MOODY'S
RATINGS

Rating Action: Moody's Ratings changes to stable from negative the outlook on CETIN and affirms Baa2 ratings following reorganisation

28 Oct 2024

Madrid, October 28, 2024 -- Moody's Ratings (Moody's) has today changed to stable from negative the outlook of CETIN Group N.V.'s (CETIN). Concurrently, we have affirmed the company's Baa2 long term issuer ratings as well as the Baa2 rating of its guaranteed senior unsecured Euro Medium Term notes.

The rating action follows PPF Group N.V.'s (PPF Group) completion [1] on 24 October 2024 of the separation of the domestic and international businesses of the former PPF Telecom group, including the carve out of CETIN and the rest of operations in Czechia (mainly O2) into a new vehicle called PPF TMT Holdco 2 B.V. (TMT Holdco 2).

"The Baa2 rating balances the underlying strengths of a strong fixed and mobile infrastructure provider in the Czech Republic, with the fact that CETIN is now a smaller company in size, as it no longer has international operations," says Carlos Winzer, a Moody's Ratings Senior Vice President and lead analyst for CETIN.

The change in corporate structure and target leverage for the new perimeter are governance considerations captured under the financial strategy and risk management factor under Moody's General Principles for Assessing Environmental, Social and Governance Risks methodology.

RATINGS RATIONALE

The completion of the group reorganization has significantly changed the perimeter of the former PPF Telecom group, with the separation of the Czech operations (TMT Holdco 2) from the international businesses (e& PPF Telecom Group B.V.).

CETIN's existing assets in Slovakia, Hungary, Bulgaria and Serbia have been separated from the group, and as a result, CETIN will now only own the telecommunication infrastructure assets in Czechia. After the restructuring, CETIN's intermediate parent, TMT Holdco 2 will be fully owned by PPF Group following GIC's (the Singapore sovereign wealth fund) exit from the shareholding structure.

Following the reorganization, CETIN's scale in terms of revenue and EBITDA will roughly reduce by one third, and it will be solely focused in Czechia, losing its international diversification. However, we acknowledge that CETIN a.s. Czechia is the subsidiary with the most valuable assets, with both national fixed and mobile networks.

CETIN owns and operates the largest telecommunications infrastructure portfolio in Czechia. CETIN has passed more than 4 million homes connected out of 5.1 million households in the country, and around 1.2 million of these were connected via cable or fibre, as of September 2024. However, CETIN still relies mostly on alternative technologies to fiber-to-the-home (FTTH), which only represents around 20% of the households connected. This is below the European average of around 40%.

We expect CETIN's pro forma revenue growth to decelerate in 2024 owing to reduced inflation and foreign currency volatility. We also expect revenue to drop by 4% in 2025 due to the sustained decline in transit revenues and stabilize in 2026. EBITDA will remain broadly flat, as transit revenues are low margin and the company will implement cost savings. As a result, EBITDA margins will stay around 52%.

Following the group reorganization, CETIN Group will have a total debt amount of € 1.4 billion (including lease liabilities), bringing Moody's-adjusted leverage to around 3.5x, positioning the company weakly in the rating category, given our expectation of flattish EBITDA of around € 415 million per year. Management has declared a target net leverage of 3.25x, which roughly equates to Moody's adjusted gross leverage of 3.5x, and no dividend payout through 2026. Given the relatively high capex over revenues of around 35% over the next two years, we expect our coverage ratio (EBITDA – Capex/Interest Expense) to remain below 2x with an expected improvement in 2026.

Although the rating reflects the company's reliable and predictable revenues, based on existing contracts with O2 Czechia and T-Mobile and its predictable operating costs, FCF remains constrained by high capital spending and the dividend payout policy. We expect FCF to be breakeven in 2024 and 2025, despite zero dividends in those years.

CETIN's ratings are supported by (1) its leading position in the telecom market in the Czech Republic, (2); the stable and predictable operating performance; and (3) the group's financial policy of sustaining net reported leverage at or below 3.25x.

