15 SEP 2021

Fitch Assigns CETIN Group First-Time 'BBB' IDR; Outlook Stable

Fitch Ratings - Frankfurt am Main - 15 Sep 2021: Fitch Ratings has assigned CETIN Group N.V. a first-time Long-Term Issuer Default Rating (IDR) and senior unsecured rating of 'BBB'. The Outlook is Stable.

CETIN Group is rated in line with its Standalone Credit Profile (SCP) of 'bbb'. This is based on our assessment of weak linkage with its parent, PPF Telecom Group B.V. (PPF TG), under Fitch's Parent and Subsidiary Linkage (PSL) Rating Criteria, and CETIN Group's stronger operating profile. The SCP reflects CETIN Group's telecoms-infrastructure asset portfolio and a wholesale-based business model with sizeable long-term, contracted revenues that provide strong visibility and stability to the company's cashflow.

Key Rating Drivers

Strong Operating Profile: CETIN Group operates the network infrastructure of PPF TG's operations in the Czech Republic (CZ), Hungary, Bulgaria and Serbia. The infrastructure principally consists of mobile towers, active mobile network components, backhaul networks and fixed local access networks. CETIN CZ operates the incumbent fixed infrastructure in the country. Its services are provided on long-term contracts ranging from 10 to 30 years with CPI, foreign exchange (FX) and energy-price indexation and a fixed fee that we estimate accounts for about 50% of revenues. Additional services are provided at prices that allow CETIN Group to sustain a good return on capital employed.

Contractually Secured Growth: CETIN Group should experience strong and steady revenue growth over the next five years (Fitch base case, about 4% per year on average excluding international transit services). The growth will be driven by the mobile segment and largely due to network modernisation, 5G roll-out, site densification and increased tower co-location. A significant proportion of this growth is already contractually secured. The growth will enable EBITDA-margin expansion as fixed costs are expected to increase at a slower pace.

Competitive Domestic Infrastructure Market: Competition in the Czech fixed local-access infrastructure market is likely to increase as T-Mobile builds out a fibre-to-the-home (FttH) network in partnership with CETIN Group in parts of the country. This will take the number of local-access network providers to a maximum of four in certain regions, including cable and Wifi operators. We believe CETIN Group's strategy to limit overbuild through its partnership with competitor T-Mobile is least value-destructive.

However, T-Mobile is currently a wholesale customer and the potential loss of wholesale revenues will need to be offset by average revenue per user improvements from FttH deployment, growth in new wholesale customers as a result of a more competitive FttH product, and growth in mobile services.

FttH Deployment at Early Stage: CETIN Group is at an early stage in deploying FttH in the CZ. The company plans to roll out 1.3 million homes by 2030, accounting for about 20% the total homes passed. Domestic fixed-line operations account for about 20% of total EBITDA but a higher proportion of capex. Competitive pressure resulting from the deployment of higher cable speeds and alternative network infrastructure, as experienced in some European markets, may necessitate a faster deployment and increases in capex. The impact on leverage is, however, likely to be largely offset by the company's financial policy.

Stable Financial Profile: CETIN Group's financial policy is to manage net debt to EBITDA at 3.0x and to distribute up to 100% of free cash flow (FCF), subject to maintaining this leverage threshold and meeting capex requirements first. Its leverage policy is comfortably within the 4.0x funds from operations (FFO) net leverage downgrade threshold of its 'bbb' SCP. Fitch expects FFO net leverage to decline to 3.2x over the next two to three years from 3.5x at end 2021. Fitch's base-case forecasts envisage pre-dividend FCF margin of between 5% and 10% over the next five years. This provides sufficient headroom and flexibility to absorb operational pressures and increases in capex.

Manageable FX Risks: CETIN Group's predominant borrowings are in euros while EBITDA is generated in other currencies. This creates some leverage-mismatch risks. The risks do not have significant impact on the rating as about 57% of EBITDA is generated in the CZ, and contracts with retail operations in Bulgaria, Hungary and Serbia allow for FX-indexation adjustments. The Czech koruna exchange rate with the euro has demonstrated stability, and cashflows can be economically hedged.

Parent Subsidiary Linkage: Based on Fitch's PSL Criteria we deem the linkage between CETIN Group and PPF TG as weak. This reflects a degree of legal ringfencing due to the existence of a 2.2x maximum, net debt-to-EBITDA covenant that is based on the leverage of CETIN Group and O2 CZ, another PPF TG subsidiary. The company's expected EUR1,635 million of gross debt will account for over 70% of the total combined capacity of the two entities' maximum 2.2x net debt to EBITDA. Based on the current legal and financial structure and operational relationship, we would not anticipate CETIN Group to be rated higher than PPF TG by more than two notches.

