FitchRatings

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Fitch Affirms CETIN Group and CETIN at 'BBB'; Outlook Stable

Fitch Ratings - Warsaw - 07 Nov 2022: Fitch Ratings has affirmed CETIN Group N.V's and CETIN a.s. (CETIN)'s Long-Term Issuer Default Rating (IDR) and senior unsecured rating at 'BBB'. The Outlook is Stable. A full list of ratings is detailed below

CETIN Group and its subsidiary CETIN are rated on a consolidated basis and in line with their consolidated Standalone Credit Profile (SCP) of 'bbb'. While CETIN Group's parent, PPF Telecom Group (PPF TG, BBB-/Stable), controls CETIN Group through its 70% ownership, we assess the linkage between the two as sufficiently weak so as to rate CETIN Group in line with its SCP but with a maximum one-notch difference to the consolidated profile rating of its parent.

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 its cashflow.

Key Rating Drivers

Weak Linkage with Parent: Based on Fitch's Parent Subsidiary Linkage Criteria (PSL) our assessment of 'porous' legal ring-fencing and access and control leads us to rate CETIN Group in line with its SCP, albeit with a maximum one-notch difference to the consolidated rating profile of PPF TG. The one-notch linkage balances weak linkage with high operational dependency on its parent (PPF TG accounts for over 95% of CETIN Group's revenues) and covenants that provide headroom and flexibility in accessing cashflow at CETIN Group.

CETIN Group has a 2.2x maximum net debt/EBITDA covenant that is based on the leverage of CETIN Group and O2 Czech Republic, another PPF TG subsidiary. Its EUR1,652 million of gross debt will account for over 70% of the combined two entities' maximum 2.2x net debt/EBITDA.

Strong Operating Profile: CETIN Group operates the network infrastructure of PPF TG's operations in the Czech Republic (CR), Hungary, Bulgaria and Serbia. The infrastructure principally consists of mobile towers, active mobile network components, backhaul networks and fixed local access networks. CETIN CR 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: At 1H22 CETIN Group achieved YoY revenue growth of 9.7% and

EBITDA growth of 4.3% (excluding transit). The growth was predominantly driven by the mobile segment and largely due to network modernisation, 5G roll-out, tower densification and increased tower co-location. We expect CETIN Group will continue to experience strong and steady revenue growth over the next four years (Fitch base case, about 4% per year on average excluding international transit services). A significant proportion of this growth is 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 increasing as T-Mobile builds out a fibre-to-the-home (FttH) network in partnership with CETIN Group in parts of the country. This increases the number of local-access network providers to 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, as a wholesale customer this could mean a loss of revenue from T-Mobile unless it is 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 plans to roll out FttH to 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 and broader deployment leading to capex increases. 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 company-defined net debt/ 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 around 3.0x over the next two to three years from 3.4x at end 2021 and below the upgrade leverage threshold of the IDR. However, FCF generation is constrained by high capex, leaving cash flow from operations minus capex to trend below 8% of gross debt - a key threshold for an upward revision of the SCP.

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 CR, 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.

Derivation Summary

CETIN's rating is equalised with CETIN Group's. This reflects our assessment of 'open' access and control and no legal ringfencing based on our PSL Criteria. As a result, both their IDRs are at the level of the consolidated profile of CETIN and CETIN Group. Our assessment is that CETIN's SCP of 'bbb+' is stronger than the SCP of CETIN Group. Both subsidiary and parent have similarly strong operating profiles, but the subsidiary has much lower leverage.

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 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 its Rating Case for CETIN Group

- Revenue of around EUR1.09 billion in 2022, gradually increasing to EUR1.15 billion by 2025

- Fitch-defined EBITDA margin of 50.5% in 2022, gradually increasing to 55.6% by 2025

- Capex about 34%-37% of revenue in 2022-2025

- Dividend payments at 100% of Fitch-defined pre-dividend FCF

RATING SENSITIVITIES

CETIN Group

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

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

- The SCP would be revised higher to 'bbb+' if 1) FFO net leverage is sustained below 3.5x (about 3.2x Fitch-defined net debt/EBITDA), 2) cash flow from operations minus capex/gross debt is sustained above 8%-10% or 3) on visibility of medium-term competitive stability in the wholesale fixed-line market in the CR

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 (about 3.7x Fitch-defined net debt/EBITDA), 2) EBITDA and FCF weaken on a sustained basis or 3) financial policy or legal covenants that ringfence the company from PPF TG weaken significantly

CETIN

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

- An upgrade of CETIN Group's consolidated rating profile and IDR will lead to a similar upgrade of CETIN's ratings provided there are no changes to our assessment of the parent-subsidiary linkage between the companies

- Evidence of operational and structural separation from CETIN Group, while its SCP remains above 'bbb'

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

- A downgrade in the rating of CETIN Group may lead to similar downgrade of CETIN's ratings. This would likely be driven by a weakening of CETIN's competitive position, especially in the CR, leading to declining EBITDA and weak FCF generation over the medium term

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 around 42% in 2022-2025. 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 (CZK4,866 million bond at CETIN) and 2026 (EUR955 million loan at CETIN Group).

Issuer Profile

CETIN Group is a telecoms network infrastructure provider with operations in the CR and three other central and eastern European markets. CETIN operates fixed and mobile telecoms network infrastructure in the CR and provides services on a wholesale basis.

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.

Public Ratings with Credit Linkage to other ratings

CETIN Group's ratings are linked to PPF TG's and CETIN's to CETIN Group's.

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

Fitch Ratings Analysts

Rafal Kaminski
Associate Director
Primary Rating Analyst
+48 22 103 3040
Fitch Ratings Ireland Limited spolka z ograniczona odpowiedzialnoscia oddzial w Polsce Krolewska 16, 00-103 Warsaw

Tajesh Tailor
Senior Director
Secondary Rating Analyst
+44 20 3530 1726

Damien Chew, CFA
Managing Director
Committee Chairperson
+44 20 3530 1424

Media Contacts

Tahmina Pinnington-Mannan
London
+44 20 3530 1128
tahmina.pinnington-mannan@thefitchgroup.com

Rating Actions

ENTITY/DEBT	RATING	RECOVERY	PRIOR
CETIN			

ENTITY/DEBT	RATING			RECOVERY	PRIOR
Finance B.V.					
• senior unsecured	LT	BBB	Affirmed		BBB
CETIN Group N.V.	LT IDR	BBB	Affirmed		BBB
• senior unsecured	LT	BBB	Affirmed		BBB
CETIN a.s.	LT IDR	BBB	Affirmed		BBB
• senior unsecured	LT	BBB	Affirmed		BBB

RATINGS KEY	OUTLOOK	WATCH
POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

Applicable Criteria

Corporate Rating Criteria (pub.28 Oct 2022) (including rating assumption sensitivity)

Parent and Subsidiary Linkage Rating Criteria (pub.01 Dec 2021)

Sector Navigators: Addendum to the Corporate Rating Criteria (pub.28 Oct 2022)

Applicable Models

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

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.0.3 (1)

Additional Disclosures

Solicitation Status

Endorsement Status

CETIN a.s.	EU Issued, UK Endorsed
CETIN Finance B.V.	EU Issued, UK Endorsed
CETIN Group N.V.	EU Issued, UK Endorsed

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