Helios Towers
Q1 2024 Results

Thursday, 16th May 2024

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Highlights

Tom Greenwood

Chief Executive Officer, Helios Towers

Introduction

Hi, everyone, and welcome to the Helios Towers Q1 2024 Global Investor Call. I hope everyone's doing well. Thank you very much as always for your time today, and we are looking forward to providing you with our first quarter trading update of 2024.

Agenda

On page two, we have got the usual line-up. Me, Tom, Manjit and Chris will cover the usual business, strategic and financial highlights and then look forward to the Q&A at the end.

Highlights

So moving to page five, this quarter one effectively marked 15 months since we closed our last large acquisition of Oman in December 2022, and we have been laser-focused on organic growth, asset utilisation and operational efficiency to drive value creation since then. We continue to see significant demand for our services and infrastructure as mobile telephony usage accelerates across our markets. In terms of subscriber numbers, usage behaviour and incremental technology demand, voice and data demand is growing as people use mobile more and more for everything from phone calls to banking, health, education, social media, payments, AI and streaming.

As the leading digital infrastructure platform across our markets, we focus 24/7 on our customer service excellence strategic pillar to ensure our customers are getting what they need from us, when they need it, and we are surpassing their expectations. As part of this, we have an open, transparent learning culture and are always keen to hear feedback on how we can improve further.

I am very pleased to report a strong start to 2024, continuing where we left off in 2023. We have had our busiest Q1 for new tenancy additions in company history and year-on-year our tenancy ratio is up 0.11x to 1.95 tenants per site, which brings good momentum towards our 2026 target of 2.2 tenants per site. Financial performance continues to be strong with double-digit year-on-year growth, organic revenue growth of 14% largely driven by tenancy additions flowing through to 21% growth on EBITDA and portfolio free cash flow, showing the strong operational leverage of our platform. With our organic focus strategy being of lower CAPEX intensity, we also see a strong increase in the returns year-on-year of a three percentage point increase to 13%.

Driving ROIC higher and increasing its surplus above our cost of capital is a key focus for us in creating real long-term investor value. Our strategy continues to be focused on ROIC-enhancing investment opportunities, driving up enterprise value and cash flows, reducing leverage thereby accelerating equity value creation.

We were also pleased to receive upgrades from Moody's and S&P in the quarter, which clearly demonstrates the increased strength of our business in terms of diversification, performance and cash flow generation.

And lastly on this page, we reiterate our guidance for FY 24 which, as well as strong tenancy and EBITDA growth, also focuses on leverage below forex and cash flow neutrality. This being our inflection year, at this point we feel very much on plan to achieve these targets, and we will continue to provide you with updates on progress through the year in the normal way.

Q1 2024: Solid Progress Towards FY Guidance

Now turning to page six, where you can see this in graphical format with Q1 tenancies of 761 being a strong start in achieving our 1,600 to 2,100 guidance range. Additionally, EBITDA and portfolio free cash flows Q1 annualised or last 12 months figures are both in the lower end of our range for the full year. Our focus now is to continue driving the growth and efficiencies of these metrics further up through the year.

Tenancy Ratio Expansion on Enlarged Platform Driving ROIC Expansion

And now onto page seven, where we take a closer look at the ROIC and tenancy evolution through our recent scale expansion and show the trajectory to further equity value creation.

As a reminder of our journey over the past few years, in 2020, we were a five-market business with 7,000 sites, with a strategy to geographically expand. In 2021 and 2022, we completed four large acquisitions which doubled the business to 14,000 sites in nine markets. Here we were acquiring underutilised power portfolios from mobile operators which inherently come with low tenancy ratio and ROIC on day one, but with embedded demand in the markets to drive up utilisation in the following years. This consequently diluted our Group tenancy ratio and ROIC KPIs in the short-term and meant negative free cash flow with around $1 billion invested in the acquisitions.

And from the start of 2023, we have been focused very much on high returning organic growth, leasing up our sites and driving ROIC upwards. In 2023, we increased tenancy ratio from 1.81x to 1.91x and ROIC from 10.3% to 12%. And you can see in Q1 2024 we are continuing the upward trend of these metrics, and we focus on doing more of this as we move forward. Of course, at the same time being free cash flow neutral this year and stepping up this bottom line, free cash flow thereafter.

