FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms UNE EPM Telecomunicaciones S.A. at 'BBB-'

Tue 14 Sep, 2021 - 3:12 PM ET

Fitch Ratings - Chicago - 14 Sep 2021: Fitch Ratings has affirmed all of UNE EPM Telecomunicaciones S.A.'s (Tigo UNE) ratings, including the Long-Term (LT) Foreign Currency (FC) Issuer Default Rating (IDR) at 'BBB-', Local Currency (LC) IDR at 'BBB', National LT Rating at 'AAA(col)', and the COP unsecured notes rating at 'AAA(col)'. The Rating Outlook is Stable.

The ratings reflect Tigo UNE's position as the third largest player in an increasingly competitive Colombian market, as well as the company's strong capital structure and financial flexibility. The ratings are constrained by the Country Ceiling of Colombia.

KEY RATING DRIVERS

Country Ceiling: Tigo UNE's ratings are constrained by the 'BBB-' Country Ceiling of Colombia (BB+/Stable). Following the downgrade of the Colombian sovereign in July 2021, Fitch downgraded Tigo UNE, as the company does not have substantial assets or operations abroad to reduce transfer and convertibility risk. The LC rating reflects the company's strong financial structure and is not constrained by the Country Ceiling.

Strong Financial Structure and Flexibility: Tigo UNE has been able to maintain a solid financial profile, evidenced by consistently low leverage and stable cash flow generation. Fitch expects the company to maintain relatively conservative leverage, with debt/EBTIDA and net debt/EBITDA to increase somewhat over the rating horizon to around 2.5x and 2.2x, respectively, due to higher competition and investment requirements. These levels are relatively strong for a 'BBB-' operator and compares well to regional peers. Tigo UNE benefits from its long-dated amortization profile with no significant maturities until 2024.

Market Position and Competitive Intensity: Tigo UNE is the third-largest telecom operator in Colombia in terms of revenue, approximately 60% smaller than Claro Colombia (subsidiary of America Movil S.A.B. de C.V.) and 10% smaller than Colombia Telecomunicaciones S.A. E.S.P (BBB-/Stable). Tigo UNE is the second-largest provider of broadband internet services, pay TV and fixed telephony, and the third-largest provider of mobile services in terms of subscribers. Tigo UNE's relative strength in fixed line, recent spectrum purchases, and mobile network buildout should enable the company to weather WOM's entry into the Colombian mobile market.

Network Investments Drive Growth: The company has seen rapid growth in its hybrid/fiber broadband and postpaid mobile subscribers in 2021 following significant network investments. Longer term, Fitch expects the company to maintain its strong position in the fixed business despite heavy investments by competitors in fiber deployment, and increasing broadband penetration and ARPUs should drive higher B2C fixed revenues. These dynamics should help offset WOM's entry into the mobile market, which will likely lead to stagnant mobile revenue. Tigo UNE has responded to WOM's aggressive commercial offerings to maintain subscriber growth and Fitch expects mobile ARPUs to continue falling.

Profitability and Cash Flow Compression: Fitch expects the company's EBITDA margins in the mid-20% range to fall by 1-2 percentage points in the medium term as competitive intensity reduces ARPUs and drives up subscriber acquisition costs. Fitch also expects the company to post neutral to slightly negative FCF over the near term on continued large network investments, which will likely lead to additional debt financing in the coming years. Fitch expects capital intensity to remain above 20% over the forecast horizon, an increase from the 18% average capital intensity during 2015-2019. The company's profitability is in line with the median of 'BBB-' operators.

Broad Offerings Offset Weak Geographic Diversification: Tigo UNE is well-diversified across fixed, mobile, and B2B, with respective revenue shares of 43%, 36%, and 22% during 2021. The company's service diversification compares well with other investment-grade operators in the region. Tigo UNE operates entirely within the Colombian telecommunications market, which has continued to grow more competitive following the entry of WOM in 2019. The company does not benefit from the stronger diversification of its parent, Millicom, which has operations across Latin America.

Parent Subsidiary Linkages: Tigo UNE's ratings incorporate weak linkages with both Empresas Publicas de Medellin E.S.P. (EPM; BB+/RWN) and Millicom International Cellular S.A. (Millicom, BB+/Stable), enabling a one notch uplift from both of its shareholders. The ratings of these two entities are limited by sovereign risks, the first as a Colombian government related entity and the second by the majority of its cash flows from speculative grade countries. Fitch expects EPM will take several years to complete the privatization of its 50.01% stake in Tigo UNE.

DERIVATION SUMMARY

Tigo UNE's overall business is similar to that of direct competitor Colombia Telecomunicaciones (BBB-/Stable), with similar revenue shares of the overall Colombian market, although Tigo UNE has a longer history of maintaining lower leverage, supporting a one notch higher rating. Tigo UNE is also relatively stronger in the fixed broadband and pay-TV business, which could imply more subscription like cash flows, as the Colombian mobile market is mostly prepaid (approximately 80%). Tigo UNE's financial performance and leverage profile is expected to be more stable than Chile's Empresa Nacional de Telecomunicaciones S.A. (ENTEL; BBB-/Stable). ENTEL's ratings reflect the intense competitive landscape amid increasing mobile industry maturity in Chile, the company's aggressive growth strategy in Peru and increased levels of leverage. Similarly, Tigo UNE's overall credit profile is much stronger than 'BB' category domestic telecom peers, such as Empresa de Telecomunicaciones de Bogota, S.A., E.S.P. (ETB; BB+/Stable). Fitch estimates ETB will find it difficult to improve EBITDA performance given its low network penetration and rapidly contracting cash flow generation.

