

Bulletin:

PPF Arena 1's Sale Of Its Minority Stake In Telenor Hungary Leaves Credit Metrics Intact

November 4, 2019

PARIS (S&P Global Ratings) Nov. 4, 2019--S&P Global Ratings today said that PPF Arena 1's sale of its 25% minority stake in Telenor Hungary will leave the telecom operator's credit metrics well within the parameters of the current rating (BB+/Stable/--). There will be, however, a slightly negative net impact.

Compared with our base-case assumptions published on March 14, 2019, we now project:

- Lower consolidated pro rata revenue growth of no more than 1% in 2019, after deconsolidating 25% of the revenues generated by Telenor Hungary.
- Subtle improvement in the S&P Global Ratings-adjusted pro rata EBITDA margin to about 44.8% in 2019 from 44.5% in our initial forecast. This is because we deconsolidate from EBITDA the amount equivalent to the minority share in Telenor Hungary, which generates the lowest EBITDA margin among the group's Telenor entities.
- Total capital expenditure to pro rata sales of 19%-20% in 2019, spiking to 28%-29% in 2020. This is because we initially expected spectrum payments for the frequency auction in Czech Republic in 2019, but now forecast that there will be a one-year delay.
- With the proceeds received from the sale of 25% in Telenor Hungary, PPF Arena 1 will repay part of the term loans, leaving the reported proportionate debt to EBITDA ratio unchanged. It will use the remaining part for general corporate purposes or dividend distribution.

Our revised base-case assumptions do not change our view on PPF Arena 1's overall financial risk profile, because the proposed debt repayment will partly offset the deconsolidation from EBITDA of the amount equivalent to the minority share in Telenor Hungary. We therefore expect S&P Global Ratings-adjusted debt to EBITDA ratio will increase by 0.02x-0.03x in 2020 to about 3.4x-3.5x, while free operating cash flow to debt, when excluding spectrum payments, approaches 15%. These ratios are still well within parameters of maximum 3.75x and minimum 10%, respectively, for the 'BB+' rating.

This report does not constitute a rating action.

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