IJGlobal
A Green Street Company

Protelindo: Towers of strength

09/04/2009

Indonesia – a wireless market characterised by declining tariffs and increasing usage, a large subscriber base, inadequate geographic coverage and a relatively large number of smaller, capital-constrained new operators.

This was what senior executives, including one of the founders of America Tower Corporation (the largest independent telecom tower company in US by market capitalisation), were looking for in late 2007, as they scoured for a suitable Asian market to replicate the success they had tasted in the Americas. Together with financial sponsor Farallon Capital Management, they acquired PT Professional Telekomunikasi Indonesia (Protelindo), a relatively small Indonesian independent telecom tower company. This was the first step towards becoming the leading independent telecom tower company in Indonesia.

Realising the vision

In early 2008, Protelindo continued its expansion and won the bid to acquire 3,692 telecom towers from PT Hutchison CP Telecommunications (Hutchison). Under the deal, Hutchison will be the anchor tenant on the towers via a long-term lease. Hutchison also appointed Protelindo to deliver additional build-to-suit (BTS) towers.

Protelindo mandated Standard Chartered Bank, along with ABN Amro, DBS, China Trust, OCBC, CIMB, Bank Mandiri and BCA as lead banks, to arrange a debt facility to finance the acquisition and build the requisite BTS towers. By November 2008, about two months after the collapse of Lehman Brothers, the lead banks had successfully arranged up to $360 million and $100 million equivalent IDR floating rate term loan facilities for Protelindo. The financing provided to Protelindo is the largest telecom tower financing to date in South East Asia and was a remarkable achievement given that no export credit agency, developmental finance or multilateral agency was involved, especially given the extremely turbulent financial markets.

The benchmark transaction proves that despite the upheavals in the financial markets, there remains appetite for well-structured deals and quality assets backed by strong sponsors and experienced management teams.

Key terms of the financing
Facility amount: Up to $460 million
Currency: $ and IDR
Tenor: 5 years amortising
Facility: Senior, secured amortising loan
Debt to EBITDA: Maximum 5x

The telecom tower business as an infrastructure business

The telecom tower business is reasonably straightforward:
• land sites are leased and all necessary permits and approvals obtained for new tower locations;
• the tower sites are marketed to prospective customers and site leases are signed with telecom operators;
• contracts are signed with third party contractors for the construction of the towers;
• completed towers are marketed to multiple tenants; and

• the tower company manages the operations and maintenance of the towers.

In short, telecom tower companies provide and maintain the infrastructure for wireless operators to install wireless communications equipment. Each tower can normally accommodate two or more tenants (also known as co-locators). Typically telecom tower companies sign site leases of tenors ranging from 10 to 12 years and through these contracts, they will receive fixed lease payments covering capital costs plus a smaller component covering operations costs. The telecom tower business is capital intensive but with relatively low operating costs, translating to strong EBITDA margins.

The case for telecom tower businesses in Indonesia

The signs are strong for telecom towers in Indonesia. The demand for tenancies on telecom towers in Indonesia is set to rise due to a number of factors:
• increasing wireless penetration: experts are predicting that the national wireless real penetration in Indonesia at around 40% today has room to grow to over 65% by 2016;
• increasing coverage: the recent entrants in the Indonesian wireless market are expected to increase their coverage to capture market share from the incumbent operators, thereby creating additional demand for tower tenancies in the short to medium term;
• expanding capacity: declining tariffs will drive higher minutes of use and capacity demand, and therefore wireless operators will, in addition to adding base stations for expanding coverage, also need to add more base stations for expanding capacity and avoiding congestion in their networks due to substantial growth in wireless traffic;
• introduction of 3G: 3G take up is expected to accelerate over the next five years and will drive up demand for towers;
• growth in implementation of other technologies: new technologies such as WiMAX are expected to increase demand for towers in the medium term; and
• regulation: there is regulatory impetus that encourages sharing of telecom towers. Government regulations stipulate that telecommunication towers should have other tenants co-located with the anchor tenant, creating opportunities for independent tower companies.

The result of the industry trends and regulatory impetus is a proliferation of independent telecom tower companies in Indonesia (other than Protelindo), with players such as Indonesian Tower, Tower Bersama and a number of smaller companies. Such trends also prompted PT Excelcomindo Pratama Tbk, one of the dominant wireless operators in Indonesia, to consider selling its portfolio of more than 7,000 towers in 2008 – this auction has been put on hold.

Advantage Protelindo

Given the lucrative conditions in the Indonesian wireless market for independent telecom tower companies, there are obvious benefits to Protelindo in being a first mover and a full-service market leader – primarily increased barriers to entry through quality sites and a head start to engaging in long-term contractual relationships with key wireless operators.

