

Rating Action: Moody's changes outlook on CETIN's Baa2 ratings to stable from negative

05 Oct 2020

Madrid, October 05, 2020 -- Moody's Investors Service, ("Moody's") has today changed to stable from negative the outlook on the ratings of CETIN a.s. ("CETIN"), the leading telecommunications infrastructure operator in the Czech Republic, and its fully and unconditionally guaranteed subsidiary, CETIN Finance B.V. Concurrently, Moody's has affirmed CETIN's Baa2 issuer rating, and CETIN Finance B.V.'s Baa2 senior unsecured rating and the (P)Baa2 senior unsecured rating on the company's EMTN program.

"Changing the rating outlook to stable reflects our expectation that the company will continue to adequately manage its liquidity in anticipation of the December 2021 bond maturity, supported by the recently signed €625 million bank back up facility. The rating action also reflects CETIN's stable and predictable cash flow generating capacity owing to its infrastructure-based business model," says Carlos Winzer, a Moody's Senior Vice President and lead analyst for CETIN.

A list of all affected ratings can be found at the end of this press release.

RATINGS RATIONALE

CETIN's ratings affirmation reflects the company's differentiated business model as a telecommunications infrastructure operator, and its strong market position as the Czech Republic's only national fixed telecom infrastructure provider, with a resilient business model. Strong commercial agreements with O2 Czech Republic and T-Mobile Czech Republic (T-Mobile) underpin this position.

CETIN's credit quality also reflects the financial policies and higher leverage of PPF Telecom Group B.V. (PPF Telecom, Ba1 stable), its parent company. PPF Telecom is a group that relies on the cash flows and value from its three operating companies (CETIN, O2 Czech Republic and the Telenor assets in CEE countries acquired in 2018 for €2.8 billion) to support its €2.8 billion debt, which translates into a 3.2x reported consolidated gross leverage, excluding IFRS 16, as of 30 June 2020 at PPF Telecom level.

The rating also takes into consideration: (1) the supportive regulatory environment of the telecoms market in the Czech Republic, (2) CETIN's modest size but strong market position, with a very solid EBITDA margin in its domestic business, (3) stable business risk, (4) a track record of maintaining a predictable financial strategy, at the CETIN level, with Debt/EBITDA (as adjusted by Moody's) expected to be at around 3.0x-3.1x over the next 2 to 3 years, (5) strong cash flow generation before dividends, and (6) its adequate liquidity over the next 12-24 months following the signing of the €625 million back up facility.

In addition, the rating also factors: (1) a gradual single digit reduction in revenues over the next few years, as the company lowers its international transit revenues, which is a low margin business, (2) expectation of flattish EBITDA performance throughout the forecasts, despite an increase in capex to support the fiber-to-the-home network rollout, (3) the European Commission's objections to CETIN's network sharing agreement, which might result in a potential fine and the risk that CETIN might have to deploy some mobile infrastructure to achieve geographical coverage in areas determined by the EC, where it currently has a network sharing agreement with T-Mobile CZ, and (4) the complexity of the broader group of companies of the PPF Group, outside of CETIN and PPF Telecom.

LIQUIDITY

CETIN's liquidity is adequate and it is supported by the company's: (1) strong operating cash flow generation, and (2) 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, as well as other cash demands through the next 12 months. Debt maturities include the repayment of a five-year €625 million bond in December 2021 and a seven-year CZK4.8 billion bond due in December 2023. In July 2020, CETIN committed an unsecured credit facility of €625 million which serves as liquidity back-up for the €625 million bond maturing in December 2021. The credit facility matures in December 2023 and its availability period starts in November 2021.

RATIONALE FOR STABLE OUTLOOK

The stable outlook reflects the underlying strength of CETIN's cash flow and Moody's expectation that the company's leverage (on a Moody's adjusted debt/EBITDA basis) will stay at around 3.0x-3.1x over the next 2 to 3 years. It also takes into consideration the leverage and credit quality of PPF Telecom, 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.

Moody's has factored in no further acquisitions at CETIN or PPF Telecom level, and CETIN's rating may be downgraded if PPF Telecom's ratings were to come under pressure.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Upward pressure on the rating is unlikely unless leverage at PPF Telecom level reduces substantially and sustainably, alleviating the financial pressure on CETIN. Over the long term, upward pressure on CETIN's rating could develop if PPF Telecom's credit quality improves, and CETIN 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.

Downward pressure could be exerted on the rating if leverage at PPF Telecom remains at 3.5x or higher on a reported basis, either because of further debt-financed acquisitions at PPF Telecom 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 generation, 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 in the company's liquidity profile could also exert downward pressure on the rating.

LIST OF AFFECTED RATINGS

Affirmations:

..Issuer: CETIN a.s.

.... LT Issuer Rating, Affirmed Baa2

..Issuer: CETIN Finance B.V.

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

....Backed Senior Unsecured Regular Bond/Debenture, Affirmed Baa2

Outlook Actions:

..Issuer: CETIN a.s.

....Outlook, Changed To Stable From Negative

..Issuer: CETIN Finance B.V.

....Outlook, Changed To Stable From Negative

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Communications Infrastructure Industry published in September 2017 and available at https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1076924. Alternatively, please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

COMPANY PROFILE

CETIN a.s., headquartered in Prague (Czech Republic), is the leading telecommunications infrastructure provider in the Czech Republic. The company 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. In 2019, CETIN generated revenues of CZK18 billion (€670 million) and EBITDA of CZK7.6

billion (€280 million).

CETIN's main customer is O2 Czech Republic a.s. (unrated) accounting for almost 80% of CETIN's EBITDA.

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

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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