Helios Towers Q1 2023 Results

Thursday, 18th May 2023

Introduction

Tom Greenwood

CEO, Helios Towers

Welcome

Hello, everyone, and welcome to the Helios Towers Q1 2023 performance and 2023 outlook call. As usual, great to have everyone on the call today. I hope you and your families are well, and thank you very much for your time today.

Agenda

First up, on page two, we have got the usual line up of me, Tom Greenwood, the CEO; Manjit Dhillon, our CFO; and Chris Baker-Sams, our Head of Strategic Finance and Investor Relations.

Highlights

So moving swiftly on now to page five to our highlights. I am very pleased to be providing you this update today of, quite frankly, a strong start to the FY 2023 year.

Firstly, our business is around 30% larger than we were a year ago with revenue and EBITDA growth of 34% and 27%, respectively. That is largely being driven by site and tenancy growth of 30% and 24%, respectively. And secondly, this is the first full quarter with all nine markets fully reflected following closing our Oman deal in December, meaning we moved into 2023 with the full complements of the newer parts of the portfolio.

Our key focus for 2023 continues to be driving organic growth and returns, and this Q1 we started exactly how we wanted to, delivering record organic tenancies, both in Q1 alone and over the last 12 months. This has been driven through sales and rollout activity across multiple markets and multiple customers, which is very good to see.

Our FY 2023 EBITDA guidance remains consistent with what we communicated in March, being in the range of $350 million to $365 million, representing a midpoint of 26% year-on-year, which includes 13% organic growth.

Now the inorganic part of this is simply just a full year of the Oman and Malawi deal, which we closed last year. So this is already in the bag. And the organic part is largely driven by our guidance of 1,600 to 2,100 new organic tenancy additions this year. And we are one-third of the way to the midpoint on this to 628 Q1 new tenancies by the end of the first quarter.

Our pipeline is strong, and we are confident of delivering within our full-year guidance by year-end. And in fact, April has continued strongly with the addition of 400 more tenancies in that month, meaning right now, we are over 1,000 tenancies on a net addition basis by the end of April.

And finally, as a reminder, as we move forward, we have got a very strong earnings base of $4.8 billion contracted revenue, all of which contains CPI and power price escalators, which represents a weighted average of 7.3 years remaining, and this is before any renewals, providing us with a very strong earnings base for many years to come.

Robust growth on key metrics

So now moving on to page six - you see the strong progression of some of our key metrics over time, following the 628 new tenancies in Q1, of which the majority were collocations. We see our tenancy ratio has increased 0.03x quarter-on-quarter to 1.84x at the end of Q1. And furthermore, our annualised EBITDA and LTM portfolio free cash flow of $339 million and $227 million, respectively, both showing significant growth from FY 2022 reported numbers. And as you can see, already both approaching the lower end of our full year 2023 guidance. All in all, very pleased with our operational and financial start to the year.

Sustainable Business Strategy Update

Next up, on page seven - I will give you updates on our sustainability strategy, where we continue to be AAA rated by MSCI and driving for best-in-class practices. In March, we released our fully integrated FY 2022 annual report, which merged our previous sustainability report into the main one, demonstrating how financial performance and sustainable impacts are inexplicitly linked for our business.

We have also taken steps forward around double materiality analysis, emission reporting, social impact as measured by population coverage and also introduced sustainability measures into our 2023 LTIP KPIs, meaning that whole management across the Group are financially incentivised in delivering on certain non-financial KPIs for the business, including female representation, population coverage and carbon reduction.

So we are very pleased to be moving forward in the year with the new LTIP and KPIs within it.

And with that, I will hand over to Manjit now to take us through the financial section. And look forward to speaking to you in the Q&A at the end.

Financial Results

Manjit Dhillon

CFO, Helios Towers

Q1 2023: Financial overview

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

Continuing on from what Tom mentioned earlier, we have once again delivered a strong quarter, adding 628 tenancies in Q1 and delivering a record year-on-year organic tenancy additions of 1,870.

On this slide, you will see we have summarised the main KPIs, which I will be going through in more detail over the next few slides. But in general, we have seen continued strong financial and operational performance and good growth across a number of our key metrics.

