MOODY'S INVESTORS SERVICE

CREDIT OPINION

9 October 2020

Update

Rate this Research

RATINGS

CETIN a.s.

Domicile	Czech Republic
Long Term Rating	Baa2
Type	LT Issuer Rating
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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CETIN a.s.

Update following outlook change to stable

Summary

CETIN a.s.' Baa2 rating reflects the company's business model as a telecom infrastructure operator. As the Czech Republic's (Aa3 stable) only national fixed telecom infrastructure provider, it has a strong market position, with a resilient business model. Strong commercial agreements with O2 Czech Republic and T-Mobile Czech Republic (T-Mobile) underpin this position.

The rating also takes into consideration the following factors:

» CETIN's higher risk as a result of the financial policies and higher leverage of PPF Telecom Group B.V. (Ba1 Stable), its parent holding company

» CETIN's modest size, but strong market position, with a very strong EBITDA margin in its domestic business

» its track record of deleveraging and conservative financial strategy, under which dividend is subject to operating performance, funding for capital spending and debt repayment

» the company's strong cash flow before dividends

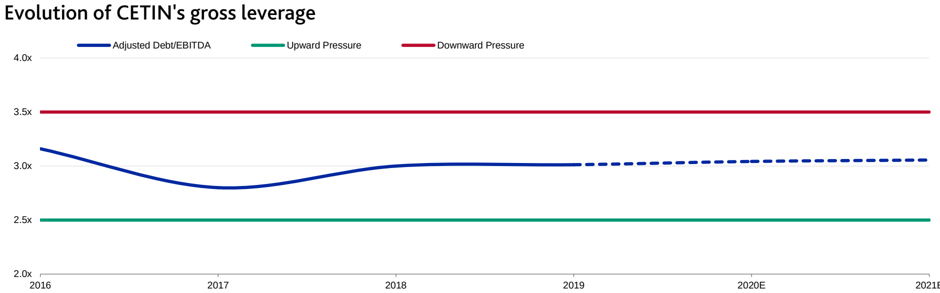
» its adequate liquidity for the next 12 months and clear plan to refinance its December 2021 bond maturity

We expect CETIN to have limited deleveraging because of high dividend payouts, but with high visibility into its financial performance because of its robust and stable business model, which has 80% contracted revenue.

Exhibit 1

We expect CETIN's gross leverage to remain stable

Evolution of CETIN's gross leverage



Moody's-adjusted leverage.

Sources: Moody's Financial Metrics™ and Moody´s Investors Service estimates

Credit strengths

» Leading position in the Czech telecom market

» Long-term contracts with the largest Czech operators, ensuring predictable cash flow

» Sustained capital spending to enhance the quality of the network

Credit challenges

» Small scale and weaker margins than those of its peers

» Lack of precedent of structural separation in Europe

» High, but discretionary, dividend policy

» Weakened position because of the increase in leverage at its immediate parent (PPF Telecom Group) to fund the acquisition of Telenor ASA's (A3 stable) Central and Eastern European (CEE) assets

Rating outlook

The stable rating outlook reflects the underlying strength of CETIN's cash flow and our expectation that the company's leverage (Moody's-adjusted debt/EBITDA) will remain at around 3.0x-3.1x over the next two to three years. It also takes into consideration the leverage and credit quality of PPF Telecom Group, given that its financial policy allows for higher leverage and there is a limit as to how far CETIN's credit quality can be delinked from its parent.

We have not factored in further acquisitions at the CETIN or PPF Telecom Group level. CETIN's rating may be downgraded if PPF Telecom Group's rating were to be strained.

Factors that could lead to an upgrade

Upward pressure on the rating is unlikely unless leverage at the PPF Telecom Group level decreases substantially and sustainably, alleviating the financial pressure on CETIN. Over the long term, upward pressure on CETIN's rating could develop if PPF Telecom Group's credit quality improves and CETIN delivers on its business plan, such that its Moody´s-adjusted debt/EBITDA ratio drops below 2.5x on a sustained basis. This decrease in leverage would likely depend on the company maintaining a conservative approach to acquisitions and shareholder remuneration policies.

Factors that could lead to a downgrade

The rating could be downgraded if leverage at PPF Telecom Group remains at 3.5x or higher on a reported basis, either because of further debt-financed acquisitions at the PPF Telecom Group level or weaker-than-expected performance at the operating subsidiaries. Downward pressure on CETIN's rating would also develop if the company's operating performance weakens as a result of pricing pressures or market share losses, reducing cash flow, or if CETIN increases its debt as a result of acquisitions or shareholder distributions, such that its adjusted debt/EBITDA rises towards 3.5x.

A weakening of the company's liquidity could also strain the rating.

