HTA Q2 Results Call

Thursday, 17 August 2017

Kash Pandya: Good morning and good afternoon everybody and thank you for joining our Q2 update call. I think we have close to 60 people registered on the call so we appreciate your interest in our business. You should all have the slide deck in front of you and we are going to take you through an executive summary, the detailed financial results and then we have got time at the end for Q&A and our conference co-ordinator will help us with this.

Joining me on the call today as usual is Tom Greenwood, who is our CFO, Alex Leigh, who heads up our Commercial and Business Development activity, and Jeffrey Kriek, who is the Head of Corporate Finance and Investor Relations.

Moving on to slide five, I am going to give you a quick highlight of the quarter's performance. Starting with the operational summary, year on year growth is up to the end of June where we have added close to 1,000 towers, representing 18% growth in our tower count, and a little over 1,200 colocations, representing 26% growth in colocations.

This has come from organic growth but also through the Airtel acquisition we made last year and operational excellence driving the execution capability in our business to be able to deploy the volumes we have had come through.

Our colocation ratio increased to 1.92x from 1.86x in H1 2016 so helping the momentum going forward. Quarter on quarter our site count has been relatively flat as we have seen some consolidations through the Orange merger with Tigo in DRC. And we have added around 90 colocations in the second quarter, increasing our colocation count by about 2% in Q2.

On to the financial summary; our revenue has grown year on year by 41% and 4% quarter on quarter. Healthy EBITDA growth year on year at 72% and 5% quarter on quarter. Since Q4 2016 our EBITDA has grown by about 11% in the first half of the year with our margin improving by 6% year on year; growing from 27% to 33%.

Moving on to slide six, recent developments; we have talked about these in the Q1 call but taking the top one first, the Vodacom buyback, we are continuing to pursue that buyback and we are waiting for FCC approval. The latest update we have had is that we should hear in the next few weeks for that approval and we do not envisage any problems but once received we will be carrying out that transaction.

Tanzania listing; we submitted a draft prospectus in February and received some feedback that we need regulatory approvals for the Vodacom buyback, as mentioned earlier, and to update on the company restructuring once the Vodacom buyback has been completed. We expect all of these regulatory approvals to be received with a view to submitting our final prospectus during the course of the second half of 2017.

Moving on to Ghana and the Tigo/Airtel merger, the merger has not finalised yet and is awaiting NCA, the Ghanaian regulators, approval. Reiterating our position on this merger, we believe this will create a stronger player in the market with the merger of the number three and number four operators in Ghana, which means that they will be rolling out and investing in the newco there, which we think will be positive for our business.

In terms of our power opex and power saving initiatives, we are on target. We continue to roll out our solar solutions. We are expecting 400 solar sites to be deployed by the end of Q1 2018 with north of 300 sites having been deployed by the end of this year and we are on schedule and rolling out 400 hybrid sites by the end of this year.

We have completed in excess of 200 grid connections which was our plan and we are planning to increase that initiative by another 100 sites during the course of the second half of 2017 to continue the growth of opex savings and contributing to our EBITDA growth.

Finally, we have announced the acquisition of Zantel in Tanzania and credit goes not only to Alex Leigh and his team at the Group level, but also to our team on the ground in Tanzania. We have added 185 unique sites in Tanzania, which takes our Tanzanian tower count close to 3,700 at a local level, and approaching 6,700 towers at a Group level I will now hand over to Tom to take us through the detail on the financials. Thanks over to you Tom.

Tom Greenwood: Thanks, Kash. On to page 8 the historical performance of KPIs where we see the chronological evolution of the business both from a year on year perspective and a quarter on quarter perspective. Year on year sees significant increases with quarter on quarter having good momentum this year which is in line with management expectations and plans.

The main drivers for year on year growth were, number one, the DRC acquisition of Airtel sites, which we completed in July 2016 and added just short of 1,000 towers and about 400 colocations to our business. Number 2, we have seen very good organic growth on colocations year on year, adding in the region of 800 colocations in the last year. Number 3, the operational excellence programme has been ongoing and continues to drive efficiencies and also driving power savings initiatives which we have been rolling out recently in the business.