Tigo UNE's 'BBB-' ratings are two notches below Telefonica Moviles Chile S.A., the leading integrated telecommunications service provider in Chile. In comparison, Tigo UNE holds a secondary position in Colombia behind Claro in the fixed business, and is the third-largest mobile player, by market share.

Tigo UNE's ratings incorporate a linkage with Millicom (BB+/Stable), which holds the controlling majority of shares in the company. Despite the absence of a ring-fencing mechanism to limit Tigo UNE's cash upstream to its controlling shareholder, Fitch does not expect this relationship to impair Tigo UNE's ability to execute its capex strategy while maintaining a credit profile in line with the current rating. Tigo UNE is one of Millicom's most important EBITDA contributors to the consolidated Millicom group, highlighting its financial importance to the parent's credit profile.

KEY ASSUMPTIONS

--Around 400k homes passed in 2022 and beyond with HFC network; HC/HP around 31%;

--Broadband and pay TV RGUs growing in the high single digits; overall RGUs/HP around 2.4;

--Home ARPU growth around 1% due to broadband growth; home revenue growing in the mid-high single digits;

--Mobile RGUs growing in the low to mid-single digits longer term after a strong 2021; ARPUs falling by around 5% per year; overall mobile revenues flat;

--EBITDA margins compressing slightly from the 25%-28% range to around 24%-25% longer term;

--Capex of >COP1.1T per year, or over 20% of revenues;

--Debt/EBITDA and net debt to EBITDA of around 2.3x-2.6x and 2.1x-2.3x, slightly higher than historical;

--No material dividends over the rating horizon as the company focuses on investments.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--An upgrade of the Colombian sovereign rating would lead to an upgrade for Tigo UNE's Foreign Currency IDR;

--Total debt/EBITDA falling below 2.0x or net debt/EBITDA falling below 1.5x on a sustained basis due to a strengthening of the competitive position and/or FCF being used to pay down debt due to successful implementation of growth strategy and response to competitive threats.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--Deterioration in market position due to higher than expected increase in competition;

--Persistently negative FCF generation due to higher than expected shareholder distributions and/or capex;

--Total debt/EBITDA increasing to over 3.5x, or net debt/EBITDA above 3.0x 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

Solid Liquidity: Tigo UNE has strong liquidity, with COP281 billion with no upcoming debt maturities until the its 2023 bond matures. The company benefits from its conservative capital structure, relatively stable cash flow generation, and manageable LC amortization schedule. These factors contribute to a financial structure flexibility that is strong for the rating level.

As of June 30 2021, the company's debt totals COP2.8 billion, of which 60% is COP denominated, with the remainder comprising the USD150 million syndicated loan. The company's debt is evenly split between bank loans (COP bank loans + USD syndicated loan) and COP bonds. In 1H21, the company prepaid approximately half the syndicated loan with new bond issuances.

The cash balances represent a decline from COP704 billion; mostly due to relatively higher working capital consumption negatively impacting operating cash flow. The company has a history of pre-dividend FCF margins in the low single digits. Fitch expects the company to generate approximately neutral FCF going forward as competitive pressures and investment requirements reduce cash flow generation.

ISSUER PROFILE

UNE EPM Telecomunicationes S.A. (Tigo UNE) is a Colombian telecommunications services provider. The company operates its business primarily in Colombian territories, where it offers fixed and mobile telecommunication services, internet, data, and television. It is a joint venture between Millicom International Cellular S.A. and Empresas Publicas de Medellin (EPM).

SUMMARY OF FINANCIAL ADJUSTMENTS

Standard adjustments, including lease adjustments and reclassification of certain working capital & opex items made.

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. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING ACTIONS

ENTITY/DEBT	RATING			PRIOR
UNE EPM Telecomunicaciones S.A.	LT IDR	BBB- Rating Outlook Stable	Affirmed	BBB- Rating Outlook Stable
	LC LT IDR	BBB Rating Outlook Stable	Affirmed	BBB Rating Outlook Stable
	Natl LT	AAA(col) Rating Outlook Stable	Affirmed	AAA(col) Rating Outlook Stable
• senior unsecured	Natl LT	AAA(col)	Affirmed	AAA(col)

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Country Ceilings Criteria (pub. 01 Jul 2020)

Parent and Subsidiary Linkage Rating Criteria (pub. 26 Aug 2020)

Corporate Rating Criteria (pub. 21 Dec 2020) (including rating assumption sensitivity)

National Scale Rating Criteria (pub. 22 Dec 2020)

Sector Navigators - Addendum to the Corporate Rating Criteria (pub. 30 Apr 2021)

APPLICABLE MODELS

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

Corporate Monitoring & Forecasting Model (COMFORT Model), v7.9.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

UNE EPM Telecomunicaciones S.A.	EU Endorsed, UK Endorsed

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