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Research Update:

Nigerian Mobile And Internet Tower Company Helios Towers Assigned 'B' Preliminary Rating; Outlook Stable

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Overview

- Nigerian mobile and internet tower company Helios Towers Nigeria Ltd. (HTN) is issuing $225 million of senior unsecured bonds to refinance its capital structure, and putting in place a $20 million senior secured revolving credit facility.
- We believe that HTN has strong growth potential, offset by its small scale, exposure to the risks of operating in Nigeria, and "highly leveraged" financial risk profile.
- We are assigning our 'B' preliminary rating to HTN, and our 'B' preliminary issue ratings to its proposed senior secured and senior unsecured debt.
- The stable outlook reflects good medium-term revenue visibility and good prospects in the Nigerian tower and broader telecom segments.

Rating Action

On June 30, 2014, Standard & Poor's Ratings Services assigned its preliminary 'B' long-term corporate credit rating to Helios Towers Nigeria Ltd. (HTN), one of the leading independent mobile and internet tower companies in Nigeria. The outlook is stable.

At the same time we assigned our preliminary 'B' issue ratings to Helios' proposed $20 million senior secured revolving credit facility (RCF), and $225 million senior unsecured bonds. The senior unsecured bonds are being issued by Helios Towers Finance Netherlands B.V. (a special purpose entity subsidiary) and guaranteed on a senior unsecured basis by HTN and its subsidiary Tower Infrastructure Company Ltd. (TICL).

The ratings are subject to successful issuance of the notes and our satisfactory review of final documentation. Final ratings will depend on our receipt and satisfactory review of all final transaction documentation. Accordingly, the preliminary ratings should not be construed as evidence of final ratings. If we do not receive final documentation within a reasonable time frame, or if final documentation departs from materials reviewed, we reserve the right to withdraw or revise our ratings. Potential changes include, but are not limited to, utilization of proceeds, maturity, size and conditions of the notes, financial and other covenants, security, and ranking.

Rationale

The rating reflects our assessment of HTN's business risk profile as "fair" and its financial risk profile as "highly leveraged," as our criteria define the terms.

In our opinion, HTN's business risk profile is supported by stable contracted revenue from creditworthy telecom counterparties that lease space and services on its network of nearly 1,200 towers throughout Nigeria, of which about two thirds are active and one third dormant. HTN has a strong operational track record for its towers, a leading position among the country's small independent tower operators, and solid growth potential. We believe growth in Nigerian mobile penetration coupled with high utilization of the existing base station network is likely to drive an increase in the number of tenants per tower--the colocation ratio--throughout HTN's portfolio, which should increase the company's revenues and EBITDA margins.

These strengths are primarily offset by execution risk on its growth plans, and HTN's small scale of operations, which are limited to Nigeria. HTN has less than a 10% share of the overall tower market, which is currently dominated by integrated mobile network operators (MNOs). HTN also has modest exposure to fuel costs and currency mismatches between a portion of its contracted revenue and debt obligations, and faces the broader risks associated with operating in Nigeria.

Several of Nigeria's MNOs have announced plans to divest their tower networks. MNOs currently own about 85% of the country's towers, and significant disposals have the potential to reshape the independent tower operator landscape. While we believe HTN affiliates should be well positioned to maintain the group's overall position amongst independent operators, we note that the outcome, including HTN's role within a potentially expanded Helios group, is difficult to predict at present, and could influence our future view of HTN's business risk profile. At the same time, we believe that tower divestitures should help to fund MNO infrastructure build-out, which in turn supports our outlook for growth in the overall tower sector.

Our assessment of HTN's financial risk profile mainly reflects our expectation of a very high adjusted debt-to-EBITDA ratio of over 6x for 2014. That said, we think leverage could improve to about 5x in 2015 and potentially fall further in 2016 due to the anticipated rise in EBITDA. We also note positively that the company does not plan to pay any dividends in the foreseeable future and will invest excess cash flow back into the business. Growing cash balances could also help to improve our view of adjusted leverage.

In our forecast, we assume low- to mid-double-digit revenue growth through 2016, driven by new tenants and HTN's colocation ratio rising to above 2x from about 1.6x today. We believe this growth will be slightly offset by lower lease rates as HTN renegotiates its master lease agreements with customers to extend terms and reduce currency and energy cost exposure, which we view as an important risk mitigant. In total, we believe the greater asset utilization will improve EBITDA margins to over 50% from about 40% today.