Key indicators

Exhibit 2
CETIN a.s.

CZK Millions	Dec-17	Dec-18	Dec-19	2020-proj	2021-proj
Revenue	20,968	19,813	19,168	18,949	18,731
FFO Margin %	35.5%	36.6%	38.5%	38.8%	39.8%
(EBITDA - CAPEX) / Interest Expense	10.1x	7.2x	8.9x	6.5x	4.9x
FCF / Debt	12.0%	2.4%	0.9%	-1.0%	-0.3%
Debt / EBITDA	2.8x	3.0x	3.0x	3.0x	3.1x

All figures and ratios are calculated using Moody's estimates and standard adjustments. Moody´s Forecasts (f) or Projections (proj.) are Moody's opinion and do not represent the views of the issuer. Periods are financial year-end unless indicated.
Source: Moody's Financial Metrics™ and Moody's Investors Service estimates

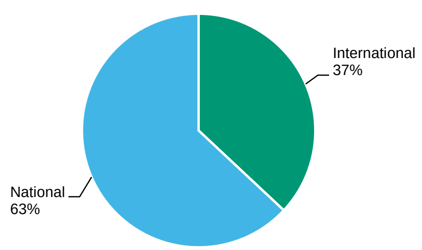
Profile

Headquartered in Prague, CETIN a.s is the Czech Republic's sole national telecommunications infrastructure provider. It was incorporated in June 2015 following its separation from O2 Czech Republic.

CETIN operates and manages fixed and mobile infrastructure in the Czech Republic, and transit infrastructure abroad, with a presence in Europe, Africa and Asia. In 2019, the company generated revenue of CZK18 billion and EBITDA of CZK7.6 billion. As of December 2019, the domestic fixed and mobile services segments represented 97% of CETIN's EBITDA. CETIN's main customer is O2 Czech Republic, which accounts for almost 80% of the company's EBITDA.

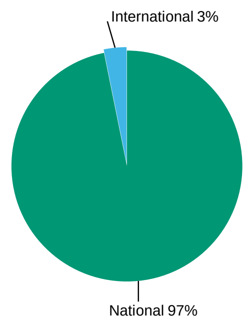
CETIN is 89.73% owned by PPF Telecom Group, which, in turn, is owned by PPF Group N.V. PPF Group N.V is a Czech investment group with diverse business activities encompassing banking and financial services, telecommunications, biotechnology, insurance, real estate and machinery in Europe, Russia, Asia and the US.

Exhibit 3
The Czech Republic accounted for 63% of CETIN's revenue in the first half of 2020
Revenue breakdown by geography



Source: Company data

Exhibit 4
... and 97% of EBITDA
EBITDA breakdown by geography



Source: Company data

Detailed credit considerations

Limited exposure to the current coronavirus pandemic

CETIN's exposure to the pandemic is limited because we expect overall traffic to increase and revenue to remain within projected levels. Although this exposure could require some additional costs and strain the company's margin, it should not result in any major contraction in profitability.

Leadership position in the Czech telecom market

CETIN covers more than 50% of the Czech Republic's telecommunication infrastructure market, and there is no comparable nationwide infrastructure-based provider. However, in 2019, Vodafone Group Plc (Baa2 negative) acquired Liberty Global plc's (Ba3 stable) operations in Germany, the Czech Republic, Hungary and Romania. This could potentially intensify competition in the Czech retail market because CETIN's closest competitors, UPC Holding B.V. (Ba3 negative) and Vodafone, will increase their coverage and improve their market positions.

