Helios Towers Q1 2022 Results

Thursday, 5th May 2022

Q1 2022 Highlights

Tom Greenwood

CEO, Helios Towers

Welcome

Welcome, everyone. It is great to be talking to you today. I am Tom Greenwood, the CEO of Helios Towers. With me I have Manjit Dhillon, our CFO, and Chris Baker-Sams, Head of Strategic Finance and Investor Relations.

Agenda

On page three, you see the agenda. This morning's call is really a run-through of our Q1 release, which came out a little earlier this morning. We will talk through some highlights. We will talk through some financials. Then of course there will be good time for Q&A at the end.

But also today we have our Capital Markets Day, which is happening later, kicking off at 13.00 London Time this afternoon. I know that a lot of you are either attending in person or planning to login virtually. If you still want to register, you are able to click on the link here on the page and register. So I look forward to talking to you all later. At that we will be launching our new five-year sustainable business strategy. As well as the people that you have on this call, there will also be some of the wider executive team there for you to meet, some of whom will also be presenting. So we really look forward to that later.

Q1 2022: Highlights

So moving on to the Q1 highlights, and now I am on page five of the presentation. So look, Q1 was a really solid quarter. We have delivered 23% in revenue growth year-on-year, 20% Adj. EBITDA growth, Adj. EBITDA margin in line at 52%, which, of course, has been slightly diluted with all the new assets that we have bolt-on which we are all now ready to lease up and start driving those margins and returns.

Portfolio free cash flow as well was up 34% year-on-year. Of course, a huge amount of all of this was driven by our tenancy increases. We added over 1,500 year-over-year, and also closed on our eighth market in Malawi in the quarter. All of this driving site counts up 43% year-over-year and tenancy growth at 29%, and both of those around 9% on an organic basis. So we are really seeing strong tenancy rollout coming through.

In fact, our Q1 tenancy rollout on an organic basis was 359 tenancies, one of our strongest ever levels of performance in the first quarter. Typically, this should have been quite a quiet quarter for our business due to rollout cycles with our customers.

Of course, late last year we told you about this and we mentioned that we were pre-ordering some CapEx so that we could continue the momentum in Q1 without any delays to rollout due to supply chain issues. Of course, we are very pleased that we did that because it has enabled us to deliver on a strong quarter.

In other news, we are still continuing our processes of closing Oman and Gabon. So those are moving in the right direction, and aiming to close those in Q2 and H2, respectively.

Finally, our guidance is reiterated for the year, which is centred around the organic tenancy additions being 1,200 to 1,700, around 8% at the midpoint. Finally, let us give you a reminder that all of our revenues and earnings are very well protected against inflation and power price movements through the contractual escalators in all of our contracts. So in a sort of global environment where we are seeing quite a lot of increases or volatility, in those sorts of measures, our business is very well protected against those through our contracts. So we are feeling very good about a robust earnings stream going into the latter half of the year and of course into future years.

Q1 2022: Strong growth driven by organic and inorganic expansion

Moving on now to slide six, we just see some of the main KPIs in chart form. As you can see, tenancy is showing good growth as we move into Q1. We have added about 1,500 since the end of last year, with about 1,100 coming from the Malawi acquisition and 359 organic in our other markets. So we are making good progress there.

Adj. EBITDA, as you can see, as that is up fairly significantly. If you look at Q1 annualised of $274 million, that is already a 14% increase on our FY 2021 Adj. EBITDA, which was $241 million, you see there in the middle. So, of course, what this means is if we did nothing for the rest of the year and did not sell another single tenancy, then our Adj. EBITDA would continue on this level.

Of course, we are going to be selling more tenancies and driving more efficiencies. So we are feeling good about a good base that we have got in Q1 at $274 million, ready to drive that further upwards as we move through the year.

Finally, here you can see the cash flow metric also has stepped up as would be expected, principally driven through the Adj. EBITDA increase.

