



Rating Action: **Moody's downgrades UNE EPM Telecomunicaciones to B1; outlook negative**

22 Sep 2023

New York, September 22, 2023 -- Moody's Investors Service (Moody's) today downgraded UNE EPM Telecomunicaciones, S.A.'s (Tigo Une) Corporate Family Rating (CFR) to B1 from Ba1 with a negative outlook. Previously, the rating was on review for downgrade.

RATINGS RATIONALE

The downgrade to B1 reflects the substantial increase in liquidity risk, a consequence of uncertainties regarding the shareholders' potential support for the company and provision of a required equity capital requested by management. The rating also considers elevated governance risks arising from the complexity added to the ownership structure by the partial indirect government ownership by Empresas Publicas de Medellin (EPM). This structure makes the company vulnerable to political interference and shareholder disputes, both of which can substantially influence its operations, liability, and liquidity management. The ongoing disagreement among shareholders has hindered the company's access to capital markets and the implementation of liability management strategies aimed at refinancing upcoming maturities and spectrum renewal. The difficult interaction between shareholders, Millicom and EPM, has prompted the Ministry of Telecommunications to act and mediate the discussion to find a solution for Tigo UNE's immediate liquidity needs. In the last mediated meeting, the ministry gave the parties a deadline of October 9 to find a viable solution, either through the requested capital injection or a sale of EPM's stake.

Tigo UNE's liquidity is weak when considering upcoming debt maturities, costs associated with spectrum renewal and capex deployment needs. As of September 2023, the company had approximately \$30 million (COP126 billion) in cash on hand. Upcoming maturities amount to approximately \$56 million (COP235 billion) due in October 2023 and \$91 million (COP396 billion) due in the second quarter of 2024. In the absence of shareholder support or a change in the timing of these obligations, the company's ability to sustain operations will be hindered.

This action concludes the review for downgrade initiated in July 2023 to assess Tigo UNE's ability to reinforce its liquidity position, implement liability management plans as well as its shareholders' ability and willingness to support the company's strategic plan and liability management efforts. The negative outlook considers Tigo UNE's challenges to restore liquidity and meet its upcoming debt and spectrum obligations, as well as improve operating performance considering the intense market competition and adverse macroeconomic scenario.

Tigo Une is owned by Millicom International Cellular S.A. (Ba1 stable) and Empresas Publicas de Medellin E.S.P (Baa3 stable) a wholly owned subsidiary of the City of Medellin (Baa2 stable). Tigo UNE is controlled by Millicom, which holds the majority of voting shares. Despite the size and importance of its shareholders, Tigo UNE's rating does not consider any formal support or rating uplift from its ownership structure.

Tigo UNE operates in a competitive operating environment, which weighs on profitability and organic growth. Moody's believes that the company's operating performance over the rating horizon will continue to be pressured by intense competition as well as the country's challenging economic environment. However, since early 2022 operating performance has shown positive momentum, with mobile costumer base reaching 12 million and service revenue growing 6.6% year-over-year in 2022 and 2.5% in the first half of 2023. Over the next two years, although Moody's expects this positive subscriber growth trend to continue, Moody's Adjusted EBITDA margin should remain below 30%, as subscriber growth will not be enough to fully recover the competitive impact on ARPU. Nevertheless, the company maintains a strong position in the Colombian market, holding about 26% of the mobile market share and about 29% of the fixed broadband market, as well as its small scale when compared to global peers.

Tigo UNE has posted negative free cash flow as adjusted by Moody's since 2021, a trend that should continue over the next two years. Moody's expects that high capex investments required to expand and enhance the network and defend market share will consume all internal cash generation during this period. In addition, ongoing renewal of the company's share of the 1900 MHz spectrum as well as the possibility of a 5G spectrum auction over the next 12 months should further pressure liquidity. The 20% down payment of the total spectrum renewal price of approximately \$250 million is due in November 2023.

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

An upgrade is unlikely at this point given the negative outlook. However, Moody's could stabilize the rating outlook if the company demonstrates adequate liquidity and the ability to secure financing to timely meet upcoming debt amortization and capex needs.

The ratings could be further downgraded if the company is not able to secure financing to meet upcoming debt maturities, operating performance deteriorates, or leverage is expected to remain at a level higher than 2.5x without a clear path for deleveraging.

The principal methodology used in this rating was Telecommunications Service Providers published in September 2022 and available at <https://ratings.moodys.com/rmc-documents/393391>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

Tigo UNE is a leading, integrated telecommunications provider in Colombia offering mobile, fixed, pay TV and B2B services. The company is Colombia's third largest mobile operator with over 12 million subscribers. Tigo UNE is Millicom's second largest market in terms of revenues, accounting for about 23% of consolidated revenue and about 16% of consolidated EBITDA in the twelve months ended in June 2023. Tigo UNE reported \$1.19 billion in revenues and Moody's adjusted EBITDA of \$371 million in the twelve months ended in June 2023.

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>.

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At least one ESG consideration was material to the credit rating action(s) announced and described above.

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