

## CREDIT OPINION

27 April 2023

Update



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### RATINGS

#### CETIN Group N.V.

Domicile	Netherlands
Long Term Rating	Baa2
Type	LT Issuer Rating - Fgn Curr
Outlook	Negative

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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## CETIN Group N.V.

### Update to credit analysis

#### Summary

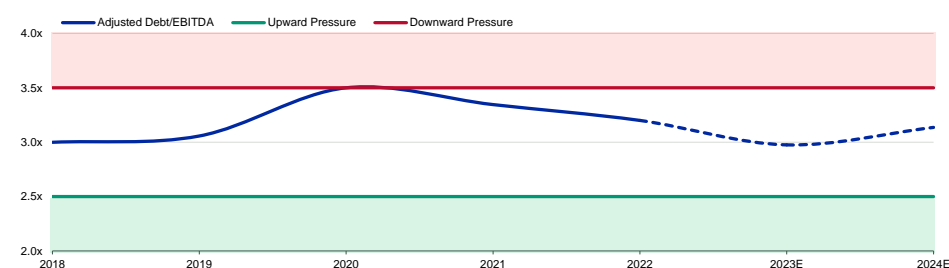
[CETIN Group N.V.](#)'s (CETIN Group) Baa2 rating reflects its leverage policy and liquidity management; the complexity of its group structure with the presence of different credit pools, because of the fact that [PPF Telecom Group B.V.](#) (PPF Telecom, Ba1 negative) has debt of its own and owns 70% of CETIN Group, which in turn also has debt of its own; and the concentrated ownership.

CETIN Group's Baa2 rating also reflects the company's leading position in the telecom market in the Central and Eastern Europe (CEE) region, the solid and predictable operating performance of its subsidiaries, and the group's financial policy of sustaining net reported leverage at or below 3.0x.

CETIN Group's leverage peaked at around 3.3x in 2021, and we expect it to decrease to around 3.0x by 2023 and then slightly increase in 2024, driven by some new debt issuance to fund a dividend payment (see Exhibit 1).

Exhibit 1

**We expect CETIN Group's gross leverage to remain slightly above 3.0x in 2023 and 2024**  
**Moody's-adjusted gross leverage**



Data until 2020 (included) refers to CETIN.

Sources: Moody's Financial Metrics™ and Moody's Investors Service estimate

## Credit strengths

- » Leading position in the Czech Republic, Hungary, Bulgaria and Serbia's telecom market, which also provides substantial geographical diversification
- » Solid operating performance of its operating subsidiaries
- » Long-term contracts with the largest operators in the region, ensuring predictable cash flow

## Credit challenges

- » High leverage for the rating category
- » Complex group structure, with various credit pools and debt placed at different group entities
- » Structural subordination of debt — CETIN Group does not benefit from upstream guarantees
- » Significant capital spending needs, which constrain free cash flow (FCF)

## Rating outlook

The negative rating outlook reflects the parent/subsidiary relationship between PPF Telecom and CETIN Group, with a maximum of a two-notch differential in the rating between these entities. Following the negative outlook change at PPF Telecom, the subsidiaries also carry this outlook on their ratings. In addition, the negative outlook reflects PPF Telecom's aggressive liquidity management and refinancing risk.

## Factors that could lead to an upgrade

CETIN Group's rating is unlikely to be upgraded unless leverage at PPF Telecom decreases substantially and its liquidity profile improves sustainably, thereby alleviating the financial pressure on CETIN Group.

Overtime, the rating could be upgraded if the company delivers on its business plan, such that its Moody's-adjusted debt/EBITDA drops below 2.5x on a sustained basis. This decrease in leverage is likely to be contingent on the company maintaining a conservative approach to acquisitions and shareholder remuneration.

## Factors that could lead to a downgrade

CETIN Group's rating could be downgraded if leverage at PPF Telecom remains at 3.75x or higher on a reported basis, either because of further debt-financed acquisitions or weaker-than-expected performance at the operating subsidiaries.

CETIN Group's rating could also 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 with no expectation of an improvement.

A weakening of the company's liquidity could also strain the rating.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody.com> for the most updated credit rating action information and rating history.

## Key indicators

Exhibit 2

### CETIN Group N.V.

EUR Millions	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22	2023E	2024E
Revenue	773	747	714	1,036	1,108	1,233	1,313
FFO Margin %	35.7%	40.7%	41.0%	48.2%	46.7%	47.4%	48.1%
(EBITDA - CAPEX) / Interest Expense	10.9x	10.3x	7.2x	9.7x	4.5x	4.6x	4.0x
FCF / Debt	4.1%	4.8%	-1.1%	-0.7%	-0.3%	-0.7%	-10.1%
Debt / EBITDA	2.8x	3.0x	3.5x	3.3x	3.2x	3.0x	3.1x

Data until 2020 (included) refers to CETIN.

