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Research Update:

Helios Towers Nigeria Outlook Revised To Neg; Affirmed At 'B'; Subsidiary Helios Towers Finance Netherlands Rated 'B'

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Overview

- We have lowered our country risk assessment on Nigeria to '6' (very high risk) from '5' (high risk).
- In our view, the pending incorporation of Helios Towers Nigeria (HTN) into IHS remains positive for HTN despite both entities' significant exposure to Nigeria.
- The impact of the greater country risk, in our view, has weakened IHS' credit standing, and we no longer anticipate upgrading HTN when the acquisition closes.
- We are therefore revising our outlook on HTN to negative from positive and affirming our 'B' ratings. We are assigning our 'B' rating to subsidiary Helios Towers Finance Netherlands BV, in line with our rating on HTN.
- The negative outlook on both entities reflects the possibility that we might lower the rating on HTN by one notch over the next 12 months if we were to downgrade Nigeria to 'B', if IHS' acquisition does not close, or if HTN's operating performance weakens.

Rating Action

On May 6, 2016, S&P Global Ratings revised its outlook on Nigerian mobile phone and internet tower company Helios Towers Nigeria Ltd. (HTN) to negative from positive. We affirmed the 'B' long-term corporate credit rating.

At the same time, we assigned a 'B' long-term corporate credit rating to special-purpose entity Helios Towers Finance Netherlands BV, a wholly owned subsidiary of HTN, in line with our rating on HTN. The outlook is negative.

In addition, we affirmed our 'B' issue rating on the $250 million senior unsecured bonds issued by Helios Towers Finance Netherlands and guaranteed on a senior unsecured basis by HTN and its subsidiary Tower Infrastructure Company Ltd.

Also, we reinstated the 'B' issue rating on HTN's $20 million senior secured revolving credit facility (RCF) due July 2019. We had incorrectly reported the RCF's maturity date as July 2015.

Rationale

The outlook revision follows our reassessment of country risk in Nigeria to '6' (very high risk) from '5' (high risk). This stems from our revision of the sovereign outlook to negative from stable on March 18, 2016 (see "Federal Republic of Nigeria Outlook Revised To Negative On Oil Price Pressures; 'B+/B' Ratings Affirmed," published on RatingsDirect). In addition, the Central Bank of Nigeria's (CBN's) strict foreign exchange controls are constraining manufacturing and trade, and fueling a parallel market in foreign exchange. Furthermore, these controls are undermining the corporate and banking sectors' foreign currency liquidity. (See "Country Risk Assessments Update: April 2016," published April 14, 2016.) We now consequently regard HTN's business risk profile as vulnerable versus fair previously. Still, we recognize that HTN will not feel immediate repercussions from increased country risk.

Moreover, we believe that the company's incorporation into telecommunications company IHS remains a positive rating factor. We expect that the IHS acquisition will close by the end of the first half of 2016. We anticipate that HTN will benefit from larger economies of scale and significant efficiency gains once it is fully incorporated into IHS and is integral to the group's Nigerian operations. Although we think that IHS has a weakened credit standing due to greater country risk in Nigeria, it is still higher than that of HTN. Our assessment of HTN's stand-alone credit profile therefore remains unchanged at 'b'.

Our assessment of HTN's business risk profile is constrained by the very high country risk in Nigeria, the weaker economic outlook due to the low oil prices, our view of the stricter exchange controls employed by the CBN, and HTN's current small-scale operations in the interim. These weaknesses are offset 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 continue to view industry risk as intermediate and HTN's competitive position as fair.

Our assessment of HTN's financial risk profile remains constrained by the relatively high level of reported debt of $250 million in relation to reported EBITDA of $60 million. We expect adjusted debt to EBITDA in 2015 to be below 6.0x (normalizing for proceeds from its sale of Visafone), which is an improvement from 8.1x in 2014, when earnings were not so strong. We expect that adjusted debt to EBITDA will strengthen toward 5x over the next two years. Also, we project modest positive free operating cash flow (FOCF) starting in 2016. We anticipate that, even under the scenario following the company's integration into IHS, HTN will not pay dividends in the medium term.

Helios Tower Finance Netherlands is wholly owned by HTN. Therefore, the 'B' rating on Helios Tower Finance Netherlands is in line with the rating on its parent.

