

08 AUG 2023

Fitch Affirms PPF Telecom Group at 'BBB-'; Outlook Stable

Fitch Ratings - Warsaw - 08 Aug 2023: Fitch Ratings has affirmed PPF Telecom Group B.V.'s (PPF TG) Long-Term Issuer Default Rating (IDR) and senior unsecured rating at 'BBB-'. The Outlook on the IDR is Stable. A full list of rating actions is detailed below.

The affirmation follows the announcement by PPF TG's owners, PPF Group, to sell a controlling stake in PPF TG to Emirates Telecommunications Group (e&) and to transfer outside of PPF TG the company's existing Czech assets. Fitch expects that following the completion of the transaction, PPF TG will adopt a capital structure and financial policy that reflect its changed operating profile, while enabling it to maintain its existing rating.

Key Rating Drivers

Partnership With e&: e& will acquire 50% plus one share in PPF TG's assets in Bulgaria, Hungary, Serbia and Slovakia for EUR2.15 billion. It stands to receive additional earn-out payments of up to EUR350 million within three years after the closing if PPF TG exceeds certain financial targets, and a claw-back of up to EUR75 million if such financial targets are not achieved. PPF Group has a put option for its remaining stake in PPF TG that may be exercised five years after closing and e& would have a reciprocal call option.

PPF Group and e& believe the transaction will set the foundation for a partnership to build a major telecommunications business in central and eastern Europe. The transaction is expected to close in or before 1Q24 and is subject to regulatory approval.

Change in Operating Profile: PPF TG's existing assets in the Czech Republic, which include O2 Czech Republic a.s. (O2 CZ) and telecommunications infrastructure provider CETIN a.s., are not part of the transaction and will be transferred outside of PPF TG. PPF Group will retain its 100% indirect share in O2 CZ and its current indirect share in CETIN. The transfer of Czech assets will weaken PPF TG's current operating profile, which will become predominantly mobile-based. PPF TG's Czech assets span both mobile and fixed networks, which contribute to asset and geographic diversification in PPF TG's rating.

A More Conservative Financial Structure: We expect the weaker operating profile of PPF TG on completion of the transaction to be offset by a more conservative financial policy and capital structure. Both PPF Group and e& have guided to managing net debt up to 2x EBITDA, which in our view is commensurate with the 'BBB-' rating given a weakened business profile post-transaction. This is lower than the company's current sensitivities of 2.8x-3.3x.

Derivation Summary

PPF TG's consolidated operating and financial profiles, prior to its transaction with e&, are comparable to that of its peer group of incumbent European operators such as Royal KPN N.V. (BBB/Stable) and BT Group plc (BBB/Stable). PPF TG's lower rating reflects a financial policy that is likely to sustain higher leverage and reduced ownership of the domestic local-access infrastructure.

PPF TG's geographic diversification benefits are tempered by lower cash flow, the complexity of group structure, some foreign-exchange (FX) mismatch between leverage and EBITDA and three to four competing local access network infrastructures for broadband in the Czech Republic compared with two in most other European markets. Higher-rated peers such as Vodafone Group Plc (BBB/Positive) and Orange S.A. (BBB+/Stable) have greater diversification, scale or manage leverage at lower levels.

Key Assumptions

Fitch's Key Assumptions Within its Rating Case for the Issuer (prior to the e& transaction):

- Revenue of around EUR3.7 billion in 2023, growing 1%-2% per year in the following three years
- Fitch-defined EBITDA margin of around 43% in 2023, gradually increasing to 44% in the following three years
- Capex (excluding spectrum costs) at 17% to 18% of revenue between 2023 and 2025
- Company-defined net debt/EBITDA maintained at the low-to-mid range of the company's target of 2.8x-3.2x

RATING SENSITIVITIES

The following sensitivities are based on PPF TG's current operating and financial profiles prior to the e& transaction. These will be updated on closing of the transaction.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- Sustained growth in free cash flow (FCF) leading to improved FCF margins and organic deleveraging capacity
- Fitch-defined net debt falling below 2.8x EBITDA on a sustained basis

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- A material and sustained decline in EBITDA or FCF driven by competitive or technology-driven pressure in core businesses
- A change in the financial policy that results in reduced financial flexibility, higher long-term leverage targets, or contractual debt obligations to other parts of PPF Group. A substantial increase in PPF Group's dependency on PPF TG's dividends could put pressure on the ratings

- Fitch-defined net debt trending above 3.3x EBITDA on a sustained basis

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: At end-2022, PPF TG had cash and cash equivalents of EUR488 million and an undrawn committed revolving facility of EUR200 million that matures in 2026. Combined with internal cash flow generation, this provides sufficient cover for near-term cash requirements. Its EUR196 million bonds are due in December 2023.

Issuer Profile

PPF TG is a medium-sized telecom operator within the CEE region with a consolidated EBITDA of EUR1.5 billion.

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.

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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation of the materiality and relevance of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

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Rating Actions

ENTITY/DEBT	RATING		RECOVERY	PRIOR
PPF Telecom Group B.V.	LT IDR	BBB- 	Affirmed	BBB- 
• senior unsecured	LT	BBB-	Affirmed	BBB-

RATINGS KEY OUTLOOK WATCH

POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

Applicable Criteria

[Climate Vulnerability in Corporate Ratings Criteria \(pub.21 Jul 2023\) \(including rating assumption sensitivity\)](#)

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

[Corporates Recovery Ratings and Instrument Ratings Criteria \(pub.09 Apr 2021\) \(including rating assumption sensitivity\)](#)

[Parent and Subsidiary Linkage Rating Criteria \(pub.16 Jun 2023\)](#)

[Sector Navigators: Addendum to the Corporate Rating Criteria \(pub.12 May 2023\)](#)

Applicable Models

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

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.1.0 (1)

Additional Disclosures

[Solicitation Status](#)

Endorsement Status

PPF Telecom Group B.V. EU Issued, UK Endorsed

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