Q1 2023: Record YoY organic tenancy additions

So moving on to slide 10 - our sites and tenancy growth from a site perspective, we saw a 30% increase year-on-year, reflecting organic growth of 654 sites and 2,519 acquired sites in

Oman. Year-on-year, we have added 4,887 tenancies, which is a 24% increase from a year ago.

Now this growth is through a combination of our acquisition in Oman and the strong organic growth across all of our markets. Importantly, we have a robust commercial pipeline and continue to expect strong momentum in Q2 and the remainder of the year with over 1,000 tenancies now rolled out year-to-date.

Our tenancy ratio has dropped slightly on a Group basis, and this is largely driven by a lower tenancy ratio of the acquired sites in Oman, which has a tenancy ratio of 1.2. On an organic basis, our tenancy ratio increased by 0.05x despite the ongoing sites rollout with both our East & West and Central & Southern Africa segments, expanding by 0.05x year-on-year, all again reflecting our strong operational delivery in our existing markets.

Q1 2023: Strong financial performance

On to slide 11, we have seen a 34% revenue growth and 27% EBITDA growth year-on-year, up 17% and 11% organically, respectively. The revenue growth is principally driven by tenancy additions across all markets in addition to CPI and power escalated, which I will comment to in more detail on the following slides.

Adjusted EBITDA grew by 27% year-on-year and in line with our expectations provided at our full year results. We are seeing good acceleration in our organic EBITDA growth, expanding 11% year-on-year. And this is principally due to robust performance in Tanzania within our East & West Africa segment. In our Central & Southern Africa segment, we saw a slight decline from prior year, and that really reflects the FX movement in Ghana, which were largely offset by CPI escalators.

Our EBITDA margin declined by 2 percentage points year-on-year to 50%, and the margin decrease there was mainly driven by higher power costs, causing both an increase in our revenues and to our power prices and our OpEx or comparably and therefore having a margin decline, which I will go onto in more detail now.

Robust business model protects Adj. EBITDA through macro volatility

So moving on to slide 12 - here we set out the walkthroughs of our revenue and EBITDA progression year-on-year for Q1 2023. We have shown this detailed breakdown last year. And again, now we are showing this to really show how our robust business model works in action.

The first four bars of each bridge, organic tenancy growth, power escalation, CPI escalation, and FX, all combined make up organic growth and acquisitions being the contribution to the new market. The record organic tenancy growth of 1,870 year-on-year has driven the 8% organic growth in revenue and 11% organic growth in EBITDA. But I want to again take a minute to focus on escalation movements.

As a reminder, we have escalated in almost every customer contract in all of our markets. For power, roughly 50% of our contracts have quarterly power escalators, 50% annual. These escalates in relation to the local pricing for fuel and electricity. So the local prices go up, then the escalators goes up. If they go down, then the escalator goes down.

The CPI, you have annual CPI escalators, which typically kick in between December and February, although we do have one or two that escalates slightly later in the year. Year-on-

year, we have seen that on average, local fuel prices have increased by more than 30% year-on-year, principally driven by DRC and Tanzania, which has accordingly increased revenue by 8%.

As mentioned in previous announcements, we have created a robust business model by design and we structured the increasing revenues to effectively offset the increased OpEx due to higher power prices to protect our EBITDA on a dollar basis.

On the left-hand side, you see the power revenues increased by $10 million, and that falls through to flat EBITDA on the right-hand side. So from a margin perspective, there is some dilution to the EBITDA margin on the power price movement, is lower than that of the overall Group margin, and in this case, diluting margin by 3 percentage points. However, in a period of macro volatility, where we have seen power price increases, we have been able to keep our dollar EBITDA roughly flat, meaning our contracts are escalating effectively and offset the OpEx impact of higher power movements.

Moving on to CPI and FX. Local CPIs carry just north of 10%, through our CPI escalators, which kicked in during Q1, our revenues are now up 5%. The CPI escalators have effectively offset the FX movements on revenue, and on the EBITDA side, the escalators have well covered the FX movements as well.

So I think, once again, this is a useful demonstration of the business mechanics and standing back and looking at this from an EBITDA level, you can see here quite pleased, a key driver of growth for tenancy additions, both on an organic and inorganic basis and well protected from macro volatility.

Diversified business underpinned by long-term contracts with blue-chip MNOs

Moving on to slide 13 - here, we present the usual breakdown, which is very consistent from previous updates. 98% of our revenue coming from the large blue-chip M&A, comprising mainly Airtel Africa, Vodacom/Vodafone, Axian, Orange and Omantel. It is worth highlighting that our two largest customers are spread across five different markets, again, showing how diversified our business is.