And as a reminder of our capital allocation policy, as we communicated in March, first priority is high-returning organic investment, second being leverage reduction to below 4x this year and around 3x by 2026. Third is investor distribution and fourth is accretive M&A. Just as a reminder, as sign posted earlier in the year, we might have a small second closing of around 220 in building sites from our Oman acquisition, which remains subject to regulatory approval on which progress is being made, but timing remains unclear for now.

Group ROIC Reflects Mix of Established Versus New Markets

Now moving to page eight, we further highlight the dynamics of ROIC in early and later stages of portfolio evolution and see our new market, on the right, ticking upwards on tenancy ratio and ROIC and a similar trend to the markets in which we have been operating for much longer. All our markets are contributing to our upwards return trend, and we aim to deliver 100 bps or more on average per year for the next three years, creating a material surplus between ROIC and WACC and in turn creating sustainable value for investors.

Sustainable Business Strategy Update

Finally, on page nine, we reiterate our commitment to sustainability and the fact that our business and the way we manage it inherently drives digital inclusion, carbon efficiency, female empowerment amongst others, all underpinned by our core services ensuring reliable infrastructure and power provisioning to maximise quality of the mobile network for end users.

We continue to retain our AAA MSCI rating and the others, which you can see on the top-right, and continue to progress on our strategic initiatives to drive our business and its environment and communities to a better place and a better quality of life.

And with that, I will hand over to Manjit, and look forward to talking to everyone at the end for Q&A.

Financial Results

Manjit Dhillon

Chief Financial Officer, Helios Towers

Operational & Financial Highlights

Thanks, Tom.

Hello, everyone, great to speak with you all again. And starting on slide 11, I will be going through the financial results.

Following on from what Tom spoke to earlier, we remain focused and committed to driving organic growth and lease up on our existing portfolio, which in turn drives capital-efficient returns for the Group. And in Q1, we continued the momentum from last year and have seen strong operational and financial performance. On this slide, as usual, you see, we have summarised our performance in the main KPIs which I will go through in more detail over the next few slides.

Q1 2024: Consistent and Strong Tenancy Growth Supporting Tenancy Ratio Expansion to 1.95x

Moving on to slide 12, our site and tenancy growth.

From a site perspective, we saw organic growth of 4% increase year-on-year, equating to an incremental 482 sites. We are very selective in our approach to new site rollouts, and we are confident in our ability to lease these sites up over the coming years, which is evidenced in our strong lease up rates on new build portfolios which we presented in previous results presentations. From a tenancy perspective, we had near record organic tenancy additions of 2,566 tenancies year-on-year, a 10% increase resulting in a 0.1x expansion in our tenancy ratio to close to 2x, tracking well in line with our 2.2x tenancy ratio target by 2026.

We are also particularly pleased to see tenancy ratio expansion driven by both our existing and new markets, in particular Oman, DRC and Tanzania.

Q1 2024: Adjusted EBITDA Growth +21% Year-on-Year

And on to slide 13, a focus on our revenue and EBITDA.

We have seen 14% revenue growth and 21% EBITDA growth year-on-year, and we have seen revenue growth and EBITDA growth in all three of our reporting segments, predominantly driven by tenancy growth which I have just spoken about with Central and Southern Africa and Middle East and North Africa both delivering more than 30% EBITDA growth year-on-year.

Our EBITDA margin increased by three percentage points to 53% and again, that has been predominantly driven by colocation lease up and operational improvements.

Adjusted EBITDA Growth is Highly Correlated to Tenancy Additions and Resilient to FX, CPI and Power Price Movements

Moving on to slide 14, the usual analysis showing the key drivers of revenue and EBITDA great in a bit more detail.