Year on year we have seen an increase of around 1,000 towers and over 2,000 tenancies which has translated into revenue growth of 42% and EBITDA growth of 73%. Quarter on quarter growth at the EBITDA level is 5% which has been driven by the addition of 90 colocations across the business. The power saving projects that we are doing, which Kash has mentioned, have been coming online through quarter two and continue to come online through quarter three and beyond. In the Q2 P&L numbers you do not really see the savings come through yet, however we are now seeing them come through in the first month of Q3 and therefore we would expect margin uplift to start being seen in the Q3 numbers which we will see in three months' time.

If I now go to page nine, here we have the revenue breakdown slide which is very similar to the one you saw during the Q1 presentation. From a customer breakdown perspective we have a vast majority of our revenues coming from the IG or near-IG customers being the big five; Vodacom, Orange, Airtel, Tigo and MTN, with the balance 13% coming from 'Other.'

On the revenue break-up by FX, we continue with roughly the same position as you have seen before, with around 59% of all revenues coming from hard currencies, either US dollars or XAF which is pegged to the euro.

Finally revenue breakdown by country; again a similar position to what you have seen before with around 80% coming from DRC and Tanzania and the balance coming from Ghana and Congo B.

Moving on now to page ten we look at the cost and the margin analysis. You can see similar trends as we have seen before with the monthly cashflow per power increasing 21% driven by the items I mentioned a couple of pages back and similarly for the adjusted EBITDA growth year on year with the margin currently at 33% for the first half of the year. However we are now seeing some margin increases coming into Q3 with the various power initiatives already started and now being seen on the P&L.

On the cost breakdown, we have cost of sales which is predominantly the opex costs on our sites with just over half of that being power and the rest being non-power, for example maintenance and ground leases. The power unit prices are generally passed through to our customers in escalations on our lease rates so we are fairly well hedged from a power price perspective. However we do aim to keep the volume reductions to ourselves to enable the margin increases I mentioned earlier. On the SG&A side, the largest parts of SG&A being Group, Tanzania and DRC with the balance being made up from Ghana and Congo B.

On to page 11 where we have the capital expenditure, up to the half year we have done $63 million of capital expenditure and this relates to roll-outs and implementations in the field. This is a step up from Q1, which was $18 million, so during Q2 we have been rolling out the various initiatives, particularly on the power saving side, the grid connections, etc; many of which came online in June. As mentioned earlier, the savings are not yet seen in the P&L in June or in the second quarter, however they are now coming through during the third quarter.

Outlook for the year remains the same as previously communicated at $166 million. All of this is in the pipeline. One of the acquisitions which is included in the $31 million here is the Zantel acquisition, which was closed in July so you do not see that in the half-year numbers but you will see that in the Q3 numbers.

Now looking at page 12, the summary of financial debt we are pleased to say the leverage continues to step down, going from 5.6x in Q1 down to 5.3x in Q2 and going in line with expectations and we expect that trend to continue going forward through the rest of the year. Current gross debt is $611 million, virtually all of that being the bond and a net debt to EBITDA of 3.0x so broadly in line with the Q1 figure of 2.9x. The cash and cash equivalents that we are holding, $268 million is being deployed in line with plan. We have $62 million of that ring-fenced for the Vodacom Tanzanian buyout and, as Kash mentioned, we are just waiting for FCC approval on that and expect to get that in the next few weeks. And with that I'll hand back over to Kash.

Kash Pandya: Thanks, Tom. The outlook for 2017, our expectation is that we will continue to deliver the forecast that we have internally which is driven by the roll-out of our customers expansion plans in the countries we operate in and reinforced by our margin improvement through the opex saving initiatives that we have referred to in this presentation resulting in margin growth in Q3 and beyond.

I'll hand back to Chatch to help co-ordinate the Q&As please. Thank you.

Operator: Thank you very much, Kash. Ladies and gentlemen, you now have the opportunity to ask a question. To register your question you may do so by pressing * followed by 1 on your telephone keypad now. If you change your mind please press * followed by 2. When preparing to ask your question please ensure your phone is unmuted locally.

Our first question is from Alvin Chew from Trend Capital. Alvin, please go ahead.

