The inside story: two emerging TMT ideas

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When people think of emerging market technology, media and telecom (TMT) companies, they often tend to imagine the Asian up-and-comers. But there are attractive opportunities to be found elsewhere in the emerging TMT sector. In this month's note I'll talk about a Latin American TV programmer and a telecommunications tower operator in Africa.

GLOBO: BENEFITING FROM DOMINANT MARKET POSITION AND RESILIENT DEMAND

Globo Comunicação e Participações, rated towards the upper end of the high-yield spectrum at BB, is the largest media group in Brazil. The company derives the bulk of its revenues from advertising.

Owned by the Marinho family, with a history dating back to 1965, Globo is the leading broadcast free-to-air and pay TV programmer. We have a long history with the company: our analysts have covered the name for over a decade. The fact that this is a private company (i.e. without publicly traded equities) means it's not heavily covered by the global fund management industry, and in our experience the less researched issuers provide a fertile ground to uncover opportunities.

Globo is the oldest television producer in Brazil, so most of the population grew up on its telenovelas (soap operas) and news programming. Globo has the dominant free-to-air audience share – larger than its second and third largest competitors combined. In our view, strong content, 80% of which is produced internally, gives Globo an edge over the competition. "Avenida Brasil", first aired in 2012, was described by Forbes magazine as the most-commercially successful telenovela in Brazilian history ("Brazilian Telenovela 'Avenida Brasil' Makes Billions By Mirroring Its Viewers' Lives").

Secular headwinds, notably declining advertising revenue during Covid, have been offset by one of the strongest balance sheets in the region – specifically Globo's net cash position, which reflects a financially conservative management team.

Despite its long history and financial conservatism, Globo is keeping up with the times. It is the midst of transition to more digital business model, which we believe will position it well for the future.

HELIOS TOWERS: AN AFRICAN GROWTH STORY

Helios Towers is a telecom tower infrastructure operator in Africa, set up in 2009 with backers including Soros Fund Management. With a rating of single B, Helios Towers is squarely in high yield territory, in part reflecting the sovereign risk attached to some of the countries in which it operates, such as Democratic Republic of Congo (DRC) and Tanzania.

But the frontier nature of some of Helios's markets positions it to benefit from early stage growth in mobile phone adoption. For example it is the only independent tower operator in DRC, where mobile phone penetration in 2020 was 40%, compared with 56% in Ghana and 67% in South Africa (Source: GSMA Intelligence Database). From a social perspective, Helios is also providing a valuable service in remote areas that have no landline infrastructure. So this potentially connects users not just with one another but with the rest of the world, and gives them access to new functionality like mobile money.

We've owned Helios since it first came to the bond market in 2017. We liked its stable business model and good earnings visibility thanks to the contracted revenues it earns from the big mobile operators. As of mid 2021, Helios had $5.4bn of contracted revenues with an average remaining life of 8.8 years, supported by a diverse customer mix of the "Big Five" African mobile network operators.

One of the bigger risk considerations is that, like its competitors, Helios faces a currency mismatch: debt in dollars but earnings in local currency. That said, Helios is better positioned than other operators. In recent years it has managed to grow the percentage of its revenues in hard currency, or currencies pegged or linked to the US dollar, from about 50% to more than 70%.

Helios is ahead of schedule with its vision to increase its presence from five to 11 markets by 2025, doubling its tower portfolio to roughly 13,700. While this is good news for earnings, debt-financed acquisitions have also pushed net leverage from around 2.5 times to more than 5 times.

This acquisition drive, together with more expensive valuations (having launched its first issue at 9⅛%, Helios has seen its bonds trade as low as 5% in recent years), have led our analyst to downgrade her conviction score on the company. We still hold a significant position, but we've been trimming our bond holdings, instead building up our position in a more recently issued convertible bond, which we believe is a better way to capture the potential growth upside.

Risks - The following risks are materially relevant to the portfolio:

- **China Interbank Bond Market risk** - market volatility and potential lack of liquidity due to low trading volume of certain debt securities in the China Interbank Bond Market may result in prices of certain debt securities traded on such market fluctuating significantly.
- **Contingent convertible bond** risk - contingent convertible bonds have similar characteristics to convertible bonds with the main exception that their conversion is subject to predetermined conditions referred to as trigger events usually set to capital ratio and which vary from one issue to the other.
- **Country risk (China)** - all investments in China are subject to risks similar to those for other emerging markets investments. In addition, investments that are purchased or held in connection with a QFII licence or the Stock Connect program may be subject to additional risks.
- **Credit risk** - a bond or money market security could lose value if the issuer's financial health deteriorates.
- **Default risk** - the issuers of certain bonds could become unable to make payments on their bonds.
- **Derivatives risk** - derivatives may result in losses that are significantly greater than the cost of the derivative.
- **Emerging markets risk** - emerging markets are less established than developed markets and therefore involve higher risks.
- **Frontier markets risk** - small market nations that are at an earlier stage of economic and political development relative to more mature emerging markets typically have limited investability and liquidity.
- **High yield bond risk** - a bond or debt security rated below BBB- by Standard & Poor's or an equivalent rating, also termed 'below investment grade', is generally subject to higher yields but to greater risks too.
- **Interest rate risk** - when interest rates rise, bond values generally fall. This risk is generally greater the longer the maturity of a bond investment and the higher its credit quality.
- **Liquidity risk** - any security could become hard to value or to sell at a desired time and price.
- **Sector concentration risk** - the performance of a portfolio that invests a large portion of its assets in a particular economic sector (or, for bond portfolios, a particular market segment), will be more strongly affected by events affecting that sector or segment of the fixed income market.

General Portfolio Risks

- **Capital risk** - the value of your investment will vary and is not guaranteed. It will be affected by changes in the exchange rate between the base currency of the portfolio and the currency in which you subscribed, if different.
- **Counterparty risk** - an entity with which the portfolio transacts may not meet its obligations to the portfolio.
- **ESG and sustainability risk** - ESG and sustainability risk may result in a material negative impact on the value of an investment and the performance of the portfolio.
- **Geographic concentration risk** - to the extent that a portfolio invests a large portion of its assets in a particular geographic area, its performance will be more strongly affected by events within that area.
- **Hedging risk** - a portfolio's attempts to reduce or eliminate certain risks through hedging may not work as intended.
- **Investment portfolio risk** - investing in portfolios involves certain risks an investor would not face if investing in markets directly.
- **Management risk** - the investment manager or its designees may at times find their obligations to a portfolio to be in conflict with their obligations to other investment portfolios they manage (although in such cases, all portfolios will be dealt with equitably).
- **Operational risk** - operational failures could lead to disruptions of portfolio operations or financial losses.

Important Information

The specific securities identified and described do not represent all of the securities purchased, sold, or recommended for the portfolio, and no assumptions should be made that the securities identified and discussed were or will be profitable**.**

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