CREDIT OPINION
28 June 2019

Update

Rate this Research

RATINGS

Ceska telekomunikacni infrastruktura a.s.

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

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.

Contacts

Carlos Winzer +34.91.768.8238
Senior Vice President
carlos.winzer@moodys.com

Ivan Palacios +34.91.768.8229
Associate Managing Director
ivan.palacios@moodys.com

Maria del Pilar Anduiza de la Hera +34.91.768.8220
Associate Analyst
mariadelpilar.anduizadelahera@moodys.com

Ceska telekomunikacni infrastruktura a.s.

Update to credit analysis

Summary

Ceska telekomunikacni infrastruktura a.s.'s (CETIN) Baa2 issuer rating reflects the company's differentiated business model as a telecom infrastructure operator. As the Czech Republic's (A1 positive) only national fixed telecom infrastructure provider, it has a strong market position and 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 CETIN's:

» exposure to higher risk as a result of the higher leverage of PPF Arena 1 B.V. (PPF Arena 1, Ba1 stable), its parent holding company

» exposure to the Czech telecom market's strong growth prospects and the expected supportive regulatory environment

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

» stable business risk and stable capital spending overall

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

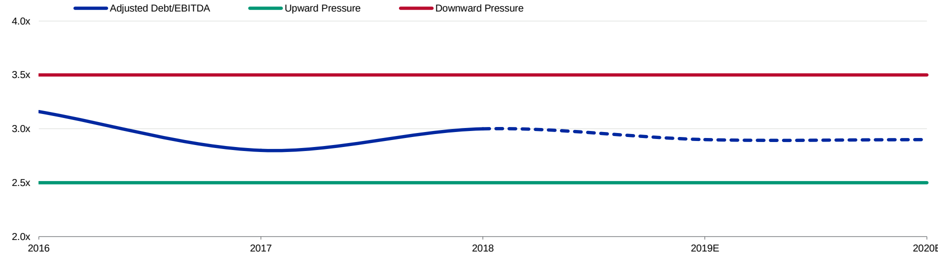
» strong cash flow generation before dividends

» adequate liquidity over the next 12-24 months

Exhibit 1

We expect CETIN's gross leverage to remain at around 3x over the next couple of years

CETIN's gross leverage evolution



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

Credit strengths

» Leading position in the Czech telecom market

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

» Sustained capital spending to enhance the quality of the network

» Leverage expected to remain appropriate for the rating category

Credit challenges

» Small scale and weaker margins than those of its peers

» Lack of precedent for structural separation in Europe

» High but discretionary dividend policy

» Weakened position because of the increase in leverage at its immediate parent (PPF Arena 1) to fund the acquisition of Telenor ASA's Central and Eastern European (CEE) assets

Rating outlook

The negative outlook reflects the fact that although the underlying cash flow and key credit ratios of CETIN are adequate for the current rating on a standalone basis, increased leverage has weakened the credit quality of its parent, PPF Arena 1 and there is a limit as to how far CETIN's credit quality can now be delinked from that of its parent. At this stage, we have factored in no further acquisitions, and CETIN's rating may be downgraded if PPF Arena 1's financial strategy is not met.

Factors that could lead to an upgrade

» Upward pressure on the rating is unlikely unless leverage at the PPF Arena 1 level reduces substantially and on a sustained basis.

» Over the long term, upward pressure on CETIN's rating could develop if the company delivers on its business plan, such that its adjusted debt/EBITDA drops below 2.5x on a sustained basis. This decrease in leverage would likely rely on the company maintaining a conservative approach to acquisitions and shareholder remuneration policies.

Factors that could lead to a downgrade

» Downward pressure could be exerted on the rating if leverage at PPF Arena 1 remains at 3.5x or higher on a sustained basis, either because of further debt-financed acquisitions or weaker-than-expected performance at the operating subsidiaries.

» Downward pressure on CETIN's rating would also develop if (1) the company's operating performance weakens as a result of pricing pressure or market share losses reducing cash flow generation; or (2) the company's debt increases as a result of acquisitions or shareholder distributions, such that its adjusted debt/EBITDA rises above 3.5x.

» Downward pressure could be exerted on the rating if CETIN's liquidity weakens.