Sources: Moody's Financial Metrics™ and Moody's Investors Service estimates

## Profile

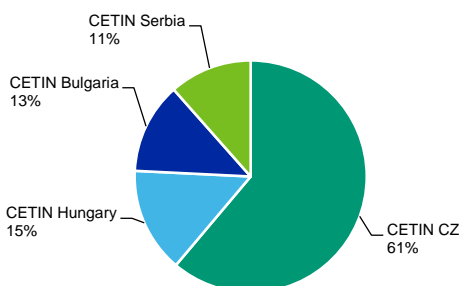
CETIN Group N.V. (CETIN Group) is a holding company created as a result of the recent corporate restructuring of PPF Telecom. CETIN Group is 70% owned by PPF Telecom and 30% owned by the Government of Singapore Investment Corporation (GIC). The company is the 100% owner of [CETIN a.s.](#) (CETIN, Baa2 negative), as well as the group's infrastructure business in Hungary, Bulgaria and Serbia. CETIN Group is headquartered in Prague, the Czech Republic, and is the leading national Czech telecommunications infrastructure provider in terms of revenues and market share. The company was incorporated in June 2015 after the spinoff from O2 Czech Republic a.s. (O2 Czech).

In 2022, CETIN Group generated revenue of €1.1 billion and Moody's-adjusted EBITDA of €630 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.

PPF Telecom is a European telecommunications conglomerate with shareholdings in CETIN Group (70%), O2 Czech (100%) and three mobile operators in other CEE countries, Yettel Hungary, Yettel Bulgaria and Yettel Serbia (all 100% owned, except Yettel Hungary, which is only 75% owned). The company is ultimately 100% owned by PPF Group N.V. (PPF Group), an investment company headquartered in Amsterdam, the Netherlands. PPF Group seeks investment opportunities in the CEE region and the Far East, as well as in the developed markets of Europe and the US.

Exhibit 3

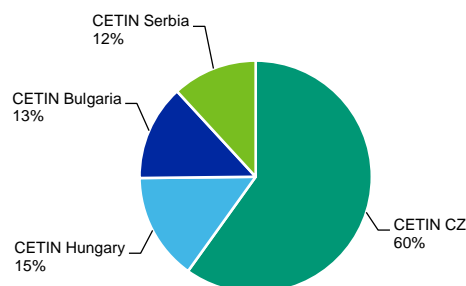
### CETIN CZ accounts for 61% of CETIN Group's total revenue... Revenue breakdown by geography in 2022



Source: Company

Exhibit 4

### ... and 60% of EBITDA EBITDA breakdown by geography in 2022



Source: Company

## Detailed credit considerations

### Leadership position in the Czech telecom market

CETIN Group owns and operates the largest telecommunications infrastructure portfolio in Czechia, CETIN, comprising both metallic and fibre lines. It divides its business activities into two different business lines: provision of national network services and international transit services.

CETIN has passed more than 4.2 million homes with fixed infrastructure, and connected around 1.1 million (cable or fibre). In the mobile segment, the company's current 4G and 5G coverage extends to 98% and 57% of the Czech population, respectively.

This strong position is underpinned by the fact that CETIN provides mobile voice and data services to O2 Czech and T-Mobile through the shared network; it has a partnership with O2 Czech in all downstream retail markets; T-Mobile's fixed broadband services mostly represent a resale of CETIN's xDSL and voice; and CETIN delivers a backbone transport network to numerous alternative network operators and retail service providers, including T-Mobile and Vodafone. CETIN's two key customers, O2 Czech and T-Mobile, are the market leaders in mobile, with estimated 34% and 37% market shares, respectively, as of September 2022.

Exhibit 5

#### Mobile and fixed-line services represented around 69% of CETIN Group's 2022 revenue 2022 revenue breakdown by segment



Source: Company data

CETIN Hungary, CETIN Bulgaria and CETIN Serbia are the owners and operators of mobile telecommunications infrastructure in their respective countries. They provide mobile network services on a wholesale basis, predominantly for Yettel Hungary, Yettel Bulgaria and Yettel Serbia.

In April 2023, CETIN announced an agreement with investment group KAPRAIN to acquire Czech internet service provider Nej.cz, pending regulatory approval. This transaction will bring additional fixed capacity and market share to the group. The financial details of the transaction have not been disclosed.