As with previous results presentations, the key driver of growth has been tenancy additions, with the escalators effectively working to offset macro movements to protect our EBITDA on a dollar basis. Now this is clearly shown on both charts. If you look at the left-hand bar of both bridges, tenancy growth drives 13% growth in revenue year-on-year out of 14% overall revenue growth and 20% growth out of 21% total EBITDA growth year-on-year. As a tower company, this is exactly what we want, to have the growth driven by tenancies, which comes down to identifying attractive markets, entering them through buy-and-build opportunities, and then proactively selling and rolling out and operationally performing for our customers. This is exactly what we do and what we focus on.

The escalators are present in all of our customer contracts in one form or another. For example, for power, roughly 50% of our contracts have quarterly power escalators and 50% have annual escalators. And these, as a reminder, escalate in relation to the local pricing for and electricity. So if local prices go up, then the escalators go up and if the prices go down, then the escalators go down. For CPI, we have annual CPI escalators, and they typically kick in between December and February. Our power escalators increased revenues by $3 million and despite the power price increases in some of our markets, this falls through to flat EBITDA, again demonstrating that our business model has effectively offset any increased OPEX due to higher power prices to protect our EBITDA on a dollar basis. Whilst we also continue to explore areas to save on fuel costs through our investments and power initiatives, and reducing reliance on fuel where possible.

And just to focus on CPI and FX, local CPI is over 5% at the moment, with the majority of our CPI escalators having kicked in earlier in the year and contributed 4% increase from revenue year-on-year. The CPI escalators, as you can see in the dotted box, have effectively offset the FX movements on EBITDA. So standing back, there is little impact to FX or power prices, and we continue to be well protected from macro volatility, again, with a key driver being the great tenancy additions both organically and previously inorganically, and operational improvements, again, all of which are within our control and how we want the business to operate.

CAPEX is Tightly Controlled and Focused on Opportunities That Enhance ROIC

Moving on to slide 15.

CAPEX has and continues to be tightly controlled and focused on opportunities that drive return on invested capital, including colocations, OPEX-efficiency projects and highly selective

build to suites. And this is in line with the capital allocation strategy we set out earlier in the year at our full-year results.

Looking at what we have incurred in the first quarter of 2024, we incurred total CAPEX of $45 million, which is mainly made up of growth CAPEX reflecting the strong tenancy growth we have seen so far.

And in terms of guidance, there is no change to our 2024 expectation. The CAPEX range for 2024 will be between $150 million to $190 million, which consists of $105 million to $145 million of discretionary CAPEX and $45 million of non-discretionary CAPEX.

Continued Focus on Deleveraging has Supported Credit Rating Upgrades

Moving on to slide 16, and looking at our leverage and debt.

Our net leverage at the end of Q1 has decreased by 0.7x to 4.4x year-on-year, but remaining the same quarter-on-quarter. Typically, we do see that Q1 leverage stays consistent from Q4. We saw that last year, for example, where it stayed at 5.1x, and this is principally due to seasonal cash outflows in Q1. However, we have a clear pathway to delever the business at about 0.5x per annum on the basis of organic EBITDA growth and keeping gross debt broadly flat, and we continue to target below 4x net leverage in 2024.

As previously mentioned, we appropriate approximately $380 million of undrawn debt facilities and together with $90 million of cash on balance sheets, this means we have $470 million of available funds. About 50% of our cash on balance sheet is held at Group, with the remainder spread amongst the OpCos for CAPEX and working capital purposes. Our debt remains largely fixed, with more than 80% of drawn debt at fixed rates, and we have three years of weighted average life remaining on our drawn debt.

Over the quarter, we were very pleased to see Moody's and S&P upgraded our credit ratings to B+ equivalent. We are particularly pleased that our strong financial track record, market diversification, our focus on organic growth towards deleveraging and cash flow generation have been recognised by the rating agencies.

With regards to the outstanding bonds, we continue to monitor our options and will aim to adjust the notes during the course of the year and remain prepared to move quickly should market conditions be attractive.

FY 2024 Guidance Reaffirmed

And finally, moving on to slide 17, we reiterate our guidance for 2024. We continue to expect 1,600 to 2,100 organic tenancies in the year, and we made a great start to this so far. On adjusted EBITDA, we expect to be in the range of $405 million to $420 million and portfolio cash flow to be in the range of $275 million to $290 million.