While we expect most of HTN's capital expenditures (capex) to be maintenance related, we believe the company will also spend around $1 million to $3 million per year on the activation of its dormant sites. These dormant sites, which were mostly acquired through the Multi-Links transaction--a distressed customer that was acquired by an affiliate--that closed in 2013, have and will continue to weigh on HTN's operating stats, including its colocation ratio, but represent a low-cost expansion opportunity if management can continue to successfully convert them to contracted live sites.

Our base case assumes:

- Continued growth in Nigerian mobile penetration and supportive demand for increased base station capacity.
- Revenue growth of about 11% in 2014, rising to almost 17% in 2016.
- Continued activation of dormant sites and new contracts driving HTN's colocation ratio to about 2.1x in 2016.
- Annual capex of about $12 million through 2016.
- No negative impact from MNO tower sales, with relative position among independent operators preserved.
- Renegotiation of master lease agreements to reduce overall exposure to currency and energy cost fluctuations.
- No dividends or acquisitions over the forecast period.

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

- Adjusted debt to EBITDA of over 6x in 2014, falling to about 5x in 2015.
- Funds from operations (FFO) to debt of about 4% in 2014 rising to slightly over 10% in 2015.
- EBITDA margin of about 43% in 2014 rising to about 47% in 2015.
- Negative free operating cash flow (FOCF) to debt in 2014, turning positive at about 5% in 2015.

Liquidity

We view HTN's liquidity as "adequate," as defined by our criteria. While sources to uses of about 1.8x is indicative of a stronger assessment, we limit our assessment to adequate due to qualitative factors such as the company's lack of deep bank relationships and history of significant capital market access. Our current assessment does not assume availability of a credit facility, but our view of the company's liquidity would further improve if it secured a bank line with a maturity of more than 12 months.

Including the refinancing, HTN's sources for the next 12 months total about $34 million, including:

- Cash of about $18 million.
- FFO of about $15 million.

HTN's liquidity uses total about $19 million, including:

- Capex of about $12 million.
- Other uses of about $7 million, mainly due to increases in withholding

tax receivables.

Outlook

Our stable outlook reflects HTN's contracted revenue visibility with creditworthy counterparties, and its growth prospects within the Nigerian tower segment.

Upside scenario

We could raise our rating on HTN if the company was able to reduced adjusted leverage below 5x on a sustainable basis. This could occur if the company was able to successfully execute its revenue and margin growth plans by increasing its colocation ratio and converting dormant towers to active through new long-term contracts. An upgrade would also be contingent on the company reducing its currency and fuel cost exposure by renegotiating existing master lease agreements, without excessive concessions to lease rates.

Downside scenario

We could lower our ratings on HTN if we were to lower our country assessment on Nigeria which, all other things being equal, would cause us to lower HTN's business risk profile. The business risk profile could also come under pressure if tower divestitures by Nigeria's MNOs significantly strengthened the relative market position of HTN's competitors including, potentially, affiliates within the Helios group if we believed the parent faced conflicts of interest in managing two independent tower portfolios.

Ratings Score Snapshot

Corporate Credit Rating: B (prelim)/Stable/--

Business risk: Fair
- Country risk: High risk
- Industry risk: Intermediate risk
- 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)

Recovery Analysis

The issue ratings on HTN's proposed $20 million senior secured revolving credit facility and $225 million proposed senior unsecured bonds are 'B', the same level as the corporate credit rating on HTN. We expect the senior facility to benefit from a first-ranking perfected pledge over HTN's and its subsidiary TICL's present and future assets through an upstream guarantee.

In a default scenario, the proposed bonds would be subordinated to the RCF. However, in our view, such subordination is mitigated by the existence of guarantees from, and significant operating assets at HTN and TICL, which the bonds would benefit from on a senior unsecured basis. In addition, there is no debt at TICL. As a result, we do not notch down the issue rating on the bonds for subordination.

Related Criteria And Research

- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers , Jan. 2, 2014
- Key Credit Factors For The Telecommunications And Cable Industry, Dec. 12, 2013
- Corporate Methodology, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

Ratings List

New Rating	
Helios Towers Nigeria Ltd.	
Corporate Credit Rating	B (prelim)/Stable/--
Senior Secured	B (prelim)
Helios Towers Finance Netherlands BV	
Senior Unsecured	B (prelim)

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