### High revenue growth mainly driven by higher demand of fixed connection and mobile networks

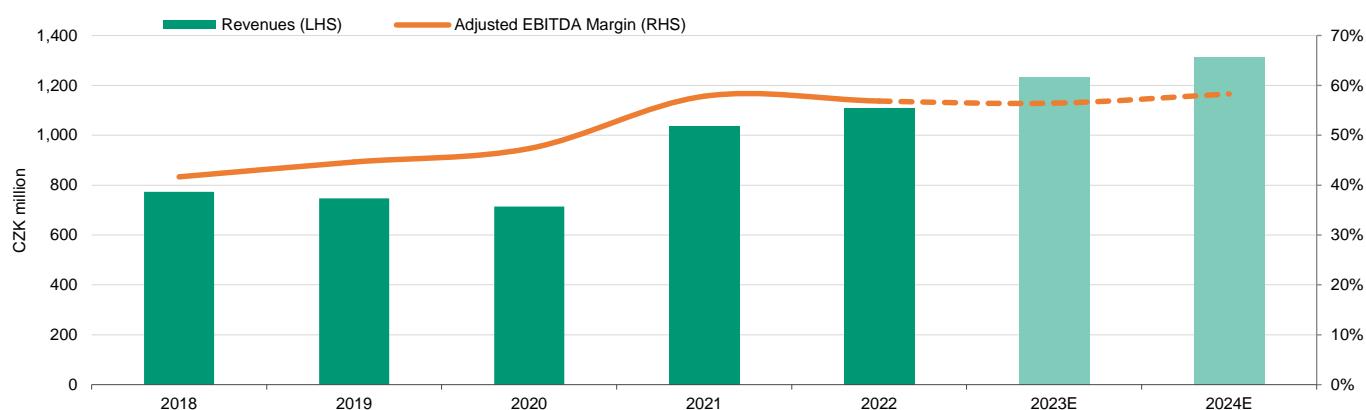
CETIN Group's revenue, excluding international transit, grew by 10.8% in 2022, mainly driven by the growing demand for more capacity and speed in mobile networks, and sustained growth of demand for fixed connection. In terms of EBITDA, the major part is secured by long-term take-or-pay contracts for mobile, fixed and data center services.

We expect CETIN Group's consolidated revenue to increase by around 11% in 2023, supported by growth in all countries (Czechia, Hungary, Bulgaria and Serbia). Growth will be driven by the mobile business, incremental capacity and underlying cost inflation protection. Its Moody's-adjusted EBITDA margin is likely to increase to around 60% in the next two years, recovering 2021 levels.

Exhibit 6

**Moody's-adjusted EBITDA margin to grow to around 60% in the next two years**

Evolution of revenue and Moody's-adjusted EBITDA margin



Source: Moody's Investors Service estimates

We take into consideration the high-margin component of domestic revenue (about 62% as of 2022), which is highly diluted by substantial transit traffic, with a single-digit margin in percentage terms (about 6% as of 2022). Because the domestic fixed and mobile business generated about 97% of the company's EBITDA as of 2022, we have given particular weight in our analysis to the domestic business' high margin.

**Higher capital spending to support future growth**

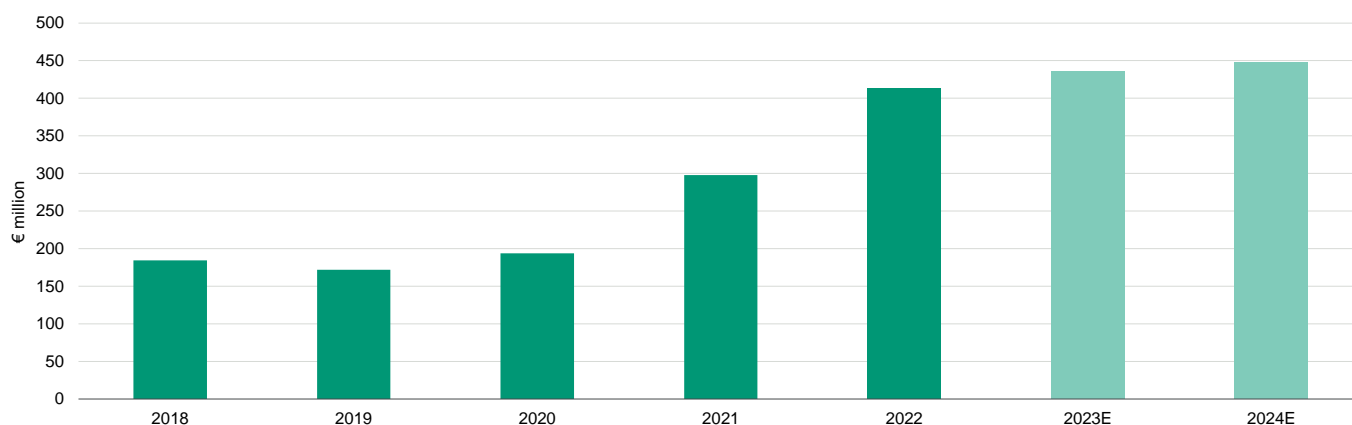
Infrastructure development and specific customer projects drive CETIN Group's capital investment planning. The group aims to gradually upgrade its 5G network in Czechia, Hungary and Bulgaria; and its fixed network through the investment in fibre-to-the-home (FTTH) rollout in Czechia and replacement of the xDSL technology with fibre.