Derivation Summary

CETIN Group's SCP of 'bbb' reflects the business mix of the company's network infrastructure (such as mobile towers, local access fixed line network and backhaul networks), leverage profile, financial policy and the structure of the markets in which its infrastructure operates.

Pure mobile tower operators such as Infrastrutture Wireless Italiane S.p.A. and Cellnex Telecom S.A. (both BBB-/Stable) have looser leverage thresholds than CETIN Group per rating band, reflecting greater stability and visibility in FCF, higher visibility of investment risks for growth projects, a higher share of mobile towers in each geographic market, lower exposure to technological obsolescence risks and / or greater geographic or cashflow scale.

Integrated telecoms operators such as BT Group plc and Royal KPN N.V. (both BBB/Stable) have tighter leverage thresholds per rating band than CETIN Group, primarily due to the inclusion of their retail units that carry higher risks in relation to areas such as sales volume and pricing, technological obsolescence, mobile spectrum costs and market competition. For CETIN Group, these commercial risks are partially shifted to other PPF TG customer-facing operations as a result of its long-term contracts with a high share of fixed fees on a take-or-pay basis.

Key Assumptions

Fitch's Key Assumptions Within Our Rating Case for the Issuer

- Revenue of EUR1.04 billion in 2021, gradually increasing to EUR1.1 billion by 2025.

- Fitch-defined EBITDA margin of 49% in 2021, increasing to about 55% in 2025.

- Capex about 33%-37% of revenue in 2021-2025.

- Dividend payments, including non-controlling interests of EUR193 million in 2021 and EUR86 million in 2022, and 100% of FCF thereafter. An additional one-off dividend distribution of EUR825 million in 2021.

- Group gross debt of EUR1,635 million by end-2021.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- An upgrade would be dependent on an improvement in the company's SCP combined with upgrade in the rating of PPF TG and clearer operational and structural separation from parent, PPF TG.

- The SCP would be revised higher to 'bbb+' if 1) FFO net leverage is sustained below 3.5x, 2) cash flow from operations minus capex/gross debt is sustained above 8%-10% and/or 3) on visibility of medium-term competitive stability in the wholesale fixed-line market in the CZ.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- A downgrade in the rating of PPF TG or a downward revision of CETIN Group's SCP.

- The SCP would be revised lower if 1) FFO net leverage is trending sustainably above 4.0x, 2) EBITDA and FCF weakens on a sustained basis and/or 3) financial policy or legal covenants that ringfence the company from PPF TG weaken significantly.

Best/Worst Case Rating Scenario

International scale credit ratings of Non-Financial Corporate issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

Liquidity and Debt Structure

Comfortable Liquidity: CETIN Group generates strong cash flow and we expect FFO margin to be above 49% in 2021-2025. This is supported by good revenue visibility. Further liquidity is provided by a committed EUR200 million revolving credit facility (RCF) due 2026. The company's next maturities for its bank loans and senior unsecured bonds will be in 2023 and 2026.

Issuer Profile

CETIN Group is a telecoms network infrastructure provider with operations in the CZ and three other central and eastern European markets. The company is part of PPF TG, whose retail telecoms subsidiaries in the same markets are CETIN Group's principal wholesale customers. In 2020, CETIN Group had revenues of EUR769 million and EBITDA of EUR568 million (excluding transit services, after leases and pro-forma for the inclusion of CETIN operations in Hungary, Bulgaria and Serbia).

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

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Rating Actions

ENTITY/DEBT	RATING			RECOVERY	PRIOR
CETIN Group N.V.	LT IDR	BBB (Stable)	New Rating		
• senior unsecured	LT	BBB	New Rating		

RATINGS KEY	OUTLOOK	WATCH
POSITIVE	⊕	⬘
NEGATIVE	⊖	⬙
EVOLVING	◎	◆
STABLE	◘	

Applicable Criteria

Corporate Rating Criteria (pub.21 Dec 2020) (including rating assumption sensitivity)

Parent and Subsidiary Linkage Rating Criteria (pub.26 Aug 2020)

Sector Navigators - Addendum to the Corporate Rating Criteria (pub.30 Apr 2021)

Applicable Models

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v7.9.0 (1)

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Endorsement Status

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