ISSUER COMMENT
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Contacts

Mikhail Shipilov, CFA +971.4.237.9561
VP-Senior Analyst
mikhail.shipilov@moodys.com

Rehan Akbar, CFA +971.4.237.9565
Associate Managing Director
rehan.akbar@moodys.com

Carlos Winzer +34.91.768.8238
Senior Vice President
carlos.winzer@moodys.com

Hormazd Motafram +971.4.237.9564
Ratings Associate
hormazd.motafram@moodys.com

Emirates Telecommunications Grp Co PJSC, e& PPF Telecom Group B.V.

Acquisition of SBB is a strategic fit, will modestly weaken credit metrics

On 12 February, Emirates Telecommunications Group Co PJSC (e&, Aa3 stable) said its subsidiary e& PPF Telecom Group B.V. (e& PPF Telecom, Ba1 stable) signed a binding agreement with United Group B.V. (B2 stable) to acquire SBB d.o.o. Serbia (SBB) for a consideration of €825 million on a cash-free, debt-free basis. The transaction represents a strategic fit for both e& PPF Telecom and e& and will not materially weaken their credit metrics.

The entire transaction will be financed through debt to be raised by e& PPF Telecom.

SBB is a leading cable television and broadband internet service provider in Serbia with over 700,000 subscribers. The company generated €244 million in revenue and 50% EBITDAaL margin in 2023. The acquisition will add 12% to e& PPF Telecom's revenue and 2% to e&'s revenue, based on 2023 financials.

The transaction will increase the scale of e& PPF Telecom and complements its Serbian mobile service subsidiary Yettel, creating a leading converged operator, with mobile, fixed broadband and Pay-TV offerings in a growing market. The deal will strengthen e& PPF Telecom's market and competitive position in Serbia because of more comprehensive offerings to meet evolving needs of customers. After the acquisition, e& PPF Telecom's Serbian operation will have around 31% market share in fixed broadband connections and a 43% market share in Pay-TV, based on 2023 market shares. We expect that significant synergies can be realised in operating expenses and mobile cross-selling opportunities from Yettel to SBB customers. The deal also enhances the contribution of the Serbian business to e& PPF´s total EBITDA, which increases from 28% to some 38% and, therefore, becomes the biggest contributor to the group.

The transaction also aligns with e&'s ambitions to accelerate its international growth and diversify into new geographies. Central and Eastern Europe has robust macroeconomic fundamentals and stable currencies compared with e&'s existing international operations in French-speaking African markets, Pakistan and Egypt. Central and Eastern Europe also offers a stable regulatory environment, healthy competition, growth potential and promising returns on invested capital. This deal follows e&'s €2.35 billion acquisition of a controlling stake in e& PPF Telecom, a telecommunications operator in Bulgaria, Hungary, Serbia and Slovakia, which e& completed in October 2024.

e& PPF Telecom's leverage will increase but remain within its financial policy. The company's net leverage target is 2.0x (equivalent to Moody's-adjusted gross leverage of 3.1x), with M&A flexibility of up to 2.5x for 12-18 months. On a pro forma basis, we estimate that its net leverage was 1.8x as of year-end 2024. With the additional €825 million debt raised to acquire SBB and EBITDA contribution from SBB, we estimate that pro forma combined net leverage will increase to 2.4x (Moody's-adjusted gross leverage of 3.5x). We expect that the company will delever back to around 2.0x (Moody's-adjusted gross leverage of 3.1x) in the next 12-18 months after the deal closes.

e& PPF Telecom's liquidity is supported by a cash balance of around €200 million and the €1.2 billion revolving credit facility (RCF), due in 2029. We expect part of the RCF to have been used to refinance the €600 million Eurobond, which matured in January 2025. The company faces maturities in 2026 (€550 million) and 2027 (€500 million), that will need to be refinanced in due course. Therefore, currently, they have EUR 600m RCF still available to cover 2026 maturities. We expect further refinancing to take place in order to meet future debt maturities.

The transaction, which we expect to close by mid-2025, is subject to regulatory approvals and customary closing conditions.

The deal will modestly weaken e&'s consolidated credit metrics. Prior to the announcement, we had forecasted e&'s Moody's-adjusted net leverage at 1.6x in 2025 and 1.5x in 2026 and its interest coverage, measured as Moody's-adjusted (EBITDA minus capex)/interest expense, at 4.9x in 2025 and 5.2x in 2026. Adjusted net leverage was 1.3x and interest coverage was 3.8x as of September 2024. We estimate the transaction will increase e&'s net leverage by 0.05x-0.10x and decrease its interest coverage by around 0.10x in 2025-26.

The small increase in leverage will be in line with e&'s financial policy and its commitment to deleverage over the next 18 months. In November 2024, shareholders approved a temporary increase in the company's borrowing cap to 2.0x reported net debt/EBITDA from a long-standing 1.5x. At the same time, e& committed to reverting the cap to 1.5x by May 2026. The temporary increase was intended to provide financial flexibility to execute and integrate ongoing M&As.

e& is the incumbent integrated telecommunications service provider in the UAE and has stakes in telecom companies throughout the Middle East, Africa, Asia and Europe. The company generated AED53.8 billion ($14.6 billion) in 2023. The federal government of the UAE owns a 60% stake in e& indirectly through the Emirates Investment Authority.

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