Sustainable Business Strategy

Moving on to slide seven, and again, here our sustainable business strategy is very much in full swing. In fact, as I mentioned earlier, later today at our Capital Markets Day, we will be launching our new five-year sustainable business strategy, which is centred around our purpose of driving the growth of mobile communication across Africa and the Middle East, and of course, our mission, which is to deliver exceptional customer service through our business excellence platform and create sustainable value for our people, environment, customers, communities and investors.

So look, later on today I, Manjit and some of the other ExCo members will be taking everyone through a presentation, which really looks into what we are going to be doing for the next five years, where we are focused on, and of course all elements of our business from business excellence, to Lean Six Sigma, to our customer service excellence mantra, and of course our sustainability angles of which we cover all of that.

First and foremost, our targets are to drive returns, margin and value over the coming years through our business, through leasing up the new enlarged platform that we have; and we are very confident of doing that. So we look forward to speaking to everyone later on this.

Q1 2022: Acquisition update

Next up, we have a quick roundup on page eight of our acquisition activity. Of course, we closed Senegal in Madagascar last year. We have just closed Malawi at the end of Q1. That has got off to a very smooth start. We are seeing some good operational performance coming through, as well as good interest for new rollouts in that market. So that is very exciting for us.

Then Oman, as I mentioned, and Gabon, we are now working on the final processes around closing those deals. So Oman is expected to be in Q2 and Gabon in H2, as we previously communicated. So look forward to bringing those into the fold as we move through this year. We will have therefore completed our big expansion from five to ten markets, 7,000 to 14,000 towers, and ready to really go off that in large base with significant embedded lease-up and growth going forward.

I will now hand over to Manjit to take us through the financial section. Over to you, Manjit.

Financial Results

Manjit Dhillon

CFO, Helios Towers

Q1 2022: Financial overview

Thanks, Tom. Hello, everyone. It is great to be speaking with you all today. I will be going through the financial results, and starting on Slide 10.

Continuing on from what Tom mentioned earlier, we have had a very strong quarter of organic growth driven by organic rollouts and complemented by our new markets: Madagascar, Senegal and Malawi, all of which have really hit the ground running. And on this slide, you will see we have summarised the main KPIs, which I will be talking through in more detail over the next few slides. But in general, we are seeing good growth across a number of these key metrics.

Q1 2022: Strong organic and inorganic tenancy growth

So jumping into the details and moving on to slide number 11, and we see really robust organic and inorganic tenancy growth in Q1. From a site perspective, we saw a 43% increase year-on-year, primarily due to 2,420 sites that were acquired across our new markets, but which were also supplemented by strong organic growth of 733 sites.

Year-on-year, we have added 4,501 tenancies, which is a 29% increase from where we were in Q1 2021. 1,545 tenancy additions were driven through organic rollout and 2,956 day-one tenancies in our new markets in Senegal, Madagascar and Malawi. Tenancy ratio in our established markets remain constant at 2.14x. On a Group basis, tenancy ratio has dropped slightly by 0.22x to 1.92x. That has really due to the integration of new markets, which have a combined day-one tenancy ratio of 1.2x.

We will see the overall Group tenancy ratio dilute as we continue to integrate our acquired portfolios, which come with generally lower tenancy ratios on day one than the Group average. However, as reiterated previously, this is a great opportunity. We are growing our asset base and the number of sites, which we can develop, adding further colocations over the coming years. We will see our tenancy ratio and other metrics compound over the coming years as well.

But all in all, we are very pleased with sites and tenancy momentum in Q1. As Tom mentioned, we managed our supply chain effectively with forward-purchasing of CapEx at the back-end of last year, which has meant that we can roll out tenancies efficiently at the start of the year, which you can really see coming through here now.

We have got a good pipeline of opportunities ahead. We are exactly where we want to be and are laser-focused on delivering more built-to-suit and colocations during the rest of the year.

Q1 2022: Double-digit organic revenue and Adj. EBITDA growth

On to slide number 12, and looking at our revenues and Adj. EBITDA. We have seen growth of both revenue and Adj. EBITDA, up 10% year-on-year on an organic basis and up 23% and 20%, respectively, when also incorporating the new markets.