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

- Nigeria's GDP growth of 3.4% in 2016 (after 6.3% in 2014), gradually improving to 4.0% in 2017.
- 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 (capex) 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 10% on average in 2016-2017.
- Reported EBITDA margin of about 55% in 2016 and 2017.
- Positive FOCF to debt of 2.5% in 2016 and 5.0% in 2017.

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. We do not think that foreign currency access constrains HTN's liquidity position, as for the medium term, HTN's principal requirement is only to service the bi-annual interest payments on its senior unsecured bonds. Because these payments have predetermined dates, we expect HTN to plan them well in advance when applying to the CBN.

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

- Cash and liquid cash investments of about $20 million;
- Committed undrawn bank credit lines beyond 12 months of $20 million; and
- Expected cash FFO of $24 million.

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

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

Outlook

The negative outlook reflects the possibility that we might lower the rating on HTN by one notch over the next 12 months if we were to downgrade Nigeria to 'B', if IHS' acquisition of the company does not close, or if HTN's operating performance weakened.

The outlook on Helios Tower Finance Netherlands will move in line with the outlook on HTN.

Downside scenario

We might lower the rating if we lower the rating on Nigeria to 'B', if the tower consolidation with IHS is not executed, or if HTN is unable to benefit from IHS' economies of scale. In addition, a downgrade might occur if leverage ratios deteriorated materially from our base-case projections due to shrinking margins and lower growth.

Upside scenario

We might revise the outlook to stable if we take a similar action on Nigeria or if there is a greater-than-expected integration into IHS. We would also revise the outlook to stable if HTN were to considerably and sustainably reduce its adjusted leverage on a stand-alone basis below 5x while also generating positive FOCF. This may occur if HTN were to increase its tenancy in-fill, converting dormant towers to active ones.

Ratings Score Snapshot

Corporate Credit Rating: B/Negative/--

Business Risk: Vulnerable
- Country Risk: Very high
- Industry Risk: Intermediate
- Competition 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)
- Financial Policy: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Management and Governance: Fair (no impact)
- Comparable rating analysis: Positive (+1 notch)

Related Criteria And Research

Related Criteria

- Methodology: Jurisdiction Ranking Assessments, Jan. 20, 2016
- Methodology And Assumptions: Liquidity Descriptors For Global Corporate

Issuers, Dec. 16, 2014
- Key Credit Factors For The Telecommunications And Cable Industry, June 22, 2014
- Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Corporate Methodology, Nov. 19, 2013
- Methodology: Industry Risk, Nov. 19, 2013
- Group Rating Methodology, Nov. 19, 2013
- Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, 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

Related Research

- Country Risk Assessments Update: April 2016, April 14, 2016
- Research Update: Federal Republic of Nigeria Outlook Revised To Negative On Oil Price Pressures; 'B+/B' Ratings Affirmed, March 18, 2016

Ratings List

*********************** Helios Towers Nigeria Ltd. ***********************

Outlook Action; Ratings Affirmed; New Rating

	To	From
Helios Towers Nigeria Ltd.		
Corporate Credit Rating	B/Negative/--	B/Positive/--
Senior Secured	B	NR

Ratings Affirmed

Helios Towers Finance Netherlands BV		
Senior Unsecured [1]	B	

New Rating

Helios Towers Finance Netherlands BV	
Corporate Credit Rating	B/Negative/--

[1] Dependent Participant(s): Helios Towers Nigeria Ltd. NR--Not rated.

Regulatory Disclosures

- Primary credit analyst: Mashiyane Mabunda, Associate
- Ratings committee chairperson: Matthias Raab

- Date initial rating assigned: Sept. 30, 2014
- Date of previous review: March 21, 2016

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 S&P Global Ratings published criteria and no part of this rating was influenced by any other business activities of S&P Global Ratings.

This credit rating is solicited. The rated entity did participate in the credit rating process. S&P Global Ratings did have access to the accounts, financial records and other relevant internal, non-public documents of the rated entity or a related third party. S&P Global Ratings has used information from sources believed to be reliable but does not guarantee the accuracy, adequacy, or completeness of any information used.

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 expenditures.
- 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