Transcript

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Helios Towers 2018 Full Year Results

Monday, 25 February 2019

Kash Pandya: Good afternoon, everybody. Thank you for taking the time to join our FY 2018 trading update call. The slide deck we will be going through is available on our investor relations website.

Let me introduce you to who is on the call today. I am Kash Pandya, Chief Executive Officer of Helios Towers. In Miami at the JP Morgan emerging markets conference, we have Tom Greenwood, our Group CFO, and Manjit Dhillon, our Head of Corporate Finance.

Moving on to slide four. I am very pleased to report that we have achieved 16 consecutive quarters of Adjusted EBITDA growth and further margin expansion, delivering a 52% Adjusted EBITDA margin in Q4 2018 and 50% for the full-year. The momentum in our business continues and through our Lean Six Sigma programme, we have established a strategy that really helps us to drive margin growth.

Moving on to slide five, we reported modest revenue growth in 2018, driven by a couple of dynamics earlier in the year. This included temporary supply-chain issues for our customers, related to the embargo on ZTE equipment from the US. This challenge is now behind us.

Another impact was due to the Airtel-Tigo merger in Ghana, which resulted in a reduction of 140 tenancies in Ghana as overlapping networks for the combined entity were removed. Importantly, the impact of this is EBITDA neutral for our business and we extended our contract in Ghana from five to fifteen years.

With these two dynamics to the top-line behind us, I am pleased that we achieved strong tenancy growth in Q4 2018, which I will discuss in further detail shortly. Our Adjusted EBITDA margin continued to improve, increasing by eight percentage points to 50% for the full year and we delivered strong Adjusted EBITDA growth, expanding by 22% year-on-year to US$178 million.

Moving on to slide six, our Adjusted EBITDA margin in Q4 2018 was 52%, increasing six percentage points from Q4 2017. Our Adjusted EBITDA increased by 13% from US$41 million in Q4 2017 to US$47 million in Q4 2018. Revenues were $90 million in Q4 2018 and improved by two percentage points from both the prior year and prior quarter, driven by over 480 additional tenancies. We expect to see further revenue benefit from these additional tenancies in Q1 2019.

Moving on to slide seven, we achieved 4% tenancy growth year-on-year and our tower count broke through the 6,700 tower count in the fourth quarter. More importantly, our tenancy ratio is now on the other side of two, at 2.01x from 1.99x in the prior year and prior quarter. This is a milestone for us as we move forward in expanding our customers' network coverage across our markets.

Moving on to slide eight, which highlights our recent development in South Africa.

In January 2019, we were very pleased to announce our expansion into South Africa through our partnership with Vulatel and subsequent acquisition of SA Towers. South Africa is an attractive market we have been looking at for a while, with a large population of 57 million that is expected to grow by an additional three million over the next five years.

South Africa is well established with 3G and 4G already. However, with lower priced smartphones hitting the market, there is likely going to be further 4G antennas needed as the network densifies. It is also expected that 5G will be rolled out into the market, with an estimated four million 5G connections needed over the next five years.

South Africa for us is one of the most advanced technology markets and it is a great incubator for our business for our other core markets; Tanzania, DRC, Congo Brazzaville, and Ghana. Moreover, South Africa has a strong customer base, some of which we already serve in our other markets.

There are currently 30,000 towers in South Africa with only 10% owned by private or independent tower companies. There is an opportunity for us to establish ourselves as a strong player in that market.

We are very pleased to launch the infrastructure platform Helios Towers South Africa through our partnership with Vulatel. Vulatel has a very experienced management team with South African telecom sector focus, and importantly, this partnership ensures we have the right credentials to meet the black empowerment regulations for South Africa. It also brings expertise in fibre, data centres, and small cells, which we are looking to leverage not only in South Africa, but in our other established markets as well.

In January, we were also very pleased to announce the acquisition of SA Towers, which really allows us to, under the umbrella of the Helios Towers South Africa, drive the expansion of towers in South Africa. The pipeline of c.500 towers in urban locations announced in January has continued to grow over the last four or five weeks. Our ambition is that we break through the 1,000 tower mark over the next three to four years in South Africa through the infrastructure platform created with Vulatel and our acquisition of SA Towers.

Moving on to slide 10, I am going to hand over to Tom, our CFO, to talk us through the next few slides. Tom, over to you.

Tom Greenwood Thanks very much, Kash. Slide 10 provides the key financial highlights for the year. As Kash mentioned, it was a very strong year with Adjusted EBITDA growing 22% year-on-year from FY 2017 to FY 2018. We see this momentum continuing into 2019. Another key highlight was exceeding 50% Adjusted EBITDA margins for the first time through the course of this year, which we also anticipate will continue to expand in 2019.

