FitchRatings

RATING ACTION COMMENTARY

Fitch Maintains CETIN Group and CETIN on Rating Watch Negative

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Fitch Ratings - Warsaw - 31 Oct 2023: Fitch Ratings is maintaining CETIN Group N.V.'s and fully owned subsidiary 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 below.

The ratings were placed on RWN in August 2023 following 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 (PPF TG, BBB-/Stable) to Emirates Telecommunication Group Company (e&).

The RWN continues to reflect the low visibility on the final transaction and capital structure of CETIN Group. The RWN would be resolved on completion of the transaction, which is expected in or before 1Q24, or confirmation of the company's transaction structure and financial policies. PPF Group has indicated that they aim to maintain CETIN Group's and CETIN's existing ratings, subject to the confirmation of the targeted final capital structure.

The ratings remain supported by a fairly immune financial profile to the inflationary environment, with energy price increases, foreign-exchange (FX) and CPI-related provisions included in their master service agreements (MSA). We expect cash flow generation to remain sufficient to cover high capex requirements and increased interest costs, while allowing for some dividend payments, with further deleveraging capacity envisaged.

KEY RATING DRIVERS

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

Change in Operating Profile: Following the announced 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 of PPF TG's assets in other central and eastern European (CEE) operations. The reduced asset diversification will weaken the operating profile of the group and lead to a reduction in the 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 perimeter depending on the structure of the transaction that is yet to be finalised. CETIN Group is currently rated on a standalone basis subject to a maximum one-notch uplift to the consolidated rating profile of its parent PPF TG. The standalone rating reflects sufficient ringfencing from its parent based on Fitch's Parent Subsidiary Linkage (PSL) Criteria.

Resolving RWN: Confirmation that a new transaction structure will continue to allow a standalone rating in conjunction with a conservative capital structure and financial policy would result in the RWN being resolved with an affirmation of CETIN Group's and CETIN's ratings. A lack of sufficient ringfencing may lead to a new consolidated rating perimeter, with a different operating profile which, if combined with a more aggressive capital structure and financial policy, may lead to a lower rating.

EBITDA Margin to Recover: We expect EBITDA margin to gradually recover to above 2021 levels (51.4%), after an expected drop to around 50.3% in FY23, due to network modernisation and as inflationary pressures (which have driven personnel and energy costs higher in FY22 and FY23) gradually ease. We still expect energy costs to rise, but at significantly slower pace than over the last two years, as energy price declines would be offset by consumption increase. The group's nominal EBITDA is protected from energy price increases through MSA provisions, which also includes FX and CPI indexation.

Capex to Intensify: Our base case assumes increased capex over the next couple of years, to close to or above EUR400 million a year or 32%-34% of revenue. This is predominantly driven by increased fixed network investments in the Czech Republic as well as further mobile network development and modernisation across countries of operations, including 5G investments.

The group plans to pass around 1.3 million homes by fibre by end-2030 in the Czech Republic, after passing 271,000 at end-1H23. This is in addition to the existing FTTC/DSL network, currently passing 4.2 million households, which translates into approximately 83% of all households in the country. The impact on leverage from higher capex is likely to be largely offset by its prudent financial policy, which prioritises target leverage over dividend payments

Further Decline in Net Leverage: CETIN Group's financial policy has remained stable with expected profit distribution of up to 100% of group-defined free cash flow (FCF), subject to maintaining a maximum 3.0x internally defined net leverage (excluding IFRS16 impact) and capex needs being covered. CETIN Group's leverage policy is comfortably distant from the downgrade threshold of Fitch-defined EBITDA net leverage of 3.7x for its 'bbb' Standalone Credit Profile (SCP). Its leverage was 2.8x at FYE22, below the upgrade threshold of 3.2x, and we expect it to decline further to 2.5x-2.6x in FY24-FY25.

However, an upgrade is constrained by high capex driving cash flow from operations (CFO) less capex at 2.5%-4% of debt, versus the 8% upgrade threshold for its SCP.

CETIN Bond Only Short-Term Maturity: The only short-term debt maturity within the group is around CZK4.9 billion (EUR205 million-equivalent) bonds issued by CETIN due in in December 2023. We expect this bond to be repaid with an inter-company loan from CETIN Group, which will utilise its currently undrawn EUR200 million revolving credit facility (RCF) for this purpose. Thereafter, all debt will be held at the CETIN Group level. The RCF is due in 2026 and its repayment or refinancing schedule will depend on the final e& transaction structure.

DERIVATION SUMMARY

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

CETIN Group's SCP (prior to the transaction with e&) of 'bbb' 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 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 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 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 (prior to the transaction with e&):

-Revenue of around EUR1.2 billion in 2023, gradually increasing to EUR1.3 billion by 2026

-Fitch-defined EBITDA margin of 50.6% in 2023, gradually increasing to 53.1% by 2026

-Capex at about 32%-34% of revenue in 2023-2026

-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, making a positive rating action 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 a rating affirmation

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

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

LIQUIDITY AND DEBT STRUCTURE

Lower Liquidity Headroom: At end-June 2023, CETIN Group had cash and cash equivalents of EUR58 million. Further liquidity is provided by a committed EUR200 million RCF due in 2026. However, the RCF is to be used to repay the upcoming CZK4.9 billion senior unsecured bonds maturity at CETIN due in December 2023.

Other debt maturities include EUR955 million term loans at CETIN Group due in August and November 2026. CETIN Group generates healthy cash flow, supported by good revenue visibility and strong EBITDA margins.

ISSUER PROFILE

CETIN Group is a telecoms network infrastructure provider with operations in the Czech Republic and three other CEE markets. CETIN operates fixed-line and mobile telecoms 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.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

CETIN Group is rated in line with its SCP but with a maximum one-notch uplift to the consolidated profile rating of its parent PPF TG.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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 on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY / DEBT	RATING		PRIOR
CETIN Finance B.V.			
senior unsecured	LT	BBB Rating Watch Negative Rating Watch Maintained	BBB Rating Watch Negative
CETIN Group N.V.	LT IDR	BBB Rating Watch Negative Rating Watch Maintained	BBB Rating Watch Negative
senior unsecured	LT	BBB Rating Watch Negative Rating Watch Maintained	BBB Rating Watch Negative
CETIN a.s.	LT IDR	BBB Rating Watch Negative Rating Watch Maintained	BBB Rating Watch Negative
senior unsecured	LT	BBB Rating Watch Negative Rating Watch Maintained	BBB Rating Watch Negative

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

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

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

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

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

Corporates Recovery Ratings and Instrument Ratings Criteria (pub. 13 Oct 2023) (including rating assumption sensitivity)

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 Policy

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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