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Research Update:

Helios Towers Nigeria Outlook Revised To Positive On Tower Portfolio Purchase Announcement; 'B' Ratings Affirmed

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Overview

- On March 10, 2016, tower operator IHS made an undisclosed offer for Helios Towers Nigeria Ltd.'s (HTN's) portfolio of towers.
- In our view, based on IHS' strong position in the Nigerian tower market and considerably lower leverage, HTN is set to benefit from cost synergies and tenancy in-fill.
- We are revising our outlook on HTN to positive from negative and affirming the 'B' ratings.
- The positive outlook reflects our opinion that HTN's creditworthiness will benefit from the company's full incorporation into the IHS group and, potentially, from the stronger consolidated credit profile.

Rating Action

On March 21, 2016, Standard & Poor's Ratings Services revised its outlook on Nigerian mobile phone and internet tower company Helios Towers Nigeria Ltd. (HTN) to positive from negative. We affirmed the 'B' long-term corporate credit rating.

At the same time, we affirmed our 'B' issue ratings on HTN's \$20 million senior secured revolving credit facility (RCF) and \$250 million senior unsecured bonds. The senior unsecured bonds are issued by Helios Towers Finance Netherlands BV (a special-purpose entity subsidiary) and guaranteed on a senior unsecured basis by HTN and its subsidiary Tower Infrastructure Company Ltd.

Rationale

The outlook revision reflects our view that HTN's incorporation into IHS has the potential to bolster HTN's creditworthiness. IHS will acquire the entire issued share capital of HTN from HTN Towers PLC, which is ultimately owned by Helios Investment Partners, Pembani Group, First City Monument Bank, and minority shareholders. IHS is the largest mobile telecommunications infrastructure provider in Africa, Europe, and the Middle East. It has more than 23,300 towers across five Sub-Saharan African countries, with its largest footprint in Nigeria, where it has a 55% market share. HTN's 1,212-strong tower portfolio stands to benefit from significant efficiency gains through integration with IHS' current portfolio (which is almost 20x larger), IHS's

site management capabilities, and the improved effectiveness in tenancy in-fill thanks to the shared suite of clients and overlap of each entity's sites.

We maintain our view that HTN's business risk profile is supported by stable, contracted revenues from telecom counterparties with healthy credit profiles and lease space on towers, of which three-quarters are active and one-quarter are dormant. Furthermore, the contracts' stability is supported by the increased revenue peg of the U.S. dollar-to-Nigerian naira ratio of 80:20, which results in a reduction of the currency mismatches of HTN's debt obligations.

We note that in 2015, HTN's operating efficiency improved on the back of a 33% increase in tenants to 2,484. This was due to the agreement the company entered with SWAP Technologies (which has 2% of the Nigerian tower market) to manage up to 702 new towers. This led to a high-single-digit organic growth in revenues and, with the inclusion of cost savings on fuel use, margins increased to above 50%.

HTN's current stand-alone operational performance is, however, limited by its small scale, as it has 4% of tower market share in Nigeria, where it is exposed to a subdued macroeconomic environment and a severely weakened exchange rate. In addition, exposure to risks of operating in Nigeria (B+/Negative/B) could be a key constraint on HTN's credit quality, given our belief that the company, without sufficient liquidity, would face difficulties withstanding a sovereign stress scenario.

Our assessment of HTN's financial risk profile reflects an improving adjusted debt-to-EBITDA ratio. We expect adjusted leverage in 2015 to be below 6.0x (normalizing for proceeds from its sale of Visafone) versus 8.1x in 2014, on account of stronger earnings. We expect that adjusted leverage will strengthen toward 5x over the next two years. Also, we expect modest positive free operating cash flow (FOCF) starting in 2016. We anticipate that, even under a post-integration scenario into IHS, HTN will not pay dividends in the medium term.