Due to a favourable mix of colocations versus sites, we expect to deliver lower CAPEX in the range of $150 million to $190 million. Combined, we expect these metrics to support reducing our net leverage to below 4x and to support neutral free cash flow for the first time in the company's history. And as Tom mentioned, this does exclude the impact of a small second potential closing in Oman, although timing is uncertain on that closing. However, all in all, we have had a very strong start to the year, and we are tracking well towards our full-year guidance.

And with that, I will pass back to Tom to wrap up.

Closing Remarks

Tom Greenwood

Chief Executive Officer, Helios Towers

Key Takeaways

Thanks very much, Manjit.

Yes, so just really to wrap up on page 18. Yes, very pleased with the start for the year with very strong tenancy additions in Q1 that has obviously fed through to the financial metrics with 21% increase EBITDA and three percentage point increase in ROIC year-over-year, and confidently reiterating our 2024 guidance across all the metrics that Manjit just went through.

So thank you very much for listening, and I think we are now open for some Q&A.

Q&A

John Karidis (Deutsche Numis): Thank you. Good morning, everyone. Congratulations to the team for another good quarter. Can you talk about tenancy growth in the quarter so far and sort of prospects over the sort of short term, perhaps touching on a few notable markets, and what is happening there on the ground? Thank you.

Tom Greenwood: Yes. Hey, John. Tom here. Thanks for the question. Yes, look, tenancy growth continues a strong momentum already in Q2, so we feel confident of achieving the full-year guidance. We are already above 1,000 year-to-date, quite comfortably. Yes, I think we are kind of well on track on that. And we are seeing strong demand across all markets, really. And I am actually currently in Oman doing the call from Oman, where I am meeting some of our customers and teams today. And, you know, Oman is a market with a lot of demand, both for standard tenancies, but also, 5G here is really being rolled out strongly, which brings with a significant amendment revenue. Yes, I think we have got good cause to be quite excited, really, about the tenancy pipeline and the rollout that is going on at the moment.

John Karidis: Thanks, Tom. Good luck with the temperature in Oman just now.

Tom Greenwood: Yes, it is getting hotter. Thanks, John.

Graham Hunt (Jefferies): Yes, thanks very much for the questions. Just two from me, please. First one, I would just love to hear what you are seeing on the ground from your competitors, given the opportunities in front of you, both in terms of local competitors, but also your global peers would be interesting. And then second question, just on FX, would you be able to speak to the sourcing environment year-to-date for USD in Tanzania and generally the hard currency availability across your markets that you have seen both in Q1 and anything you can comment on Q2 today would be helpful? Thank you.

Tom Greenwood: Yes, thanks very much, Graham. So maybe I will take the first one on competitors, and Manjit, you can take the FX one.

Yes, look, the competitive landscape across the region is really as follows. There are a couple of large-scale competitors that probably everyone on the call will have heard of, who we have

competed against for years, those being American Tower and IHS, albeit we do not actually overlap in many markets with them. So the competition is more so from an M&A deal context, which, you know, obviously we are not really doing at the moment. So we overlap with them both in South Africa, which is our smallest market, and we overlap with American Tower, also in Ghana, which is one of our smaller markets as well, albeit both of those markets are growing well at the moment. And in other markets, really, in seven of our nine markets, excluding Ghana and South Africa, in seven of our nine markets, we are the leading largest tower company. And in some cases actually the only independent tower company. And we typically have between 30% to 60% of the tower market share across those seven markets, which puts us in a good position for having a large sheet of towers to sell colocation on, and obviously builds confidence and trust in all of our customers in those markets.

We look to really always compete on operational performance. So our number one pillar in our current strategy is customer service excellence, which we focus on day in, day out. And this means a multitude of things to our customers. However, two of the main items are power uptime and speed of new rollout. And we aim to be market leader on those and aim to give our customers the best-in-class service. And that very much helps in securing new business from all the major mobile operators, which you can see in the numbers.

Now, obviously in markets where we have smaller competitors, they are also doing a fantastic job and also doing rollout. The reality is the demand for rollout is huge, but we are very confident of winning our fair share of it, as can be seen in our numbers, and we are very confident of continuing to do that as we move forward.

Manjit, do you want to take the FX?

