



## Fitch Expects To Rate Helios Towers Nigeria 'B(EXP)'; Rates Proposed Bond 'B

**(EXP)** Ratings Endorsement Policy

30 Jun 2014 5:55 AM (EDT)

Fitch Ratings-London-30 June 2014: Fitch Ratings expects to assign telecom infrastructure group Helios Towers Nigeria Limited (HTN) a Long-term Issuer Default Rating (IDR) of 'B(EXP)' with a Stable Outlook. Fitch has also assigned expected ratings of 'B(EXP)/'RR4' to the proposed senior unsecured notes to be issued by Helios Towers Finance Netherlands B.V..

A full list of the rating actions can be found below.

HTN plans to issue USD225m of senior unsecured notes maturing in 2019 through a fully owned Dutch finance subsidiary, Helios Towers Finance Netherlands B.V.. The notes will be guaranteed by HTN and Tower Infrastructure Company Limited, a fully owned subsidiary of HTN, which owns part of the group's tower infrastructure assets.

The notes are rated at the same level as the company's IDR of 'B(EXP)' as they constitute a direct, unconditional and unsecured obligation of HTN and the other guarantor, and rank *pari passu* with all existing and future unsecured obligations of HTN. The bond documentation includes cross-default and change of control provisions as well as incurrence tests limiting additional indebtedness and restricted payments.

The expected IDR assumes the successful issue of the proposed notes and full repayment of HTN's existing debt. Final ratings are contingent upon receipt of final documents conforming materially to the preliminary documentation that Fitch has received.

HTN is the second-largest independent tower company in Nigeria (based on the number of towers) with 1,187 towers at end-2013. The company leases space to telecoms operators at its tower sites for antennas and other wireless transmission equipment and provides full site maintenance, including power management and security services, under long-term lease agreements.

### KEY RATING DRIVERS

#### Strong Growth Potential

The Nigerian economy is seeing rapidly increasing demand for mobile and broadband communication services. Given a distinct lack of fixed-line infrastructure, poor mobile coverage and regulatory pressure to improve quality of service, mobile operators are expected to continue investing in voice and data capacity and deploy more base stations to benefit from this growth potential. Operators are also looking to free up capital to invest in their networks by divesting their tower assets, following a wider shift in Africa towards co-location and leasing towers from independent tower operators. HTN should be able to capitalise on these trends, mainly by adding more tenants to its portfolio of live and dormant towers, as it has successfully done over the past few years. This should help HTN realise significant economies of scale and improve its free cash-flow generation and leverage profile.

#### Revenue Visibility

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. Following the shift in the market from CDMA to GSM operators, over 75% of revenues are derived from three major Tier 1 GSM players, MTN, Etisalat, and Airtel, which are all backed by investment-grade parents. As at 31 December 2013, the average remaining life of all tenancy agreements was 4.8 years, and HTN had total contracted revenues of USD352m.

#### Changes to Competitive Environment

HTN has a strong market position protected by high barriers to entry, switching costs, and quality of service. However, the intent of GSM operators to sell their towers represents both an opportunity and a threat. HTN will likely be compelled to compete against other independent tower companies for any potential deal. A successful bid by HTN or its affiliated companies could consolidate HTN's strong position in the Nigerian towers market.

However, these potential transactions could result in the introduction of another independent tower operator, which could change competitive dynamics over the medium-term. An additional threat is potential further consolidation among operators as this may lead to lower demand for base stations and co-location requirements.

#### HTN's Size and Evolution

HTN is a small but rapidly growing company. A successful bond issue to refinance HTN's existing debt and the setting up of a new revolving credit facility would improve the company's maturity profile and liquidity, and form a solid foundation for future growth. Free cash-flow generation is presently weak and leverage is high, but if the business can successfully activate its portfolio of dormant towers, continue to grow its tenant base and increase the number of co-locations per tower, then HTN will realise the economies of scale inherent in its tower business model and move strongly into positive FCF territory. This should lead to strong deleveraging.

#### RATING SENSITIVITIES

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

- FFO adjusted net leverage below 4.0x on a sustainable basis (FYE13: 6.2x)
- FFO fixed charge cover of greater than 2.5x (FYE13: 1.3x)
- Significant and sustainable improvement in FCF generation
- Sustained strong market position in the Nigerian towers industry as the market develops

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

- Failure to reduce FFO adjusted net leverage, on a sustainable basis, to 5.0x
- FFO fixed charge cover less than 2.0x on a sustainable basis
- Continued weak FCF due to limited EBITDA growth, higher capex and shareholder distributions, or adverse changes to HTN's regulatory or competitive environment

#### Full List of Rating Actions:

Helios Towers Nigeria Limited  
Long-term Foreign Currency IDR: 'B(EXP)'/Outlook Stable  
Senior unsecured rating: 'B(EXP)'/RR4'  
National Long-term rating: 'A-(EXP)(nga)'/Outlook XX

Helios Towers Finance Netherlands B.V.  
Senior unsecured notes: 'B(EXP)'/RR4'

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Additional information is available on [www.fitchratings.com](http://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 (28 May 2014) are available on [www.fitchratings.com](http://www.fitchratings.com).

**Applicable Criteria and Related Research:**

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

**Additional Disclosure**

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