MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns first-time Corporate Family Rating of Ba1 to PPF Arena 1 B.V.; stable outlook

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Madrid, March 14, 2019 -- Moody's Investors Service, ("Moody's") has today assigned a first-time Corporate Family Rating ("CFR") of Ba1 and a probability of default rating (PDR) of Ba1-PD to PPF Arena 1 B.V ("PPF Arena 1"), a holding company which owns telecommunications companies in Czech Republic and other Central and Eastern European ("CEE") countries. Concurrently, Moody's has assigned a Ba1 rating to the proposed benchmark size senior secured notes to be issued by PPF Arena 1 under its EMTN program (not rated). The outlook is stable.

"The Ba1 rating balances the group's strong positions in different markets, its diversified international footprint, its resilient operating cash flow generation and its experienced management team, with the complexity of PPF Arena 1's group structure, with debt at both the holding company and operating subsidiaries, its limited free cash flow generation owing to a high dividend pay-out policy (free cash flow is measured after dividend payments and all other calls on cash), and the short track record in managing the recently acquired assets in the CEE" says Carlos Winzer, a Moody's Senior Vice President and lead analyst for PPF Arena 1.

RATINGS RATIONALE

The Ba1 rating reflects (1) the company's leading position as the integrated incumbent in the Czech Republic with a corporate structure that separates the service provision from the infrastructure management; (2) the group's good geographical diversification in the CEE region; (3) the higher revenue growth potential in PPF Arena 1's footprint relative to the European average; (4) its financial policy and commitment to manage leverage within management´s published guidance; and (5) its good margins and resilient operating cash flow generation.

The rating also reflects (1) the group's moderate scale; (2) the mobile-centric position of the recently acquired assets in CEE in an environment with growing convergence trends; (3) potentially heightened competition in the retail market in the Czech Republic resulting from market consolidation; (4) low retained cash flow metrics as a result of high dividend payments in line with financial policy; and (5) PPF Arena 1's structurally subordinated position relative to debt raised at operating companies, as the parent relies on dividends from the operating companies to service its debt.

A key consideration is PPF Arena 1's broad geographical diversification. The recently acquired mobile assets in Hungary, Bulgaria, Serbia and Montenegro are the major contributors to PPF Arena 1's earnings and cash flow, representing 40% of EBITDA and around 45% of the company's Free Cash Flow (FCF) in 2018. O2 Czech Republic generated around 32% of the group's FCF, followed by CETIN with 23%.

PPF Arena 1 holds a leading position as the incumbent operator in the Czech Republic with over 37% retail mobile market share and around 30% retail fixed broadband market share in terms of revenue. Additionally, the company holds a strong challenger position in Slovakia (24% mobile revenue market share), Hungary (28%), Bulgaria (37%), Serbia (39%) and Montenegro (42%).

Moody's has assumed that 1-2% (excluding international transit) annual revenue growth over the next two years mainly driven by solid mobile growth in O2 and upselling opportunities in the recently acquired assets in CEE.

Moody's expects the group's adjusted leverage to peak at around 3.4x over the next 12-18 months, which is equivalent to a reported net leverage of around 3.2x. The company targets to maintain reported net consolidated leverage between 2.8x and 3.2x, while net leverage at the operating subsidiaries is limited to a maximum of 1.5x. Moody's estimates that the group will distribute most of the free cash flow that it will generate such that it maintains leverage within the stated leverage range.

The company is integrating the recently acquired assets, and therefore, Moody's does not expect significant M&A transactions in the next two years, although small bolt-on acquisitions are possible.

The group has a complex structure, with around 70% of debt raised at PPF Arena 1 level, and the balance sitting at CETIN (20%) and O2 Czech Republic (10%). Since the operating companies do not guarantee the debt at PPF Arena 1 level, this creates structural subordination.

In addition, PPF Arena 1 does not fully own O2 Czech Republic (67.69% voting rights ownership) or CETIN (89.73%) but fully consolidates these assets. Moody's estimates that leverage on a pro rata consolidated basis is approximately 0.3x higher, at 3.7x.

PPF Arena 1 is indirectly owned by PPF Group NV. This is a conglomerate with activities mainly in telecommunications, banking and financial services with significant exposure to China and Russia (supervised by the European banking regulation) and real estate. These other activities outside PPF Arena 1 are considered by Moody's to be of lower credit quality and therefore subject of marginal risk of needing financial support in the future. However, PPF Arena 1 being the strongest cash contributor to PPF Group NV, has clearly defined and publicly communicated its financial policy (including dividend distributions within leverage objectives), which Moody´s believes will be a key determinant to the future cash flow distribution within the broader group.

Moody's also notes the presence of liabilities related to the telecoms operations outside of the PPF Arena 1 group, but are considered to be relatively small in size.

The liquidity risk profile of PPF Arena 1 is adequate, supported by the company's dividend flow from its operating companies, the full availability under its €200 million revolving credit facility with ample headroom under covenants, and the limited debt maturities in the near term.

RATIONALE FOR STABLE OUTLOOK

The ratings have a stable outlook based on Moody's expectation that the group will achieve gradual organic deleveraging based on the strength of the cash flow generated at the operating subsidiaries and subject to the group's financial policy of sustaining net reported leverage between 2.8x and 3.2x.

WHAT COULD CHANGE THE RATING UP / DOWN

Because of PPF Arena 1's complex group structure, upward rating pressure is unlikely until there is a simplification in the debt allocation within the broader group structure and a clearer policy on the debt distribution between PPF Arena 1 and the operating subsidiaries to minimize structural subordination.

Over the long term, Moody's could consider a rating upgrade if PPF Arena 1's operating performance improves beyond our current expectation, such that adjusted debt/EBITDA remains comfortably below 2.75x and retained cash flow (RCF)/debt remains above 20% on a sustained basis.

Moody's could consider a rating downgrade if PPF Arena 1's operating performance materially deteriorates, such that adjusted debt/ EBITDA increases above 3.5x and retained cash flow (RCF)/debt declines below 10% on a sustained basis. Additionally, negative pressure could be exerted if PPF Arena 1's financial policies become more aggressive or if it needs to support operating subsidiaries of lower credit quality within the broader PPF Group.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Telecommunications Service Providers published in January 2017. Please see the Ratings Methodologies page on www.moodys.com for a copy of this methodology.

COMPANY PROFILE

PPF Arena 1, seated in Amsterdam (the Netherlands), is the telecom operation in the Central and Eastern Europe. The group has shareholdings in Ceská Telekomunikacní Infrastruktura a.s. (Baa2 Negative, "CETIN", 89.73%), a Czech telecom infrastructure operator, O2 Czech Republic a.s. (67.69%), an integrated telecommunications operator in the Czech Republic and four mobile operators in Hungary, Bulgaria, Serbia and Montenegro (all 100% owned). In 2018, the group generated revenues of EUR 3.2 billion and EBITDA of EUR 1.2 billion.

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