Key indicators

Exhibit 2

Ceska telekomunikacni infrastruktura a.s.							
KORUNY Millions	Dec-15	Dec-16	Dec-17	Dec-18	2019 - proj	2020 - proj	2021-proj
Revenue	19,097	20,378	20,968	19,813	19,491	20,085	20,059
FFO Margin %	41.0%	37.8%	35.5%	36.6%	36.5%	35.8%	35.9%
(EBITDA - CAPEX) / Interest Expense	14.1x	9.0x	10.1x	7.2x	7.6x	7.7x	7.8x
FCF / Debt	11.8%	0.0%	12.0%	2.4%	1.1%	-1.3%	-0.5%
Debt / EBITDA	3.7x	3.2x	2.8x	3.0x	2.9x	2.9x	2.9x

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.
Sources: Moody's Financial Metrics™, Moody's Investors Service estimates

Profile

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

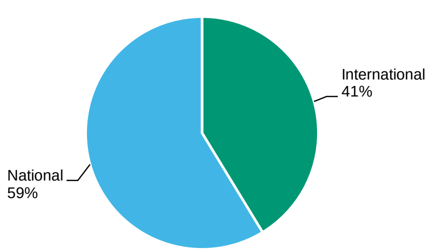
CETIN operates and manages fixed and mobile infrastructure in the Czech Republic and transit infrastructure abroad, with a presence in Europe, Africa and Asia. In 2018, the company generated revenue of CZK19.8 billion and EBITDA of CZK7.57 billion. As of December 2018, the domestic fixed and mobile services segments represented 97% of CETIN's EBITDA. CETIN's main customer is O2, which accounts for almost 80% of the company's EBITDA.

CETIN is 89.73% owned by PPF Arena 1, which is in turn owned by PPF Group. PPF 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 59% of CETIN's revenue in 2018...

Revenue breakdown by geography in 2018

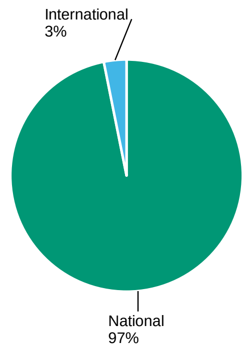


Source: Company data

Exhibit 4

...and 97% of EBITDA

EBITDA breakdown by geography in 2018



Source: Company data

Detailed credit considerations

CETIN's credit quality is constrained by the higher leverage at PPF Arena 1

PPF Arena 1, a Czech investment group, is CETIN's 89.73% owner. PPF Arena 1 is active in the telecom sector through its stakes in CETIN, O2 and Telenor Hungary, Bulgaria, Serbia and Montenegro. In 2018, PPF acquired of 100% of Telenor's CEE assets for €2.8 billion.