Conversely, the ratings are constrained by (1) its low FCF because of high capital spending and dividends payments, (2) the complexity of the TMT Holdco 2 group structure, with presence of debt at different entities, (3) the concentrated ownership, and (4) the somewhat aggressive liquidity management of TMT Holdco 2.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE CONSIDERATIONS

Governance considerations are material to the rating action. The company has committed to a net leverage target of 3.25x at CETIN Group level. In addition, the organizational structure has been simplified with the exit of GIC as shareholder. However, the lack of independent board members at CETIN and the 100% ownership by PPF Group results in a change in the score for Board Structure and Policies from 4 to 5, with the Governance IPS remaining at G-3.

LIQUIDITY

CETIN's liquidity is adequate. It is supported by cash balance of around €50 million as of closing of the transaction and full availability of its €200 million revolving credit facility (RCF) due August 2026. We expect low FCF after dividends generation to remain low in the next two years because of high capital spending.

However, we view the group's liquidity management as somewhat aggressive, given the relatively small amount alternative sources of liquidity and the debt maturity wall in 2026 and 2027. Upcoming maturities include a €290 million term loan maturing in August 2026; a €417 million term loan maturing in September 2026; and a €500 million guaranteed senior unsecured bond due April 2027. We expect the group to address its upcoming liquidity needs after the closing of the split transaction, with sufficient time left to fulfill these needs.

STRUCTURAL CONSIDERATIONS

TMT Holdco 2 (100% owner of CETIN infra company and 100% owner of O2 service provider) has a complex structure, with debt allocated across the holding company and operating subsidiaries. Pro forma of the transaction, 38% of the debt stands at TMT Holdco 2, with the balance being allocated to CETIN (54%) and O2 (8%). TMT Holdco 2 is a holding company that relies entirely and exclusively on the cash flow and dividends up-streamed from its operating companies to support its cash needs, mainly interest costs.

OUTLOOK

The stable outlook reflects our expectation that the company's performance will be broadly stable over the next 12-18 months, supported by the high predictability of its cash flows. However, the rating is weakly positioned because we expect its leverage to be at the higher end of the expected range for the rating, at around 3.5x, while its coverage ratio (EBITDA – capex/interest expense) will be at the lower end of the expectations for the rating, at around 2x.

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

The rating could be upgraded if the company's operating performance sustainably improves and its financial policy targets a lower leverage level such that its Moody's-adjusted debt/EBITDA drops below 2.5x on a sustained basis. An upgrade would also require a track record of prudent liquidity management, and a parallel improvement in credit metrics at CETIN's parent, TMT Holdco 2.

The rating could 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 or the coverage ratio (EBITDA- capex/interest expense) remains sustainably below 2x. A weakening of the company's liquidity could also strain the rating.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Communications Infrastructure published in February 2022 and available at https://ratings.moodys.com/rmc-documents/379527. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

COMPANY PROFILE

CETIN Group N.V. is the owner of the group's telecom infrastructure business in the Czech Republic. Pro forma for the reorganization, in 2023, CETIN Group N.V. generated pro forma revenue of €816 million and EBITDA of €416 million. The company operates and manages fixed and mobile infrastructure in the domestic market and transit infrastructure abroad, with international points of presence in Germany; Austria; Slovakia; the UK; and Hong Kong SAR, China.

The company is headquartered in Amsterdam, the Netherlands, and ultimately owned and controlled by PPF Group.

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 on https://ratings.moodys.com/rating-definitions .

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At least one ESG consideration was material to the credit rating action(s) announced and described above. Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moodys.com/documents/PBC_1355824.

The Global Scale Credit Rating(s) discussed in this Credit Rating Announcement was(were) issued by one of Moody's affiliates outside the UK and is(are) endorsed for use in the UK in accordance with the UK CRA Regulation.

REFERENCES/CITATIONS

[1] Press release announcing CETIN Group's new financial policy and capital structure, 24 October 2024: https://www.cetin.eu/documents/d/guest/20241024-cetin-group-financial-policy_announcement

Please see https://ratings.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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