FitchRatings

RATING ACTION COMMENTARY

Fitch Upgrades e& PPF Telecom Group to 'BBB'; Outlook Stable

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Fitch Ratings - Warsaw - 28 Oct 2024: Fitch Ratings has upgraded e& PPF Telecom Group B.V.'s (e& PPF TG) Long-Term Issuer Default Rating (IDR) and senior unsecured rating to 'BBB' from 'BBB-' and removed them from Rating Watch Positive (RWP). The Outlook on the Long-Term IDR is Stable. A full list of rating actions is detailed below.

The rating actions follow completion of the company's reorganisation with 50% + 1 share in e& PPF TG - including its assets in Bulgaria, Hungary, Serbia and Slovakia - sold to Emirates Telecommunication Group Company (e&). The upgrade reflects a one-notch uplift to e& PPF TG's 'bbb-' Standalone Credit Profile (SCP), as we assess that e&, which has a stronger credit profile than e& PPF TG, has sufficient legal incentives to support e& PPF TG.

e& PPF TG's 'bbb-' SCP reflects our view that post-completion, the company's operating profile has weakened, as the Czech assets have been transferred out of the company. This is offset by a more conservative financial policy, consistent with its existing SCP. We also expect e& PPF TG to retain discretion to manage its capital structure through dividend flexibility.

KEY RATING DRIVERS

Strong Market Position, Mainly Mobile: After completion of the transaction and transfer of the Czech assets, e& PPF TG's operating profile mainly comprises mobile network operations in Hungary, Bulgaria, Serbia and Slovakia. e& PPF TG has strong and sustainable positions in these markets, mostly occupying number one or two market positions. The assets are in three-operator mobile markets that should support rational competitive dynamics and potential service revenue growth through data monetisation, price increases, effective churn management and pre- to post-paid migration.

e& PPF TG's lack of fixed network ownership may create disadvantages compared with a converged network operator, but we view the risks as manageable through partnerships and mobile network infrastructure-sharing. Its current fixed market shares in each country are in the low single digits and we expect these to improve, but remain relatively low over the coming years.

Change in Operating Profile: e& PPF TG's assets in the Czech Republic, which include O2 Czech Republic a.s. (O2 CZ) and telecommunications infrastructure provider CETIN a.s., were not part of the transaction and have been transferred out of e& PPF TG. PPF Group will retain its 100% indirect share in O2 CZ and its indirect share in CETIN. The transfer of the Czech assets has weakened e& PPF TG's operating profile, which has become mainly mobile-based. The Czech assets span both mobile and fixed networks, and added to asset and geographic diversification in the pre-transaction structure.

More Conservative Financial Structure: We expect e& PPF TG's weaker operating profile post transaction closing, to be offset by a more conservative financial policy and capital structure. e& PPF TG announced that it will manage net debt at 2x of company-defined EBITDA, which is commensurate with a 'bbb-' SCP, given the weaker business profile after the transaction. The latter is also reflected in tightened rating thresholds.

Leverage Target to be Prioritised: Our base case assumes e& PPF TG will prioritise its leverage target over dividends to keep leverage at the upper end of the target rating band, which results in minimal rating headroom. The rating could come under pressure if e& PPF TG does not reduce dividend payments, if needed, to keep this leverage band.

One-Notch Rating Uplift: Fitch rates e& PPF TG using a bottom-up + 1 approach under its Parent Subsidiary Linkage Rating Criteria (PSL). The uplift reflects our view of medium legal ties, while we deem both operational and strategic incentives for e& to support e& PPF TG to be low under the 'stronger parent' path. To win approval from EU authorities, e& agreed to a prohibition on e& providing financing to e& PPF TG's activities in the EU, subject to certain exceptions. However, we believe a carve-out allowing e& to provide "emergency funding" is consistent with the one-notch uplift suggested under the PSL.

'Medium' Legal Support Incentive: The legal incentive assessment reflects that e& PPF TG would be considered a principal subsidiary under e&'s euro medium-term note (EMTN) programme documentation, as it would contribute more than 10% of EBIT and more than 10% of the gross assets on a fully consolidated basis. This implies e& PPF TG would be subject to cross-default clause under the EMTN documentation.

While the debt issued under the EMTN programme is likely to be long-dated, the definition of the principal subsidiary is related to the contribution to EBIT and assets, which can change if e& acquires other assets or grows more strongly in other regions.

Importantly, the EMTN provisions do not indicate the existence of any guarantee. This leads to our assessment of medium legal incentive as opposed to high legal incentive.