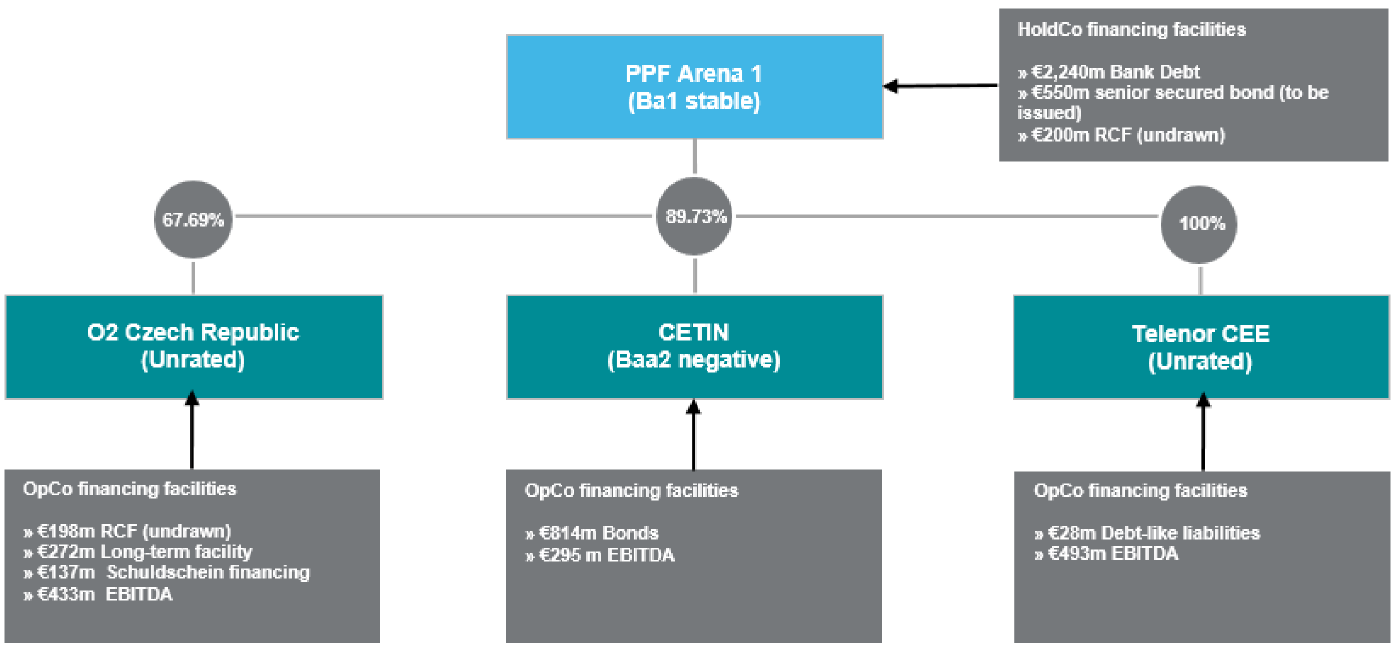
To finance the transaction, PPF Arena 1 entered into a €3 billion syndication facility comprising a €2.8 billion term loan and a €200 million revolving credit facility. The facility agreement was entered into by PPF Arena 1, which consists of O2 Czech Republic, CETIN and the newly acquired Telenor assets. In March, 2019 PPF Arena 1 issued a €550 million senior unsecured bond to partly refinance the term loan.

CETIN's credit quality is now constrained by the higher leverage of PPF Arena 1, its parent company. PPF Arena 1 is a holding company that relies entirely and exclusively on the cash flow and dividend upstreaming from its three operating companies (CETIN, O2 Czech Republic and the newly acquired 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 upstreaming from subsidiaries, lenders at PPF Arena 1 benefit from the high value of CETIN.

There is a limit to how far the credit quality of CETIN can now be delinked from that of PPF Arena 1 as the entity that owns and controls it, so the credit quality of PPF Arena 1 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 Arena 1's aggregated subsidiaries business deteriorates.

Exhibit 5
CETIN's credit quality is constrained by the higher leverage at PPF Arena 1
PPF Arena 1's group structure



Source: Company information

Leading 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 2018, Vodafone Group Plc (Vodafone, Baa2 negative) announced its plans to engage in an €18.4 billion deal to acquire 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 RuR up) and Vodafone, could 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 fiber, this network will remain crucial for the last meters 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.

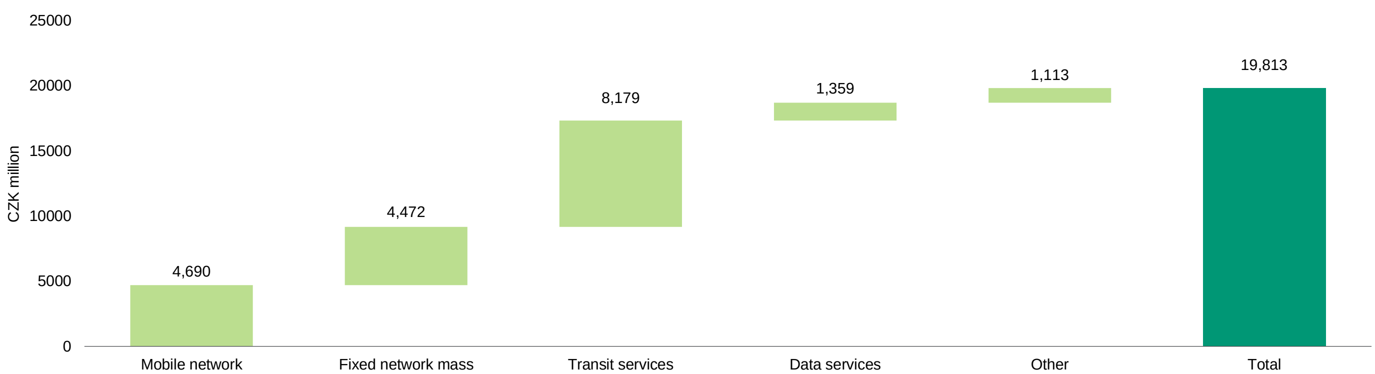
This strong position is underpinned by (1) the fact that CETIN provides mobile voice and data services to O2 and T-Mobile through the shared network; (2) CETIN's partnership with O2 in all downstream retail markets; (3) the fact that T-Mobile's fixed broadband services mostly represent a resale of CETIN's xDSL and voice; and (4) the delivery of 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.