The large number, location and quality of Protelindo's tower portfolio will allow Protelindo to provide a comprehensive solution to wireless companies seeking to expand quickly in terms of coverage and capacity throughout Indonesia's sprawling archipelago.

It also enables Protelindo to benefit from the industry trend of telecom companies co-locating base stations on telecom towers to avoid significant upfront capital expenditure on infrastructure, and the increasing difficulty in getting permits to build new telecom towers, particularly in choice locations. Protelindo already has aggressively added co-location tenants on its current portfolio of more than 3,300 towers, which bears testimony to the value proposition offered by Protelindo to Indonesian wireless operators.

India telecoms towers on the up

India has also seen tower sharing gaining ground amongst wireless operators, despite initial unwillingness by incumbents who were uncomfortable with 'co-operating at the back end and competing at the front-end'.

Similar to the Indonesian market, the mobile penetration rate in India is still low, with decreasing tariffs driving increased subscribers and minutes of use, and the huge expansion plans of the operators necessitating substantial coverage requirements. This capital expenditure intensity results in large funding requirements, significant time spent on finding sites and erecting towers, with the associated execution risks. This creates the impetus for tower sharing for the wireless operators.

There are two types of telecom tower companies in India – operator-owned, such as Bharti Infratel (BITL) and Reliance Infratel (RITL), and independent telecom tower companies such as GTL Infrastructure and Quippo Telecom Infrastructure. It is the presence of dominant operator-owned telecom tower companies that differentiates the Indian market from the Indonesian market – partly prompting the management team of Protelindo to start their independent telecom tower business in Indonesia rather than India. The operator-owned telecom tower companies have a larger scale, strong parental support, deep pockets, an anchor tenant (the parent) and therefore present a much tougher proposition for independent telecom companies.

Implications for infrastructure financings in emerging markets

Quality assets and quality partners
The importance of having quality assets and strong partners cannot be over-emphasized for an infrastructure deal in emerging markets. The location of the Hutchison towers and the structural capacity of each tower for colocation with minimal reinforcement meant that Protelindo could execute its business plan and build scale with the various telecom companies, quickly and effectively. Equally importantly, the support of Hutchison as anchor tenant went a long way in getting lenders comfortable with the Protelindo business model.

Local currency funding markets
Given the tight US Dollar funding market, a borrower's ability to tap local currency loan and bond markets widens the funding pool available. A borrower's relationship with local banks, and their reputation with local investors, is increasingly important in ensuring funding. For Protelindo, who earn revenues denominated in local IDR and US Dollars, the $100 million equivalent IDR tranche of the financing was designed specifically to ensure participation from Indonesian banks, and to ensure the proper matching of debt obligations with revenues earned. This strategy helped cushion the impact of a rapidly depreciating IDR particularly in late 2008.

Strong club of banks
When Protelindo first approached the mandated lead banks, their intention was to raise the financing via a typical syndicated loan. As time passed and financial markets deteriorated, the syndication market dried up, and Protelindo relied on the support of the strong group of mandated lead banks. As a result, commitments were made on a take-and-hold basis, which provided certainty of funding to Protelindo.

Mezzanine financing
In addition, as senior debt capacity was limited, there was a need for financing from other sources in the capital structure. The original sponsors showed tremendous support for Protelindo by undertaking to provide mezzanine financing to plug any financing gap that arose from the inability of the syndication market to raise the necessary funding. This use of various instruments within the capital structure to fulfill funding requirements proved to be key to a successful financial close.

Sponsors' commitment
Before the divestment of the original sponsors' shareholdings, the original sponsors worked very hard structuring the deal and funding the initial tower transfers from Hutchison. The original sponsors ensured that the management team was kept intact even after the transfer of ownership, to retain the vast management experience in the company. The result was a great initial success enjoyed by Protelindo in terms of the company's ability to attract anchor tenants and co-locators.

Experienced management
The experienced management team, who guided the company through its purchase of the Hutchison towers, ultimately

gave lenders the comfort they needed to finance the business. The management team has worked together for an average of 12 years, and has significant experience in building and managing more than 30,000 telecom towers in countries such as the US, Brazil and Mexico.

The experienced management team also gave comfort to lenders about the business model – essentially seeking out a US Dollar long-term lease agreement with a top industry partner, Hutchison, as anchor tenant. Although the Indonesian telecoms market might see some challenging times going forward, Protelindo's management is expected to be able to steer the company in the right direction.

Back-to-basics

The Protelindo transaction shows that 'back to basics' financings are possible even in these uncertain times; the market in Asia is still open for well structured financings for quality assets with quality sponsors and management.

We are happy to take feedback.
Please contact any one of us:
Conor McCoole, +65 6228 3450, conor.mccoole@sc.com Chris Box, +65 6228 3448, chris.box@sc.com