Helios Towers Q1 2019 Results Call

Monday, 13 May 2019

Kash Pandya: Good afternoon, everybody. Thank you for taking the time to join our Q1 2019 trading update. I will be providing an overview of our Q1 performance and then hand over to Tom for a detailed review of our financial results. Following that we have plenty of time for Q&A.

We have the usual trio on the call, albeit that I'm in Nairobi, Kenya, and Tom and Manjit are in Johannesburg, South Africa.

Moving on to slide four. I am pleased to report that we have achieved 17 consecutive quarters of Adjusted EBITDA growth, delivering annualised EBITDA of US$195 million in Q1 2019. That represents a 47% CAGR since Q1 2015. Adjusted EBITDA margins of 52% also continue to expand, increasing 5ppt year-on-year and more than doubling from Q1 2015.

Moving on to slide five, Adjusted EBITDA in the quarter of US$49 million increased 16% year-on-year, driven by strong revenue growth of 5% year-on-year to US$94 million. Quarter-on-quarter revenues increased by 4%.

The outlook continues to be positive for our business. Strong macro fundamentals are driving top line growth and our business excellence strategy continues to deliver operating efficiencies.

Moving on to slide six, we delivered 4% tenancy growth year-on-year, resulting in a total of 13,600 tenancies and a 2.03x tenancy ratio. This strong performance includes 17 edge data centre tenancies we acquired in South Africa on 31 March 2019; our first acquisition completed in the country.

With low levels of mobile penetration in our markets and very strong market positions, we expect tenancy growth to continue. I'm pleased to say that many of our customers reported healthy double-digit growth during the course of 2018, on the back of similar growth in 2017. Vodacom also announced their FY 19 results today, which highlighted great growth in the markets we serve them in.

Moving on to slide seven, recent developments. Our acquisition of 13 edge data centres is our first foray into edge data centre management, and reflects our strategy to build capabilities in adjacent verticals. We view South Africa as an incubator, which will support us developing expertise in edge data centres as well as other areas such as dark fibre and small cell applications.

In addition, we completed our acquisition of SA Towers at the end of April. At closing, we had 58 towers serving customers. More importantly, we have a pipeline of 500 permitted sites and hope to deliver approximately 300 sites by the end of 2019. This will help to strengthen our South African business and deliver geographic diversification that has been part of our strategy since 2016.

Regarding our strategic announcement included in our Q1 results released this morning, we have announced a strategic review to evaluate options for our business and to drive continued growth. That process will take approximately six months to complete but we are excited about the opportunity for further expansion and organic growth in the markets we operate in. On that note, I'm going to hand over to Tom to give us more detail on our financial results.

Tom Greenwood Thanks very much, Kash. So I'm on slide nine, the key highlights. As Kash mentioned we achieved another quarter of growth for our business, and that brings us to 17 quarters of consecutive growth and this time we reached US$195 million of annualised EBITDA, just shy of the $200 million mark. This represents a 16% year-on-year change and a 5% quarter-on-quarter change, so we are very happy with that.

The site count being at just over 6,700 allowed us to add more colocation tenancies in the quarter, driving our tenancy ratio up to 2.03x, from 2.01x previously. Capex in the quarter was US$16 million, which I will discuss in a few slides. Net debt was US$672 million, representing net leverage of 3.4x for our business, so a continued reduction there.

Looking at slide 10, which provides the usual revenue breakdown slide. If you have seen this slide from prior quarters, you can probably see that customer mix, country mix and FX breakdown have remained stable.

The vast majority of our revenue continues to come from Africa's big five mobile operators. 87% of our Q1 revenue came from Airtel, MTN, Orange, Tigo and the Vodafone/Vodacom group. The foreign exchange mix in our business is strong with 57% of our revenue being in hard currency, which translates into approximately 65% of our EBITDA and the majority of our cash flow being in hard currency. Finally, revenue breakdown by country in the chart on the bottom left of the slide shows Tanzania and DRC continuing to be dominant countries in our business at just over 40% each.