CETIN also provides wholesale international voice services to more than 200 customers worldwide. This is a low-margin business (3% of 2018 EBITDA), with high revenue (41% of 2018 revenue) and high cost of sales, entailing minimum operating/capital spending and elevated cash conversion. We believe this segment is volatile mainly due to competition from over-the-top services.

Exhibit 6

Mobile and fixed-line services represented more than 40% of CETIN's 2018 revenue base

Revenue breakdown by segment, December 2018



Source: Company data

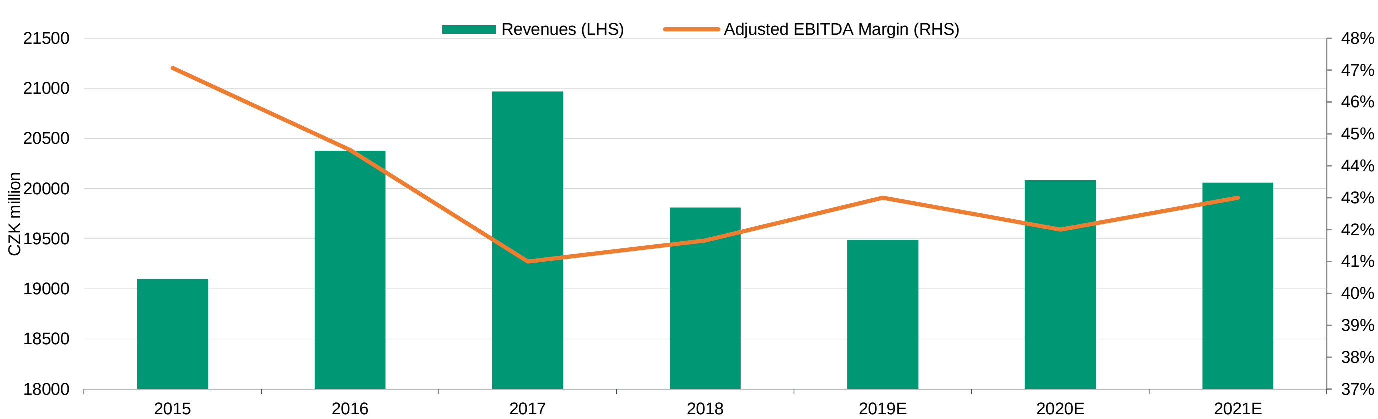
Revenue growth and high domestic margins underpin its resilient cash flow

Under our assumptions, the consolidated revenue will decrease by around 1.5% in 2019, mainly as a result of lower international transit revenue offsetting higher volumes in the mobile businesses. The EBITDA margin is likely to improve to around 43%, driven by the lower revenue from international transit, which dilutes the EBITDA margin.

Exhibit 7

Lower international business to drive slightly higher EBITDA margin

Revenue and adjusted EBITDA margin evolution



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

CETIN's revenue, excluding international transit, was flat in 2018 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 stabilized, and we expect its fixed revenue to return to growth, given the signs of stabilization 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 stabilize as higher volumes compensate for continued declines in price.

