MOODY'S
RATINGS

# Rating Action: Moody's Ratings changes to stable from negative the outlook on e& PPF Telecom and affirms Ba1 ratings following reorganization

25 Oct 2024

Madrid, October 25, 2024 -- Moody's Ratings (Moody's) has today changed to stable from negative the outlook of e& PPF Telecom Group B.V. (e& PPF Telecom, formerly PPF Telecom Group B.V.), a telecom service provider with operations in the CEE region. Concurrently, we have affirmed the company's Ba1 corporate family rating ("CFR") and its Ba1-PD probability of default rating ("PDR"), as well as the Ba1 rating on the senior unsecured Euro Medium Term notes.

The rating action follows PPF Group N.V.'s (PPF Group) announced completion [1] on 24 October 2024, of the separation of the domestic and international businesses of the former PPF Telecom group, including the carve out of the international subsidiaries (Slovakia, Hungary, Serbia and Bulgaria), and the subsequent sale of a controlling equity stake (50% + 1 economic share) to Emirates Telecommunications Group Company PJSC ("e&", Aa3 stable). The Czech assets have been left outside e& PPF Telecom in a separate company (PPF TMT Holdco 2 B.V. or TMT Holdco 2).

"The Ba1 rating balances the reduced scale and lower business and geographical diversification of the group following the reorganization, with the company's more conservative target leverage of 2x, its improved liquidity, the entry of e& as majority shareholder and the expectation of a solid operating performance in core markets," says Carlos Winzer, a Moody's Ratings Senior Vice President and lead analyst for e& PPF Telecom.

The group's updated financial policy, with a lower leverage target and a more prudent liquidity policy is a governance consideration, captured under the financial strategy and risk management factor under Moody's General Principles for Assessing Environmental, Social and Governance Risks methodology.

RATINGS RATIONALE

The completion of the group's reorganization has significantly changed the perimeter of the former PPF Telecom group, with the separation of the Czech operations (TMT Holdco 2) from the international businesses (e& PPF Telecom). In addition, there is a change in shareholding structure, as e& is now the majority shareholder with a 50% + 1 share in e& PPF Telecom, the entity that owns the businesses in Slovakia, Hungary, Serbia and Bulgaria. e& paid approximately €2.2 billion for this stake, equivalent to around a 6.5x EV/EBITDA multiple. GIC, the Singapore sovereign wealth fund, will remain a 30% owner of e& PPF Telecom's infrastructure subsidiary, CETIN International N.V.

Given the majority ownership stake, e& will fully consolidate e& PPF Telecom. However, given the conditions imposed by the European Commission to approve the deal on 24 September 2024 [2] under the Foreign Subsidies Regulation (FSR), e& will not be able to finance any e& PPF Telecom activity in the EU subject to emergency funding, will not deviate from ordinary UAE bankruptcy law, and will inform the Commission of future acquisitions in the EU that are not notifiable concentrations under the FSR.

Following the group's reorganization, e& PPF Telecom's scale will broadly reduce by half, as it will no longer own the telecom assets in the Czech Republic. The group will be predominantly a mobile-centric operator, as it will no longer be exposed to the predictable fixed line business in the Czech Republic.

However, the rating remains supported by the market leading positions in mobile in Bulgaria and Serbia, where it holds the number one position with a 37% market share in both countries. The group also holds prominent market positions in Hungary, as the second-largest operator, and in Slovakia, with market shares of 27% and 25%, respectively. In addition, the rating is supported by the expectation of solid operating performance with good revenue growth prospects and high margins.

We forecast that revenue within the new perimeter will continue to grow at a mid to high single-digit rate over the next two years. This growth will be primarily driven by sustained price increases, market growth across all countries, and an increasing presence in the fixed market, particularly in Serbia. Additionally, we expect the company's reported EBITDA to grow at a high single-digit rate over the same period, further boosting margins. However, existing cost inflation pressures, mainly on wages, and new projects such as the entry into the fixed line market in Serbia, will limit this growth. We anticipate that the company's reported EBITDA margin will rise from around 44% in 2023 to approximately 45% in 2025.

Additionally, the more conservative leverage target of 2.0x (company reported, equivalent to around 3.2x on a Moody's gross adjusted debt basis), its more prudent liquidity management and the strong credit profile of the new controlling shareholder offset the negative impact of the reorganization on the group's business profile.

We expect the company's Moody's-adjusted gross leverage to decrease to around 3.1x-3.2x (including lease and put option liabilities) in the next 12-18 months.

We project e& PPF Telecom's Moody's-adjusted FCF to remain breakeven in 2024 and 2025, given the impact of high capex and high dividends, since the company's dividend policy includes the distribution of all excess cash flow. We expect the group's capex/revenues (excluding spectrum and including lease payments) to peak in 2024 and 2025, at around 20%, and then reduce to around 15% in 2026.

e& PPF Telecom's ratings are supported by (1) its higher revenue growth potential than the European average, (2) its more conservative leverage target after the reorganization, (3) the strong credit profile of e&, its controlling shareholder, and (4) its good margins.

Conversely, the ratings are constrained by (1) the group's moderate scale, (2) its mobile-centric focus and lack of material fixed-line infrastructure, and (3) its weak free cash flow generation after capex and dividends.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) CONSIDERATIONS

Governance considerations are material to the rating action. The company has committed to a net leverage target of 2.0x. Additionally, liquidity has improved through a new committed €1.2 billion RCF to be signed after completion. The organizational structure has been simplified with the financial debt allocated at just the holding entity and the ownership concentration has been reduced with the new shareholder. This has resulted in a change in the company's Financial Strategy and Risk Management score to 2 from 3, the Organizational Structure score to 3 from 4, the Compliance and Reporting score to 2 from 3 and the Board Structure and Policies score to 4 from 5. The broader governance score of G-3 remains unchanged.