Manageable FX Risks: We assume that e& PPF TG's capital structure will comprise euro-denominated debt. We forecast the share of EBITDA from Hungary to rise to 31% in 2028 in our base case, from 29% in 2024, resulting in FX mismatches as its debt is in euros and cash flows in forint. Cash flows from other markets are not likely to pose significant FX risks, given Slovakia's functional currency is the euro, while the Bulgarian and Serbian currencies are either officially pegged to the euro or have a long record of stability against the euro. A degree of FX volatility is manageable, while significantly higher-than-expected volatility could impact the rating and leverage capacity.

DERIVATION SUMMARY

After the transaction's completion, the transfer of the Czech assets out of e& PPF TG has weakened its operating profile, which has become mobile-centric. Despite some geographical diversification, the company will operate in weaker operating environments, with about 85% of EBITDA generated from countries rated 'BBB' or below. We expect FX risk to marginally increase as Hungary's share of EBITDA increases over the next three to four years.

In our view, e& PPF TG's predominantly mobile-only profile will compare well with Telefonica Deutschland Holding AG (TEF DE, BBB/Stable), which operates in the German market. TEF DE's rating is supported by larger scale, lower leverage, a strong operating environment and no FX risk. e& PPF TG has a similarly strong market position in the countries it operates in, with the rating tolerating a degree of FX risk as result of this and relatively greater diversification. e& PPF TG also commands higher margins than TEF DE's rating

KEY ASSUMPTIONS

Fitch's Key Assumptions Within Our Rating Case for the Issuer:

- Revenue of around EUR2.1 billion in 2024 on a pro-forma basis, equivalent to 6.0% yoy growth, mainly driven by price increases across the countries of operation. Revenue to increase by about 4% a year in 2025-2028

- Fitch-defined EBITDA margin of around 38% in 2024, gradually increasing to 42% by 2028

- Capex (including spectrum payments) of 18% and 21% of revenue in 2024 and 2025, respectively; declining to 10% by 2028

- Tax rate at 18% of EBITDA throughout the forecast period

- Working capital outflow of -0.5% of revenue throughout the forecast period

- Dividend payments of around EUR300 million in 2024 and gradually increasing to EUR580 million by 2028

RATING SENSITIVITIES

The following rating sensitivities reflect e& PPF TG's SCP, operating and financial profiles post-completion of the transaction.

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

- Fitch-defined net debt falling below 1.8x EBITDA on a sustained basis

- (CFO - capex)/debt sustained above 14%

- Sustained growth in FCF leading to improved FCF margins and organic deleveraging capacity

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

- Fitch-defined net debt trending above 2.3x EBITDA on a sustained basis

- A material and sustained decline in EBITDA or FCF driven by competitive or technology-driven pressure in core businesses

- (CFO - capex)/debt sustained below 12%

- The one notch uplift under our PSL criteria could be removed if we assess that the legal incentive to support moves to Low.

LIQUIDITY AND DEBT STRUCTURE

Comfortable Liquidity: We expect e& PPF TG to have cash and cash equivalents of around EUR200 million at end-2024. The liquidity will be supported by a new EUR1.2 billion revolving credit facility (RCF) that is to be signed following the transaction completion.

We expect the upcoming January 2025 bond maturities to be covered with the available liquidity sources, including new RCF.

ISSUER PROFILE

e& PPF TG is a medium-sized telecom operator within the CEE region with a consolidated Fitch-defined EBITDA of about EUR815 million.

SUMMARY OF FINANCIAL ADJUSTMENTS

Fitch adjusts Fitch-defined EBITDA and working capital change for amortisation of costs to obtain contracts. This is to align the approach across the portfolio. The adjustment has a negative impact on EBITDA and positive on the working capital change.

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.

MACROECONOMIC ASSUMPTIONS AND SECTOR FORECASTS

Click here to access Fitch's latest quarterly Global Corporates Macro and Sector Forecasts data file which aggregates key data points used in our credit analysis. Fitch's macroeconomic forecasts, commodity price assumptions, default rate forecasts, sector key performance indicators and sector-level forecasts are among the data items included.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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 on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY / DEBT	RATING	PRIOR

e& PPF Telecom Group B.V.	LT IDR	BBB Rating Outlook Stable	Upgrade	BBB- Rating Watch Positive
senior unsecured	LT	BBB	Upgrade	BBB- Rating Watch Positive

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Parent and Subsidiary Linkage Rating Criteria (pub. 16 Jun 2023)

Corporate Rating Criteria (pub. 03 Nov 2023) (including rating assumption sensitivity)

Sector Navigators – Addendum to the Corporate Rating Criteria (pub. 21 Jun 2024)

Corporate Recovery Ratings and Instrument Ratings Criteria (pub. 02 Aug 2024) (including rating assumption sensitivity)

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

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

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

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