Adj. EBITDA margin is reduced by 2 percentage points, in line with guidance we gave over a month ago. That again is really driven by the impact of lower margin acquisitions, which have diluted the Group margin on day one, and also due to an investment that we made in our SG&A to ensure that the business is well set up for doubling of size and scale.

But again, we are pleased with these results. We have a well-invested platform delivering strong organic and inorganic tenancy growth which we see, and will continue to see coming through our revenues and Adj. EBITDA in the quarters and years to come.

Diverse currency hedged business underpinned by long-term contracts with blue-chip MNOs

Now, if you move to slide 13, you will see the usual breakdowns provided, which are broadly consistent from previous quarterly updates. We have strong currency hedged business underpinned by long-term contracts with blue-chip mobile network operators.

99% of our revenue come from international MNOs comprising mainly Airtel, MTN, Orange, Tigo and Voda, and Free Senegal who we purchased the Senegalese portfolio from. We have strong long-term contracts with our customers. As at our Q1 2022, we have long-term contracted revenues of $4.2 billion with an average remaining life of 7.4 years, which increases to $5.3 billion pro forma for Oman and Gabon, which are due to close during the course of this year. This means, excluding new wins and roll-out, we already have that revenue contracted in the bag, providing a strong underlying earnings stream to the business.

We also have 64% of our revenues in hard currency, being either US dollar or euro pegged. As a reminder, this will increase to 68% pro forma for the announced acquisitions, which translates to 72% when looking at it from an Adj. EBITDA perspective being in hard currency. This provides a strong natural FX hedge for the business, which is further complemented by our annual inflation escalators, which you have in all of our contracts with our customers.

Capital expenditure: Tightly controlled and focused on accretive growth

Moving on to slide 14, and we look at CapEx. Year-to-date, we have deployed $73 million, with the majority of that $40 million related to acquisition CapEx, principally the Malawi acquisition. Our CapEx guidance though remains unchanged at $160 million to $200 million, excluding any CapEx that was spent on new acquisitions. We have incurred $33 million against that in Q1.

We have also guided to $650 million for the full year for new acquisitions. And we have incurred $40 million of that, again, principally related to Malawi. As such, we have $610 million to deploy on acquisitions relating to Oman and Gabon.

We forward purchased $30 million CapEx in Q4 for organic rollout of tenancies in Q1. Again, managing supply chain effectively has meant that we have hit the ground running this year. We continue to actively monitor and manage our supply chain so that we can efficiently rollout for our customers something which we always look out and continue to do going forward.

Fully funded for organic and inorganic expansion

Moving on to slide 15, we show a summary of our financial debt. As of Q1, our net leverage is 3.7x and continues to be within our range of 3.5x to 4.5x. We have strong liquidity with about $830 million in available funds made up of $483 million of cash on balance sheet and $345 million of unutilised debt facilities across the Group.

We are fully funded for our near-term organic and inorganic expansion plans with long-tenured debt. We are in a great position, where there is no immediate need to raise any additional capital. However, as always, we remain agile and ready, should strategic opportunities arise. But we are glad to say we sit here with a very strong balance sheet.

Seasonally strong tenancy additions and tracking in-line with financial guidance

Finally, on slide 16. We are tracking in line with our FY 2022 guidance. We have had 359 organic tenancy growth in the quarter. As Tom mentioned, we typically see Q1 and Q2 as being our slower periods for rollout given the budget cycles of MNOs. So we are tracking well against the budget guidance we have given.

Lease rate per tenancy was posted at 2% when looking at the seven markets, excluding Malawi. Our estimate today came over the course of Q1, so in January, February and March. If we take our March position, our lease rate per tenancy is actually in line with guidance.

Finally, Adj. EBITDA margin is in the middle of guidance at 52%. So all in all, we are progressing well against our targets, and we remain very focused on continued delivery for the year ahead.

With that, I will pass back to Tom to wrap up.