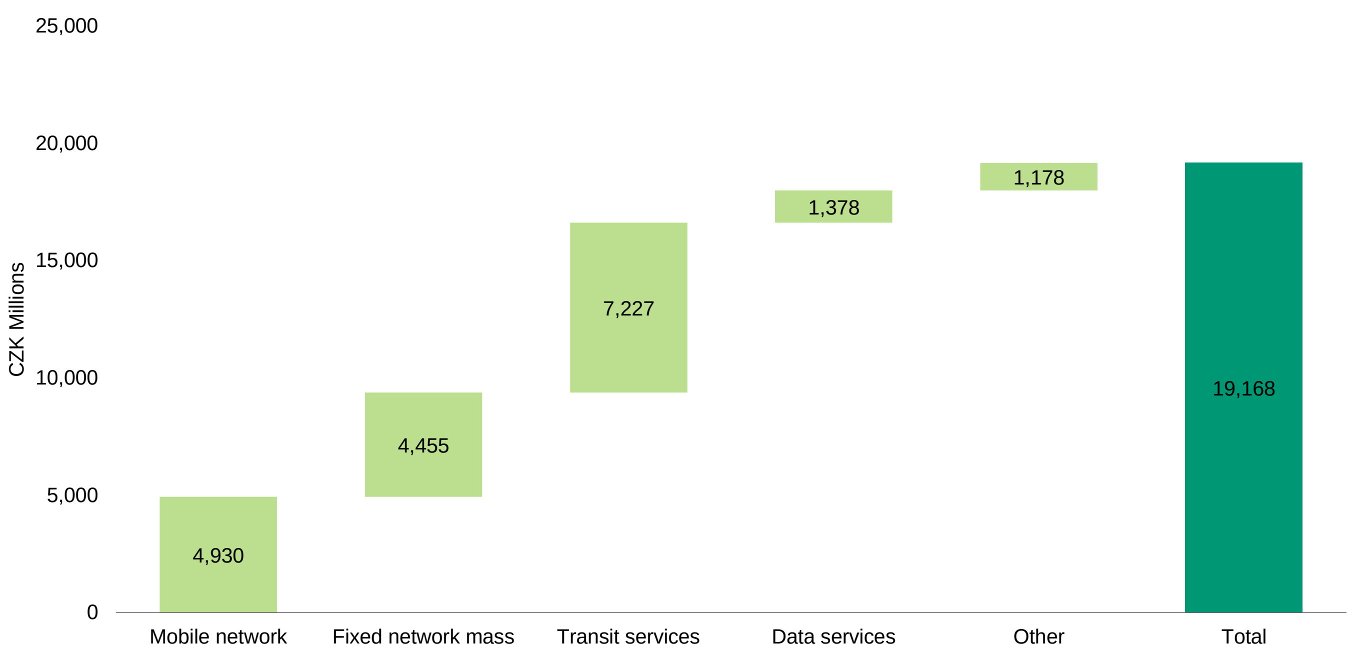
CETIN is the only Czech operator with a copper network, covering around 90% of households. Despite the rollout of fibre, this network will remain crucial for the last metres of access. In the mobile segment, the company's current 2G and 4G long-term evolution coverage extends to 99.6% and 98.0% of the Czech population, respectively.

This strong position is underpinned by the fact that CETIN provides mobile voice and data services to O2 and T-Mobile through the shared network; it has a partnership with O2 in all downstream retail markets; T-Mobile's fixed broadband services mostly represent a resale of CETIN's xDSL and voice; and CETIN delivers a backbone transport network to numerous alternative network operators and retail service providers, including T-Mobile and Vodafone. CETIN's two key customers, O2 and T-Mobile, are the market leaders in mobile, with an estimated 37% market share each as of December 2019.

CETIN also provides wholesale international voice services to more than 200 customers worldwide. This is a low-margin business (4% of 2019 EBITDA) with high revenue (38% of 2019 revenue) and high cost of sales, entailing minimum operating/capital spending and high cash conversion. This segment is the main contributor to CETIN's revenue growth, with negative implications for margins.

Exhibit 5

Mobile and fixed-line services represented around 62% of CETIN´s 2019 revenue
2019 revenue breakdown by segment



Source: Company data

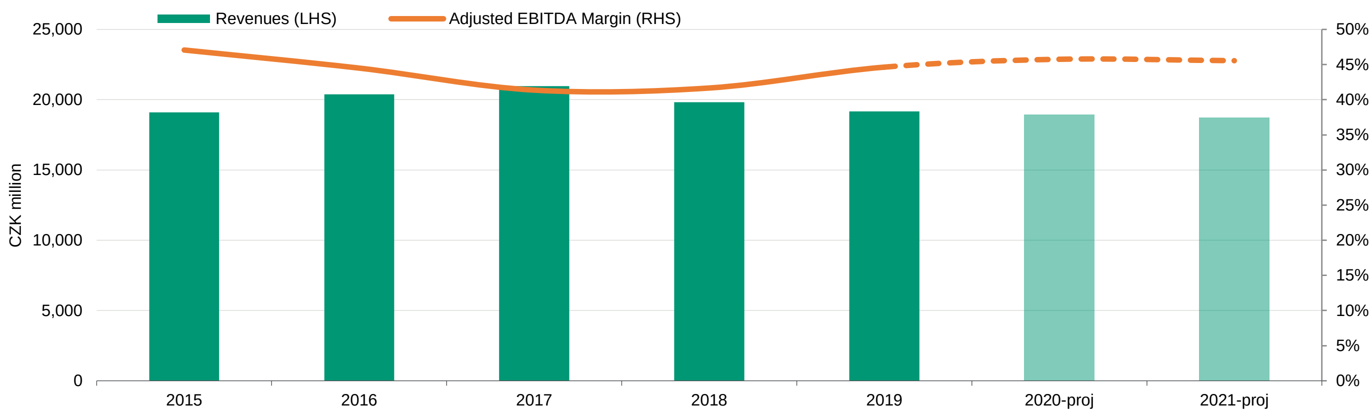
High margins underpin its resilient cash flow

Under our assumptions, CETIN's consolidated revenue will remain flattish in 2020, mainly as a result of lower revenue from international transit, which offsets the increase in the mobile and data service segments. Its EBITDA margin is likely to exceed 45% because of the dilutive effect that international transit has on margins.

