

Rating Action: Moody's assigns (P)Baa2 rating to CETIN's new EMTN programme; stable outlook

Global Credit Research - 14 Nov 2016

Madrid, November 14, 2016 -- Moody's Investors Service has today assigned a provisional (P)Baa2 senior unsecured long-term rating to CETIN Finance B.V.'s EUR 2.0 billion Euro Medium Term Note (EMTN) Programme, which benefits from the full and unconditional guarantee from Česká telekomunikační infrastruktura a.s. (CETIN, Baa2 stable), the leading telecom infrastructure operator in the Czech Republic. The outlook on the rating is stable.

"The (P)Baa2 rating assigned to the EMTN programme is at the same level as the issuer rating on CETIN, reflecting CETIN's full and unconditional guarantee of CETIN Finance B.V.," says Mr Carlos Winzer, a Moody's Senior Vice President and lead analyst for CETIN.

This is the first EMTN programme established by CETIN and its subsidiaries. Any near term proceeds from drawdowns under the EMTN programme are expected to be used to refinance CETIN's existing bank debt. This new EMTN programme will allow CETIN to extend its debt maturity profile and diversify its funding sources.

RATINGS RATIONALE

The (P)Baa2 senior unsecured rating on the EMTN programme is based on the full and unconditional guarantee from CETIN and reflects the company's differentiated business model as a telecom infrastructure-only operator, its strong market position as the only national telecom infrastructure provider, and its resilient business model underpinned by solid commercial agreements with the main telecom service providers in the Czech Republic.

The rating also takes into consideration: (1) CETIN's de-leveraging objective supported by management's conservative financial strategy in which the dividend pay-out is subject to operating cash flow strength, capex funding and debt repayment as priority objectives; (2) CETIN's modest size but strong market position as a national infrastructure provider; (3) the growth prospects of the telecom market given the strength of the economy in the Czech Republic supported by resilient GDP growth when compared with other European markets; (4) the expected supportive regulatory environment; (5) the stable business risk as CETIN benefits from operating leverage that contributes to high EBITDA margins in the domestic business (more than 64% EBITDA margin excluding the international transit business) and stable capex overall; (6) its strong cash flow generation before dividends; and (7) its adequate liquidity profile over the next 12-24 months.

Moody's expects that CETIN will continue to pursue a deleveraging strategy to comply with conservative financial objectives. This includes a deleveraging path from Moody's adjusted gross debt to EBITDA of 3.7x (equivalent to reported net debt to EBITDA of 3.5x) as of December 2015, to around 2.9x as of December 2018 and trending towards 2.5x thereafter.

RATIONALE FOR THE STABLE OUTLOOK

The stable outlook factors in the expectation that CETIN's credit metrics will continue to be well positioned for the rating category. Moody's expects that the company will de-lever and therefore its adjusted debt/EBITDA ratio will improve over the next two years, while the group will continue to generate positive free cash flow.

The stable outlook also assumes that CETIN will meet or exceed its deleveraging targets and management will distribute up to 100% of its annual net income through dividends over the projected period, although only if the deleveraging plan is achieved. There will be no cash dividend distribution in 2016 and approximately one third of planned 2016 net income in 2017. Moody's notes that PPF, CETIN's shareholder, has committed to adjusting the company's dividend to mitigate any future deviation in operating performance and hence protect financial ratios within the current rating.

WHAT COULD CHANGE THE RATING UP/DOWN

Upward pressure on the rating could develop if the company delivers on its business plan, such that its adjusted debt/EBITDA ratio drops below 2.5x on a sustained basis. This decrease in leverage would likely be reliant on the company maintaining a conservative approach to acquisitions and shareholder remuneration policies, such that its deleveraging profile is not compromised.

Downward pressure could be exerted on the rating if CETIN's operating performance weakens as a result of pricing pressures or market share losses reducing cash flow generation, or if the company increases debt as a result of acquisitions or shareholder distributions such that its adjusted debt/EBITDA remains above 3.5x by 2017. A weakening in the company's liquidity profile could also exert downward pressure on the rating.

LIST OF AFFECTED RATINGS

Assignments:

..Issuer: CETIN Finance B.V.

...Backed Senior Unsecured Medium-Term Note Program, Assigned (P)Baa2

Outlook Actions:

..Issuer: CETIN Finance B.V.

....Outlook, Assigned Stable

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was Global Communications Infrastructure Rating Methodology published in June 2011. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Ceská telekomunikační infrastruktura a.s., headquartered in Prague (Czech Republic), is the only national Czech telecommunications infrastructure provider. The company was incorporated in June 2015 after the spin-off from O2 Czech Republic a.s. In 2015, CETIN generated revenues of CZK19.13 billion and EBITDA of CZK7.94 billion. CETIN currently operates and manages fixed and mobile infrastructure in the domestic market and transit infrastructure abroad with international points of presence in Germany, Austria, Slovakia and UK. CETIN's main customer is O2 Czech Republic a.s. (unrated) accounting for almost 80% of CETIN's EBITDA.

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