MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns first-time issuer rating of Baa2 to CETIN; stable outlook

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Madrid, July 11, 2016 -- Moody's Investors Service has today assigned a first-time issuer rating of Baa2 to Ceská telekomunikacní infrastruktura a.s. (CETIN), the leading infrastructure operator in the Czech Republic. The outlook on the rating is stable.

"The Baa2 rating balances CETIN's modest size and its high initial leverage, against more positive factors such as its unique business model as a telecom infrastructure operator, its solid and entrenched market position underpinned by long term commercial agreements with two of the most important service providers, as well as its strong cash flow generation capacity, which should allow the company to reduce debt quickly," says Carlos Winzer, a Moody's Senior Vice President and lead analyst for CETIN.

RATINGS RATIONALE

The Baa2 issuer rating 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 O2 Czech Republic a.s. (O2, unrated), driving 80% of EBITDA in the next 7 years, and T-Mobile Czech Republic (T-Mobile, unrated). There are no comparable alternative nationwide infrastructure based competitors in the Czech Republic, which contributes to the resilience of the business model.

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.

A key consideration is customer concentration. O2 is the key customer for CETIN driving approximately 80% of the company's EBITDA and more than 95% of the committed revenues over the period 2016-2022. According to Moody's, O2 appears to be a sound business partner with stable revenues, low leverage (target reported net leverage of up to 1.5x) and strong cash flow metrics. Although Moody's notes a high customer concentration, it has also factored in the multi-year commitment between O2 and CETIN which provides greater predictability of the revenue stream until 2022, as well as the sustainable long-term demand for the network independently from O2.

Moody's has also assessed the telecoms market in Czech Republic. It is currently stabilising after a number of years of decline and it will further benefit from: (1) flat mobile tariffs, and (2) mobile data revenue growth driven by 4G. Conversely, the outlook is less optimistic on fixed and business data services. On one hand, Moody's expects fixed voice revenues to continue on its declining path as customers continue to leave the service. On the other, fixed broadband revenues are expected to remain stable in spite of a strong improvement in access numbers. As a consequence of continued pricing pressures, business data service revenues are also expected to decline.

From a competitive dynamic perspective, CETIN currently covers more than 50% of the Czech Republic market. There is no comparable nationwide infrastructure based provider, as the closest competitors, UPC Holding B.V. (UPC, Ba3 stable) and Vodafone Group Plc (Vodafone, Baa1 stable), are smaller, have lower coverage or have weaker market position.

Moody's has assumed that CETIN's consolidated revenues will increase by 3% in 2016 and approximately 2% in 2017, mainly as a result of higher volumes in the transit traffic and in the mobile business.

CETIN, with its strong focus on revenue, profitability and capex optimization, is a highly cash generative business. Moody's expects the company's cash flow generation will continue to improve due to a moderate improving trend in revenues, a relatively fixed and efficient cost base and stable capex. CETIN will benefit from the degree of operating leverage embedded in this business, which will drive the high domestic margin. As the company gains traffic and increases scale, incremental increases in domestic revenues will drop to the EBITDA line, having a positive impact on margins.

Moody's expects CETIN to 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.

The liquidity risk profile of CETIN is adequate, supported by the company's strong operating cash flow generation. This is taking into consideration that although there are no debt maturities until July 2018, management will be gradually repaying debt based on the free cash flow generation after capex and dividend payments. Although CETIN does not have bank back-up facilities in place for the time being, management could plan for having them in the future.

RATIONALE FOR THE STABLE OUTLOOK

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

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, 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 adjust 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

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.

WHAT COULD CHANGE THE RATING DOWN

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.

PRINCIPAL METHODOLOGY

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

Ceská telekomunikacní 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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