Exhibit 6

Lower international business to drive a slightly higher EBITDA margin

Evolution of revenue and Moody´s-adjusted EBITDA margin



Sources: Moody's Financial Metrics™ and Moody's Investors Service estimates

CETIN's revenue, excluding international transit, was flat in 2019 as a result of a decline in O2's xDSL lines. However, we expect CETIN's mobile revenue to grow as a result of network upgrades, driven by the growing demand for network capacity. The telecommunications market in the Czech Republic has stabilised, and we expect its fixed revenue to return to growth, given the signs of stabilisation in O2's churn and xDSL line growth from new customers because of CETIN's past investments in the network.

Investments in the fixed network will accelerate net adds, mainly through Internet Protocol television and xDSL. Unlike in mobile, traffic is key to revenue growth, and this will likely offset the decline in fixed voice. We expect data services to stabilise as higher volumes compensate for the continued decline in prices.

Higher capital spending to support future growth

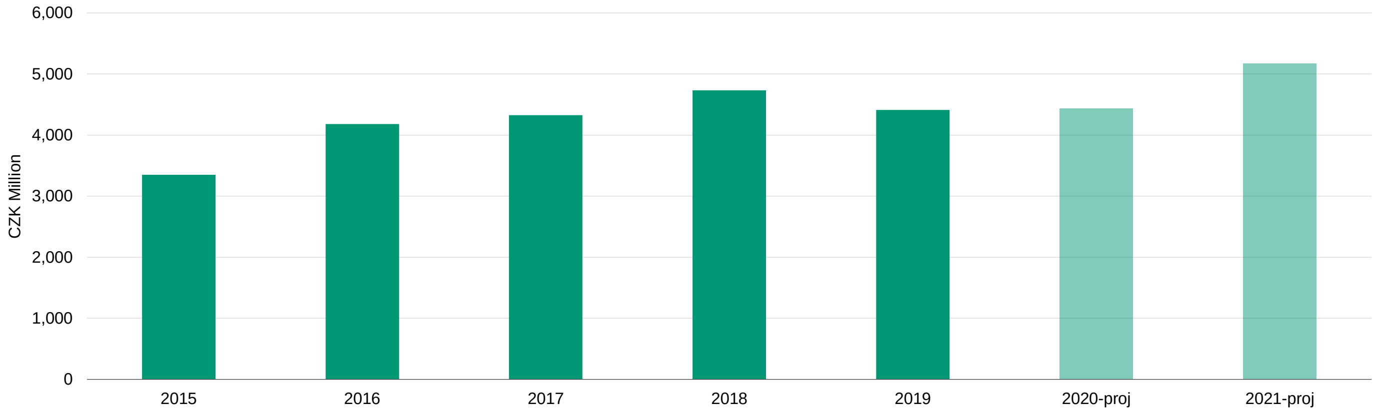
Infrastructure development and specific customer projects drive CETIN's capital investment planning. CETIN aims to gradually upgrade its fixed network using a hybrid technology approach that combines fibre and enhanced copper technologies, which support an efficient investment.

CETIN is implementing a major capital spending plan that will provide a strong base for long-term growth. The updated plan entails capital investments of around CZK21 billion in 2020-24, predominantly driven by infrastructure development, including the fibre-to-the-home (FTTH) rollout capital spending of CZK9 billion (2019-24). We assume that 50%-60% of this investment is highly discretionary and that it will only be executed if a minimum rate of return is achieved. Investments could also be postponed to enhance cash flow for debt reduction.

Exhibit 7

Capital investments are likely to increase at around CZK5 billion over the next five years

Moody´s-adjusted capital spending



Sources: Moody's Financial Metrics™ and Moody's Investors Service estimates

The plan's key project entails upgrading the fixed network to fibre-to-the-cabinet. This project will provide a significant part of CETIN's fixed broadband base with speeds of at least 80-100 megabits per second (mbps). Most of it has already been completed and the strategy in 2020 is to focus on expanding FTTH. This is critical to the company's long-term position in the broadband market. Delivering premium speeds will enable CETIN to improve its competitive position compared with Wi-Fi and cable operators, leveraging their limited speed and coverage; reduce churn; increase its customer base; and increase its market share. The modernisation of the current copper network will be key. In 2019, CETIN was able to deliver 250 mbps connection speeds to more than 554,000 housing units.

