

Rating Action: Moody's changes outlook on PPF Telecom and CETIN to negative

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Ba1 ratings of PPF Telecom Group B.V. and Baa2 ratings of CETIN Group N.V., CETIN Finance B.V. and CETIN a.s. affirmed

Madrid, March 25, 2022 -- Moody's Investors Service ("Moody's") has today affirmed the Ba1 backed senior secured ratings of PPF Telecom Group B.V. ("PPF Telecom" or "the company"), the Baa2 long term issuer ratings of CETIN Group N.V. (CETIN Group), the Baa2 backed senior unsecured ratings of its fully and unconditionally guaranteed subsidiary CETIN Finance B.V. and the Baa2 long term issuer rating of CETIN a.s. (CETIN). The outlook on the ratings for all entities has been changed to negative from stable.

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

The rating action follows the announcement [1] of the completion of the sale of a 30% stake in CETIN Group to GIC for an undisclosed amount. Proceeds from this disposal will be used to repay €325 million of debt at O2 Czech Republic, a.s. (O2) while the balance will be distributed to shareholders.

"The outlook change to negative reflects the dilution of PPF Telecom's ownership of CETIN, which is a strategic asset, and the use of a large part of the cash proceeds to remunerate shareholders, weakening the financial strength of the group," says Carlos Winzer, a Moody's Senior Vice President and lead analyst for PPF Telecom, CETIN Group and CETIN.

Financial strategy and risk management, and organizational structure are governance considerations under Moody's General Principles for Assessing Environmental, Social and Governance Risk Methodology for assessing ESG risks.

"However, we have affirmed the ratings to reflect our expectation that PPF Telecom and CETIN Group will achieve gradual organic deleveraging based on the strength of the operating cash flow generated at the operating subsidiaries and subject to the group's financial policy of sustaining net reported leverage at the mid-to lower end of the 2.8x-3.2x range" adds Mr. Winzer.

RATINGS RATIONALE

The sale of a 30% stake in CETIN Group B.V. is credit negative for PPF Telecom due to the ownership dilution in a strategic asset. At the same time, the entity remains fully consolidated in PPF Telecom's accounts while it is not fully owned, increasing the analytical complexity of the group (although the previously existing 32% minorities in O2 have been concomitantly bought back). While part of the proceeds from the transaction will be used to reduce by €325 million the debt at O2, the remaining amount will be up-streamed to the parent company as a dividend, weakening the financial strength of the group. Moody's views the ownership dilution as only being partially compensated for recent transactions including: 1) the in-kind contribution of a 10% equity stake in CETIN a.s., held by PPF Group to PPF Telecom Group; 2) the debt reduction at O2; and 3) the fact that PPF Telecom recently bought the remaining 32% minority equity stake in O2 for some €1bn. While these transactions improve leverage, Moody's has also considered the presence of a liability arising from the minority owned portion of the Master Service Agreement (MSA) between CETIN and O2/Yettel, in order to assess the true economic-deleveraging. Moody's notes however that the MSA contains a higher share of services than for other infrastructure Telcos, given that CETIN owns the active network.

Nevertheless, Moody's has tightened by 0.5x the leverage threshold required for PPF Telecom to remain rated at the Ba1 level.

Given the parent/subsidiary relationship between PPF Telecom and CETIN Group and CETIN, there is a maximum of two-notches differential in the rating between these entities. Following the outlook change at PPF Telecom, the subsidiaries also carry a negative outlook on their ratings.

The ratings affirmation of PPF Telecom and its operating subsidiaries reflect the group's leading position as

the integrated incumbent in the Government of Czech Republic (Aa3 stable) with a corporate structure that separates the service provision from infrastructure management; the group's good geographical diversification in the Central and Eastern European (CEE) region; its higher revenue growth potential than the European average; its financial policy and commitment to preserve leverage within management's public guidance; and its good margins and solid operating cash flow generation.

RATIONALE FOR NEGATIVE OUTLOOK

The negative outlook at PPF Telecom reflects the fact that PPF Telecom's leverage on a fully consolidated stood at 3.2x in 2021 and will not improve towards 3.0x, the new threshold for the Ba1 rating until 2023-2024, leaving no headroom for deviation in terms of operating underperformance. While the rating is weakly positioned in the category, Moody's acknowledges the management's track record in executing the strategy and maintaining leverage within the required thresholds.

