

Sector Update

Banks' Exposure to Etisalat Nigeria: Restructuring or Equity Conversion?

Etisalat Nigeria (ETISALAT) on Monday, released a statement on the planned restructuring of its shareholding to accommodate an equity conversion as regards its failure to meet financial obligations to a consortium of Nigerian banks. This followed the announcement by the parent company on the Abu Dhabi Stock Exchange, where it stated that it had transferred its 45% equity stake and 25% preference shares to a security trustee, who will hold the shares on behalf of the lenders and other possible stakeholders in the company who lay claim to its assets.

In 2013, ETISALAT secured a 7 year US\$1.2 billion syndicated facility from Nigerian banks (Zenith Bank, Guaranty Trust Bank, Access Bank, United Bank for Africa, First Bank, Fidelity Bank, Stanbic IBTC, FCMB, Union Bank of Nigeria, Ecobank, Keystone Bank, FSDH and Mainstreet Bank) to refinance existing obligations (estimated at US\$650 million, representing 54.17% of total facility) and most part of the remaining fund was used to finance network expansion. Our discussion with some of the banks involved in the transaction revealed that c.US\$600mn of the facility was secured by assets and pledged shares of the parent company of US\$235mn. Given that the Tier 1 banks involved in the transaction provided a larger portion of the facility, it is our thought that they have the first lien on the securitized assets.

Although,, ETISALAT's earnings have been under significant pressure in the past few years, our discussions with the banks revealed that it had consistently serviced the loan obligation since inception. However, following the evident drag in the macro environment in 2016 - significant currency depreciation (which drove sizable jump in FX revaluation losses on its FCY Liabilities), weakened consumer spending, coupled with the impact of the competitive pricing environment on subscribers growth – ETISALAT's cash flow was significantly pressured. Revenue was flat in 2016, while a further impact of FX blotted related costs (roaming cost, rental charges, and network costs) drove a double digit decline in EBITDA (down 20.86%) to N33 billion.

According to recent press reports accredited to the ETISALAT's spokes person, the company had financed about 50% of the facility to date. In conformity,, STANBIC's management revealed that ETISALAT met its obligation to the bank as at May 2017 , as such, the loan is still classified as performing.

Earlier in the year, the syndicate had suggested a conversion of existing shareholders loan to equity via a capital raise which would still create excess balance if all shareholders take up their rights. However, reluctance on the part of the shareholders made the company to suggest a restructuring, but the state of the company's cash flow and current leverage position caused the banks to enforce the Default & Security Enforcement Notice to the UAE's Emirate Telecommunications Group (the holding company for the Etisalat Nigeria stake).

There are ongoing talks on the possible options to limit the syndicates' exposure in case ETISALAT is unable to meet upcoming obligation (which is most likely). We therefore highlight the possible options available and likely impacts on the banks:

1. Purchase of the toxic asset by AMCON: The CBN recently advised the syndicate to maintain status quo on the matter, which suggests a possible intervention by CBN. Though, the intervention might likely come through AMCON purchase of the asset, given the current financial position of AMCON, we have our reservation on this option. However, if AMCON intervenes, the banks will have to take some hair cut, which by our estimate, might range between 10% to 20% of individual banks' exposure.

2. Loan to equity conversion: This seems like the most likely option, however, it comes with a possible risk. Given the state of the company, a conversion to equity suggests a share of other obligations to network providers, like IHS. Also, the banks will have an option to either; (1) restructure the management team; (2) maintain status quo on operations; or (3) outright sale of the lien assets which is estimated at US\$600 million. The last option seems viable, but given the current state of the company, the sale will be at a sizeable discount to the fair value of the assets, as such, a head cut is likely.

3. Outright restructuring of the loan: This last option has been the best practice in the banking system; however, the option depends on the prospect of the venture. If the banks restructure the facility, they will have to make provisions for it in the interim - which buy our estimate, will only be for a limited percent of the exposure given the viability of the venture and the securitization.

Etisalat Group (who owns 40% of the company), UAE SWF Mubadala (who owns 45%) and Myacynth (a Nigerian holding company with 15% stake controlled by Hakeem Bello-Osagie, who currently serves as the chairman of Etisalat Nigeria) are the major shareholders of Etisalat Nigeria.

Banks Exposure	Zenith	Guaranty	Access	UBA	FBNH	Fidelity	Stanbic	FCMB
Exposure to Etisalat, US\$m	262	137	131	123	78	57	25	15
Exposure to Etisalat, Nm	80,000	42,000	40,000	37,600	24,000	17,500	7,776	4,500
Loans FY'2016, Nm	2,289,365	1,589,430	1,809,459	1,505,319	2,083,894	718,401	352,965	659,937
Exposure % of Loan Book	3.49%	2.64%	2.21%	2.50%	1.15%	2.44%	2.20%	0.68%

Source: Conference call estimates, Annual reports, Cordros Research

Disclosures

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