Alvin Chew: Yes, hi, good afternoon, I just wondered if you could give more colour on the power saving initiatives going forward; what sort of impact on your margins do you expect as these power saving initiatives kick in in third quarter, could you give more colour please?

Tom Greenwood: Yes, absolutely. So the main initiative we have going on is the solar roll-out in DRC and then hybrid battery roll-outs both in DRC and Tanzania and grid connections in Tanzania. As they roll out we have a plan through to the rest of the year and into Q1 for these projects and we expect them to add a few percentage points to the margin so you will see a noticeable uplift as these kick in. The first half of this year was really spent purchasing and getting them through the supply chain and in some of these markets getting them into the country takes a while. From June onwards the roll-outs have begun, which was in line with our plan and actually slightly ahead and so therefore you will see the P&L impact of these coming through for the duration of the year.

Alvin Chew: Can you also comment a little bit on the business environment right now in Tanzania? Do you see things were just slowing down or business conditions getting better or getting worse?

Kash Pandya: In Tanzania you will be aware of some of the economic challenges in the country, we have not seen any meaningful impact our business but you have heard about the mining sector and the requirements from the government on the mining, telecoms, etc, so I think Tanzania is seeing some slowdown in terms of economic growth but no real impact on the telecom sector and so we continue to drive our business forward.

Alvin Chew: Thank you guys; good results.

Kash Pandya: Thanks, Alvin.

Tom Greenwood: Thanks, Alvin.

Operator: Our next question is from Payal Raniwala from iMarkServ. Payal, please go ahead.

Payal Raniwala: Thanks for the call, my question is on DRC could you please comment on the current situation in DRC? Basically I just want to get a feeling what worse can happen in DRC.

And another question; are you facing any issues or could there be any issues with the transferring of USD out of the country? Thanks.

Kash Pandya: Yes, let me answer the first part of the question and then Tom can touch on transferring money out of the country. We have been in DRC for almost seven years and this is our second election cycle we are going through. There are, as people are aware of, the election dynamics that are in the country but we have not seen any real impact in terms of our service and the execution in delivering growth in our business. I mentioned the activities with Orange, for example, but we continue to grow with our other customers in that market.

The positive thing about the organisation we have in DRC is the wholly local management who are very comfortable and have grown up in an environment, where from time to time there are political upheavals, and we continue to manage through that and we are a robust organisation in DRC.

I think economically you have seen some challenges that have been reported. Certainly to the telecom sector we have not really had any major impact and actually what you tend to find is that the telephone networks are used more when there is public and political unrest so there is more of a reliance on the telecom sector.

So for us it is business as usual. We are familiar and comfortable with the environment in which we operate in DRC.

In terms of money transferring, Tom, I'll let you talk to that.

Tom Greenwood: Thanks Kash, it is again business as usual in respect of that. We transfer interest payments up from all of our Opcos every month and other payments as and when we need to and from DRC so far this year we have transferred up around $17 million either to Isle of Man or Mauritius, where we have Group treasury function locations. The most recent transfer we did was about $1.5 million in July so very much business as usual in that respect; with customers paying us in dollars, etc. Any other questions?

Payal Raniwala: No, thank you.

Operator: Our next question is from Nicola Axer from DEG. Nicola, please go ahead.

Bertram Dreyer: Okay, thank you. In fact it's not Nicola, it is Bertram speaking here. Hi, Tom, Kash, Jeffrey, Alex, nice to hear you again. I would like to know the impact of the things that happened in Nigeria with Etisalat. Does that have any impact on the telco business as a whole, do you feel any changes in the mobile telecom operators' actions? Maybe you could elaborate a bit on this, what has happened there.

Kash Pandya: Yes, first of all Etisalat does not operate in any of our markets today and so there has not been any repercussion in our markets because of that dynamic in Nigeria and frankly we have not seen any change in behaviour from our customers at all. We believe that the Etisalat issue is isolated to Etisalat in Nigeria and, Alex, do you have anything to add.

Alex Leigh: Yes, we think the types of lease rate deals that we have done with our customers as being very sustainable deals that are at discounts to their own total cost of ownership. This characteristic means that those types of pressures that could come on and put operators in certain types of situations are far lower-risk to the contracts that we have with all our key customers.

Bertram Dreyer: Okay, thank you.