CETIN continues to develop its mobile infrastructure as part of its long-term agreement with O2 and a mobile network-sharing agreement with T-Mobile. The project is important for CETIN even from a 5G perspective, because it will help the company lay the foundation to implement the new technology. In addition, CETIN has been building a 3.7 gigahertz mobile network for Nordic Telecom since 2018.

Leverage will remain at current level, with no significant deleveraging owing to higher investments in infrastructure and high dividend payouts

We expect CETIN's leverage to remain at the current level for the next 12-24 months, mainly because of higher investments in infrastructure development projects. This implies a stable Moody's-adjusted gross debt/EBITDA of 3x-3.1x over 2020-21.

Strategic investments will be CETIN's priority in the use of free cash flow (FCF), and adjustments shall be made to its distribution policy of 100% of net income to mitigate any potential weakness in performance.

We have factored into the rating our high confidence in management's ability to deliver financial objectives on the basis of the company's reliable and predictable revenue, based on existing contracts with O2 and T-Mobile. Operating costs are predictable, implying high certainty with respect to future EBITDA margins.

We take into consideration the high-margin component of domestic revenue, which becomes very diluted as a result of substantial transit traffic, with a single-digit margin in percentage terms. As the domestic fixed and mobile business generates 95% of the company's EBITDA, we have given particular weight in our analysis to the domestic business' high margin.

European Commission's objections to CETIN's network sharing agreement are credit negative

On 7 August 2019, the European Commission informed Czech operators O2 Czech Republic, T-Mobile Czech Republic a.s. (T-Mobile CZ) and CETIN, of its preliminary view that the mobile network sharing agreement between CETIN and T-Mobile CZ, restricts competition in densely populated areas of the Czech Republic and breaches EU antitrust rules.

The Commission has alerted that although network sharing is a widespread practice in the European telecom sector that can facilitate the roll out of communications networks by reducing costs, this particular network sharing agreement in the Czech Republic may have a negative impact on competition.

A change to CETIN's business model, imposed by a possible remedy package, could be credit negative depending on the extent to which the remedies might affect the company´s business and financial risk. Additionally, any potential fine imposed by the Commission on CETIN could put pressure on the company's credit metrics. There is a risk that CETIN might have to deploy mobile infrastructure to achieve geographical coverage in areas determined by the EC, where they currently have a network sharing agreement with T-Mobile CZ. This could imply a substantial investment need.

CETIN's credit quality also reflects the financial policies and higher leverage of PPF Telecom Group

PPF Telecom Group, a subsidiary of Czech Investment group PPF Group N.V., is CETIN's 89.73% owner. PPF Telecom Group is active in the telecom sector through its stakes in CETIN, O2 and Telenor Hungary, Bulgaria, Serbia and Montenegro. In 2018, PPF Telecom Group acquired 100% of Telenor's CEE assets for €2.8 billion.

To finance the transaction, PPF Telecom Group entered into a €3 billion syndication facility comprising a €2.8 billion term loan and a €200 million revolving credit facility. The facility agreement was entered into by PPF Telecom Group, which consists of O2 Czech Republic, CETIN and the Telenor assets. PPF Telecom Group has subsequently issued senior secured bonds to partly refinance the term loan.

PPF Telecom Group is a holding company that relies entirely and exclusively on the cash flow and dividend upstreamed from its three operating companies (CETIN, O2 Czech Republic and the Telenor assets in CEE countries) to support its cash needs, mainly interest cost.

