

07 NOV 2022

Fitch Affirms CETIN Group and CETIN at 'BBB'; Outlook Stable

Fitch Ratings - Warsaw - 07 Nov 2022: Fitch Ratings has affirmed CETIN Group N.V's and CETIN a.s. (CETIN)'s Long-Term Issuer Default Rating (IDR) and senior unsecured rating at 'BBB'. The Outlook is Stable. A full list of ratings is detailed below

CETIN Group and its subsidiary CETIN are rated on a consolidated basis and in line with their consolidated Standalone Credit Profile (SCP) of 'bbb'. While CETIN Group's parent, PPF Telecom Group (PPF TG, BBB-/Stable), controls CETIN Group through its 70% ownership, we assess the linkage between the two as sufficiently weak so as to rate CETIN Group in line with its SCP but with a maximum one-notch difference to the consolidated profile rating of its parent.

The SCP reflects CETIN Group's telecoms-infrastructure asset portfolio and a wholesale-based business model with sizeable long-term, contracted revenues that provide strong visibility and stability to its cashflow.

Key Rating Drivers

Weak Linkage with Parent: Based on Fitch's Parent Subsidiary Linkage Criteria (PSL) our assessment of 'porous' legal ring-fencing and access and control leads us to rate CETIN Group in line with its SCP, albeit with a maximum one-notch difference to the consolidated rating profile of PPF TG. The one-notch linkage balances weak linkage with high operational dependency on its parent (PPF TG accounts for over 95% of CETIN Group's revenues) and covenants that provide headroom and flexibility in accessing cashflow at CETIN Group.

CETIN Group has a 2.2x maximum net debt/EBITDA covenant that is based on the leverage of CETIN Group and O2 Czech Republic, another PPF TG subsidiary. Its EUR1,652 million of gross debt will account for over 70% of the combined two entities' maximum 2.2x net debt/EBITDA.

Strong Operating Profile: CETIN Group operates the network infrastructure of PPF TG's operations in the Czech Republic (CR), Hungary, Bulgaria and Serbia. The infrastructure principally consists of mobile towers, active mobile network components, backhaul networks and fixed local access networks. CETIN CR operates the incumbent fixed infrastructure in the country. Its services are provided on long-term contracts ranging from 10 to 30 years with CPI, foreign exchange (FX) and energy-price indexation and a fixed fee that we estimate accounts for about 50% of revenues. Additional services are provided at prices that allow CETIN Group to sustain a good return on capital employed.

Contractually Secured Growth: At 1H22 CETIN Group achieved YoY revenue growth of 9.7% and

EBITDA growth of 4.3% (excluding transit). The growth was predominantly driven by the mobile segment and largely due to network modernisation, 5G roll-out, tower densification and increased tower co-location. We expect CETIN Group will continue to experience strong and steady revenue growth over the next four years (Fitch base case, about 4% per year on average excluding international transit services). A significant proportion of this growth is contractually secured. The growth will enable EBITDA-margin expansion as fixed costs are expected to increase at a slower pace.

Competitive Domestic Infrastructure Market: Competition in the Czech fixed local-access infrastructure market is increasing as T-Mobile builds out a fibre-to-the-home (FttH) network in partnership with CETIN Group in parts of the country. This increases the number of local-access network providers to four in certain regions, including cable and Wifi operators. We believe CETIN Group's strategy to limit overbuild through its partnership with competitor T-Mobile is least value-destructive. However, as a wholesale customer this could mean a loss of revenue from T-Mobile unless it is offset by average revenue per user improvements from FttH deployment, growth in new wholesale customers as a result of a more competitive FttH product, and growth in mobile services.

FttH Deployment at Early Stage: CETIN Group plans to roll out FttH to 1.3 million homes by 2030, accounting for about 20% the total homes passed. Domestic fixed-line operations account for about 20% of total EBITDA but a higher proportion of capex. 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 the company's financial policy.

Stable Financial Profile: CETIN Group's financial policy is to manage company-defined net debt/EBITDA at 3.0x and to distribute up to 100% of free cash flow (FCF), subject to maintaining this leverage threshold and meeting capex requirements first. Its leverage policy is comfortably within the 4.0x funds from operations (FFO) net leverage downgrade threshold of its 'bbb' SCP. Fitch expects FFO net leverage to decline to around 3.0x over the next two to three years from 3.4x at end 2021 and below the upgrade leverage threshold of the IDR. However, FCF generation is constrained by high capex, leaving cash flow from operations minus capex to trend below 8% of gross debt - a key threshold for an upward revision of the SCP.

Manageable FX Risks: CETIN Group's predominant borrowings are in euros while EBITDA is generated in other currencies. This creates some leverage-mismatch risks. The risks do not have significant impact on the rating as about 57% of EBITDA is generated in the CR, and contracts with retail operations in Bulgaria, Hungary and Serbia allow for FX-indexation adjustments. The Czech koruna exchange rate with the euro has demonstrated stability, and cashflows can be economically hedged.