CETIN Group is implementing a major capital spending plan that will provide a strong base for long-term growth. The updated plan entails an accumulated capital investments of around €750 million in the next two years (excluding lease payments), predominantly driven by infrastructure development and some impact of inflation in capital expenditure.

Exhibit 7

**We expect capital spending to increase to around €450 million in the next 12-18 months**

Moody's-adjusted capital spending



Source: Moody's Investors Service estimates

CETIN Czechia continues to develop its mobile infrastructure as part of its long-term agreement with O2 Czechia, T-Mobile and Vodafone. In its modernisation process, the company has upgraded xDSL via fibre to the curb (FTTc) and provided next-generation

access (those with 50+ megabytes per second [Mbps]) to 89% of its subscribers in 2022, with a focus on building FTTH. In 2022, 75% of the total lines reached 100 Mbps or above, compared with 68% in 2021.

CETIN Group will be gradually replacing older technology, including 4G, using new [Ericsson](#) (Ba1 stable) devices across the Czech Republic. This replacement includes not only Huawei's technology, but also [Nokia's](#) (Ba1 stable) old technology. For that purpose, the company signed an agreement with Ericsson.

### CETIN Group's leverage will remain stable as capital spending and dividend payouts slow the pace of leverage reduction

CETIN Group has a financial strategy that targets a reported net leverage of 3.0x (excluding IFRS 16). We expect CETIN Group's Moody's-adjusted leverage to remain at around 3.0x in the next two years, as growing EBITDA will be offset by new debt to support higher capex and dividends.

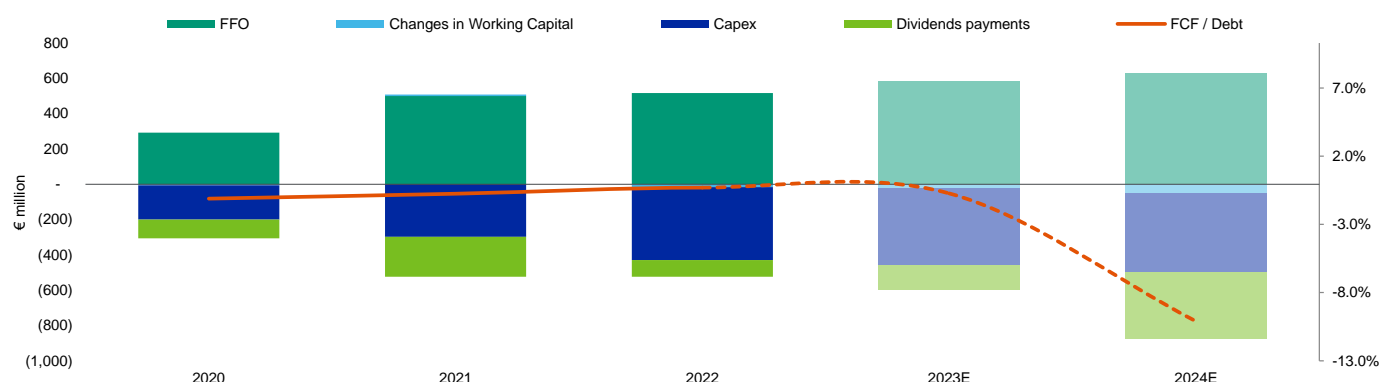
If the company's performance weakens beyond expectations, it can adjust its dividend distribution policy in order to keep leverage within the target range.

The rating reflects the company's reliable and predictable revenue, based on existing contracts with O2 and T-Mobile. Operating costs are predictable and adjusted to cost increases, implying high certainty with respect to future EBITDA margins.

Exhibit 8

### We expect FCF to be slightly negative in 2024 because of capital spending and dividend payments

Moody's-adjusted FFO, capital spending, changes in working capital, dividend payments (LHS) and FCF/debt (RHS)



Source: Moody's Investors Service estimates

### CETIN Group's credit quality also reflects the financial policies and higher leverage of PPF Telecom

PPF Telecom has a complex structure, with debt allocated across the holding company and operating subsidiaries. As of April 2023, 55% of debt was raised at PPF Telecom (including four bonds amounting to €2.3 billion), with the balance being allocated to CETIN Group (40%) and O2 (5%).