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

Because of PPF Telecom's complex group structure, upward rating pressure is unlikely until there is a simplification in the debt allocation within the broader group structure, and a clearer policy on debt distribution between PPF Telecom and the operating subsidiaries to minimize structural subordination.

Moody's could consider a rating upgrade if PPF Telecom's operating performance improves beyond Moody's current expectation, such that its Moody's-adjusted debt/EBITDA remains comfortably below 2.25x (2.75x previously) and RCF/debt remains above 25% (20% previously) on a sustained basis.

The rating could be downgraded if PPF Telecom's operating performance deteriorates or the company enters into debt-financed acquisitions, such that its Moody's adjusted debt/EBITDA ratio remains at 3.0x or higher (3.5x previously) on a fully consolidated basis and RCF/debt remains below 15% (10% previously). Additionally, negative pressure could be exerted if PPF Telecom's financial policies become more aggressive, it needs to support lower-credit-quality entities within the broader PPF Group N.V., or its liquidity deteriorates.

Given the linkage between PPF Telecom and its subsidiaries, a downgrade of PPF Telecom would lead to a downgrade of CETIN Group and CETIN. Upward pressure on the ratings of CETIN Group and CETIN is unlikely unless leverage at PPF Telecom level reduces substantially and sustainably.

LIST OF AFFECTED RATINGS

Affirmations:

..Issuer: PPF Telecom Group B.V.

.... Probability of Default Rating, Affirmed Ba1-PD

.... LT Corporate Family Rating, Affirmed Ba1

....BACKED Senior Secured Regular Bond/Debenture, Affirmed Ba1

..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

..Issuer: CETIN Group N.V.

.... LT Issuer Rating, Affirmed Baa2

Outlook Actions:

..Issuer: PPF Telecom Group B.V.

....Outlook, Changed To Negative From Stable

..Issuer: CETIN a.s.

...Outlook, Changed To Negative From Stable

..Issuer: CETIN Finance B.V.

...Outlook, Changed To Negative From Stable

..Issuer: CETIN Group N.V.

...Outlook, Changed To Negative From Stable

PRINCIPAL METHODOLOGIES

The methodologies used in these ratings were Telecommunications Service Providers published in January 2017 and available at https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1055812 , and Communications Infrastructure published in February 2022 and available at https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1277198 . Alternatively, please see the Rating Methodologies page on www.moody.com for a copy of these methodologies.

COMPANY PROFILE

PPF Telecom Group B.V., a European telecommunications group, is the holding company owning 70% of CETIN Group N.V., 100% of O2 (telecom service provider) and the companies which form the international service provider in the CEE countries. In 2021, PPF Telecom generated revenues of €3.3 billion and Moody's adjusted EBITDA of €1.5 billion. PPF Telecom is in turn owned by PPF Group N.V., an investment group with diverse business activities encompassing banking and financial services, telecommunications, media, biotechnology, insurance, real estate, mechanical engineering and e-commerce in Europe, Russia, Asia and the US.

CETIN Group N.V., is a holding company 100% owner of CETIN a.s. and the infrastructure business in Hungary, Bulgaria and Serbia.

CETIN, headquartered in Prague (Czech Republic), is the leading national Czech telecommunications infrastructure provider. CETIN was incorporated in June 2015 after the spinoff from O2 Czech Republic a.s. In 2021, CETIN generated revenues of CZK 18.2 billion and Moody's adjusted EBITDA of CZK 9.2 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.

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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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at http://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1288235.

At least one ESG consideration was material to the credit rating action(s) announced and described above.

The Global Scale Credit Rating on this Credit Rating Announcement was issued by one of Moody's affiliates outside the UK and is endorsed by Moody's Investors Service Limited, One Canada Square, Canary Wharf, London E14 5FA under the law applicable to credit rating agencies in the UK. Further information on the UK endorsement status and on the Moody's office that issued the credit rating is available on www.moody.com.

REFERENCES/CITATIONS

[1] Press released published by PPF Telecom Group on 10 March 2022: https://www.datocms-assets.com/56100/1646904811-ra_20220310_cetin_group_gic_closing_pr.pdf

Please see www.moody.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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