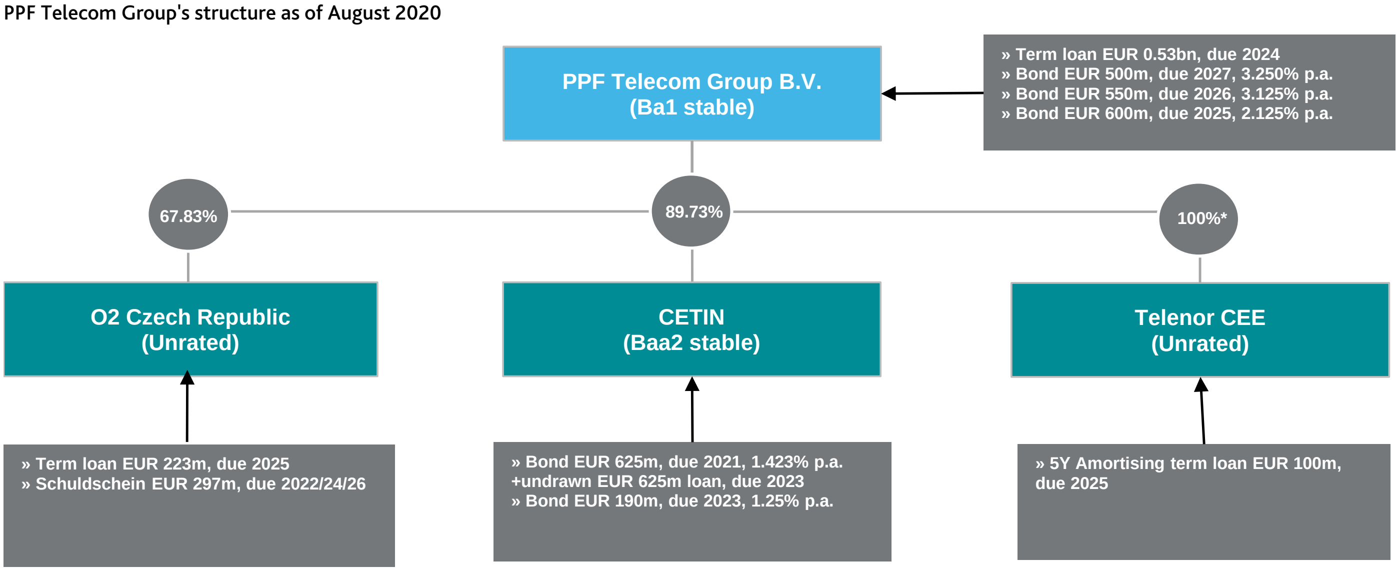
Although the dividend contribution from CETIN is relatively small, at around 20% of the total cash upstreamed from subsidiaries, lenders at PPF Telecom Group benefit from the value of CETIN.

There is a limit to how far the credit quality of CETIN can be delinked from that of PPF Telecom Group as the entity owns and controls it. Therefore, the credit quality of PPF Telecom Group could strain CETIN's rating in the future; for example, if there are more debt-financed acquisitions or if the performance of any of PPF Telecom Group's aggregated subsidiary businesses deteriorates.

Exhibit 8

CETIN's credit quality also reflects the higher leverage of PPF Telecom Group

PPF Telecom Group's structure as of August 2020



Source: Company data

ESG considerations

In terms of environmental and social risks, CETIN´s exposure is in line with the overall industry. Electromagnetic radiation (for example, from mobile antennas or mobile handsets) has repeatedly been claimed to be potentially harmful to the environment and health. While the need for higher mobile data speeds will increase electromagnetic radiation, we do not see it as a significant environmental risk for global telecommunication providers, given the existing regulatory radiation limits and ongoing technology improvements. In terms of social risks, data security and data privacy issues are prominent in the sector. Telecommunications providers exchange large amounts of data, and a breach could cause legal, regulatory or reputation issues. In addition, a breach could result in increased operational costs to mitigate cyberattacks and reduce exposure to the loss of private data. If on one hand, telecom operators have low direct business exposure to environmental risks, on the other, data security and data privacy issues are prominent in the sector.

In terms of governance, although PPF Telecom Group relies entirely and exclusively on the dividend upstreamed from its three operating companies, CETIN's dividend payment is subject to operating performance, capital spending and debt repayment. We expect PPF Telecom Group to continue to execute its financial strategy within its stated dividend policy and maintain the current financial ratios at CETIN. We note the complexity of the broader group of companies outside PPF Telecom and the fact that the entire group is owned and controlled by one single shareholder (Petr Kellner). We expect PPF Telecom group to perform within the stated operating and financial strategies maintaining its shareholder remuneration within its dividend payout limits.

The rapid and widening spread of the pandemic, the deteriorating global economic outlook, low oil prices and asset-price volatility are creating a severe and extensive credit shock across many sectors, regions and markets. The combined credit effects of these developments are unprecedented. We regard the pandemic as a social risk under our environmental, social and governance (ESG) framework, given the substantial implications for public health and safety.

Liquidity analysis

CETIN's liquidity is adequate for the next 12 months. It is supported by the company's strong operating cash flow and its Moody´s-adjusted cash and cash equivalents of CZK1,151 million as of June 2020. CETIN's liquidity is sufficient to cover its upcoming debt maturities and other cash demands through the next 12 months.