PPF Telecom is a holding company that relies entirely and exclusively on the cash flow and dividends upstreamed from its operating companies to support its cash needs, mainly interest cost. Although the contribution from CETIN Group amounted to about 16% of the total cash upstreamed from subsidiaries as of 2022 (diminished by dividends paid to GIC), lenders at PPF Telecom benefit from the value of CETIN Group and its subsidiaries.

There is a limit to how far the credit quality of CETIN Group can be delinked from that of PPF Telecom because the latter owns and controls the former. Therefore, any weakness in the credit quality of PPF Telecom could strain CETIN Group's rating — for example, if there are more debt-financed acquisitions or if the performance of any of PPF Telecom's aggregated subsidiary businesses deteriorates.

## ESG considerations

### CETIN Group N.V.'s ESG Credit Impact Score is Moderately Negative CIS-3

Exhibit 9

#### ESG Credit Impact Score

# CIS-3

## Moderately Negative

For an issuer scored CIS-3 (Moderately Negative), its ESG attributes are overall considered as having a limited impact on the current rating, with greater potential for future negative impact over time. The negative influence of the overall ESG attributes on the rating is more pronounced compared to an issuer scored CIS-2.



Source: Moody's Investors Service

CETIN's ESG Credit Impact Score is Moderately Negative (**CIS-3**). ESG attributes have some negative credit impact on CETIN's rating. Although we expect CETIN to slightly reduce its leverage due to the strength of the operating cash flow and the group's financial policy of net reported leverage at or below 3.0x, CETIN is exposed to its parent/subsidiary relationship with PPF Telecom. We also capture the good track record of managing the environmental and social risks. CETIN Group is 30% owned by GIC, a leading global investment firm based in Singapore. There is a limit to how far the credit quality of CETIN Group can be delinked from that of PPF Telecom because the latter owns and controls the former. Therefore, any weakness in the credit quality of PPF Telecom could strain CETIN Group's rating.

Exhibit 10

#### ESG Issuer Profile Scores

ENVIRONMENTAL

# E-2

Neutral-to-Low



SOCIAL

# S-3

Moderately Negative



GOVERNANCE

# G-3

Moderately Negative



Source: Moody's Investors Service

### Environmental

The company's exposure to environmental risks is Neutral-to-Low, in line with exposures of the telecommunications industry. The company's objectives to increase renewable power usage is in line with telecommunications industry trends. The nature of its telecommunications activities, with limited exposure to physical climate risk and very low emissions of pollutants and carbon, results in low environmental risk.

### Social

Social risks are moderately negative for CETIN Group, as it faces exposure to labour unions and changing demographic and societal trends towards the use of telecom related technology. This is partially mitigated through CETIN Group's infrastructure related business model. Data security and data privacy issues are prominent in the sector. Telecommunications providers exchange large amounts of data, and a breach could cause legal, regulatory or reputation issues. In addition, a breach could result in increased operational costs to mitigate cyberattacks and reduce exposure to the loss of private data. Electromagnetic radiation (for example, from mobile antennas or mobile handsets) has repeatedly been said to be potentially harmful to the environment and health. While the need for higher mobile data speeds will increase electromagnetic radiation, we do not see it as a significant environmental risk, given the existing regulatory radiation limits and ongoing technology improvements.

## Governance

Although we expect CETIN Group to maintain its leverage and the group's financial policy of net reported leverage at or below 3.0x, CETIN's rating reflects the parent/subsidiary relationship between PPF Telecom, with a maximum of a two-notch differential in the rating between these entities. We also capture the good track record of managing the environmental and social risks. The Board of CETIN is controlled by PPF. It is composed of 4 members nominated by PPF, 2 nominated by GIC and 1 independent. PPF Telecom announced recently the completion of 30% stake sale in CETIN Group to GIC, a leading global investment firm based in Singapore, retaining a majority 70% ownership of the telecom infrastructure operator.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