South Africa is not in this chart because the 13 edge data centre assets were acquired on 31 March, the last day of the quarter. Therefore, there was not any material revenue to show in Q1 but you will start seeing a little bit of that coming through in Q2, and more beyond that.

Looking at our costs and margins on slide 11. Our Adjusted EBITDA margin was 52% in Q1 2019 up 5ppt year-on-year and in-line with Q4 2018, while EBITDA quantum and revenues expanded. Compared to Q4 2018, the steady margin is partly due to the addition of approximately 200 sites at the end of 2018. We recorded operating costs for them across all of Q1, and this is why you see a slight increase in the Q1 2019 opex compared to Q4 2018 on the bottom left hand chart.

The SG&A for the business again remains fairly constant and has a similar mix as you have seen in previous quarters. Headcount has remained fairly consistent too. As we have said before, our business is all about operational leverage, so to the extent we add towers and tenants in an existing market, we do not need to add more SG&A.

Moving to slide 12. Q1 2019 capex was US$16 million and the overall guidance for the year, as indicated in the green block is US$100 million for the existing business excluding South Africa. This guidance is unchanged from what was provided during our full-year 2018 call. As usual, our full-year capex guidance for maintenance and corporate expenditure is US$20 to US$25 million. That is in the non-discretionary element and therefore the vast majority of our capex is discretionary and highly dependent on customer orders and other attractive investment opportunities coming in.

Our capex for the quarter of US$16 million was below the 25% amount for the full year, but capex can be lumpy so we would not change full year guidance at this point. Indeed the pipeline that we have for tenancies at this point suggests that we will be ending 2019 around the guidance that we have provided.

We have also provided capex guidance for 2019 in South Africa of US$50 million. We expect capital deployment in South Africa to be approximately US$100 million across 2019 and 2020, and at this point our best estimate for guidance is roughly half each year. However, this is dependent on customer timing and we will provide updates if that accelerates or decelerates.

Moving on to slide 13, financial debt. As you can see from the table, gross debt at the end of the quarter was US$781 million and net debt was US$672 million. The increase in gross debt reflects the drawdown from our term loan facility, primarily for deployment in South Africa. That was drawn by the end of Q1 in anticipation of closing the edge data centre and SA Towers acquisitions in South Africa, which as Kash mentioned earlier, have now both been completed. The SA Towers acquisition is a deal which has multiple closings and therefore you will see some assets being reported in Q2 and then also more further through the year.

All of this means our gross leverage remains at 4.0x and our net leverage is at 3.4x, showing a considerable de-leveraging on a net leverage basis. If you excluded the term loan facility drawn for South Africa from gross leverage, it would be 3.6x, reflecting underlying de-leveraging on a gross leverage basis too. With that, I will hand back to Kash for the next slide.

Kash Pandya Thank you, Tom. I'm on slide 15. We continue to reinforce our growth story as highlighted on previous slides, delivering 17 consecutive quarters of Adjusted EBITDA growth. It is fundamentally driven by a solid operational model that we have established, but also due to the attractive macro fundamentals and telecom dynamics in Africa.

We operate in markets with some of the lowest mobile penetration levels in the world, including Tanzania, DRC and Congo Brazzaville, where we are market leaders. In Ghana, we have had good momentum over the last four or five quarters and managed to increase market share in a country where we compete with other tower companies.

We are pleased by the progress in our four existing markets and are very excited about the growth potential of South Africa, a market that is expanding mobile network coverage and its technology offering.

Our progress in our four established markets is well reflected in our finance performance. Revenues expanded 5% in Q1 with Adjusted EBITDA growing 16% and margins expanding 5ppt to 52%. We expect margins will continue to expand and are working hard towards breaking through the 60% mark over the next three year horizon.

In terms of long term contracts, we still maintain a healthy $3 billion contracted revenue with an average remaining life close to eight years, and as Tom mentioned, we also benefit from 57% of our revenue being denominated in hard currency. This gives us a very strong confidence regarding our protection against any local currency challenges.