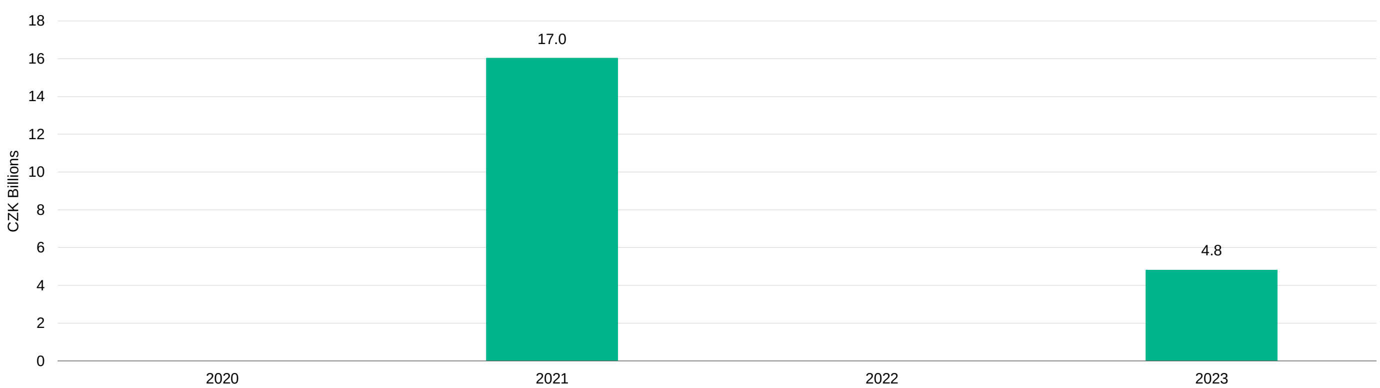
Upcoming debt maturities include the repayment of a five-year €625 million bond in December 2021 and a seven-year CZK4.8 billion bond in December 2023. In July 2020, CETIN committed an unsecured credit facility of €625 million, which serves as a liquidity backup for the €625 million bond maturing in December 2021. The credit facility has a MAC clause, matures on December 2023 and its availability period starts in November 2021.

CETIN hedges its foreign-currency bond exposure. Currently, 85% of its euro-denominated bonds are hedged.

Exhibit 9

CETIN has recently signed a bank facility to cover its 2021 bond maturity

CETIN's debt maturity profile as of September 2020



Source: Company data

According to its liquidity policy, CETIN needs to hold a minimum technical cash reserve of CZK300 million. Additional funds may be used for capital investments, debt reduction and dividend distributions, unless net leverage is above 3.5x.

Methodology and scorecard

The scorecard-indicated outcome of Baa3 is one notch below CETIN's Baa2 rating, reflecting mainly the expected deterioration in free cash flow owing to the increased capex investments and sustained dividends of around CZK2.8 billion-CZK 2.3 billion in 2020 and 2021.

Exhibit 10

Rating factors

CETIN a.s.

Global Communications Infrastructure Industry Grid [1][2]	Current FY 12/31/2019		Moody's 12-18 Month Forward View As of 10/05/2020 [3]	
Factor 1: Scale (10%)	**Measure**	**Score**	**Measure**	**Score**
a) Scale (in $Bn)	$0.8	B	$0.8	B
Factor 2: Business Profile (25%)				
b) Business Model	A	A	A	A
c) Competitive Environment and Business Conditions	A	A	A	A
Factor 3: Profitability and Efficiency (20%)				
a) FFO Margin %	38.5%	B	39%-40%	B
Factor 4: Financial Strength (30%)				
d) (EBITDA-CapEx) / Interest Expense	8.9x	Aa	6.5x-4.9x	A
e) FCF / Debt	0.9%	B	-1%--0.3%	B
f) Debt / EBITDA	3.0x	Ba	3.0x-3.1x	Baa-Ba
Factor 2: Financial Policy (15%)				
a) Financial Policy	Baa	Baa	Baa	Baa
Rating:				
a) Indicated Rating from Grid		Baa2		Baa3
b) Actual Rating Assigned				Baa2

(1) All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
(2) As of 12/31/2019.
(3) This represents Moody's forward view, not the view of the issuer, and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Sources: Moody's Financial Metrics™ and Moody's Investors Service estimates

