

08 AUG 2023

## Fitch Places CETIN Group N.V. and CETIN a.s. on Rating Watch Negative

Fitch Ratings - Warsaw - 08 Aug 2023: Fitch Ratings has placed Czech Republic-based CETIN Group N.V.'s (CETIN Group) and CETIN a.s.'s (CETIN) Long-Term Issuer Default Ratings (IDR) and senior unsecured ratings of 'BBB' on Rating Watch Negative (RWN). A full list of rating actions is detailed below.

The RWN follows the announcement by CETIN Group's ultimate parent, PPF Group, of its agreement to sell a controlling stake in CETIN Group's parent, PPF Telecom Group B.V. (PPF TG, BBB-/Stable), to Emirates Telecommunication Group Company (e&). The transaction excludes PPF TG's existing Czech assets, including the Czech operator O2 Czech Republic a.s. (O2 CZ) and CETIN. The Czech assets will be transferred out of PPF TG and continue to be an indirect subsidiary of PPF Group. The transaction is expected to close in or before 1Q24 and is subject to regulatory approvals.

The RWN reflects current low visibility on the final transaction and capital structure of CETIN Group and whether it would be consistent with its existing rating. The RWN would be resolved on completion of the transaction or confirmation of the company's transaction structure and financial policy. Resolving the RWN could result in an affirmation of the rating at 'BBB' or a one-notch downgrade. PPF Group have indicated that they aim to maintain the capital structures for CETIN Group and CETIN commensurate with existing ratings.

### Key Rating Drivers

**Transaction With e&:** e& will acquire 50% plus one share in PPF TG's assets in Bulgaria, Hungary, Serbia and Slovakia for EUR2.15 billion. It stands to receive additional earn-out payments of up to EUR350 million within three years after the closing if PPF TG exceeds certain financial targets and a claw-back of up to EUR75 million if such financial targets are not achieved. PPF TG's existing Czech assets, which include CETIN and O2 CZ, are not included in the transaction and will be transferred out of PPF TG.

**Change in Operating Profile:** Following the transaction, CETIN Group's operating profile will be based on CETIN's Czech telecoms infrastructure operations. The operating profile will exclude the mobile telecoms tower and network infrastructure assets of PPF TG in other central and eastern European (CEE) operations. The reduced asset diversification will weaken the operating profile of CETIN Group and reduce leverage capacity per rating band.

**Uncertainty on Final Transaction Structure:** The transaction will lead to a new immediate parent for CETIN Group and, potentially, a new consolidated rating scope depending on the structure of the

transaction that is yet to be finalised. CETIN Group currently benefits from being rated on a standalone basis subject to a maximum one-notch difference to the consolidated rating profile of its parent PPF TG. The rating reflects sufficient ringfencing from its parent based on Fitch' Parent Subsidiary Linkage (PSL) Rating Criteria.

The full rating drivers of CETIN Group's and CETIN's existing rating are detailed in "Fitch Affirms CETIN Group and CETIN at 'BBB'; Outlook Stable", dated 7 November 2022 (<https://www.fitchratings.com/research/corporate-finance/fitch-affirms-cetin-group-cetin-at-bbb-outlook-stable-07-11-2022>).

**Resolving RWN:** Confirmation that a new transaction structure will continue to allow a standalone rating in conjunction with an appropriate capital structure and financial policy would result in the RWN being resolved with an affirmation of CETIN Group's and CETIN's existing ratings. A lack of sufficient ringfencing may lead to a new consolidated rating scope, with a different operating profile in conjunction with a more conservative capital structure and financial policy to maintain its current rating.

## 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 Rating 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 Standalone Credit Profile (SCP) of 'bbb+' is stronger than CETIN Group's 'BBB' rating. Both subsidiary and parent have similarly strong operating profiles, but the subsidiary has much lower leverage.