In our base case for 2016-2018, we assume:

- Continued growth in HTN's Nigerian mobile penetration and supportive demand for increased base station capacity.
- A rebasing of organic revenues (i.e., excluding any profits or growth acquired from takeovers, acquisitions, or mergers) in 2015 to \$78 million due to the inclusion of the transaction with SWAP Technologies and revenue growth of 4.5% from 2016 onward, driven by moderate lease rates and continued in-fill of tenants.
- Capital expenditures for growth and maintenance purposes of 18% of revenues in 2016 and 14% in 2017.
- No dividends or acquisitions over the forecast horizon.

Based on these assumptions, we arrive at the following credit measures:

- Adjusted debt to EBITDA of 5.4x in 2016 and 5.1x in 2017.
- Funds from operations (FFO) to debt of about 16% in 2016 and 12% in 2017.
- EBITDA margin of about 55% in 2016 and 2017.
- Positive FOCF to debt of 2.5% and 5%.

Liquidity

We assess HTN's liquidity as adequate, based on our view that sources of liquidity will exceed uses by more than 1.2x over the 12 months started Dec. 31, 2015.

For the 12 months started Dec. 31, 2015, we calculate the following principal liquidity sources:

- Cash and liquid investments of about \$20 million; and
- Expected cash FFO of \$24 million.

For the same period, we calculate the following principal liquidity uses:

- Capital expenditures of \$16 million, or 18% of revenues;
- No immediate debt maturities; and
- No dividends.

Outlook

The positive outlook reflects our view that HTN's incorporation into IHS has potential to bolster HTN's credit quality.

Upside scenario

We could consider a positive rating action if HTN is fully integrated into IHS and the consolidated credit profile of the group is stronger than HTN's current standing. In addition, an upgrade could arise if HTN were to considerably and sustainably reduce its adjusted leverage on a stand-alone basis to below 5x while maintaining positive FOCF. This could occur if HTN were to increase its tenancy in-fill, converting dormant towers to active towers.

An upgrade would also hinge on country risk in Nigeria, or confidence that HTN would maintain sufficient liquidity sources to survive a sovereign stress scenario and could be rated above the sovereign.

Downside scenario

We could revise our outlook to stable if the tower consolidation with IHS is not executed or if HTN is unable to benefit from IHS' economies of scale. An outlook revision to stable could also occur if we expect HTN's leverage ratios to weaken materially from our current base case, due to shrinking margins and lower revenue growth. Furthermore, we could revise our outlook to stable if we were to revise down our country assessment on Nigeria or lower the sovereign rating, which could potentially cap the rating on HTN and the consolidated credit profile post transaction.

Ratings Score Snapshot

Corporate Credit Rating: B/Positive/--

Business risk: Fair

- Country risk: High
- Industry risk: Intermediate
- Competitive position: Fair

Financial risk: Highly leveraged

- Cash flow/Leverage: Highly leveraged

Anchor: b

Modifiers

- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Financial policy: Neutral (no impact)
- Management and governance: Fair (no impact)
- Comparable rating analysis: Neutral (no impact)

Related Criteria And Research

Related Criteria

- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Key Credit Factors For The Telecommunications And Cable Industry, June 22, 2014
- Methodology: Industry Risk, Nov. 19, 2013
- Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Group Rating Methodology, Nov. 19, 2013
- Corporate Methodology, Nov. 19, 2013
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

Ratings List

Outlook Action; Ratings Affirmed

Helios Towers Nigeria Ltd.

To

From

Corporate Credit Rating	B/Positive/--	B/Negative/--
Senior Unsecured	B	B

Ratings Affirmed

Helios Towers Finance Netherlands BV		
Senior Unsecured	B	B

*Guaranteed by Helios Towers Nigeria Ltd.