Manjit Dhillon: Yes, sure, I will pick up FX. So just as a broader backdrop, so just a reminder, we do operate in a number of hard currency markets. So DRC is dollarized, Oman is dollar pegged, Senegal and Congo be euro pegged. So the ability of getting your hands on FX there is clearly minimal. In markets where you have more of a prevalent local currency, and you refer to Tanzania, you do sometimes find seasonal inflows and outflows of FX. However, taking Tanzania as a specific example, we do normally see more dollars come into the market following the cashew harvest. However, outside of that, rarely would we get our hands on a number of different currencies. So we have been finding euros using liquid currencies such as rand and getting our hands on dollars as well. So in general, we are able to source it all very, very well. And we have been able to upstream money up to Group, and that is why we have 50% of cash on balance sheet at the Group today and 50% in the local markets. However, outside that as well, we have also gone through a strategy of looking to try and currency match in terms of CAPEX as well. For example, in Tanzania previously we may have been sourcing some component parts of CAPEX in dollars. We are now looking to bring that in local currency as well. So all of that helps the overall mix. However, all in all, nothing to call out in terms of anything negative there. In fact, FX is probably one of our big positives from a credit perspective.

Graham Hunt: Super helpful, guys, and congrats on the great results.

Manjit Dhillon: Thank you.

Tom Greenwood: Thanks, Graham.

David Wright (Bank of America): Hello, guys, and thanks for the question. I apologise, I have had some terrible reception here if I have missed any of this, but just on your credit rating upgrade, do you see that feeding through to your debt refinance? Have the agencies sort of specified exactly where they would prefer your leverage to stay? And does that change, at all, any of your ability to allocate capital? Thank you.

Manjit Dhillon: Yes, I could pick this one up. Hi, David. So, in terms of how it impacts the debt, the rating is a great validation of the company. I think there is probably been a little bit of a decoupling of the rating, at least at the previous rating, versus where we saw the bonds trading. So certainly, the move is positive from a validation perspective. From a pricing perspective, we will have to see. From our perspective, we would hope to see some pricing tightening. So that would be hopefully a positive thing that we do see.

In terms of leverage, we do see that they want to see. Well, firstly, cash flow generation, which is one of the things that we have been guiding towards, as well as a reduction in leverage, and we can kind of set those out in the next presentation. However, we are broadly in line with that where we are today. So it will effectively be keeping in line with where we are now.

And in terms of the refi, we are continuing to monitor our options and see what is out there, but nothing to announce on that so far.

David Wright: Okay, thank you so much.

Manjit Dhillon: Thank you.

Emmet Kelly (Morgan Stanley): Yes. Good morning, everybody, and thank you for taking my questions. Just two questions, please.

Firstly, Manjit, during the presentation, I just remember you said you are very selective still on new site rollout and building new sites. I am just wondering, as your leverage comes down into the high threes by the end of the year, and you probably become more open to building sites. Have you noticed, and should we expect significant pent-up demand there from your clients to build these new sites? So as you maybe turn the corner there, could there be a lot of pent-up demand?

And the second question is for Tom. Tom, you mentioned you are in Oman at the moment. Obviously, this was your first acquisition in the Middle East. It has been a great success. Could you say a few words about how you see the towers market in the broader Middle East and whether we can expect many opportunities to emerge potentially in the future? Thank you.

Manjit Dhillon: Thanks, Emmet. I will take the first one and pass over to Tom.

Yes. So just to remind you, under 4x net leverage by the end of this year, not 3x. Our guide is to try and get towards 3x by the end of 2026. And ultimately, our focus and our capital allocation strategy is quality over quantity. So really looking at trying to find those right build suits where we think there is a high likelihood of success in terms of lease up, that is where you start to get really the benefits of the telco model, both from a financial perspective, but also a sustainability perspective. So we will continue to do that.

In terms of pent-up demand. Yes, potentially they very well could be, but actually that pent-up demand will most likely have further M&As looking at the same site. So we would hope that that pent-up demand also actually is quite compelling in terms of rollout. However, we are not necessarily saying no to lots and lots of demand. We are just trying to, I guess a better word, show where potentially better locations might be or more suitable for us to be able to roll out. However, we do try and partner with the M&As where possible. Our job is to build sites and to lease those up. So we do try and make sure we do not leave anything or too much on the table.