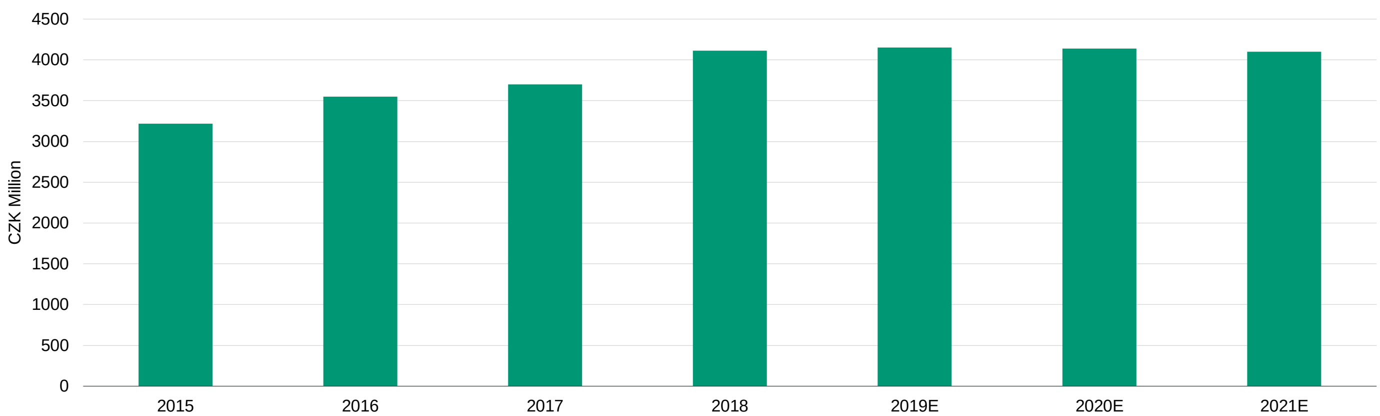
Higher capital spending to support future growth

Infrastructure development and specific customer projects drive CETIN's capital investment planning. The company aims to gradually upgrade its fixed network using a combination of enhanced copper and FTTH, 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 investment of around CZK24 billion in 2017-22, predominantly driven by infrastructure development. This amount is CZK6.7 billion higher than the initial plan of CZK17 billion. We assume that 50%-60% of this investment is highly discretionary and 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 8

Capital investment is increasing and will reach around CZK4 billion per annum over the next five years



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

The plan's key project entails upgrading the fixed network to fiber to the cabinet. This project, which is likely to provide a significant part of CETIN's fixed broadband base with speeds of at least 80 megabits per second (mbps)-100 mbps by 2020, is critical to the company's long-term position in the broadband market. Delivering premium speeds will enable CETIN to (1) improve its competitive position compared with Wi-Fi and cable operators, leveraging their limited speed and coverage; (2) reduce churn; (3) increase its customer base; and (4) increase its market share. The modernization of the current copper network will be of key importance. In 2018, CETIN was able to deliver 250 mbps connection speeds to more than 388,000 housing units.

CETIN continues to develop its mobile infrastructure as part of its long-term agreement with O2. The project is important for CETIN even from a 5G perspective, because it will help the company lay the foundations to implement the new technology.

Leverage will remain broadly at the current level with no significant deleveraging because of higher investments in infrastructure and high dividend payout

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 stable Moody's-adjusted gross debt/EBITDA of around 3x over 2019-20.

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

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

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. As the domestic fixed and mobile businesses generate over 95% of the company's EBITDA, we have given particular weight in our analysis to the domestic business' high margin.