We have strong long-term contracts with our customers. And at the end of Q1, we had long-term contracted revenues of $4.8 billion with an average remaining life of 7.3 years, up from $4.2 billion a year ago. This means, excluding new wins and rollouts, we already have that revenue contracted and in the bag and provides 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 and 71% from looking at it from an adjusted EBITDA perspective. This provides a fantastic natural FX hedge for the business, which is further complemented by the escalators, which I have just spoken about.

Finally, on this slide, with the new market expansion in the last couple of years, we have seen a more diversified set of revenues with Middle East and North Africa segment now representing 8% of our Q1 revenue.

FY 2023 CapEx is tightly controlled and focused on accretive organic opportunities

On to slide 14 - a look at CapEx - on the left-hand side of the table, in Q1 2023 we incurred total CapEx of $48 million, which is mainly made up of growth CapEx, reflecting our strong

organic tenancy growth over the quarter. The $48 million CapEx expense roughly trends in-line with our full year CapEx guidance of $170 million to $210 million.

As a refresher, the CapEx range we are targeting for the full year is $130 million to $170 million discretionary CapEx and $40 million of non-discretionary CapEx.

And now as you can see through the guidance, now we have gone through our key phase of expansion, the record 2023 will be mainly focused on organic growth and leasing up expanded portfolio, keeping CapEx highly controlled as always.

Net leverage increase driven by Oman acquisition; clear pathway to de-leveraging

On to slide 15 - and our net leverage for the end of the quarter remains at 5.1x. Again, this is a bit above our medium-term target of 3.5x to 4.5x, and this is really linked to the closing of the Oman market, which closed at the end of December. However, we do expect net leverage to be in or around the high end of our target range by the end of the year. We have a clear pathway to de-lever the business at around 0.5x per annum, driven by organic EBITDA growth.

At this time today, we have ample liquidity. We have roughly around $460 million of available funds comprising $83 million of cash on balance sheet and about $375 million of undrawn debt facility. Importantly, our debt is largely fixed with the majority of the drawn debt at a fixed rate. All of this is long-tenured debt with the nearest maturity for Group debt not until December 2025 and the average remaining life of our drawn debt more than four years.

FY 2023: Guidance reiterated

Finally, on to slide 16 - we have maintained our full year 2023 guidance with no change to expectations. Given our robust tenancy growth and pipeline, we are targeting organic tenancy growth between 1,600 to 2,100 for the full year. That implies a year-on-year growth of about 7% to 9%.

Regarding adjusted EBITDA, it will be in the range of $350 million to $365 million, reflecting our strong commercial pipeline for tenancy growth and continued operational improvement.

Portfolio free cash flow is expected to be in the range of $230 million to $245 million, implying a 66% cash conversion at the midpoint. As mentioned earlier, CapEx is expected to reduce significantly to a range of $170 million to $210 million, of which $40 million is expected to be non-discretionary.

So as you can see, we are targeting another record year for 2023. And this simply demonstrates the robustness of our business model through macro volatility as well as the compelling structural growth of our market. We have made a fantastic start to the year, and we are really excited about the opportunities ahead.

And with that, I will pass back to Tom to wrap up.

Conclusion

Tom Greenwood

CEO, Helios Towers

Key takeaways

Thanks very much, Manjit. So now I am on page 17 for just a quick wrap up.

As you have seen, we have had a very strong quarter and strong last 12 months in terms of organic tenancy addition with a majority towards the colocation, which is exactly what we are aiming for here. It has delivered strong EBITDA growth of 27% year-over-year. All of our revenues underpinned by long-term contracts amounting to $4.8 billion with a 7.3 years of average remaining life before any renewals, and of course, our FY 2023 guidance, as Manjit just talked through, is reiterated.

So with that, I will pass it back to Daisy for any Q&A you might have. Thank you.

Q&A

Frederick Brennan (Morgan Stanley): I have two questions, if I may. Firstly, on the tenancy adds. 1,000 tenancy adds of April is obviously very strong. And the implied run rate for H2, again, very strong. You guys have previously guided on a 75% H2, 25% H1 split. What is driving the change here? Is anything structurally different? How should we think about that to H2? And secondly, there have been some grumblings in the market about the health of emerging market MNOs. The very strong tenancy adds this quarter, obviously speaks to the strength of your customer base. Is there anything you are seeing on the ground that we are missing or that you would like to highlight as well?

