FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms CETIN Group at 'BBB'; Removes Rating Watch Negative; Outlook Stable

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Fitch Ratings - Warsaw - 25 Oct 2024: Fitch Ratings has affirmed CETIN Group N.V.'s (CETIN) Long-Term Issuer Default Ratings (IDR) and senior unsecured ratings at 'BBB' and removed them from Rating Watch Negative (RWN). The Outlook on the IDR is Stable. A full list of rating actions is detailed below.

The RWN has been removed following the transfer of CETIN's Czech assets to new holding parent company PPF TMT Holdco 2 from PPF Telecom Group (PPF TG, BBB-/RWP) and visibility on CETIN's new capital structure and financial policy. The transfer of assets was part of a transaction where PPF Group sold a 50% plus 1 controlling stake in PPF TG's remaining international assets to Emirates Telecommunication Group Company. CETIN is rated on a standalone basis.

The ratings are supported by CETIN's ownership of incumbent mobile and fixed network infrastructure assets operating in a competitive but broadly stable market structure. Its wholesale-based business model has sizeable long-term, contracted revenues that provide strong visibility and stability to its cash flow. CETIN's financial profile is fairly immune to inflation, as energy price increases, foreign-exchange (FX) and CPI-related provisions are included in their master service agreements. We expect cash flow generation to remain sufficient to cover high capex requirements, while allowing for some dividend payments and a certain amount of financial flexibility.

Post the transaction completion the rating becomes constrained by reduced geographic asset diversification and scale, which weakens CETIN's operating profile. This is partially offset by expected prudent management of EBITDA net leverage towards the lower end of the thresholds of its current rating.

KEY RATING DRIVERS

Group Reorganisation Completed: The reorganisation of PPF TG has resulted in in the transfer of all Czech assets to PPF TMT Holdco 2, which becomes an immediate parent of CETIN and O2 Czechia. PPF TMT Holdco 2 will own 100% of CETIN after its expected acquisition of a 30% stake from Roanoke Investment Pte Ltd (GIC's investment vehicle). CETIN a.s. will remain a sole subsidiary of CETIN. The reorganisation follows PPF Group's efforts to maintain full ownership of their Czech assets while selling a 50% plus one share in PPF TG's assets in Bulgaria, Serbia, Hungary and Slovakia.

Retained Financial Flexibility, Stable Leverage: We expect CETIN to manage its Fitch-defined EBITDA net leverage within its rating sensitivities of 3.0x-3.5x. We forecast CETIN will distribute up to 100% of free cash flow (FCF), subject to maintaining this leverage threshold and meeting capex requirements. Our base case assumes that leverage will remain broadly stable at 3.1x-3.2x and broadly in line with the company-defined net leverage target of 3.25x. However, FCF generation is constrained by high capex, leaving cash flow from operations (CFO) less capex sharply below 8% of gross debt - a key threshold for a rating upgrade.

Strong Infrastructure Asset: CETIN owns the incumbent Czech telecoms infrastructure, which principally consists of mobile towers, active mobile network components, backhaul networks and fixed local access networks. This allows for the deployment of convergent product propositions. Its services are provided on long-term contracts of 10 to 30 years with CPI, FX and energy-price indexation and a fixed fee component that we estimate at about 50% of revenues. Additional services are provided at prices that allow CETIN to sustain a good return on capital employed.

Contractually Secured Revenue: CETIN's growth, excluding international transit, is predominantly driven by the mobile segment and due largely to network modernisation, 5G roll-out, tower densification and increased tower co-location. We expect CETIN to see steady revenue growth, excluding transit, over the next four years. A large proportion of the growth in the Czech market is contractually secured. The growth will enable EBITDA-margin expansion as fixed costs are expected to increase at a slower pace. A decreasing share of low-margin transit revenue will further drive the margin improvement.

Czech Broadband Market Competitive: The Czech broadband market is competitive due to a mix of alternative WiFi, cable and fibre local access network infrastructures. Competition is increasing as T-Mobile builds out a fibre-to-the-home (FttH) network in partnership with CETIN in parts of the country, increasing the number of local-access network providers to four in certain regions. For a wholesaler like CETIN, this could mean a loss of revenue from T-Mobile unless it is offset by higher average revenue per user from FttH deployment, growth in new wholesale customers due to a more competitive FttH product, and growth in mobile services.