And finally, the business delivered over $44 million of unlevered recurring cash flow in the quarter, increasing 31% year-on-year. So good, solid momentum on cash generation.

Moving on to slide 16 regarding outlook for 2019. We continue to drive further growth in our markets. As mentioned earlier, it is very pleasing to see our customers report double digit growth in our core markets. Their growth translates into further growth for our business as we help expand their footprint into new territories and support network densification on our existing towers.

We also expect to continue to drive top line growth with South Africa now live. As mentioned, our ambition is to break through the 300 tower mark by the end of this year, and through the 1,000 tower mark over the three year horizon.

On that note, I'm going to hand back to the operator so that we can take Q&A.

Operator Thank you. If you'd like to ask a question please press star followed by one on your telephone keypad now. Or if you're listening to the call online, please click on the flag icon to ask your question. And our first question today comes from Rahul Bhat from JP Morgan. Please go ahead, Rahul.

Rahul Bhat Hi all, thank you for the call and for the strong quarter. Can I ask a few small questions? There was a large increase in receivables this quarter. Is that something that is expected to change in the coming quarters? And also on capex, the US$50 million guidance for South Africa. Does that include the acquisition cost as well? Or is that excluding acquisition?

Tom Greenwood Yes, so first of all on receivables increase, predominantly there were a couple of larger customers who had their year-end at the end of March, and seemed to be slightly conservative with their payments. So that is what you see in our receivables balance at the end March, and you will see most of that swing back by the end of June, all other things being equal. On the South African guidance, the US$50 million does include acquisition.

Rahul Bhat Okay, perfect. And just again on South African capex. In the quarterly report it mentions the consideration for the SA Towers transaction may be up to US$65 million. Is that included in the capex guidance as well as the 500 sites that they have permits for? And perhaps one for Kash in terms of the equity listing on a public exchange. Do your plans also include raising primary proceeds to fund this capex etc.? Or is it only your shareholders that want to list? Thank you.

Tom Greenwood Yes. The US$65 million that you have seen in the quarterly report is included within the US$100 million capex guidance, Rahul.

Rahul Bhat Understood.

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Kash Pandya Hi Rahul, regarding our announcement on strategic review, there has been no decision on whether it will be an IPO, primary etc. We are reviewing all options at this stage and once we have made a decision we will certainly inform the market. At this stage all options remain on the table.

Rahul Bhat All right. Thank you very much guys.

Kash Pandya Thanks, Rahul.

Operator So our next question today comes from Simon Cook from Insight Investment. Please go ahead Simon.

Simon Cook Hi guys. To follow up, in terms of the strategic review, why are you looking at it now? Because obviously you did a strategic review last year, so what is kick-starting you doing another one now? What is the driver behind it? Would be the first question. Whether there are new opportunities or something. And then the second one is just on the site declines that we have seen in DRC and Tanzania quarter-on-quarter and then the tenant decline in Tanzania. If you could just give some detail behind those and what you expect to trend over the next few quarters. Thanks.

Kash Pandya Yes. Let me take the first question, Tom. Thanks for the questions, Simon. Since our last strategic review, which actually was at the back end of 2017, we have achieved good momentum in our growth. We have also entered South Africa and we see continued growth in our established markets. We want to evaluate the opportunity to continue driving the momentum of our business. We are looking at further geographic expansion for our business over the next few years, and we and our Board view that it is time to understand what the right options for our business are to drive further growth.

Simon Cook Okay.

Kash Pandya Tom, do you want to take the next part on tenancy?

Tom Greenwood Absolutely. So, Simon, one of the things we have been doing is a site consolidation programme, and this is relevant in Tanzania and DRC because in both of those markets we have acquired two different mobile networks over the years. In Tanzania it was Vodacom and Millicom, and in DRC it was Millicom and Airtel. So that gives us an opportunity to consolidate two towers when they stand next to each other, and so we have been doing a fair amount of that in Q1 and that is why you see the numbers in Tanzania touch down slightly this quarter.

