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Cell Tower Co Helios Towers Nigeria Outlook Revised To Neg On Increased Competition, Lower Lease Rates; Affirmed At 'B'

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Nigerian mobile phone and internet tower company Helios Towers Nigeria Ltd. (HTN) generated more modest revenues and EBITDA growth in 2014 than we had expected as a result of a weaker exchange rate for its Nigerian naira-denominated contracts, though partly offset by significantly lower fuel costs.

Moreover, last year's auctions have left HTN a distant third in Nigeria's independent tower operator market.

While we expect currency exposure will be largely mitigated upon completion of ongoing contract renegotiations, we expect lower pricing.

We are revising our outlook on HTN to negative from stable and affirming the 'B' long-term rating.

The negative outlook reflects our revised growth forecast with slower deleveraging and increased risk of competition from larger operators, lower prices in dollar terms, and residual exposure to fuel costs if crude prices rise.

PARIS (Standard & Poor's) June 30, 2015--Standard & Poor's Ratings Services today revised its outlook on Nigerian mobile phone and internet tower company Helios Towers Nigeria Ltd. (HTN) to negative from stable and 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. (TICL).

The outlook revision reflects our view that HTN's growth may come under pressure from increased competition in Nigeria's independent tower market, and lower tower lease rates in dollar terms due to depreciation of the naira. In last year's tower auctions by mobile network operators, competitor IHS Towers won over 11,000 towers and new entrant American Towers won over 4,000 towers, leaving HTN with a small, less-than-10% share of the independent market. While we believe HTN retains a strong portfolio in terms of tower locations that have limited overlap with peers, and that continued growth in Nigeria's capacity and coverage requirements provide supportive fundamentals, we expect the current competitive and pricing landscape will result in slower growth and deleveraging relative to our prior forecast, resulting in a weaker financial profile over the next two years. We also see increased risk to our forecast from residual exposure to fuel prices, which HTN will not be able to fully pass through to its customers should crude prices rise significantly.

In our opinion, HTN's business risk profile is supported by stable contracted revenues from creditworthy telecom counterparties that lease space and services on its network of about 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 good growth potential. We believe growth in Nigerian mobile penetration, coupled with high use of the existing base station network, will likely 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 HTN's growth plans, and its small scale of operations, which are limited to Nigeria. HTN has a less-than-10% share of the domestic tower market, which is now dominated by IHS Towers and American Towers, after divestiture auctions by the integrated mobile network operators. HTN also has exposure to fuel costs and currency mismatches between a portion of its contracted revenues and debt obligations. Although we expect short-term mitigation to the vast majority of HTN's currency mismatch via contract renewals, we believe the current exchange rate may result in significant price concessions, lowering HTN's average lease rate. HTN also faces the broader risks associated with operating in Nigeria.

Our assessment of HTN's financial risk profile reflects our expectation of a very high adjusted debt-to-EBITDA ratio. Leverage was 8.1x for 2014. Although we believe this could improve to about 6.4x in 2015 and potentially fall further in 2016 because of the anticipated rise in EBITDA, this represents significantly higher leverage, and a slower rate of improvement than our prior forecast. 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 7%-8% revenue growth through 2016, driven by new tenants and an increase in HTN's colocation ratio. We believe this growth will be offset by lower lease rates as HTN renegotiates its master lease agreements with customers to extend terms and reduce currency exposure, which we view as an important risk mitigant. In total, we believe the greater asset utilization and current low fuel costs will maintain EBITDA margins at over 50%.

We expect most of HTN's capital expenditures to be maintenance related, but we believe the company will also spend about $1 million-$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 HTN affiliate) that closed in 2013, have and will continue to weigh on HTN's operating statistics, including its colocation ratio, but they represent a low-cost expansion opportunity if management can continue to successfully convert them to contracted live sites.

The negative outlook reflects our revised growth forecast, with slower deleveraging and increased risk of competition from larger operators, lower prices in dollar terms, and residual exposure to fuel costs if crude prices rise.

We could lower our rating on HTN if we expect a slower deleveraging pace, such that adjusted debt to EBITDA will remain sustainably above 6x, or if we believe cash flow will be near breakeven or negative in the future. This could occur if intense competition or a weaker naira lower our forecast for HTN's colocation growth or market pricing, which could not only impact new tenants, but potentially existing contracts, as well, given their relatively short tenor relative to international norms. Margins could also be pressured by an increase in crude oil prices because of HTN's residual exposure to fuel prices. We could also lower our rating on HTN if we were to lower our country assessment on Nigeria, which, all other things being equal, would cause us to revise down our assessment of HTN's business risk profile.

We could revise our outlook on HTN to stable if we believe the company will sustainably reduce adjusted leverage below 6x by 2016 and achieve positive FOCF. This could occur if the company successfully renegotiates its major contracts to extend maturities and sharply reduce currency exposure, and is able to execute its revenue and margin growth plans by increasing its colocation ratio and converting dormant towers to active through new long-term contracts without lowering its average lease rate.

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