Derivation Summary

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

CETIN Group's SCP of 'bbb' 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 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 cashflow 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

- Revenue of around EUR1.09 billion in 2022, gradually increasing to EUR1.15 billion by 2025
- Fitch-defined EBITDA margin of 50.5% in 2022, gradually increasing to 55.6% by 2025
- Capex about 34%-37% of revenue in 2022-2025
- Dividend payments at 100% of Fitch-defined pre-dividend FCF

RATING SENSITIVITIES

CETIN Group

Factors that could, individually or collectively, lead to positive rating action/upgrade

- An upgrade would be dependent on an upward revision in the company's SCP combined with an upgrade in the rating of PPF TG and clearer operational or structural separation from parent, PPF TG
- The SCP would be revised higher to 'bbb+' if 1) FFO net leverage is sustained below 3.5x (about 3.2x Fitch-defined net debt/EBITDA), 2) cash flow from operations minus capex/gross debt is sustained above 8%-10% or 3) on visibility of medium-term competitive stability in the wholesale fixed-line market in the CR

Factors that could, individually or collectively, lead to negative rating action/downgrade

- A downgrade in the rating of PPF TG or a downward revision of CETIN Group's SCP

- The SCP would be revised lower if 1) FFO net leverage is trending sustainably above 4.0x (about 3.7x Fitch-defined net debt/EBITDA), 2) EBITDA and FCF weaken on a sustained basis or 3) financial policy or legal covenants that ringfence the company from PPF TG weaken significantly

CETIN

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- An upgrade of CETIN Group's consolidated rating profile and IDR will lead to a similar upgrade of CETIN's ratings provided there are no changes to our assessment of the parent-subsidiary linkage between the companies

- Evidence of operational and structural separation from CETIN Group, while its SCP remains above 'bbb'

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- A downgrade in the rating of CETIN Group may lead to similar downgrade of CETIN's ratings. This would likely be driven by a weakening of CETIN's competitive position, especially in the CR, leading to declining EBITDA and weak FCF generation over the medium term

Best/Worst Case Rating Scenario

International scale credit ratings of Non-Financial Corporate issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

Liquidity and Debt Structure

Comfortable Liquidity: CETIN Group generates strong cash flow and we expect FFO margin to be around 42% in 2022-2025. This is supported by good revenue visibility. Further liquidity is provided by a committed EUR200 million revolving credit facility (RCF) due 2026. The company's next maturities for its bank loans and senior unsecured bonds will be in 2023 (CZK4,866 million bond at CETIN) and 2026 (EUR955 million loan at CETIN Group).

Issuer Profile

CETIN Group is a telecoms network infrastructure provider with operations in the CR and three other central and eastern European markets. CETIN operates fixed and mobile telecoms network infrastructure in the CR 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's ratings are linked to PPF TG's and CETIN's to CETIN Group's.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This 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. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

Fitch Ratings Analysts

Rafal Kaminski

Associate Director

Primary Rating Analyst

+48 22 103 3040

Fitch Ratings Ireland Limited spolka z ograniczona odpowiedzialnoscia oddzial w Polsce Krolewska 16,
00-103 Warsaw

Tajesh Tailor

Senior Director

Secondary Rating Analyst

+44 20 3530 1726

Damien Chew, CFA

Managing Director

Committee Chairperson

+44 20 3530 1424

Media Contacts

Tahmina Pinnington-Mannan

London

+44 20 3530 1128

tahmina.pinnington-mannan@thefitchgroup.com

Rating Actions

ENTITY/DEBT	RATING	RECOVERY	PRIOR
CETIN			

ENTITY/DEBT	RATING		RECOVERY	PRIOR
Finance B.V.				
• senior unsecured	LT BBB		Affirmed	BBB
CETIN Group N.V.	LT IDR	BBB	Affirmed	BBB
• senior unsecured	LT BBB		Affirmed	BBB
CETIN a.s.	LT IDR	BBB	Affirmed	BBB
• senior unsecured	LT BBB		Affirmed	BBB

RATINGS KEY OUTLOOK WATCH

POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

Applicable Criteria

[Corporate Rating Criteria \(pub.28 Oct 2022\) \(including rating assumption sensitivity\)](#)

[Parent and Subsidiary Linkage Rating Criteria \(pub.01 Dec 2021\)](#)

[Sector Navigators: Addendum to the Corporate Rating Criteria \(pub.28 Oct 2022\)](#)

Applicable Models

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.0.3 (1)

Additional Disclosures

Solicitation Status

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

DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers. Please read these limitations and disclaimers by following this link: <https://www.fitchratings.com/understandingcreditratings>. In addition, the following <https://www.fitchratings.com/rating-definitions-document> details Fitch's rating definitions for each rating scale and rating categories, including definitions relating to default. ESMA and the FCA are required to publish historical default rates in a central repository in accordance with Articles 11(2) of Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 and The Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019 respectively.

Published ratings, criteria, and methodologies are available from this site at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the Code of Conduct section of this site. Directors and shareholders' relevant interests are available at <https://www.fitchratings.com/site/regulatory>. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch

believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single

annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001.

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

Copyright © 2022 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved.

Endorsement policy

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch's approach to endorsement in the EU and the UK can be found on Fitch's [Regulatory Affairs](#) page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.