Conclusion

Tom Greenwood

CEO, Helios Towers

Q1 2022 takeaways

Thanks very much, Manjit. So I am on slide 17 for a quick wrap up. But let us remind you, we have had seasonally strong tenancy additions in Q1 with 359 tenancies come through, and of course strong financial performance, in line with expectations. Revenue increased 23%, and Adj. EBITDA was up 20% on an overall basis.

We have closed our Malawi deal, which means we are now in eight markets and over 10,000 towers, and we are progressing well on the final two, Oman and Gabon. We have reiterated our 2022 guidance. Of course, later on today we will be launching a refreshed five-year sustainable business strategy and look forward to seeing as many of you there as possible.

So with that, I will hand back to Ruby, who will coordinate the Q&A.

Q&A

John Karidis (Numis): Can you talk about how the second quarter looks so far, please?

Tom Greenwood: Absolutely. So, look, second quarter is again tracking to plan. We have a strong pipeline of orders in hand or orders coming through shortly, which puts us in a fairly confident position, not just for the second quarter, but for the full year. All-in-all, we are happy with progress so far year-to-date.

John Karidis (Numis): Do you think tenancy growth in the quarter might be comparable to what you have seen in the first quarter? Maybe you can describe this a little bit for us, please, Tom?

Tom Greenwood: Look, I would not give an exact number because tenancies can come in fits and bursts slightly. I think we are just reiterating our previous guidance of the 25 and 75 mix for the year. And when we report our H1 in August, if there is an update to give at that point for the full year, we will certainly give you one then. No, look, so far so good. Tracking well, good orders in hand, and we are happy with progress so far.

Jerry Dellis (Jefferies): Maybe a follow-up to John's question. Obviously the 359 organic tenancy that you have reported in Q1 seem to put you in a very strong position to overachieve against the sort of the expectation that you set yourself for the first half. Is the tenancies come in in fits and starts? I think this is the build-to-suit programme that might make you incrementally more cautious on momentum in Q2? Or should we [inaudible] Q2 is looking pretty strong and you are essentially holding off just in case some later slightly unexpected decision?

And my second question has to do with cash conversion, which was pretty strong, 72% conversion, I think from EBITDA into portfolio [inaudible] where obviously a number of assets have only just come on board. So how do we think about the historical capital of 65% to 70% cash conversion going forward, please?

Manjit Dhillon: I will take those. So I think with regard to tenancies, I would probably go for the latter part of what you mentioned there. So we are progressing well. As you rightly say, the majority of our tenancies for the course of this year are built-to-suit. So there can be a little bit slippage sometimes quarter-on-quarter, as is expected sometimes.

But in general, I think it is just to reiterate what Tom has said, we are keeping our guidance exactly where it is right now. We are in a good position. And as we get to August and announce the results, we will have to reanalyse the guidance at that time. But as it stands right now, I think we are sitting here in a very good and healthy position in terms of our pipeline.

With regards to portfolio free cash flow, yes, I think we have had good conversion at 72%. There are a few items there which are also related principally to timing. So I think we will see a bit of a ramp up in terms of maintenance and corporate CapEx coming through, which may slightly reduce a bit of that. And we have had, I would say, a little bit of lighter tax payments during the first quarter.

Now whilst we look at portfolio free cash flow on a last 12 months perspective, there will be a little bit of a rise up in that in Q2. But in general, I would say our portfolio free cash flow will be around the 70% mark, is where we expect it to be during the second half.

Alexandre Roncier (Bank of America Merrill Lynch): I was just wanting to come back to some of the more country-specific performance. And we have seen South Africa being quite strong. And so, I am just wondering if you had some comments regarding the evolution of the market there, given some M&A in the country. But then equally more broadly, I mean, you have had a really good start in Senegal following your acquisition. Could we expect some kind of a similar head start in Oman, Gabon or even Malawi, as you acquire the portfolio and already grow your cost base to address those markets?

And then, perhaps that is a question for the CMD. And in this case, I will ask that later today. But given the strong performance in Q1 on the back of the CapEx from closing you have done last year, do you expect or do you think it will be adequate to do something perhaps similar for this year?