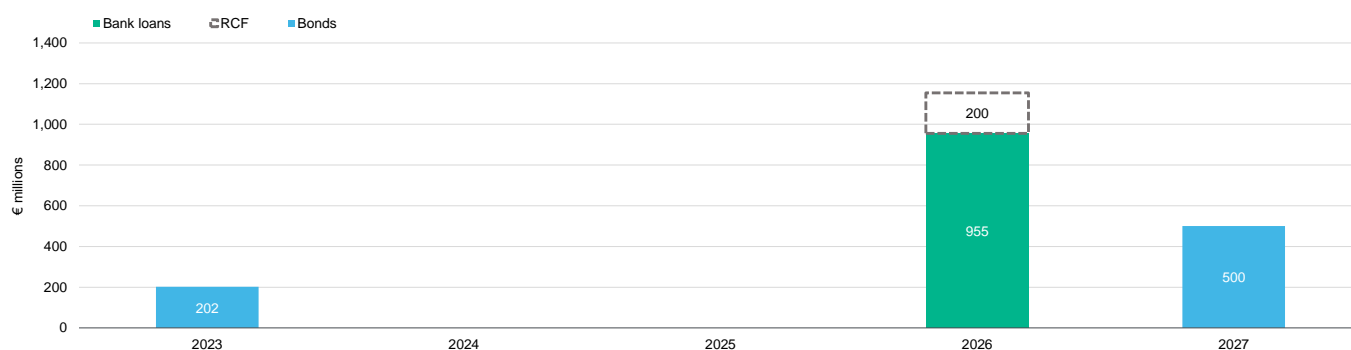
## Liquidity analysis

CETIN Group's liquidity is adequate. It is supported by cash and cash equivalents of €82 million as of December 2022, as well as by the company's strong Moody's-adjusted operating cash flow of around €500 million and a fully available revolving credit facility (RCF) of €200 million due in August 2026. CETIN Group's liquidity is sufficient to cover its upcoming debt maturities and other cash demands through the next 12-18 months, although this will leave the company with limited liquidity, as we expect the company to use its €200 million RCF to repay the €202 million bond (at the CETIN level) due in December 2023. Other maturities include a €444 million term loan due in 2026, a €511 million term loan due in 2026 and a €500 million bond due in 2027.

Exhibit 11

### CETIN Group will be able to refinance its 2023 maturity with its fully available €200 million RCF

CETIN Group's debt maturity profile as of April 2023



Source: Company

According to its liquidity policy, CETIN needs to hold a minimum technical cash reserve of €30 million. Additional funds may be used for capital investments, debt reduction and dividend distributions, unless net reported leverage is above 3.5x.

We also note that liquidity management at PPF Telecom is somewhat aggressive, given the absence of a sufficient revolving credit facility and the debt maturity wall that is building up in 2025 and 2026.

## Structural considerations

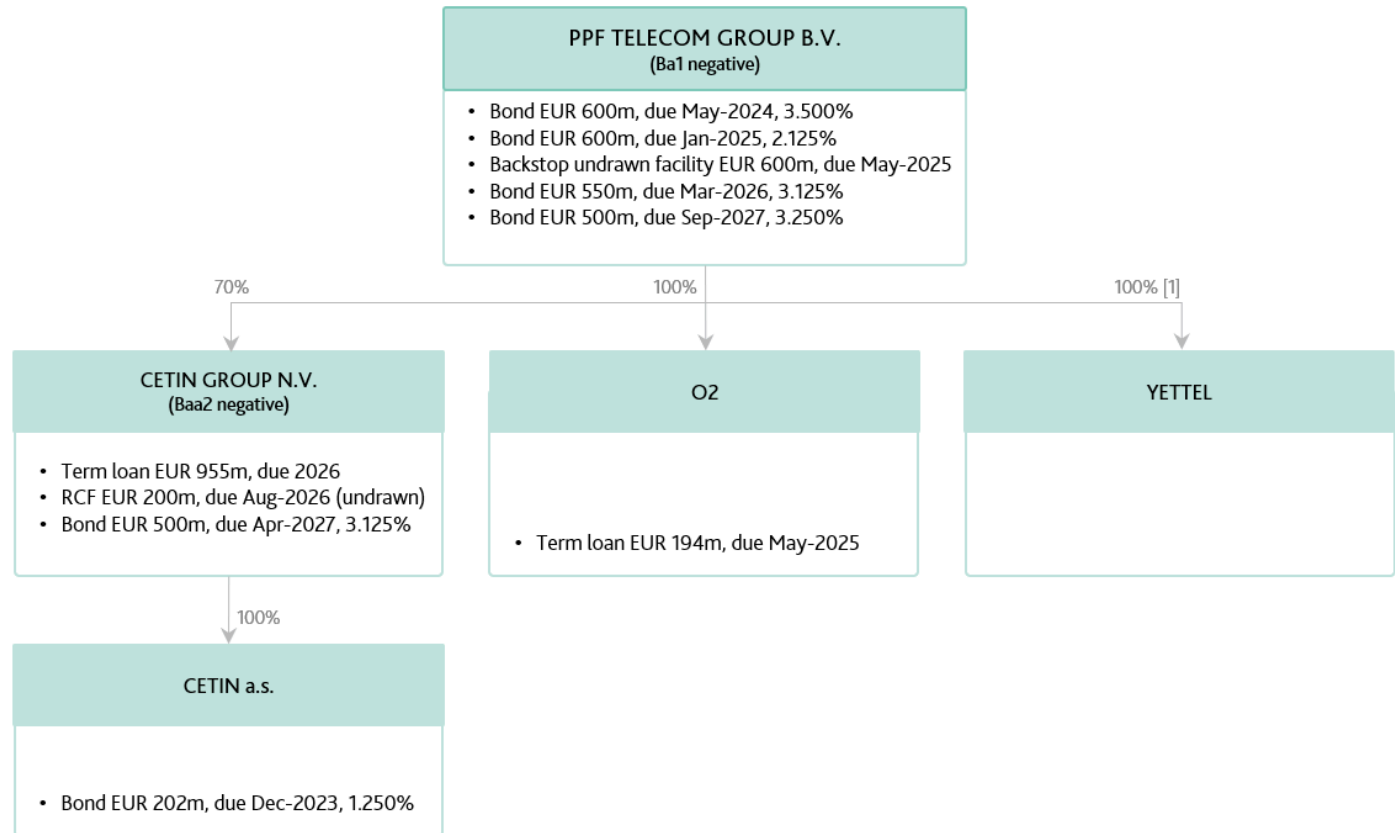
CETIN Group does not benefit from an upstream guarantee from CETIN. Therefore, debt at CETIN is potentially in a stronger position because of structural subordination. However, this stronger position is balanced against the need to limit the rating gap between the strongest ratings of CETIN Group and PPF Telecom's ratings at Ba1. The current rating reflects our expectation of minimal debt at the CETIN level, with CETIN Group weakly positioned at Baa2. If significant debt is pushed down to CETIN in the future, we could consider leaving CETIN rated not more than two notches higher than PPF Telecom, while CETIN Group will likely be positioned one notch lower than CETIN to reflect structural subordination.