In terms of the top line volume, as Kash mentioned, there was a fairly slow start to 2018 driven partly by the ZTE issue and delayed rollouts from some of our customers. However, we had a very strong Q4 2018 where we added just under 500 tenancies, roughly split between 300 colocations and 200 sites. As a result, our site count is now at 6,745, approaching the 7,000 tower mark, which is well within our sights.

Capex was US$119 million in 2018, which was within the guidance that we provided partway through last year. I will provide more detail on this shortly.

Turning to slide 11, we see the revenue breakdown by customer, currency and country. Again, very similar to previous quarters. In 2018, 87% of our revenue was from Africa's big five mobile operators, being from Airtel, MTN, Orange, Tigo, and Vodafone/Vodacom.

The breakdown by FX is also similar to previous quarters, with around 57% of revenues in hard currency for FY 2018. When this translates to EBITDA, and local currency revenues are offset against local currency costs, it equates to approximately 65% of our EBITDA being in hard currencies. The chart at the bottom left shows the revenue mix by country, with roughly 80% split between Tanzania and DRC, and the remaining balance from Ghana and Congo B.

This slide does not yet show South Africa, but as we close and build out sites through the course of 2019, we expect South Africa to start making a little bit of a mark. Our current expectations are that we see some contribution for South Africa in the revenue mix pie chart in Q2 2019, but that depends on some of the CPs related to the deal. We will update you on that as we go through the course of this year.

Looking now at cost and margins on slide 12. The chart on the top left shows our quarterly Adjusted EBITDA margin since Q1 2015, and as Kash mentioned, Q4 2018 represents our 16th consecutive quarter of Adjusted EBITDA growth, with Adjustment EBITDA margins expanding to 52%.

If you look at the operating cost breakdown on the bottom left of slide 12, site opex edged up slightly in Q4 2018 compared to Q3 2018. That was mainly due to the increase of approximately 200 sites added in Q4 2018. SG&A mix between operating companies and central admin was similar to previous quarters.

Turning to slide 13, which provides details on capex for the year. As mentioned capex was US$119 million in 2018. The chart on the left splits capex by the various components, with the largest portion of capex allocated to growth investments. We have provided guidance for 2019 at US$100 million, excluding South Africa. This US$100 million is weighted roughly 80:20 between the growth components and the maintenance and corporate components, as with previous years and previous guidance.

Turning to slide 14, the summary of financial debt, we ended Q4 2018 with 4.0x gross leverage and 3.5x net leverage, at the low-end over our target net leverage range of 3.5x – 4.5x. This represents decreases of both leverage measures over last year and the last quarter, as you can see from the chart on the right hand side.

And with that, I will hand back to Kash for slide 15.

Kash Pandya Thanks, Tom. Turning to our summary on slide 15.

We have continued to maintain a strong market position. We are the only independent tower company in Tanzania, DRC, and Congo Brazzaville and we have secured a much stronger position during the course of 2018 in Ghana, where we won an open tender against our competitors to become the tower company of choice with Airtel-Tigo, who have the second-highest market share in Ghana. Then of course, South Africa provides a strong opportunity given the attractive dynamics.

We reported 22% Adjusted EBITDA growth in 2018 and look forward to continued growth during the course of 2019. In terms of our customer contracts, we maintained a US$3.1 billion contract pipeline, with an average remaining life of 8.1 years. As Tom mentioned, 57% of our revenues were in hard currencies in 2018, which equates to approximately 65% of our EBITDA in hard currency.

Overall, we have delivered Adjusted EBITDA growth of 22% for FY 2018, with EBITDA margins expanding eight percentage points from 42% in 2017 to 50% in 2018. Finally, our unlevered recurring free cash flow increased 29% from 2017 to US$158 million in 2018.

Turning to slide 16, which highlights our outlook for 2019. The macro drivers in our four established markets have not changed. Strong demographic trends and low levels of mobile penetration across our markets is expected to drive further demand for tenancies and equipment on our towers. This is reinforced by our strong culture and business excellence strategy, which allows us to drive efficiency and operational improvements, and ultimately, better service to our customers.

This is further complemented by our entry into South Africa. We are very excited by the opportunities in this market over the coming few years, it is a big market in terms of tower count, similar to our other four markets.

I want to now go to Q&A, and I'm going to hand over to Holly, our conference coordinator, to help coordinate the questions. Holly, over to you.

Operator Thank you. Ladies and gentlemen, if you would like to ask a question please press star followed by one on your telephone keypad now. Alternatively, if you are joining us via the web today you can click on the flag icon to register your question. Kash, your first question comes from the line of Kojo Amoo-Gottfried from Enko. Kojo, the line is now yours.