Tom Greenwood: Thanks, Alex. Thanks for the questions. So I guess, look, taking the first one, look, SA, as you point out, we have had a strong quarter there with adding fairly significant for that market a number of sites and tenancies. Again, I think this is going back to the point that tenancies do come in fits and bursts. This is a lumpy business. And therefore, there can just be quarters which see a peak.

Equally, there can be a quiet quarter, and there is nothing really to get either too excited or too worried about. It is really just for us, how we think about it as we think about worst things going in the median term. What was the three to five-year trajectory and are we roughly on track for that? And, of course, within that time period, there is going to be some quarters which do have a peak and others which are quiet.

That is just the nature of a kind of heavy infrastructure business and a reasonably long sales cycle, which our business has. But look, we are very pleased to see South Africa stepping up. And the team there have done a great job in doing that.

Equally, Senegal, new market as of almost a year ago now actually, and we are very pleased to go into that market as the only independent telco. We have been seeing some good rollout there. There is certainly more to come in that market as we move through this year. We have got some good build-to-suits and colos coming through.

And again, I think it just goes to the point that the markets that we choose to enter have these dynamics, fundamentally relatively low levels of mobile penetration, big infrastructure gaps and kind of pent-up demand, if you like from mobile operators, particularly when there was never previously an independent tower company there, and the mobile operators were having to choose to spend their own CapEx to build the passive infrastructure. And with us going in suddenly, they have got this route of doing it without them spending the passive infrastructure. So they can focus on their front-end technology. And I think we are seeing that in Senegal.

Look, the other markets, Oman, Gabon, Malawi, again similar dynamics, will be the first, or at least the first independent telco of scale in all of those three markets. And we are already having good conversations about rollout in them. Look, I think we will stick with our guidance that we previously gave for these deals around tenancy rollout or tenancy ratio increase, which was 0.05x to 0.1x per year roughly. And we hope that we very much deliver on that. Certainly, the dynamics of all the markets should mean that we can over the next few years.

Finally, on the additional CapEx for last year, obviously, very happy that we did take that decision and brought in CapEx early. That really helped us to drive momentum through Q1. Again, we will keep monitoring it. I think in the CapEx guidance we have given this year, that does allow us for some sort of buffer, if you like, for rolling into Q1 next year if we have a lot of orders again at sort of the end of this year, but we will monitor that as we go.

The one dynamic at the moment, well, as you know, I think every company around the world is experiencing it, lead times for ordering has certainly gone up in the last two years as before COVID. So something that used to take three months to come to market, now it maybe takes six months. So the CapEx planning cycle has extended, and we have adapted to that. That is one of the reasons we did the early order last year. But we will just stay nimble and see how it goes.

Jonathan Kennedy-Good (JP Morgan): I noticed a slide, in your deck, number 21, which talks about PoS growth over the next four, five years. Presumably, that is an independent study, I think. But what did catch my eye there was the forecast on DRC for 12% CAGR growth there. Just wanted to get your sense of what would be the risk do you think to that number? It seems to surprise me on the upside. And given in that market as the only independent telco, would be interesting to get your take. South Africa seemed pretty low. Just wondering whether you believe you can take more market share in South Africa. We have still got four operators in SA. Your colos is immediately quite high. It would appear to me that ROIC would be potentially higher or amongst the top in the portfolio in South Africa. So just wondering how you plan to accelerate even further in South Africa, if that is the case.

Tom Greenwood: Hi Jonathan, good to talk to you this morning. So first of all, these are independent numbers. And these numbers are a market research. This is one of the inputs that we use internally to do our own planning, do our own assessments of where we want to invest and deploy capital and do our own forecast and budgeting, etc. These are independent numbers.

On the DRC one you pull out, I mean, DRC is a fundamentally very attractive market in our view, from a mobile standpoint, and therefore, mobile telecoms infrastructure standpoint. It is coming from one of the lowest bases in terms of mobile penetration across the continent, so mobile penetration on the unique subscriber basis. And DRC is somewhere in the 40% range, which therefore means that there is just significant runway and growth ahead for many years. So that in part drives the high CAGR growth.