FttH Deployment Progresses: CETIN plans to roll out FttH to 1.3 million homes by 2030, after passing 743,000 at end-1H24. This is in addition to the existing FTTC/DSL network, which passes 4.4 million households or around 84% of all households in the country. 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 CETIN's financial policy.

Reduced FX Risks to Leverage: CETIN's borrowings are predominantly euro-denominated, which used to create a considerable FX mismatch between leverage and earnings before the sale of most CEE telecom assets as part of the transaction. Post the transaction, CETIN's EBITDA will solely be denominated in Czech koruna, whose stability against the euro over the past decade on average reduces the real impact of this mismatch.

DERIVATION SUMMARY

CETIN is rated on a standalone basis under Fitch's Parent Subsidiary (PSL) Criteria. This could change if the credit profile of its parent, PPF TMT Holdco 2, deteriorates materially as it may lead to CETIN's rating being linked to its parent's.

CETIN's rating 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 Czech market in which its infrastructure operates. Infrastructure peers TDC NET A/S (BB/Stable) and Optics Bidco SPA (BB/Stable) are rated lower due to their higher leverage profiles but they have a slightly higher leverage capacity per rating band. This reflects their less competitive market structures, greater national network coverage and/or scale.

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 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, due primarily 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, these commercial risks partially reside in the other more customer-facing part of the group it is operating in, as a result of its long-term contracts with a high share of fixed fees on a take-or-pay basis.

KEY ASSUMPTIONS

- Revenue of EUR830 million in 2024, dropping to EUR795 million in 2025 driven by a decline in international transit revenue, before remaining broadly flat in the following three years

- Fitch-defined EBITDA margin of around 45% in 2024, before increasing to about 47% in 2027, as lower- margin international transit as a share of revenue decreases

- Capex at 31%-34% of revenue in 2024-2027

- Dividend payments of up to EUR50 million a year over the forecast horizon

RATING SENSITIVITIES

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

- EBITDA net leverage below 3.0x on a sustained basis

- CFO less capex / gross debt consistently above 10%

- Visibility of medium-term competitive stability in the wholesale fixed-line market

- An upgrade is subject to no deterioration of the credit profile of immediate parent, PPF TMT Holdco 2

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

- EBITDA net leverage consistently above 3.5x

- Weakening EBITDA and FCF on a sustained basis

- CFO less capex / gross debt below 8%

- A significant deterioration in the credit profile of PPF TMT Holdco 2 could lead to a change in the standalone rating approach and consequently lead to a downgrade of the rating

LIQUIDITY AND DEBT STRUCTURE

Comfortable Liquidity: At end-June 2024, CETIN had cash and cash equivalents of EUR84 million, of which the majority was held at the Czech part of the business. At the completion of the transaction, an outstanding EUR197 million under a ERU200 million revolving credit facility (RCF) was repaid in full. We expect the RCF to remain undrawn until its maturity in August 2026. The liquidity is further supported by healthy cash flow generation, good revenue visibility and strong EBITDA margins.

CETIN's EUR511 million term loan, maturing in August 2026, and EUR444 million incremental loan, both maturing in November 2026, were partly prepaid on the transaction completion. The former now amounts to EUR290 million and the latter to EUR417 million. Its EUR500 million bond maturing in 2027 remained unchanged post-completion.

ISSUER PROFILE

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.

MACROECONOMIC ASSUMPTIONS AND SECTOR FORECASTS

Click here to access Fitch's latest quarterly Global Corporates Macro and Sector Forecasts data file which aggregates key data points used in our credit analysis. Fitch's macroeconomic forecasts, commodity price assumptions, default rate forecasts, sector key performance indicators and sector-level forecasts are among the data items included.

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 Group N.V.	LT IDR	BBB Rating Outlook Stable	Affirmed	BBB Rating Watch Negative
senior unsecured	LT	BBB	Affirmed	BBB Rating Watch Negative

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

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

Corporate Rating Criteria (pub. 03 Nov 2023) (including rating assumption sensitivity)

Sector Navigators – Addendum to the Corporate Rating Criteria (pub. 21 Jun 2024)

Corporate Recovery Ratings and Instrument Ratings Criteria (pub. 02 Aug 2024) (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

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

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CETIN Group N.V.	EU Issued, UK Endorsed

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