Appendix

Exhibit 11

Peer comparison

(in US millions)	CETIN Baa2 Stable			Chorus Limited Baa2 Stable			SES S.A. Baa2 Negative			Eutelsat Communications Ba1 Negative		
	FYE Dec-18	FYE Dec-19	LTM Jun-20	FYE Jun-18	FYE Jun-19	FYE Jun-20	FYE Dec-18	FYE Dec-19	LTM Jun-20	FYE Jun-18	FYE Jun-19	LTM Jun-20
Revenue	$912	$836	$848	$708	$651	$611	$2,374	$2,221	$2,178	$1,659	$1,507	$1,413
EBITDA	$380	$373	$367	$472	$433	$420	$1,496	$1,366	$1,317	$1,267	$1,177	$1,087
Total Debt	$1,104	$1,144	$1,127	$1,570	$1,900	$1,781	$6,045	$6,036	$5,290	$4,769	$5,266	$4,399
Cash & Cash Equivalents	$72	$75	$49	$34	$183	n/a	$1,039	$1,297	$412	$856	$1,657	$934
FFO Margin %	36.6%	38.5%	36.3%	51.7%	48.6%	50.7%	49.3%	48.2%	49.1%	57.8%	61.1%	61.5%
(EBITDA - CapEx) / Interest Expense	7.2x	8.9x	5.1x	-0.9x	-1.1x	-0.1x	4.1x	4.4x	4.3x	6.0x	6.4x	7.2x
FCF / Debt	2.4%	0.9%	0.3%	-13.2%	-12.8%	-10.3%	5.3%	3.8%	4.3%	2.3%	2.1%	1.9%
RCF / Debt	18.3%	18.7%	17.1%	20.2%	14.9%	14.8%	11.9%	11.0%	15.9%	12.4%	10.7%	12.0%
DEBT / EBITDA	3.0x	3.0x	3.1x	3.5x	4.4x	4.2x	4.2x	4.4x	4.0x	3.8x	4.5x	4.0x

All figures and ratios are calculated using Moody's estimates and standard adjustments.
Source: Moody´s Financial Metrics™

Exhibit 12

Moody´s-adjusted debt reconciliation

CZK Millions	2016	2017	2018	2019
As Reported Debt	**24,651**	**20,755**	**20,890**	**25,915**
Operating Leases	4,435	3,816	3,980	0
Non-Standard Adjustments	-22	-21	-21	-20
Moody's-Adjusted Debt	**29,064**	**24,550**	**24,849**	**25,895**

All figures and ratios are calculated using Moody's estimates and standard adjustments.
Source: Moody´s Financial Metrics™

Exhibit 13

Moody´s-adjusted EBITDA reconciliation

CZK Millions	2016	2017	2018	2019
As Reported EBITDA	**8,246**	**7,970**	**7,507**	**8,586**
Operating Leases	887	762	796	0
Unusual	-66	-59	-48	-31
Moody's-Adjusted EBITDA	**9,067**	**8,673**	**8,255**	**8,555**

All figures and ratios are calculated using Moody's estimates and standard adjustments.
Source: Moody´s Financial Metrics™

Exhibit 14

Select historical and projected Moody´s-adjusted financial data

CETIN a.s.

	2015	2016	2017	2018	2019	2020-proj	2021-proj
INCOME STATEMENT							
Revenue	19,097	20,378	20,968	19,813	19,168	18,949	18,731
EBITDA	8,989	9,067	8,673	8,255	8,555	8,670	8,532
BALANCE SHEET							
Cash & Cash Equivalents	656	335	805	1,610	1,687	1,516	909
Total Debt	33,137	29,064	24,550	24,849	25,895	25,919	26,070
CASH FLOW							
Capex = Capital Expenditures	3,352	4,182	4,327	4,731	4,409	4,439	5,174
Retained Cash Flow	7,829	3,772	7,179	4,536	4,844	4,553	5,151
RCF / Debt	23.6%	13.0%	29.2%	18.3%	18.7%	17.6%	19.8%
Free Cash Flow (FCF)	3,898	-14	2,946	599	221	-255	-85
FCF / Debt	11.8%	0.0%	12.0%	2.4%	0.9%	-1.0%	-0.3%
PROFITABILITY							
% Change in Sales (YoY)		6.7%	2.9%	-5.5%	-3.3%	-1.1%	-1.2%
EBITDA Margin %	47.1%	44.5%	41.4%	41.7%	44.6%	45.8%	45.5%
INTEREST COVERAGE							
EBITDA / Interest Expense	22.5x	16.7x	20.1x	16.8x	18.3x	13.4x	12.4x
(EBITDA - CAPEX) / Interest Expense	14.1x	9.0x	10.1x	7.2x	8.9x	6.5x	4.9x
LEVERAGE							
Debt / EBITDA	3.7x	3.2x	2.8x	3.0x	2.9x	3.0x	3.1x

Sources: Moody's Financial Metrics™ and Moody's Investors Service estimates

Ratings

Exhibit 15

Category	Moody's Rating
CETIN A.S.	
Outlook	Stable
Issuer Rating	Baa2
PARENT: PPF TELECOM GROUP B.V.	
Outlook	Stable
Corporate Family Rating	Ba1
CETIN FINANCE B.V.	
Outlook	Stable
Bkd Senior Unsecured	Baa2

Source: Moody's Investors Service

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