Tom Greenwood: Fred, thanks for the question. This is Tom here. Tenancy adds certainly strong so far this year with over 1,000 already, which we are very pleased about. Usually we see stronger tenancy adds in the second half of the year, that is historically been principally driven by budgeting cycles from our major customers. I think that over the past 12 months or so, we have seen generally quite a lot of activity, probably an uptick of activity from our customers, all via the new rollout and infill and capacity.

And I guess a lot of the tenancies we have added so far this year were somewhat secured in sales towards the end of last year. I think when we report our H1 in August, we will provide, obviously, more clarity for the full year. Right now, we are very comfortable with the 1,600 to 2,100 net adds that we guided to, and we are keeping that. And we have got quite a good view or visibility of achieving that range. And we will see what comes up later in the year.

Sometimes tenancies do come in fits and bursts because obviously they are quite heavy capital in nature for the mobile operators as well. So it is not necessarily the run rate for the first four months of the year equals the run rate for the remainder of the year. But we will provide a bit more clarity on that in August at our H1 results.

And yes, just on the health of the EM mobile operators, we are certainly seeing significant activity, as you can see from our numbers. This is not one customer in one market. There really is multiple customers across multiple markets. It certainly suggests to us that there is good cash flow in our major customers and there is appetite for reinvestment and growing

their network, which obviously we support heavily. So that is what we are seeing on the ground in our major markets. And certainly, our pipeline for the next few months suggest that continuing.

Alexandre Roncier (Bank of America): I have two questions, please, both on Oman. The first bit will be just on tenancy additions in the market, if all of them are coming from Vodafone? And what was the pipeline looking for the new entrant on the business? And then secondly, on Oman still. If you had any update regarding the remainder of the initial portfolio acquisition, which I think was more focused on small cell and some other assets, if you had any update or any advance in your discussion there?

Tom Greenwood: Hi, Alex. Yes, look, we are very pleased with our start in Oman. We have been busy already adding colocation tenancies in the first few months. I believe we have added 74 so far, which is already taking the tenancy ratio from 1.20 to 1.22 just in the first few months, which is great. We continue to serve all of the mobile operators in that market. Obviously, as you point out, Vodafone is the new market entrant there. So it has obviously quite a lot of work to do in terms of spreading coverage around.

Sorry, the second part of your question, I did not quite catch. Were you talking about the first closing of the Oman deal? Can you just reclarify that one, please?

Alexandre Roncier: Yes. I mean, because initially, if I understood correctly, the Oman deal perimeter was much larger, and that is because you basically only closed the first part of it, which was much focused on ground-based towers and basically the traditional part of a tower portfolio. But then obviously there was the leftover, which I believe was more small cell and some adjacent assets, which has not been closed in that first bid, but you are still working on that. So if there was like any update on that process, if it is still ongoing or if we will see in due time?

Tom Greenwood: So yes, we closed on around 2,500 sites. They were the more traditional ground-based or rooftop towers and around 200-odd in-building solutions have been structured as a second closing because there is a few things we need to work through with the regulator on that. So that engagement with the regulator is ongoing.

We do not have any specific updates to give on that in regards to timing. But we are engaged on that at the moment and do hope to still do second closing at some point. Whether that is this year or next year, we are not sure at the moment.

Gustavo Campos (Jefferies): I just have two questions, if I may. The first one, what is your minimum cash position for 2023 as well as if you could give any updates on the working capital and the receivable build-out position since last quarter?

Manjit Dhillon: From a cash flow perspective, we typically like to keep cash anywhere between about $80 million to $120 million cash on balance sheet. That is sufficient for holding a good amount at HoldCo, whilst also holding on to a good amount at the local level for working capital purposes, whether that be CapEx, etc.

With regards to working capital more generally across the Group, so you would have seen the cash has slightly come down quarter-on-quarter, that is principally driven by CapEx and a little bit of working capital as well. What you do find in the Q1 period is that some of our biggest customers also having their full-year results. You do find some payment straddle

period end. These are not bad debt issues, but just a pure timing piece. So we are getting a lot of that come through during April and May, so we are seeing a good level of receivables coming through.

