and do not need to invest as much this year. Of the $90 million, about $20-25 million is related to maintenance and corporate capex which is the ongoing capex to keep the networks and the offices running. Therefore the large majority of the capex is related to growth, specifically colocation, build-to-suit and power investments which will boost the revenues and EBITDA of the group.

If I move now to page 13, we summarise the financial debt here and we have a simple capital structure with the bond being the main debt instrument in the group as well as lease obligations which we report for IFRS 16 reporting purposes. You can see from the graph on the right hand side that our gross leverage has continued to step down, stepping down to 4.2x in Q1 and our net leverage at 3.6x. Our cash balance was at about $90 million at the end of Q1 so the funds that we raised from doing the bond a year ago have now been invested in the uses that we stated at that time – primarily the buyout of Vodacom minority interest in Tanzania while the rest invested in capital projects in 2017 that you saw on the previous page.

With that I will hand back to Kash.

Kash Pandya: Thanks Tom. I am on slide 14 now and on this slide we just wanted to reinforce the Helios Towers story. First of all, we have a very strong, unique position in the four markets we operate in. Not only are we the only independent tower company with a greater than 50% market share in Tanzania, DRC, and Congo Brazzaville, but we have really strengthened our position in Ghana by the award of the 15 year contract with the new joint venture number two market player.

We have also delivered strong revenue growth, at 7% year-on-year to Q1 2018. In terms of our secured growth and pipeline our contract length has slightly increased to 8.9 years of average remaining contract life with secured contracted revenue of $3.4 billion. 57% of our revenue is in the form of hard currency being USD or Euro pegged, so very, very secure revenue streams feeding into our EBITDA.

We are seeing strong adjusted EBITDA growth of 26% year-on-year, as I've mentioned already and 7 percentage points of growth in margin year-over-year. Our unlevered recurring cash flow in the quarter was $33.5 million in Q1 leveraging the past Capex investment as Tom has mentioned and starting to see some of the efficiencies coming through and driving our margin growth.

On the last slide before we hand over for Q&A, this is just the outlook, I want to reiterate the fact that we see continued momentum in our four markets driven by the strong fundamental macros and the low levels of telecom infrastructure penetration that exists in the four markets we operate in. We continue to develop our organisation by building capability in individuals through our Lean Six Sigma programme driving business excellence and again feeding into our margin expansion which will mean we expect to break through 50% EBITDA margin by the end of this year.

So on that note I'm going to hand over back to Laura our conference coordinator for Q&A, over to you Laura.

Operator: Ladies and gentlemen if you would like to ask a question please press * followed by 1 on your telephone keypad now. If you change your mind please press * followed by 2. When preparing to ask your question please ensure your phone is unmuted locally. As a reminder that's * followed by 1 to ask a question. We have a question on the line from Simon Cooke from Insight Investment; please go ahead Simon.

Simon Cooke: Hi all, thanks for taking the question and thanks for the call. I'll start off with a couple of questions, the first one just in terms of the top line growth obviously it has slowed down year-on-year for the last two or three quarters do you see it as structurally you're going to move towards mid-single digit top line growth or do you think there's still potential for much faster top line growth going forward? And then linked to that, it looks like when you're going to margins of 50% it would be interesting to understand whether that's primarily operating leverage or whether that's because of the costs you're taking out with all the Opex efficiencies.

Kash Pandya: Thanks Simon and thank you for joining. Sometimes you see cycles in our sector we are dependent on our customers rolling out and expanding the network. Currently we have seen some consolidation happen in the customer base in a couple of our markets so we had a little bit of a slowdown in their rollout as they were dealing with the consolidations of Orange and Tigo in DRC and Airtel and Tigo in Ghana. We think that this is a cyclic event and we will expect our customers to start out rolling out now that these two mergers have happened. We have started to see that occurring with orders coming in in Q1 but they do not impact our towers count until we have got them online. For example in DRC, Vodacom have expanded and given us orders for a new backbone site stretching some 800 kilometres. Orange have done a similar thing in DRC with 700/800 kilometres backbone site. What this means is that they are going into new territories in DRC where there is no coverage and a backbone site effectively is the start of a build programme where they will ultimately start wanting to build branches off the backbone to serve populations in those regions. So we are quite positive about the top line growth going forward. In Ghana, we have seen good traction starting to occur with order flow, not only from the new joint venture entity but also from MTN and Vodafone because of the competitive dynamic that is occurring now following the consolidation of the MNOs. In Tanzania, we believe that we have had a quiet spell for some 12 to 18 months from our customer base so it should be time when we should start seeing more activity coming through from Airtel, Voda, Tigo, etc.

Our margin growth is driven by more efficiency gains where we go proactively to our customers to talk about consolidation of sites that not only gives them benefit in efficiencies but also drives our margin improvement as we reduce operating two sites which also drives our tenancy ratios. But we are also focused and continue to focus through our business excellence programme to become more and more efficient in our business and so we feel fairly positive about continuing to drive the margin growth.