Exhibit 12

Around half of the group's debt is sitting at the PPF Telecom level

PPF Telecom as of April 2023



[1] Except for Yettel Hungary, which is 75% owned by PPF Telecom.

Source: Company reports

## Methodology and scorecard

The methodology used in rating CETIN Group was the [Communications Infrastructure](#) rating methodology, published in February 2022. The scorecard-indicated outcome for our 12-18-month forward view is Baa2, in line with the rating assigned.

Exhibit 13

### Rating factors

CETIN Group N.V.

Communications Infrastructure Industry Scorecard [1][2]			Current FY 12/31/2022		Moody's 12-18 Month Forward View As of 4/20/2023 [3]	
Factor 1 : Scale (10%)	Measure	Score			Measure	Score
a) Revenue (USD Billion)	\$1.2	Ba			\$1.3 - \$1.4	Ba
Factor 2 : Business Profile (25%)						
a) Business Model	A	A			A	A
b) Competitive Environment and Business Conditions	A	A			A	A
Factor 3 : Profitability & Efficiency (20%)						
a) FFO Margin	46.7%	Ba			47.4% - 48.1%	Ba
Factor 4 : Leverage & Coverage (30%)						
a) (EBITDA - CAPEX) / Interest Expense	4.5x	A			4.0x - 4.6x	A
b) FCF / Debt	-0.4%	Caa			-10.1% - 0%	Ca
c) Debt / EBITDA	3.2x	Ba			3.0x - 3.1x	Ba
Factor 5 : Financial Policy (15%)						
a) Financial Policy	Baa	Baa			Baa	Baa
Rating:						
a) Scorecard-Indicated Outcome					Baa2	
b) Actual Rating Assigned					Baa2	

[1] All ratios are based on adjusted financial data and incorporate our Global Standard Adjustments for Non-Financial Corporations.

[2] As of 12/31/2022.

[3] This represents our forward view, not the view of the issuer, and unless noted in the text, does not incorporate significant acquisitions and divestitures.

Sources: Moody's Financial Metrics™ and Moody's Investors Service estimates

## Ratings

Exhibit 14

Category	Moody's Rating
<b>CETIN GROUP N.V.</b>	
Outlook	Negative
Issuer Rating	Baa2
Senior Unsecured -Dom Curr	Baa2
<b>PARENT: PPF TELECOM GROUP B.V.</b>	
Outlook	Negative
Corporate Family Rating	Ba1
Bkd Senior Secured -Dom Curr	Ba1/LGD4
<b>CETIN A.S.</b>	
Outlook	Negative
Issuer Rating	Baa2
<b>CETIN FINANCE B.V.</b>	
Outlook	Negative
Bkd Senior Unsecured	Baa2

Source: Moody's Investors Service

## Appendix

Exhibit 15

### Peer comparison

CETIN Group N.V.