And in DRC, we are seeing a lot of rollout from our mobile operator customers there. There is four large mobile operators operating there. And there is about 50 million people in DRC that today do not live in an area of mobile cell coverage. So about half the population do not even have mobile coverage where they live, which is actually way behind all of our other markets. So that is the reason for the high growth there.

And Manjit, why do not you take the next part?

Manjit Dhillon: I think just for South Africa, if we look at how that progression has gone, historically it has always been actually from independent forecasts, at least, relatively low single digits for point of service growth. I think it has been partially impacted by the fact that I think Cell C is slightly rolling off a bit as well. So that is impacting a bit in terms of where it is expecting to go.

But notwithstanding that, I think it is coming from a higher base so off a lower percentage. So a vast number of potential requirements from point of service. And I think as we have demonstrated over the last few quarters, we gave been rolling out very, very well. And importantly, leasing up very, very quickly.

We have got a 1.7x tenancy ratio, which we have had for a number of quarters now, which shows that not only are we building, but when we are building we are building in the right places and getting leased up very quickly.

Jonathan Kennedy-Good: And just perhaps one follow-up on South Africa. I mean, the average tower cost in South Africa, is it still fairly materially cheaper than from a CapEx perspective than rest of Africa?

Manjit Dhillon: I think it is broadly around the lower end of the range. So it typically is around $100,000, maybe a little bit north of that. But in the grand scheme of things, still within the range of what we normally say, anywhere between for a normal tower across the Group, $100,000 to $150,000 and probably towards that lower price point.

Josephina Duran (Morgan Stanley): I do have two questions. The first one is related to the Adj. EBITDA margin. I know this was very well flagged and you explained that it is related to expenses from the acquisitions that you are doing. But if you could give me a little bit more colour on this higher SG&A that you are seeing? And do you expect this to be like one-off or recurring?

And my second question is, if you can remind me your cash policy? I mean, if you usually try to repatriate cash offshore, if you have any issues sourcing dollars or repatriating cash from the countries in which you operate? Or do you usually have it at the operating level to fund like investments and expenses that you have locally?

Manjit Dhillon: Yes. Thank you for those questions. So just picking up on the SG&A part. So this is structural SG&A that we have invested because we are expanding in size and scale. So it is in the region of around $13 million from where we were a couple of years ago, pre-doing these five market deals.

But importantly, that SG&A is leverageable. And I will be coming on to this during the course of the Capital Markets Day presentation as well. But actually, once you have closed all the deals, the SG&A as a percentage or as a per-site percentage is actually in the same region of where we were back in 2019 when we were broadly a private company. So when we do invest, we invest but then it is subsequently leveraged by the Group. And as we lease up the sites as well, you will see further leveraging of that SG&A base going forward.

And what have we invested in? Well, we have invested in a regionalised structure so we can actually have the capacity to hit the ground running on day one in the new markets. It also gives us the opportunity to also look at potential new markets as well. And we have also seen some increase in professional fees and just general infrastructure like IT infrastructure across the Group as well. So all of those have been invested, but as I say, it will be leveraged by the end of the year.

In terms of cash policy, so typically, our cash policy has remained very identical, well, for the last five to ten years actually. So we typically keep about anywhere between 80-90% of our cash onshore up in London, Mauritius is where we keep the majority of our cash. We keep a very small float in the market, and that is typically sufficient enough for its working capital and CapEx requirements. And we do monthly upstreaming of US dollars from each of our markets to the UK and Mauritius. And that has happened every single month since I have been at the company before. So no issues on that perspective.

From a debt perspective, we typically keep our net leverage around 3.5x to 4.5x, as I mentioned earlier. And we are currently sitting at about 3.7x. So towards the bottom end of that range, but with capacity for the new acquisitions, which is due to close as well.

Tom Greenwood: Thank you very much, everyone, for the call today and the questions coming in. We hope to see as many of you, if possible, later on either physically or indeed online. I look forward to talking later at the Capital Markets Day and talking you through our new five-year sustainable business strategy. Take care. Thank you.

[END OF TRANSCRIPT]