

FITCH AFFIRMS HTN TOWERS AT 'B' ON PLANNED ACQUISITION BY IHS

Fitch Ratings-London-14 March 2016: Fitch Ratings has affirmed Nigerian telecom infrastructure group HTN Towers' (HTN) Long-term Issuer Default Rating (IDR) at 'B' with a Stable Outlook, following the planned acquisition by IHS Holding Limited (IHS). A full list of rating actions is available at the end of this commentary.

Fitch judges that the acquisition would lead to a stronger market position in Nigeria for the enlarged entity. We do not expect the HTN ratings to be downgraded as a result of this transaction. HTN's operating and financial performance results for nine months ending September 2015 showed good progress in-line with our forecasts. We also do not expect HTN's rating to be affected if Fitch's Nigerian sovereign rating (BB-/Negative) is downgraded by one notch to 'B+', as long as HTN's cash flow generation remains robust and liquidity remains intact.

KEY RATING DRIVERS

IHS to Buy HTN

IHS plans to buy the entire issued share capital of HTN from HTN Towers Plc, which is ultimately owned by HTN's current shareholders including Helios Investment Partners. IHS is a private company, operating 22,600 towers in Cameroon, Cote d'Ivoire, Nigeria, Rwanda and Zambia. It is significantly larger than HTN, which operates 1,212 towers, all in Nigeria.

According to the companies, the net leverage position of the combined entity is likely to be approximately 50% lower than HTN's current leverage. This transaction strengthens IHS's position as the leading tower company in Nigeria. IHS believes combining its operations with HTN's in Nigeria would result in meaningful synergies.

Impact on HTN Bondholders

IHS says it is committed to maintaining the existing relationship and position with HTN's bondholders. According to the documentation for HTN's USD250m senior unsecured bond due in 2019, following a change of control, bondholders have the option to be repaid 101% of par value if at least one rating agency withdraws or downgrades HTN's rating within 90 days of a change of control. However, the right to a bondholder put ceases once both rating agencies affirm or upgrade HTN's rating after a change of control.

We do not expect to downgrade HTN's ratings as a result of the transaction. If HTN's bond remains in place, bondholders should continue to benefit from an incurrence test preventing HTN from taking on new debt that will lead to a gross debt/EBITDA of more than 4.5x. The bond documentation also contains limitations on restricted payments, including dividends. HTN's share of the synergies realised from the merger should also benefit HTN's bondholders.

Resilient to Sovereign Weakness

HTN has demonstrated resilience to fluctuations in the Nigerian naira exchange rate and oil prices, supported by the long-term nature of its contracts, partly denominated in USD, and firm underlying demand for mobile network infrastructure,. As long as HTN's cash flow generation remains robust and liquidity is intact, we do not expect HTN's rating to be affected by a downgrade of the Nigerian sovereign rating by one notch to 'B+'. The impact on HTN from a more severe downgrade of the sovereign would be assessed if it happens.

Strong Operating Profile

HTN's 3Q15 results showed sound operating and financial performance, in line with our expectations. Fitch expects HTN to continue growing strongly, in line with the telecommunications market in Nigeria, which is seeing rapidly increasing demand for mobile and broadband. HTN benefits from a visible revenue stream driven by long-term lease agreements, which comprise embedded contractual escalators and, in some cases, cost pass-through mechanisms.

We estimate that around half of HTN's 2015 revenue was denominated in USD, with the remainder in NGN. HTN is also exposed to a FX mismatch as all its debt is in USD. However, HTN has been renegotiating some of its main customer contracts to increase the company's overall percentage of revenue in USD to around 90%.

High Leverage to Decrease

For HTN to maintain its 'B' rating, we forecast funds from operations (FFO) adjusted net leverage to continue to decline to 5.0x or lower by end-2017, from 6.6x at end-2014. During the course of 2015, HTN has made progress with net debt/EBITDA decreasing from 6.6x at the end of 2014 to 5.9x at the end of 3Q15, as calculated by Fitch.

KEY ASSUMPTIONS (for HTN, pre-acquisition)

Fitch's key assumptions within the rating case for HTN include:

- Renewal of key lease contracts with Airtel and MTN
- Revenue growth of mid-single digit percentages over the medium-term, but lower in 2015 due to negative FX trends.
- EBITDA margin of 52%-53% over the medium-term (45% in 2014)
- Capex-to-sales ratio declining to 11% in 2017 (17% in 2014)
- No dividends to shareholders

RATING SENSITIVITIES (for HTN, pre-acquisition)

Future developments that may, individually or collectively, lead to positive rating action include:

- FFO-adjusted net leverage below 4.0x on a sustained basis
- FFO fixed charge cover greater than 2.5x (2014: 1.6x)
- Sustained significant improvement in free cash flow (FCF) generation
- Sustained strong market position as the Nigerian towers market develops

Future developments that may, individually or collectively, lead to negative rating action include:

- Failure to reduce FFO adjusted net leverage, on a sustained basis, to 5.0x by end-2017
- Failure to improve FFO fixed charge cover to 2.0x, on a sustained basis, by end-2017
- Weak FCF due to limited EBITDA growth, higher capex and shareholder distributions, or adverse changes to HTN's regulatory or competitive environment

LIQUIDITY

HTN has a reasonable liquidity position. It ended 3Q15 with cash of USD8.9m, and USD20m of undrawn committed credit facilities. The company's only existing debt is the USD250m bond maturing in July 2019.

FULL LIST OF RATING ACTIONS

HTN Towers

Long-term IDR: affirmed at 'B'; Outlook Stable

Senior unsecured rating: affirmed at 'B'/RR4'

National Long-term rating: affirmed at 'A-(nga)'; Outlook Stable

Helios Towers Finance Netherlands B.V.

Senior unsecured notes guaranteed by Helios Towers Nigeria Limited and Tower Infrastructure Company Limited: affirmed at 'B'/RR4'

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Additional information is available on www.fitchratings.com. For regulatory purposes in various jurisdictions, the supervisory analyst named above is deemed to be the primary analyst for this issuer; the principal analyst is deemed to be the secondary.

Applicable Criteria

Corporate Rating Methodology - Including Short-Term Ratings and Parent and Subsidiary Linkage
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