Rohit Modi (Citi): Just two questions from my side. Firstly, looking at the number of African markets facing difficulty with FX availability, are you facing any issue in upstreaming any cash to the holding company? Secondly, on margins, like if you can also sort of share anything you can say on that? What kind of margins do you make on new tenancies which are non-anchor tenancy?

Manjit Dhillon: Thanks, Rohit. With regards to the upstreaming of funds across the Group, there are no real issues there. I mean, in general, what you do find in the earlier part of the year with all the tenants that we are rolling out, typically, you are in a period where we are spending a bit more on the OpCo. So a little bit less from a timing perspective.

But from an ability to upstream perspective, we are not finding too many issues on that basis. So in general, we are fine on that basis. For margins across the Group, we have not given explicit guidance with regards to the year. And the reason really here is due to the escalators that come through.

But again, as I went through on the escalator slide, that can be slightly impacted by movements in power prices, which we see an increase in revenue, offset by your increases in OpEx. So that is the only piece I just flagged up to bear in mind.

And with regards to the EBITDA margin of incremental tenancies that are not your anchor tenancy, typically what we find for colocation tenants is EBITDA margin on those being around 80%. So really, the aim of the game for any tower company, and particularly for us is really around adding more tenants to your new sites and leasing up the portfolio. That is really how you drive EBITDA margin, but also return on invested capital. And that is all we are very, very focused on.

Stella Cridge (Barclays): I wonder if I could just go back to this question on the cash balance. OpCo is $83 million that you have at the moment. Would you be able to let us know exactly how much of that is sitting at the HoldCo at the moment? And also in relation to the previous question about the working capital flows. I mean, do you think that in Q2 or the coming quarters, if you can replenish this HoldCo level cash balance with some free cash flow, that would be great.

Manjit Dhillon: Hi, Stella. Yes. So rough split today on the $83 million is about half is at the OpCo level. So typically, we try to keep about $40 million there or thereabouts at the OpCo level. Now the HoldCo balance is the one that really kind of goes up and goes down. So we will see that kind of replenished during the course of the year.

And with regards to the comments around Q2 and for the rest of the year, in short, yes, we do expect the cash balance to grow as we continue growing through in the course of the year.

Stella Cridge: That is fantastic. I also wanted to ask, on slide 15, when you have the breakdown of the debt in the category of lease obligations and other, I noticed them in the note that, you are seeing this includes other items, which includes shareholder loans. I was just wondering if you could just give us an idea of what those shareholder loans are and what the purpose was, etc?

Manjit Dhillon: Yes, sure. So under the definition of debt as it stands today, your shareholder loans that is incorporated within here are shareholder loans that are held by third parties. So when we have minority investments, we often put in our investment through a combination of equity and shareholder loans. So that element is attributed to the minority holder is also incorporated in other, but the majority here in lease obligations and other is really around the ground leases.

Stella Cridge: Okay. That is great additional detail. And maybe just finally, of course, there is still a couple of years, 2.5 years ahead of the bond maturity. I am just obviously looking at the market is still fairly challenging at the moment. Any kind of decisions or thoughts you should had from a capital structure point of view in terms of strategy over the last few months that you may be able to share with us?

Manjit Dhillon: Yes, absolutely. As far as most companies at the moment, everyone is kind of monitoring the market and financing options. I think where we sit today is that all options are on the table effectively. So we have been monitoring all the different options that are available, whether that be a combination of bank debt, trying to go out to the bond market, etc.

I think the position that we have today and what we have created over the past few years is really diversifying our financing sources. And that is really for the times like this where we can look to leverage on different areas. We do not have anything to announce at this point, mainly because we have got a very strong financial package. So we will sit on that for the time being, and we will look for opportunities as and when they arise. But we are actively monitoring the market at the moment.

We keep our prospectus on ice as well effectively so that if markets are open, and we think that there is a strategic reason to go, then we are ready to execute. But for now, we have nothing really more to announce on that perspective.

Tom Greenwood: Thanks, everyone, for dialling in. Thanks very much for the questions. If you think of any others, you know where we are, so please get in contact and we will be available for you. So have a great day, and I look forward to talking soon, either at our Q2 or H1 in early August, if not before. Thank you very much, everyone.

[END OF TRANSCRIPT]