Kojo Amoo-Gottfried Hi. Thanks for the presentation. Given the move into South Africa could you explain how you plan to deal with the FX volatility? Because obviously in the markets where you are right now it’s either pegged or you have ways to pass it through to the underlying consumer.

Kash Pandya Sure. Tom, do you want to take that?

Tom Greenwood Yes, sure. Yes, thanks, Kojo, good question. So look, South Africa is, as you know, a bit different to some of our other markets where we have a high degree of dollarization in the revenues from customers. South Africa is very much RAND based when it comes to payments in the telecoms infrastructure sector, and it is the market norm there to have RAND based revenue for a tower company. So that is what we’re expecting.

The way we look at FX exposure is that in the contracts there are escalators linked to local CPI etc. So that acts as a protector to deliver quasi-medium term dollar revenues. Separately, in terms of doing funding for capex we would essentially look to have a local RAND debt facility, which to some extent aligns with our revenues.

From a group perspective, we make sure we are monitoring it, not over-leveraging ourselves, and always having a bit of funding tucked away for any short term shocks in the local exchange rate.

Kojo Amoo-Gottfried Great, thanks. In terms of the Euro Bond, so obviously the first quarter is coming due soon. Is there anything you want to announce in terms of how you view it, and also your future funding plans?

Kash Pandya Today we have no specific plans to re-tap the bond market. We are of course watchful of the bond market and continue to monitor how we are trading. As we have previously mentioned, we are well financed through securing a US$100 million term loan already, and that helps us in South Africa, but also our organic growth.

Kojo Amoo-Gottfried Okay, great, thank you.

Operator Our next question today comes from the line of Lukas Reck of Jane Street Financial. Lukas, the line is now yours.

Lukas Reck Hi Kash, Tom, thank you for the updates. I had two questions, and maybe they've been addressed, I just missed a couple of minutes of the call earlier, so I apologise if I'm repeating things. But the first was, do you have any sense yet of the impact of political uncertainty in DRC recently? I imagine you haven't seen anything just yet but are you thinking about them, and if so, how?

Kash Pandya Yes, let me take that first one. So yes, in DRC we have lived with the political uncertainty for the last couple of years, but our business has continued to move forward and grow throughout that period and actually, since we entered that market. During the course of 2017, subscriber growth was around 15% in DRC, and only last week one of our large customers, the second largest player in DRC, reported 17% subscriber growth during the course of 2018.

All during an environment when there was uncertainty about whether the elections were going to be held or not. Elections were held in December, the president was sworn in in January, and the transition has gone smoothly. Business life continues to move forward.

I was there 10 days ago and shop vendors were trading on the street, school kids were going to school. Life was as normal as I have seen it elsewhere in Africa. Democracy has taken place, the elections have gone smoothly, and our business and our customers continue to grow. So far, so good, as far as we are concerned.

Lukas Reck Right, despite the election being disputed there is very little impact on the ground?

Kash Pandya So yes, the elections were disputed but ultimately Fayulu did not take any further action in DRC, and accepted the court is ruling that the election results stood. And so it is done and we are progressing forward.

Lukas Reck Right. And then the other question I had, now that you have a bit more visibility on how exactly you are going into SA, what do you think is the main hook that you have for incentivising customers to move from owning towers to switch over to yours? Because South Africa has been delayed in that transition.

Kash Pandya Yes, you are absolutely right. One of the key drivers for any tower transaction around the world has been for the MNOs to unlock capital so that they can invest in active technology. We know for example, that some of the MNOs have already talked about having to reduce their capex spend, and that will mean that they need to pass on their tower assets to allow people like us to go and invest in passive infrastructure.

We also believe that our business model and proposition, is much more flexible and agile compared to some of the bigger players in South Africa. We think that we can come in and offer a build to suit programme, establish our performance and service to the MNOs through the build to suits, and ultimately be in the right position in the market when the sale and lease transactions happen. Which we think will happen in due course.

Lukas Reck Right. So why do you think they haven't happened so far?

Kash Pandya They have sold some towers, approximately 2,500 towers were sold to American Towers, for example. I think the need for capital has not been there, but I think in time it will come. More importantly though, if I point to the expansion needed, our research shows 7,000 to 8,000 more towers are needed in South Africa from its current level of 30,000, driven by the densification process as 4G is further expanded and 5G is rolled-out.

Lukas Reck So that is what is driving things there, the fact that they would rather spend...

Kash Pandya On active technology investment, yes.

Lukas Reck The same as everywhere else, just a little later. Thank you.

Kash Pandya Thank you.

Operator We currently have no further questions registered so I will hand back to Kash to conclude today's call.

Kash Pandya Thanks, Holly. Well look, thank you very much everybody for joining our call, and we look forward to talking to you in May for our Q1 2019 update. Thank you.