Sub-Saharan Africa Market a Boon for TowerCos

WHITE PAPER

MAY 2021

Introduction

The demand for mobile connectivity in Sub Saharan Africa is at an all-time high: the WSJ reports that smartphone connections in Africa doubled to 300 million in the three years through 2018, with another 400 million estimated to be added by 2025. The COVID-19 pandemic has added a new urgency to the global need for better coverage and connectivity, and investors are paying particular attention to the SSA region.

475M
people in the region will be mobile internet users by 2025

27%
of connections by 2025 will be on 4G with 3% on 5G

$184BN
mobile industry contribution to GDP by 2024

The Towerco industry benefits from this rising demand as it requires colocations on their structures, which improves their revenue and increases their value. Similarly, the planned 5G rollout will require an enormous amount of investment, placing TowerCos in prime position to gain from the need for additional equipment on each tower, resulting in higher revenue per site.

The market has responded to this already, with a flurry of activity in recent times. TowerXchange reported in 2019 that there were two large acquisitions in the African market worth almost $2bn. In comparison, the five preceding years saw a total of $5.5bn in acquisitions and joint ventures. CNBC were direct in their appraisal of the situation, saying that the rollout of 5G technology has cell towers owners in “raging bull market mode”.

A Pandemic-Proof Investment?

The TowerCo business model is not recession-proof, but it is robust, continuing to grow even during the difficult circumstances of late. For example, ATC – one of the top three TowerCos – has seen minimal impact on their market value; their share price at the time of writing is $241.

The global move to ‘working from home’ will require healthy, well-maintained networks with minimal downtime, as well as an increased need for rural coverage. As a result, the industry is focusing on maintaining the quality of the networks. Due to the critical nature of their work and urgent demand for their services, the impact of the pandemic on the TowerCo business has been limited, even with their reliance on MNOs for revenue.

There are still logistical challenges, of course; the pandemic has affected the industry’s ability to get teams to site for installations and maintenance, for example. However the industry has proved quite agile in its processes and delays to the end user have been minimal as a result.

Portfolio divestments have continued in 2020, with MNOs offloading portfolios to focus solely on their networks. This has created a frenzy of acquisitions among TowerCos, with outside investors looking to the industry for long term, limited risk investment.

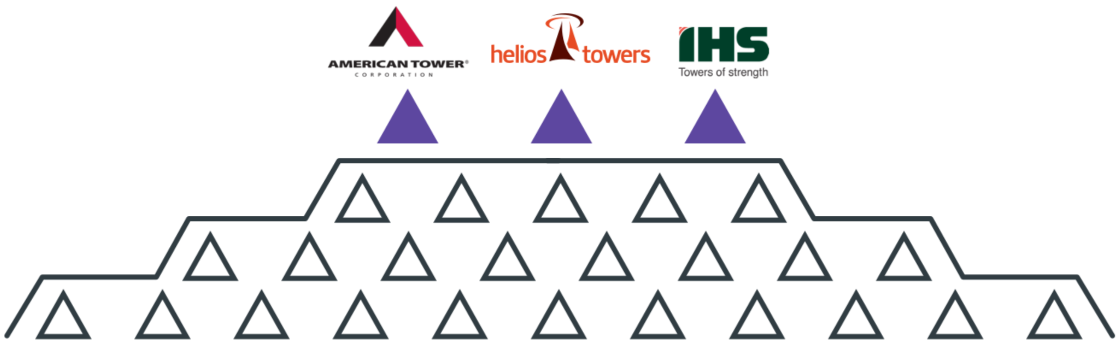

Figure 1: Increased mergers and acquisitions involving the three main players: Helios Towers, IHS & American Towers

Navigating Volatile Markets

While the popularity of telecom infrastructure is rising, the geographical risk with SSA still remains. However, the fact that network connectivity is crucial to these economies gives investors a certain level of security during civil unrest.

Helios Towers – one of the three major TowerCos that have recently gone for IPO, including IHS and American Towers – attracted a $600 million bond issue in 2017 with a yield of 9.125%. This demonstrates that investors are still willing to back these investments, despite political uncertainties (Bank of America, Merrill Lynch, 2017).

In 2018 Bloomberg reported that Eaton struggled to reach their valuation as investors turned selective amid political uncertainty and volatility in the stock market. Helios Towers also postponed plans for an IPO in 2018 due in part to concerns over the political situation in DRC and Tanzania (Reuters, 2019). According to Bloomberg, Helios floated at the lower end of its valuation when it listed on the London Stock Exchange in 2019.

It’s been reported that the IPO valued the firm at 8.5x EBITA – a strong multiple when comparing the company to others operating in SSA. Helios is not the only firm that’s been impacted by political upheaval: according to BusinessDay, IHS scrapped plans for their IPO in 2018 due to the uncertainty around the Nigerian presidential elections.

Maximising Asset Value

To achieve high valuations prior to an IPO, TowerCos must plan to improve their operational efficiency and maximise the overall value of their assets. Considerations such as high CapEx costs and downtime are reviewed by investors' valuers, particularly during the current period of increased demand; strict customer KPIs can result in heavy penalties if a site goes offline or loses revenue when it's unable to accept operators. All of these factors can significantly reduce the value or potential revenue of a site and as a result, TowerCos will usually invest heavily in these areas prior to an IPO.

All three of the major TowerCos are at different stages; Yahoo Finance writes that American Towers reached an all-time high in February 2020 at $256.90 per share. The company have carried out a number of acquisitions since floating in 1998, including the recent Eaton Towers. Eaton previously withdrew its IPO plans due to concerns that their markets and overall condition of their portfolio could damage their valuation. Maintaining infrastructure correctly will help to safeguard its value; this is likely to be a key priority for the industry in the years ahead.

A Strong Outlook

The pandemic has had the effect of shining a spotlight on the sector and its central role in global communications: new investors are turning to the tower infrastructure industry as a robust alternative to more traditional options such as property. They're also drawn to the significant opportunity available in the SSA market, based on the substantial growth in mobile subscriptions and subsequent requirements for more towers.

Figure 2: The rapidly increasing need for better connectivity in the current climate

A 2017 report by TowerXchange suggests that TowerCos' annuity-like returns and increasing contracts with investment-grade parties has put stock market valuations for the top 20 publicly listed TowerCos at an all-time high. Consensus indicates a minimum 15x multiple could be achieved, which will be attractive to a wide pool of investors.

It's been an exceptionally busy few years for the major players in the TowerCo industry, and with an unprecedented demand for connectivity – in the SSA and indeed, globally – the pace of change is unlikely to slow down any time soon.

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