(in USD million)	CETIN Group N.V. Baa2 Negative			Chorus Limited (P)Baa1 Stable			SES S.A. Baa3 Stable		
	FYE	FYE	FYE	FYE	FYE	LTM	FYE	FYE	FYE
	Dec-20	Dec-21	Dec-22	Dec-20	Dec-21	Sep-22	Dec-20	Dec-21	Dec-22
Revenue	\$815	\$1,226	\$1,168	\$5,095	\$5,521	\$5,228	\$2,141	\$2,108	\$2,049
EBITDA	\$386	\$709	\$664	\$1,771	\$2,016	\$1,961	\$1,270	\$1,297	\$1,137
FFO Margin %	41.0%	48.2%	46.7%	31.5%	31.8%	32.8%	45.7%	42.7%	46.6%
(EBITDA - Capex) / Interest Expense	7.2x	9.7x	4.5x	6.0x	6.6x	9.9x	4.8x	5.5x	0.3x
FCF / Debt	-1.1%	-0.7%	-0.3%	9.2%	8.9%	11.6%	10.5%	8.5%	-11.7%
Debt / EBITDA	3.5x	3.3x	3.2x	2.3x	2.1x	1.6x	4.3x	3.9x	4.7x
RCF / Debt	16.0%	13.6%	21.0%	35.0%	37.2%	48.5%	14.3%	12.1%	13.1%

CETIN Group's data of 2020 refers to CETIN.

All figures and ratios are calculated using our estimates and standard adjustments.

Source: Moody's Financial Metrics™

Exhibit 16

### Moody's-adjusted debt reconciliation

CETIN Group N.V.

EUR Millions	FYE Dec-18	FYE Dec-19	FYE Dec-20	FYE Dec-21	FYE Dec-22
As Reported Debt	812	1,018	1,171	2,003	2,013
Operating leases	155	0	0	0	0
Pension adjustment	0	0	1	1	1
Non-Standard adjustment	-1	-1	0	0	0
Moody's-Adjusted Debt	966	1,017	1,172	2,004	2,014

All figures and ratios are calculated using our estimates and standard adjustments.

Source: Moody's Financial Metrics™

Exhibit 17

### Moody's-adjusted EBITDA reconciliation

CETIN Group N.V.

EUR Millions	FYE Dec-18	FYE Dec-19	FYE Dec-20	FYE Dec-21	FYE Dec-22
As Reported EBITDA	293	334	327	638	650
Operating leases	31	0	0	0	0
Unusual	-2	-1	11	-39	-20
Moody's-Adjusted EBITDA	322	333	338	599	630

All figures and ratios are calculated using our estimates and standard adjustments.

Source: Moody's Financial Metrics™

Exhibit 18

Select historical and projected Moody's-adjusted financial data  
CETIN Group N.V.

EUR Millions	2018	2019	2020	2021	2022	2023E	2024E
INCOME STATEMENT							
Revenue	773	747	714	1,036	1,108	1,233	1,313
EBITDA	322	333	338	599	630	696	765
BALANCE SHEET							
Cash & Cash Equivalents	63	66	124	83	82	37	37
Total Debt	966	1,019	1,172	2,004	2,014	2,071	2,399
CASH FLOW							
Capex = Capital Expenditures	160	147	165	298	413	436	448
Retained Cash Flow	177	189	187	273	422	444	255
RCF / Debt	18.3%	18.5%	16.0%	13.6%	21.0%	21.5%	10.6%
Free Cash Flow (FCF)	599	221	-13	-15	-7	-14	-243
FCF / Debt	2.4%	0.8%	-1.1%	-0.7%	-0.3%	-0.7%	-10.1%
PROFITABILITY							
% Change in Sales (YoY)	-3.1%	-3.4%	-4.4%	45.1%	7.0%	11.3%	6.4%
EBITDA Margin %	41.7%	44.6%	47.3%	57.8%	56.9%	56.4%	58.3%
INTEREST COVERAGE							
EBITDA / Interest Expense	16.8x	18.3x	16.9x	19.3x	13.1x	12.3x	9.6x
(EBITDA - CAPEX) / Interest Expense	7.2x	8.9x	7.2x	9.7x	4.5x	4.6x	4.0x
LEVERAGE							
Debt / EBITDA	3.0x	3.1x	3.5x	3.3x	3.2x	3.0x	3.1x

Data until 2020 (included) refers to CETIN.

Sources: Moody's Financial Metrics™ and Moody's Investors Service estimates

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