Regulatory Disclosures

- Primary credit analyst: Mashiyane Mabunda, Associate
- Rating committee chairperson: Xavier Buffon, Associate Director
- Date initial rating assigned: Sept. 30, 2014
- Date of previous review: June 30, 2015

Disclaimers

This rating has been determined by a rating committee based solely on the committee's independent evaluation of the credit risks and merits of the issuer or issue being rated in accordance with Standard & Poor's Ratings Services' published criteria and no part of this rating was influenced by any other business activities of Standard & Poor's Ratings Services.

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Glossary

- Anchor: The starting point for assigning an issuer a long-term rating, based on its business risk profile assessment and its financial risk profile assessment.
- Business risk profile: This measure comprises the risk and return potential for a company in the market in which it participates, the country risks within those markets, the competitive climate, and the company's competitive advantages and disadvantages.
- Capital: The sum of equity and debt.
- Competitive position: Our assessment of a company's: competitive advantage; operating efficiency; scale, scope, and diversity; and profitability.

- **Competitive advantage:** The strategic positioning and attractiveness to customers of the company's products or services, and the fragility or sustainability of its business model.
- **Creditworthiness:** The level of resources available to a company in order to fulfill its commitments relative to size and timing of the commitments.
- **Corporate Industry and Country Risk Assessment (CICRA):** Derived by combining an issuer's country risk assessment and industry risk assessment.
- **Country risk:** This a country's influence on the overall credit risks for a rated company with regards to a country's economic, institutional and governance effectiveness, financial system, and payment culture/rule of law risks.
- **EBITDA:** This is earnings before interest, tax, depreciation, and amortization.
- **EBITDA margin:** This is EBITDA as fraction of revenues.
- **Efficiency gains:** This is the measurement of looking at the relationship between costs and operating profits.
- **Financial headroom:** Measure of deviation tolerated in financial metrics without moving outside or above a pre-designated band or limit typically found in loan covenants (as in a debt-to-EBITDA multiple that places a constraint on leverage). Significant headroom would allow for larger deviations.
- **Financial risk profile:** The outcome of management decisions in the context of an issuer's business risk profile and financial risk tolerances. This includes decisions about how management seeks funding for the company and how it constructs its balance sheet.
- **Financial sponsor:** An entity that follows an aggressive financial strategy in using debt and debt-like instruments to maximize shareholder returns. Typically, these sponsors dispose of assets within a short-to-intermediate time frame.
- **Free operating cash flow:** Cash flow from operations minus capital expenditure.
- **Funds from operations:** EBITDA minus interest expense minus current tax
- **Industry risk:** This addresses the major factors that affect the risks that companies face in their respective industries.
- **Issue credit rating:** This is a forward-looking opinion about the creditworthiness of an obligor with respect to a specific class of financial obligations or a specific financial program.
- **Issued share capital:** The value of a company's shares that are held by shareholders.
- **Issuer credit rating:** This is a forward-looking opinion of an obligor's overall creditworthiness.
- **Leverage:** The level of a company's debt in relation to its earnings before interest, tax, depreciation, and amortization.
- **Liquidity:** This is the assessment of a company's monetary flows and also the assessment of a company's breach of covenant test tied to declines in EBITDA.
- **Operating efficiency:** The quality and flexibility of the company's asset base and its cost management and structure.
- **Outlook:** This is the assessment of the potential direction of a long-term

issuer rating over the intermediate term (typically six months to two years).

- Profitability ratio: Commonly measured using return on capital and EBITDA margins, but can be measured using sector-specific ratios.
- Scale, scope, and diversity: The concentration or diversification of business activities.
- Stand-alone credit profile (SACP): Standard & Poor's opinion of an issue's or issuer's creditworthiness, in the absence of extraordinary intervention or support from its parent, affiliate, or related government or from a third-party entity such as an insurer.
- Transfer and convertibility assessment: Standard & Poor's view of the likelihood of a sovereign restricting nonsovereign access to foreign exchange needed to satisfy the nonsovereign's debt service obligations.

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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at spcapitaliq.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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