

Research Update:

PPF Telecom Group 'BB+' Rating Placed On CreditWatch Positive On Proposed Majority Stake Acquisition By e&

August 4, 2023

Rating Action Overview

- On Aug. 1, 2023, PPF Group and Emirates Telecommunications Group Company (e& AA-/Stable/A-1+) announced their agreement whereby e& will acquire 50% plus one share in PPF Telecom Group B.V. (PPF Telecom)'s assets in Bulgaria, Hungary, Serbia, and Slovakia.
- Under the new perimeter, PPF Telecom will reduce its size and scale of operations and geographical diversification, which could weigh on our business risk profile assessment.
- That said, we consider that e&'s better credit profile and the fact that it will fully consolidate PPF Telecom, as well as a potentially less leveraged capital structure targeted at the new PPF Telecom, will likely offset the potential weaker business risk profile assessment. We therefore placed our 'BB+' long-term issuer credit rating on PPF Telecom, and its senior unsecured debt, on CreditWatch with positive implications.
- The positive CreditWatch placement reflects that we may raise our rating on PPF Telecom by one notch when the transaction closes, which management anticipates in the first quarter of 2024. Alternatively we would affirm the 'BB+' rating. The result of our CreditWatch resolution will depend on our assessment of PPF Telecom's strategic importance to e&, as well as its future stand-alone credit quality.

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Rating Action Rationale

The CreditWatch placement follows PPF Group and e&'s joint announcement on Aug. 1, 2023 that e& will acquire 50% plus one share in PPF Telecom's assets in Bulgaria, Hungary, Serbia, and Slovakia, which are currently owned by PPF Group.

E& will pay €2.150 billion in exchange for 50% plus one share in PPF Telecom, excluding its Czech assets. Upon closing, PPF Telecom is expected to be fully consolidated within e&. Management expects the transaction to close in the first quarter of 2024, subject to regulatory approvals and other closing conditions.

The new perimeter is estimated to have a pro forma revenue of €1.8 billion and EBITDA of €0.7 billion in 2022, almost half the current PPF Telecom revenue and EBITDA. The exclusion of the Czech assets also indicates a less diversified asset base and less vertically integrated operations with no fixed network infrastructure, which could weaken our assessment of the company's business risk profile.

We understand that PPF Group and e& intend to operate PPF Telecom as a stand-alone entity. Details of PPF Telecom's planned capital structure are unavailable at this stage. That said, e& has publicly stated that it intends to keep net debt to EBITDA at the new PPF Telecom at 2.0x or lower. This implies a much lower leverage tolerance compared with PPF Telecom's current tolerance of up to 3.2x net debt to EBITDA. We also view positively e&'s more conservative leverage tolerance and track-record of prudent financial policy including at its subsidiary level.

CreditWatch

The positive CreditWatch placement reflects that we may raise our rating on PPF Telecom by one notch when the transaction closes, which management anticipates in the first quarter of 2024. Alternatively, we would affirm the rating at 'BB+'. The result of our CreditWatch resolution will depend on our assessment of PPF Telecom's strategic importance to e&, as well as its future stand-alone credit quality.

Company Description

PPF Telecom Group (current) is a European telecom group operating in five markets: Czech Republic (through O2 for retail activities and CETIN Czechia as an independent wholesale fixed and mobile infrastructure provider); Slovakia (through the O2 brand); and Hungary, Bulgaria, and Serbia (through the Yettel brand for retail activities and CETIN Group as an independent wholesale mobile infrastructure provider in all areas). The group offers mobile, fixed broadband, and internet protocol television in the Czech Republic, as well as mobile services only in its three other operating countries: Slovakia, Hungary, and Bulgaria. Whereas it offers both mobile and fixed services in Serbia. It also offers wholesale fixed and mobile services in the Czech Republic, and wholesale mobile services in Hungary, Bulgaria, and Serbia after it voluntarily separated its network from commercial activities in 2020 in these countries.

In 2022, PPF generated about €3.5 billion of consolidated revenue, and €1.5 billion of consolidated reported EBITDA after leases, 37% of which comes from CETIN Group (including Slovakia, Hungary, Bulgaria, and Serbia), 37% by O2 Group (Czech and Slovak operations), and 26% from Telenor CEE/Yettel. At the end of 2022, PPF had 18.0 million mobile customers--including 5.7 million in the Czech Republic, 3.4 million-3.6 million each in Hungary and Bulgaria, 3.0 million in Serbia, and 2.3 million in Slovakia as well as 1.1 million fixed customers.

PPF Telecom is part of PPF Group N.V., an international investment conglomerate with four pillars: telecom, financial services, real estate, and media.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019

- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016
- Criteria | Corporates | Recovery: Methodology: Jurisdiction Ranking Assessments, Jan. 20, 2016
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | Industrials: Key Credit Factors For The Telecommunications And Cable Industry, June 22, 2014
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Ratings Placed On CreditWatch

	To	From
PPF Telecom Group B.V.		
Issuer Credit Rating	BB+/Watch Pos/--	BB+/Stable/--
PPF Telecom Group B.V.		
Senior Unsecured	BB+/Watch Pos	BB+
Recovery Rating	3(50%)	3(50%)

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; or Stockholm (46) 8-440-5914

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