Simon Cooke: Thanks. Can I just quickly come back in terms of the top line when you're talking about orders coming in it sounds like the bulk of that is built to suit is that fair to say? At least growth is going to be more BTS rather than colo driven. And then the other question is a completely different topic, in terms of cash flow so if you're guiding to growing top line EBITDA margins of 50% towards the end of this year and $90 million CAPEX that leads me to think you're going to be generating free cash flow this year and obviously going into next as well. It would just be helpful to understand what's the uses are of that cash flow.

Kash Pandya: I'll let Tom answer the cash flow question but on the top line it is not only build to suit, we are seeing colocation tenancies coming through as well which is consistent with the increased tenancies and tenancy ratio.

Tom Greenwood: Yes, we had 110 colocations in Q1 which is a reasonable number. Just on the cash flow we have always said that 2018 is the year we reach the point of inflexion whereas previously we have been more in investment mode and therefore been free cash flow negative, like last year for example. In 2018 we expect to become broadly free cash flow neutral and then thereafter becoming positive so that is the right trajectory to think about. Uses will be dependent on a number of factors, first of all, how much is thrown off and then really what do we have in terms of opportunities at the time to invest in. We may choose to use it in some kind of capital nature for either debt or equity holders. There will be good investment opportunities at the time be that in more towers either through building them, acquiring some or even in adjacent technologies like data services etc. We are always on the lookout for good incremental investments to boost EBITDA and cash flow but if there were none identified as being appropriate then we would need to look at what we do from a capital point of view.

Simon Cooke: Okay I'll drop back in the queue and then come back if no-one else asks the question.

Operator: Our next question today comes from Lucas Reck from James Street Financial; Lucas please go ahead.

Lukas Reck: Hi, thanks Kash and Tom for taking the question. I was wondering on the Capex side I see a number of $9 million for maintenance and corporate in the first quarter is that going to come off? Are there some one-off items in there that still make it come to $22-25 million over the year? What's happening there?

Tom Greenwood: Yes absolutely, as I mentioned we had accelerated some of the orders in the first quarter but we will be at the $20-25 million mark by year-end. You should definitely not expect that to be $9 million each quarter going forward.

Lukas Reck: Just orders coming forward.

Tom Greenwood: Yes exactly, Capex is a little bit lumpy so Q1 was higher.

Kash Pandya: We generally order early in the year because there is a lead time to get stuff into the country and deployed so that is why it is higher in Q1.

Lukas Reck: Thank you very much.

Operator: Our next question today comes from Rahul Bhat from JP Morgan; please go ahead Rahul.

Rahul Bhat: Hi thank you for the call. Just quickly on the capex there was the Hybrid and solar rollout that was going on in DRC and Tanzania. I think you said would be completed in Q1, is there any update on that?

Kash Pandya: Yes absolutely Rahul. The reason we did not mention it is that we have completed it. It is done and now we continue to drive and optimise and we are reviewing where else we believe we can deploy solar and hybrid solutions. We are working on a plan to expand that investment.

Rahul Bhat: Understood so the $90 million capex for this year does not account for additional solar hybrid sites.

Tom Greenwood: It does have some more in there yes, not as much as previous years.

Rahul Bhat: Okay, thank you.

Operator: As a quick reminder ladies and gentlemen that's * followed by 1 to ask any further questions. We do have a follow up question from Simon Cooke from Insight Investment; please go ahead Simon.

Simon Cooke: Thanks for the follow up, I'll keep it to one for now. Just on the IPO could you just talk through any more detail in terms of shareholder priorities now? I think most of us assumed it is just a secondary listing rather than primary but could you just talk through whether there is any change in strategy from the shareholders? Also there has been press talk about Eaton and yourselves discussing a merger. I don't expect you to comment on that but capital structure wise are the shareholders happy with the status quo or are they still looking for monetisation in some form or change in the capital structure?

Kash Pandya: Yes absolutely, Simon. With regards our shareholders and capital structure it is business as usual. They are very supportive of management and are pleased with the results we have delivered over the last few years and believe that we can continue to drive the growth of our business which is consistent with managements view. So there is no change at all in our strategy and we focus on Africa and Sub-Saharan Africa and look at expanding and growing our customer base and tenancy ratio.

Regarding your point on merger speculation as far as we are aware there are no discussions going on certainly from the management's perspective or the shareholders as far as we are aware. However, we look at all opportunities if it is right for our shareholders and right for the business but I cannot comment on the speculation out there.

Simon Cooke: Okay, thank you.

Operator: We currently have no further questions registered so I'll hand back to you Kash.

Kash Pandya: That's great, thanks Laura. Thank you very much everybody for joining the call we look forward to speaking to you on our Q2 update sometime in August. Thank you