Operator: As a reminder, ladies and gentlemen, to ask any further questions please press * followed by 1 on your telephone keypad now. We have a question from Milena Laneva from Standish. Milena, please go ahead.

Milena Laneva: Hi guys, thanks for the call. Could you please comment on the working capital move this quarter? There seems to be a fairly sizeable negative move in payables. Can you comment on that and do you expect that to continue going forward?

Tom Greenwood: Yes hi, when you look at the working capital it is best to look at it as a whole because there is a fair amount of deferred revenue in the payables balance which offsets against trade receivables due to billing in advance so the main movement in working capital so far this year is actually from a receivables point of view and is related to specific customers that we are chasing for payment at the end of June which we are pursuing under the normal terms of our contract. None of them are in a, let's say, Etisalat situation and none of them are threatening not to pay, it is operational chasing of their money which they have kept in their bank accounts at the end of the half year.

Milena Laneva: Okay, so is it fair to assume that the payables element, the deferred payments are going to continue to come off in the next two quarters?

Tom Greenwood: Yes, they will offset with the receivables.

Milena Laneva: Okay, thanks.

Tom Greenwood: Thanks, Milena.

Operator: Our next question is from Simon Cooke from Insight Investment. Simon, please go ahead.

Simon Cooke: Hi all, thanks for taking the questions. Just following on that working capital question, just to be clear then, for the full year what are you thinking of in terms of the working capital swing for Helios? And then I've got a few others on the tenancies and stuff but I'll let you do working capital first.

Tom Greenwood: Yes, we would probably assume a bit of a swing back so we do assume slight negative working capital each year because our revenues are growing faster than our costs but the position of $19 million at the end of the half year we would probably assume would swing back a bit by the year end.

Simon Cooke: Okay, that's helpful. And the other ones were, in terms of just the sites and tenancy growth, so could you just comment in terms of the balance between BTS and colocations year to date and what you're expecting for the rest for the year.

And also the tenancy; as it looks like DRC is outpacing Tanzania year to date or at least in the last quarter, could you talk about the balance across your markets in terms of tenancy growth? And then the last one is just on Millicom, if there's any update in terms of their working through the disposal process of their shares.

Alex Leigh: Yes, taking the particular market dynamics, Tanzania; we saw quite a large amount of roll-out last year. We see some demand into this half year but a lot of the work of our operators has been through 4G investment which bodes well for the long-term prospects of our business. This is due to the need for more points of service and will lead to relo revenue on those towers as they put more equipment on those towers and that has been the main focus of the leading operators in Tanzania this year as they upgrade. We have continued to support the challenges as they roll out and continue to challenge the existing operators in that market.

In DRC we continue to see dynamics of the other operators stepping up their roll-out to react to the Orange/Tigo merger and from our point of view we are helping and working with Orange to support their integration. That will lead to more growth in the market and supporting our growth.

From a build-to-suit point of view we are supporting our customers with key build projects in the last half of the year of the normal build-to-suit demand in line with the capex expectations, in addition to key backbone investment which will lead to future growth as they improve the connectivity to other regions, facilitating data, again driving points of service demand.

In Ghana we continue to win on the build to suit front, generating orders from some of the larger operators and, as expected, colocation demand. I think the prospect of growth in DRC this year has been quite high-level, driven by - relative to the other markets - the consolidation event. However we see positive dynamics in all of our markets long-term.

Kash Pandya: And with regard to your question on Millicom, we continue to work with Millicom on their stake sale. It is confidential so I am not able to go into the details of it but that process is still live and running.

Simon Cooke: Okay, and just following up in terms of the tenancy and build-to-suit trends, in terms of the balance between colocations and BTS, do you expect that balance to continue from 17 into 18 or could you see a shift going into next year, towards BTS?

Alex Leigh: I think there will be small growth in build-to-suit demand but the strong demand for colocation continues into next year.

Simon Cooke: Okay, great, thank you very much.

Kash Pandya: Thanks, Simon.

Operator: We have no further questions on the phone so I'll hand back to you, Kash.

Kash Pandya: That's great. Well, thank you very much for your time on the call and we look forward to talking to you again in November for our Q3 update. Thank you.