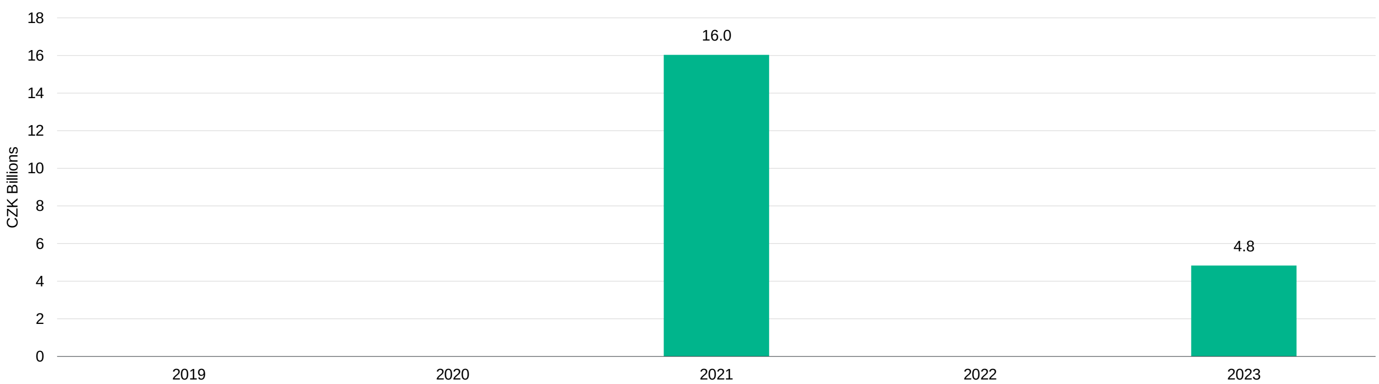
Liquidity

CETIN's liquidity is adequate. It is supported by (1) the company's strong operating cash flow generation, and (2) cash and cash equivalents of CZK1,650 million as of December 2018. CETIN's liquidity is sufficient to cover its upcoming debt maturities as well as other cash demands. In this regard, we expect Moody's-adjusted FCF/debt to be around 1% in 2019.

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

Exhibit 9

No debt maturities over the next two years, but debt maturity wall in 2021
CETIN's debt maturity profile as of December 2018



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 investment, debt reduction and dividend distributions, unless net leverage is above 3.5x.

Rating methodology and scorecard factors

The scorecard-indicated outcome of Baa3 is one notch below CETIN's Baa2 rating, reflecting lower FCF/debt of 1% to -1%, constrained by an expected dividend distribution of CZK2.6 billion-CZK2.8 billion in 2019 and 2020. We expect the company's credit metrics to remain broadly stable over the next 12-18 months.

Exhibit 10

Rating factors

Ceska telekomunikacni infrastruktura a.s.

Global Communications Infrastructure Industry Grid [1][2]	Current FY 12/31/2018		Moody's 12-18 Month Forward View As of 18/06/2019 [3]	
Factor 1: Scale (10%)	**Measure**	**Score**	**Measure**	**Score**
a) Scale (in $Bn)	$0.9	B	$0.9-$10	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 %	36.6%	B	35.5%-36.5%	B
Factor 4: Financial Strength (30%)				
d) (EBITDA-CapEx) / Interest Expense	7.2x	Aa	7.7x	Aa
e) FCF / Debt	2.4%	B	1.1%--1.3%	B
f) Debt / EBITDA	3.0x	Ba	2.9x	Baa
Factor 2: Financial Policy (15%)				
a) Financial Policy	Baa	Baa	Baa	Baa
Rating:				
a) Indicated Rating from Grid		Baa3		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 12/31/2018.
[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™, Moody's Investors Service estimates

Ratings

Exhibit 11

Category	Moody's Rating
CESKA TELEKOMUNIKACNI INFRASTRUKTURA A.S.	
Outlook	Negative
Issuer Rating	Baa2
PARENT: PPF ARENA 1 B.V.	
Outlook	Stable
Corporate Family Rating	Ba1
CETIN FINANCE B.V.	
Outlook	Negative
Bkd Senior Unsecured	Baa2

Source: Moody's Investors Service

Appendix

Exhibit 12
Peer comparison

(in US millions)	CETIN			Chorus Limited			SES S.A.			Eutelsat Communications SA			Inmarsat plc		
	Baa2 Negative			Baa2 Stable			Baa2 Stable			Ba1 Stable			Ba2 RUR-DNG		
	FYE Dec-16	FYE Dec-17	FYE Dec-18	FYE Jun-16	FYE Jun-17	FYE Jun-18	FYE Dec-16	FYE Dec-17	FYE Dec-18	FYE Jun-16	FYE Jun-17	FYE Jun-18	FYE Dec-16	FYE Dec-17	FYE Dec-18
Revenue	$834	$901	$912	$674	$741	$708	$2,289	$2,299	$2,374	$1,697	$1,611	$1,680	$1,329	$1,392	$1,465
EBITDA	$371	$373	$380	$406	$477	$472	$1,629	$1,508	$1,502	$1,290	$1,220	$1,266	$814	$777	$734
Total Debt	$1,135	$1,155	$1,104	$1,431	$1,582	$1,570	$5,469	$5,667	$6,047	$5,873	$4,720	$4,769	$2,768	$2,736	$2,618
Cash & Cash Equivalents	$13	$38	$72	$73	$124	$34	$620	$324	$1,039	$1,282	$465	$856	$262	$145	$143
FFO Margin %	37.8%	35.5%	36.6%	44.1%	45.7%	49.6%	52.0%	53.1%	49.3%	55.6%	57.2%	56.9%	49.8%	45.0%	36.8%
(EBITDA - CapEx) / Interest Expense	9.0x	10.1x	7.2x	0.2x	0.1x	-0.8x	3.5x	4.0x	4.1x	5.3x	5.0x	6.2x	3.3x	1.3x	1.5x
FCF / Debt	0.0%	12.0%	2.4%	-7.7%	-7.5%	-13.2%	-1.0%	-0.7%	5.1%	5.0%	4.0%	2.9%	1.7%	-5.9%	-2.7%
RCF / Debt	13.0%	29.2%	18.3%	21.4%	20.0%	19.3%	10.4%	9.8%	11.7%	14.0%	14.0%	12.4%	15.6%	15.5%	17.9%
DEBT / EBITDA	3.2x	2.8x	3.0x	3.3x	3.2x	3.5x	3.5x	3.5x	4.2x	4.5x	3.7x	3.8x	3.4x	3.5x	3.6x

