



Rating Action: Moody's downgrades UNE EPM Telecomunicaciones to Ba1; rating maintained under review for downgrade

12 Jul 2023

New York, July 11, 2023 -- Moody's Investors Service ("Moody's") today assigned a Ba1 Corporate Family Rating (CFR) to UNE EPM Telecomunicaciones, S.A.'s ("Tigo Une") and simultaneously withdrew the company's Baa3 long term issuer rating. At the same time, Moody's placed the Ba1 CFR under review for downgrade.

Assignments:

..Issuer: UNE EPM Telecomunicaciones, S.A.

.... Corporate Family Rating, Assigned Ba1; Placed Under Review for further Downgrade

Withdrawals:

..Issuer: UNE EPM Telecomunicaciones, S.A.

.... Issuer Rating, Withdrawn, previously rated Baa3

RATINGS RATIONALE

The Ba1 rating reflects Tigo UNE's persistently weak profitability when compared to peers in the same rating category despite the positive trend in subscriber growth, as well as tight liquidity position when considering upcoming debt maturities and capex deployment needs. The rating also considers the company's 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 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. In 2022 operating performance showed positive momentum, with service revenue growing 6.6% and mobile costumer base reaching 11 million. 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 offset the competitive impact on ARPU.

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 spectrum as well as the possibility of a 5G spectrum auction over the next 12 months should further pressure liquidity. Spectrum renewal negotiations are still under way, cost and timing of payments are still undefined but Moody's expects a down payment to be made still in 2023.

Tigo UNE's liquidity is weak when considering upcoming debt maturities, costs associated with spectrum renewal and capex deployment needs. As of March 2023, the company had approximately \$18 million (COP82 billion) in cash on hand and, at the end of June, liquidity was enhanced by a \$20 million liquidity facility provided by Millicom. The company's upcoming maturities amount to approximately \$51 million (COP235 billion) due in October 2023 and \$86

million (COP396 billion) due in the second quarter of 2024. Moody's expects Tigo UNE to raise additional debt to meet these maturities as well as capex needs, including spectrum costs, increasing the company's Moody's adjusted leverage to around 2.9x in 2023, up from 2.5x as of December 2022.

Moody's review for downgrade will focus on the company's ability to reinforce its liquidity position, liability management plans as well as its strategy to improve its competitive position and ability to expand operating margins. The review will also take into consideration Tigo UNE's shareholders ability and willingness to support the company's strategic plan and liability management efforts.

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.

Governance factors are important considerations for Tigo UNE's rating and reflect the company's operating track record, which has been impacted by loss of profitability in recent years, as well as the company's tolerance for higher liquidity risk.

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

An upgrade is unlikely at this point given the ongoing review for downgrade. However, Moody's could stabilize the rating outlook if there is strong evidence that the company will be able to convert the positive momentum in subscriber growth into sustained improvement in profitability over the rating horizon, while maintaining leverage below 2.5x and interest coverage measured by (EBITDA-CAPEX)/Interest Expense at 2.5x or higher on a sustained basis. In addition, the company needs to demonstrate adequate liquidity and the ability to secure financing to timely meet upcoming debt amortization and capex needs.

The ratings could be downgraded if liquidity is expected to remain weak due to persistent negative free cash flow generation driven by continued low profitability and high capex needs, including spectrum renewal requirements. Ratings could also be downgraded if the company is not able to secure financing to meet upcoming debt maturities, operating performance deteriorates further, 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.moody.com/rmc-documents/393391>. Alternatively, please see the Rating Methodologies page on <https://ratings.moody.com> for a copy of this methodology.

Moody's has decided to withdraw the rating for its own business reasons. Please refer to the Moody's Investors Service Policy for Withdrawal of Credit Ratings, available on its website, <https://ratings.moody.com>.

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 15% of consolidated EBITDA in the twelve months ended in March 2023. Tigo UNE reported \$1.23 billion in revenues and EBITDA of \$383 million in the twelve months ended in March 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.moody.com/rating-definitions>.

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The rating has been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moody.com/documents/PBC_1288235.

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

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