CETIN Group's rating (prior to the transaction with e&) reflects the business mix of its 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. This reflects their greater stability in and visibility over FCF, higher visibility over 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 cash flow 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 risk 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 (prior to the transaction with e&)

- Revenue of around EUR1.1 billion in 2023, gradually increasing to EUR1.2 billion by 2025

- Fitch-defined EBITDA margin of 51.5% in 2023, gradually increasing to 55.6% by 2025
- Capex about 34%-37% of revenue in 2023-2025
- Dividend payments of 100% of Fitch-defined pre-dividend FCF

## **RATING SENSITIVITIES**

### **CETIN Group and CETIN**

#### **Factors that Could, Individually or Collectively, Lead to Positive Rating Action/ Upgrade**

-The ratings are on RWN therefore a positive rating action is unlikely. However, visibility of a final transaction and capital structure and a financial policy, which are consistent with the existing ratings based on a new operating profile, or if the transaction does not take place would result in the removal of the RWN and rating affirmation.

#### **Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade**

- A final transaction and capital structure, and a financial policy, which are not commensurate with a 'BBB' rating for the new operating profile could result in the RWN being resolved with a one-notch downgrade

For previous rating sensitivities, see "Fitch Affirms CETIN Group and CETIN at 'BBB'; Outlook Stable" dated 7 November 2022.

## **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:** At end-2022 CETIN Group had cash and cash equivalents of EUR82 million. Further liquidity is provided by a committed EUR200 million revolving credit facility due 2026. Its next maturities are in 2023 (CZK4.9 billion bond at CETIN) and 2026 (EUR955 million bank loan at CETIN Group). CETIN Group generates strong cash flow, supported by good revenue visibility.

## **Issuer Profile**

Pre-transaction CETIN Group is a telecoms network infrastructure provider with operations in the

Czech Republic and three other CEE markets. CETIN operates fixed and mobile telecom network infrastructure in the Czech Republic 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.

### 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation of the materiality and relevance of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit [www.fitchratings.com/esg](http://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

#### **Adrien Berby, CFA**

Senior Analyst

Secondary Rating Analyst

+49 69 768076 136

#### **Angelina Valavina**

Managing Director

Committee Chairperson

+44 20 3530 1314

### Media Contacts

#### **Isobel Burke**

London

+44 20 3530 1499

[isobel.burke@thefitchgroup.com](mailto:isobel.burke@thefitchgroup.com)

## Rating Actions

ENTITY/DEBT	RATING	RECOVERY	PRIOR
CETIN Finance B.V.			
• senior unsecured <sup>LT</sup>	BBB 	Rating Watch On	BBB
CETIN Group N.V.	LT IDR	BBB 	Rating Watch On
• senior unsecured <sup>LT</sup>	BBB 	Rating Watch On	BBB 
CETIN a.s.	LT IDR	BBB 	Rating Watch On
• senior unsecured <sup>LT</sup>	BBB 	Rating Watch On	BBB 

### RATINGS KEY OUTLOOK WATCH

POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

### Applicable Criteria

[Climate Vulnerability in Corporate Ratings Criteria \(pub.21 Jul 2023\) \(including rating assumption sensitivity\)](#)

[Corporate Rating Criteria \(pub.28 Oct 2022\) \(including rating assumption sensitivity\)](#)

[Corporates Recovery Ratings and Instrument Ratings Criteria \(pub.09 Apr 2021\) \(including](#)

rating assumption sensitivity)

Parent and Subsidiary Linkage Rating Criteria (pub.16 Jun 2023)

Sector Navigators: Addendum to the Corporate Rating Criteria (pub.12 May 2023)

## Applicable Models

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

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.1.0 (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

## DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers. Please read these limitations and disclaimers by following this link: <https://www.fitchratings.com/understandingcreditratings>. In addition, the following <https://www.fitchratings.com/rating-definitions-document> details Fitch's rating definitions for each rating scale and rating categories, including definitions relating to default. ESMA and the FCA are required to publish historical default rates in a central repository in accordance with Articles 11(2) of Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 and The Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019 respectively.

Published ratings, criteria, and methodologies are available from this site at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies

and procedures are also available from the Code of Conduct section of this site. Directors and shareholders' relevant interests are available at <https://www.fitchratings.com/site/regulatory>. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled,

verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001. Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

dv01, a Fitch Solutions company, and an affiliate of Fitch Ratings, may from time to time serve as loan data agent on certain structured finance transactions rated by Fitch Ratings.

Copyright © 2023 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved.

## **Endorsement policy**

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch's approach to endorsement in the EU and the UK can

be found on Fitch's [Regulatory Affairs](#) page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.