

Rating Action: Moody's assigns Baa2 ratings to CETIN Group N.V.'s new bond; outlook negative

11 Apr 2022

Madrid, April 11, 2022 -- Moody's Investors Service, ("Moody's") has today assigned a Baa2 rating to CETIN Group N.V.'s (CETIN Group) senior unsecured bond issued under the company's EMTN program. CETIN Group is a 70% owned subsidiary of PPF Telecom Group B.V. (PPF Telecom, Ba1 negative), and the 100% owner of CETIN a.s. (CETIN, Baa2 negative). The negative outlook remains unaffected.

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

RATINGS RATIONALE

CETIN Group's Baa2 rating reflects (1) its leading position in the Czech Republic, Hungary, Bulgaria and Serbia's telecom market, which also provides substantial geographical diversification, (2) the solid operating cash flow generated by operating subsidiaries, (3) the group's conservative financial policy, and (4) its adequate liquidity supported by strong operating cash flow and a €200 million revolving credit facility due in 2026.

The rating also reflects (1) its high leverage for the rating category, peaking at 3.3x in 2021 and thereafter gradually reducing to around 3.0x by 2025, (2) the group's complex structure, with various credit pools, due to the fact that PPF Telecom has debt of its own and owns 70% of CETIN Group, which in turn also has debt of its own, (3) the structural subordination of debt relative to debt raised at CETIN as. CETIN Group does not benefit from upstream guarantees (partially mitigated by the shareholder loan from CETIN Group) and (4) its significant capital spending needs, which constrain free cash flow.

CETIN Group does not benefit from an upstream guarantee from CETIN so debt at CETIN is potentially in a stronger position due to structural subordination. However, this distinction is balanced against the need to limit the rating gap between the strongest ratings in CETIN Group relative to the PPF Telecom's ratings at Ba1.

The current rating construct reflects the expectation of minimal debt at the CETIN level, with CETIN Group weakly positioned at Baa2. If in the future, material debt was pushed down to CETIN, Moody's could consider leaving CETIN rated not more than two notches higher than PPF Telecom, while CETIN Group would likely be positioned one notch lower than CETIN to reflect structural subordination.

RATIONALE FOR NEGATIVE OUTLOOK

The negative rating outlook reflects the parent/subsidiary relationship between PPF Telecom and CETIN Group, with a maximum of a two-notch differential in the rating between these entities. As a result of the negative outlook at PPF Telecom, the subsidiaries also carry this outlook on their ratings.

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

CETIN Group's rating is unlikely to be upgraded unless leverage at PPF Telecom Group decreases substantially and sustainably, thereby alleviating financial pressure on CETIN Group. The rating could be upgraded if the company delivers on its business plan, such that its Moody's-adjusted debt/EBITDA drops below 2.5x on a sustained basis. This decrease in leverage would likely be contingent on the company maintaining a conservative approach to acquisitions and shareholder remuneration.

CETIN Group's rating could be downgraded if leverage at PPF Telecom Group remains at 3.0x or higher on a reported basis, either because of further debt-financed acquisitions or because of weaker-than-expected performance at the operating subsidiaries.

CETIN Group's rating could also be downgraded if the company's operating performance weakens as a result of pricing pressure, market share losses or reduction in cash flow, or if CETIN Group increases its debt as a result of acquisitions or shareholder distributions, such that its Moody's-adjusted debt/EBITDA increases above 3.5x with no expectation of an improvement.

A weakening of the company's liquidity could also strain the rating.

LIST OF AFFECTED RATINGS

Assignments:

..Issuer: CETIN Group N.V.

...Senior Unsecured Regular Bond/Debenture, Assigned Baa2

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was Communications Infrastructure published in February 2022 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1277198 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

COMPANY PROFILE

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

CETIN Group is 70% owned by PPF Telecom Group B.V., a European telecommunications group, with presence in Czech Republic, Hungary, Serbia, Bulgaria and Slovakia.

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.moodys.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.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1288235 .

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