We have ongoing consolidations, so there may be a small number of them in Q2 as well. The economic rationale for doing this is because it is highly accretive. Effectively you take down one site and stop paying all opex and maintenance capex there, and then put those tenancies onto a site standing next to it.

As a result, you maintain your revenues but opex and maintenance capex decrease because it costs roughly the same opex and maintenance capex to run a site with one tenant or multiple tenants. So that is what you see there.

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Simon Cook Can I have a few quick follow ups on that? So tenancies in Tanzania also seem to have fallen slightly quarter on quarter? So could you just comment on what's going on there, if anything? And then on the strategic review obviously the bond is callable and I guess none of us would be surprised if you decided to refinance it. Is part of the strategic review considering the capital structures in terms of the debt term loan mix? Or are you leaving the bond alone for now?

Tom Greenwood Yes, so just on the sites. The number of sites also represents the number of anchored tenancies, so the number of sites is effectively included in the total tenancy count. So you would see both numbers go down in that scenario. And then on the bond, yes it is callable. We have been monitoring the market this year. Obviously there was a bit of rally a month or two ago and that was great, but we've so far decided that we are not going down the calling route at this point, but we will keep monitoring.

We will not make a hard decision, but at this point we are focused on expansion and I think the additional debt that we have got through the term loan is providing us with the capital to enter South Africa. The term loan is at a lower cost than the bond, so we do definitely have our eye on that. I think at some point in the future we will refinance the bond. But I do not know when that will be, but we will keep monitoring.

Simon Cook Okay, thanks.

Operator So our next question comes from Kay Hope from Bank of America Merrill Lynch. Please go ahead, Kay.

Kay Hope Hi, and thank you for the call today. I have two questions, the first is, you completed the 1,800 kilometre backbone in the DRC I believe either early or late in the first quarter. When should we see that starting to generate visible revenues? And then secondly, it looks like admin expense fell by about half between March 2018 and March 2019, and can you tell us what that was due to?

Kash Pandya Tom, do you want to take that?

Tom Greenwood Yes, sure. Absolutely. So the DRC backbone, Kay, yes as you have mentioned that was a project that went on through a lot of last year, most of the second half of last year, and most of those sites if not all of them were on by the year end. We have seen the revenue starting to come through for them in Q1.

The real opportunity with them is the potential tower offshoots from the backbone itself, which we are currently talking to customers about. We have rolled out the backbone for two of our major customers in DRC and the benefit of this is once the backbone is established, they start building smaller sites to access the towns and the villages off the backbone.

Regarding the admin expenses question, last year included exceptional expenses in relation to the previous strategic review, and they were in Q1 in 2018 and we do not have any of them in 2019.

Kay Hope That is great. Thanks so much.

Kash Pandya On the backbone, Kay, what is interesting is that another one of our large customers is now exploring the building of a third new backbone in a new part of DRC with no coverage. As Tom said these are the infrastructure that infill towers will flow from. Generally customers do not commit to backbone building unless they are going to do infills over time. So we are excited about the prospects in DRC.

Kay Hope Terrific. Thank you. One more question I have and it is kind of an odd question, but I know in the press here in London we are seeing more and more about additional Ebola cases in the DRC and some amount of conflict that is related to that. Does that affect you in any way?

Kash Pandya Good question, Kay. Look, in the Northeast region of DRC as it has been publicised in the media, Ebola continues to be a challenge. Of course we have towers there, in that region actually our tower count is in the order of around 120 towers overall in the Northeast, and particularly where the Ebola region there is even fewer.

We take very, very tight precautions to protect our staff and our assets. And to date we have had no impact to our service levels in that region and we work with the authorities, the international authorities but also the DRC authorities, to ensure that our infrastructure enables the right level of communication to help the local society and communities there. In general, operationally we just carry on delivering the service we have done for the last two, three, four years.

Kay Hope Okay, great.

Operator So we have no further questions on the call, so I'll hand back to you, Kash, to conclude.

Kash Pandya Great. Thank you very much. Well, look, thank you for joining the call today and we look forward to talking to you for our Q2 update in August. Many thanks.