And Tom, for the second part?

Tom Greenwood: Yes, no, sure, no, thanks, Emmet, for the question. Yes, no, so, I mean, I am in Oman today. We have been operating here now almost a year and a half. And we have been really, really pleased actually with the business operations and the team and the take-up of new tenancies. So we are super busy here right now. And yes, I mean, I think from a regional perspective, there has been some interesting developments over the past couple of years. We have seen the likes of [inaudible] come out and so fully establish themselves as an independent tower company. And they have been looking for expansion, obviously not just in the Middle East and indeed in Europe, as we have seen. And we have seen the Ooredoo-Zain transaction which was announced, which covers five markets in the region, which, I believe, is ongoing in terms of closing and sort of establishing that business.

So from our perspective, our strategy is first and foremost to maximise value on the tower portfolio which we have acquired. And that is very much in full swing at the moment. That means driving organic lease up amendments and identifying attractive build-to-suit opportunities to Manjit's point. And then we will continue to monitor both Oman and the wider region as we move forward for other opportunities. However, we are very much focused on the organic growth here for now and the significant demand and capturing as much of that as possible. So that is in line with our stated capital allocation policy. That is very much our priority here for now. And it is very much going to plan, probably a little bit ahead of plan actually in terms of the performance so far in Oman and the pipeline that we are seeing this year.

Emmet Kelly: Super. Thanks very much, both.

Tom Greenwood: Thanks, Emmet.

Rohit Modi (Citi Research): Hi, thank you for the opportunity. Most of the questions have been answered, just a couple of follow-ups.

Firstly, on the competition side, the markets where you do have, maybe Tanzania, where you did a transaction recently, are you facing any kind of pricing issue when you are re-contracting any of the sites?

Secondly, on your credit rating, can you confirm apart from your bond maturing next year, is there any other debt that you could take an opportunity and refinance based on your credit rating and get lower interest rates?

Lastly, just confirming on the Oman rest of the sites, I think long stop date was around May 2024. Is there an extension there? Please, can you give me a number? Thank you.

Manjit Dhillon: Thanks. Thanks, Rohit. I will take the second question, which, I think, was on the debt.

So just on that point, in terms of the bonds coming up for renewal next year and potentially looking to refi anything else, we did do a good partial tender last year where we basically partially tendered some of our bonds for term loan with some of our relationship banks. That was done at a very competitive rate, and you saw that through the fact that the actual blended cost of debt barely moved. So when we do look to try and refinance the bonds, we will keep an eye in terms of that to see is the pricing something where it means actually you may want to loop in other forms of capital in there. Do you want to refinance some of the term loan or any of the local debt options? But base case for the moment is just going to be a straight conversion, is the general sense of things at the moment.

Tom, I am sure if you want to take the other ones; otherwise I can answer those.

Operator: Tom's line has disconnected. We are just reconnecting him now.

Manjit Dhillon: Okay, so I think, Rohit, just remind me, the first question was this just on the competition in Tanzania? And I think the third one was Oman. So I will take this.

So on Tanzania, we do have a competitor now with Airtel having sold their towers to the SBA joint venture. Look, what does that mean? We still hold a very majority position in Tanzania, and we do see good amounts of volume coming through. We are still getting a good proportion of that. You have seen that through our numbers this year as well. What it does mean is you have got to sharpen your pencils and make sure that you are being as efficient and in your proposition as possible to the M&As. However, we do that everywhere that we operate. So I would not call out anything in that market that is any different to what we do in others.

And with regard to Oman, we are working on contract extensions and moving that forward, but I think nothing to really mention on that for the time being.

Rohit Modi: Thanks, Manjit.

Manjit Dhillon: Thanks.

Tom Greenwood: Thank you very much, Operator, and thank you everyone for dialling in. Great questions, as always, and very much look forward to seeing or speaking with all of you very, very soon.

So take care and have a great day and look forward to catching up soon. Thank you.

[END OF TRANSCRIPT]