## LIQUIDITY

e& PPF Telecom's liquidity will be supported by a cash balance of around €200 million at closing of the transaction and full availability under the new committed €1.2 billion revolving credit facility (RCF) due in 2029 to be signed immediately following the completion.

We expect that the new RCF will be used to refinance the €600 million Eurobond maturing in January 2025. However, we note that the company will face maturities 2026 (€550 million) and 2027 (€500 million), that will need to be refinanced in due time.

## STRUCTURAL CONSIDERATIONS

e& PPF Telecom's probability of default rating of Ba1-PD is in line with the CFR, reflecting the use of a family recovery rate of 50%, which is standard for capital structures that include bonds and bank financing.

Post transaction, all the financial debt will be located at e& PPF Telecom Group B.V., simplifying the previous more complex corporate structure, with debt located at different entities within the group.

The Ba1 rating on the company's senior unsecured debt instruments reflects the limited amount of operating company liabilities (mainly trade payables and leases) that rank ahead of the notes and that are not sufficient to drive notching on the notes' rating.

RATING OUTLOOK

The stable outlook reflects our expectation that e& PPF Telecom will maintain a solid operating performance over the period 2024-2028, supported by its leading position in the mobile service markets in the four countries it operates in. The outlook takes into account our expectation that the group's Moody's-adjusted leverage will remain within the 2.75x to 3.25x range required for the rating category.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

We have tightened by 0.5x the leverage tolerance level for the rating category to reflect the smaller size of the group and its reduced business and geographic diversification.

We could consider a rating upgrade if e& PPF Telecom's operating performance remains solid allowing the company to reduce its Moody's-adjusted leverage below 2.75x, while maintaining a strong liquidity profile and a prudent financial policy.

We could downgrade the rating if e& PPF Telecom's operating performance deteriorates such that debt/EBITDA rises persistently above 3.25x, there is a deterioration in the company's liquidity position, or a more aggressive financial policy is implemented, that is likely to favor shareholders over creditors.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Telecommunications Service Providers published in November 2023 and available at https://ratings.moodys.com/rmc-documents/411275 . Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

COMPANY PROFILE

e& PPF Telecom is a leading telecommunications group in Central and Eastern Europe with shareholdings in CETIN International N.V., and four mobile operators in Slovakia, Hungary, Bulgaria and Serbia. The group reported pro forma revenue of €2.0 billion and pro forma EBITDA of €0.9 billion in 2023.

The company is ultimately controlled by e&, which owns 50% + 1 economic share, and by PPF Group (an investment company headquartered in the Netherlands), which owns 50% - 1 economic share.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions .

For any affected securities or rated entities receiving direct credit support/credit substitution from another entity or entities subject to a credit rating action (the supporting entity), and whose ratings may change as a result of a credit rating action as to the supporting entity, the associated regulatory disclosures will relate to the supporting entity. Exceptions to this approach may be applicable in certain jurisdictions.

For ratings issued on a program, series, category/class of debt or security, certain regulatory disclosures applicable to each rating of a subsequently issued bond or note of the same series, category/class of debt, or security, or pursuant to a program for which the ratings are derived exclusively from existing ratings, in accordance with Moody's rating practices, can be found in the most recent Credit Rating Announcement related to the same class of Credit Rating.

For provisional ratings, the Credit Rating Announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating.

Moody's does not always publish a separate Credit Rating Announcement for each Credit Rating assigned in the Anticipated Ratings Process or Subsequent Ratings Process.

These ratings are solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website https://ratings.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

At least one ESG consideration was material to the credit rating action(s) announced and described above. Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moodys.com/documents/PBC_1355824 .

The Global Scale Credit Rating(s) discussed in this Credit Rating Announcement was(were) issued by one of Moody's affiliates outside the UK and is(are) endorsed for use in the UK in accordance with the UK CRA Regulation.

REFERENCES/CITATIONS

[1] Press release announcing the closing of the controlling stake acquisition by e& on October 24, 2024: https://www.eandppftelecom.eu/investor-announcements

[2] Press release announcing the European Commission conditional approval of the controlling stake acquisition by e& on September 24, 2024: https://ec.europa.eu/commission/presscorner/detail/en/ip_24_4842

Please see https://ratings.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the issuer/deal page on https://ratings.moodys.com for additional regulatory disclosures for each credit rating.

Carlos Winzer
Senior Vice President
Corporate Finance Group
Moody's Investors Service Espana, S.A.
Calle Principe de Vergara, 131, 6 Planta
Madrid, 28002
Spain
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Ivan Palacios
Associate Managing Director
Corporate Finance Group
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Releasing Office:
Moody's Investors Service Espana, S.A.
Calle Principe de Vergara, 131, 6 Planta
Madrid, 28002
Spain
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the credit rating process or in preparing its Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT, OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any credit rating, agreed to pay to Moody's Investors Service, Inc. for credit ratings opinions and services rendered by it fees ranging from $1,000 to approximately $5,000,000. MCO and Moody's Investors Service also maintain policies and procedures to address the independence of Moody's Investors Service credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody's Investors Service, Inc. and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under

U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any credit rating, agreed to pay to MJKK or MSFJ (as applicable) for credit ratings opinions and services rendered by it fees ranging from JPY100,000 to approximately JPY550,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.