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

Exhibit 13
Operating lease adjustment contributed to nearly 10% of 2018 EBITDA
CETIN's Moody's-adjusted EBITDA breakdown

(in KORUNY Millions)	FYE Dec-15	FYE Dec-16	FYE Dec-17	FYE Dec-18
As Reported EBITDA	**8148**	**8246**	**7970**	**7507**
Operating Leases	870	887	762	796
Unusual	-29	-66	-59	-48
Moody's-Adjusted EBITDA	**8989**	**9067**	**8673**	**8255**

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

Exhibit 14
Operating leases represented more than 16% of Moody's-adjusted debt in 2018
CETIN's Moody's-adjusted debt breakdown

(in KORUNY Millions)	FYE Dec-15	FYE Dec-16	FYE Dec-17	FYE Dec-18
As Reported Debt	**28,931**	**24,651**	**20,755**	**20,890**
Operating Leases	4,350	4,435	3,816	3,980
Non-Standard Adjustments	(144)	(22)	(21)	(21)
Moody's-Adjusted Debt	**33,137**	**29,064**	**24,550**	**24,849**

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

Exhibit 15
Ceska Telecomunikacni Infrastruktura a.s.
Summary Financials

	2015	2016	2017	2018	2019E	2020E
INCOME STATEMENT						
Revenue	19,097	20,378	20,968	19,813	19491	20085
EBITDA	8,989	9,067	8,673	8,255	8460	8515
EBIT	2,794	4,114	3,842	3,768	3953	3857
BALANCE SHEET						
Cash & Cash Equivalents	656	335	805	1,610	1925	1590
Total Debt	33,137	29,064	24,550	24,849	24849	24849
CASH FLOW						
Capex = Capital Expenditures	3,352	4,182	4,327	4,731	4766	4756
Dividends		3,937	257	2,720	2549	2807
Retained Cash Flow	7,829	3,772	7,179	4,536	4573	4389
RCF / Debt	23.6%	13.0%	29.2%	18.3%	18.4%	17.7%
Free Cash Flow (FCF)	3,898	-14	2,946	599	275	-334
FCF / Debt	11.8%	0.0%	12.0%	2.4%	1.1%	-1.3%
PROFITABILITY						
% Change in Sales (YoY)		6.7%	2.9%	-5.5%	-1.6%	3.0%
EBIT Margin %	14.6%	20.2%	18.3%	19.0%	20.3%	19.2%
EBITDA Margin %	47.1%	44.5%	41.4%	41.7%	43.4%	42.4%
INTEREST COVERAGE						
EBIT / Interest Expense	7.0x	7.6x	8.9x	7.7x	8.1x	7.9x
EBITDA / Interest Expense	22.5x	16.7x	20.1x	16.8x	17.3x	17.5x
(EBITDA - CAPEX) / Interest Expense	14.1x	9.0x	10.1x	7.2x	7.6x	7.7x
LEVERAGE						
Debt / EBITDA	3.7x	3.2x	2.8x	3.0x	2.9x	2.9x
Debt / (EBITDA - CAPEX)	5.9x	6.0x	5.6x	7.1x	6.7x	6.6x

Source: Moody's Financial Metrics™ & Moody's Investors Service estimates

REPORT NUMBER 1177247

MOODY'S
INVESTORS SERVICE