

RATING ACTION COMMENTARY

Fitch Assigns A1 Towers First-Time IDR 'BBB-(EXP)'; Outlook Stable

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Fitch Ratings - Frankfurt am Main - 26 Jun 2023: Fitch Ratings has assigned A1 Towers Holding GmbH (A1 Towers) a first-time expected Long-Term Issuer Default Rating (IDR) of 'BBB-(EXP)'. The Outlook is Stable. Fitch has also assigned an expected senior unsecured rating of 'BBB-(EXP)' to its planned long-term financing instruments.

The assignment of final ratings is subject to the successful completion of the spin-off of A1 Towers and to the debt documentation conforming materially to the draft terms presented to Fitch. The expected ratings are assigned with the expectation that the initial guarantee of the senior unsecured debt from Telekom Austria AG (TAG, A-/Positive) will be transferred to a new entity EuroTeleSites AG, with no recourse to TAG thereafter.

A1 Towers' ratings reflect its highly visible cash flow profile supported by long-term inflation-linked contracts with its strong anchor tenant TAG and third parties. A1 Towers has a leading market position in its largest market, Austria, and is geographically diversified across six markets. Rating constraints include high initial leverage and limited customer diversification beyond its core anchor tenant, TAG. We also expect negative free cash flow (FCF) over the next two years, driven by high capex.

The rating benefits from a one-notch uplift above the company's 'bb+' Standalone Credit Profile (SCP) given strategic incentives for parent America Movil S.A.B. de C.V. (AMX, A-/Positive) to support it in the event of distress.

KEY RATING DRIVERS

Tower Spin-off: TAG expects to transfer its equity stake in its tower portfolio business A1 Towers to EuroTeleSites AG during 2H23. TAG's controlling shareholder AMX is to be the controlling shareholder in EuroTeleSites AG with a 51% stake. The Austrian

state-owned company Österreichische Beteiligungs AG (ÖBAG) will hold a further 28% of the shares and the remaining shares are to be listed on the Vienna Stock Exchange.

High Initial Leverage: Following the expected long-term financing, we expect A1 Towers' Fitch-defined EBITDA net leverage at around 7.6x in 2023. This is above the downgrade leverage sensitivity of 7x. However, strong EBITDA margins, contracted revenue growth and a shareholder commitment to not paying dividends until 2026 should contribute to good deleveraging capacity. We expect leverage to fall below 7x, in line with the rating, over the next two years. AMX is expected to consolidate A1 Towers and has a demonstrated record of maintaining a conservative financial policy.

Visible Cash Flows: A1 Towers has an eight-year contract with TAG, which automatically extends by a further eight-plus-eight years on renewal on an 'all-or-nothing' basis. The contract includes inflation protection with an 85% of CPI escalator capped at 3%. Given the needs for network densification in Austria and limited competitive alternatives to mobile tower networks, we view the cash flow profile of A1 Towers as highly visible. This supports deleveraging and is reflective in a higher debt capacity for tower companies relative to mobile network operators.

Parental Support Rating Uplift: Fitch rates A1 Towers under its Parent and Subsidiary Linkage (PSL) Criteria, assuming AMX will hold 51% of EuroTelesites AG's equity following the spin-off. We view the strategic incentives for AMX to support A1 Towers as 'medium'. This reflects that its anchor tenant TAG represents around 15% of consolidated EBITDA for AMX and is a major source of hard-currency cash flows. Financial distress at A1 Towers could create disruption for TAG, and A1 Towers' debt remains consolidated by AMX. We believe the strategic incentives to support A1 Towers are aligned with those of the significant minority shareholder OBAG.

'Low' Legal/Operational Incentives: We view the legal and operational incentives for AMX to support A1 Towers as 'low'. This reflects a lack of legal guarantees or cross defaults issued by the parent and limited competitive advantage or operational synergies with AMX. The strategic incentive to support results in a 'BBB-' IDR at one notch above its SCP of 'bb+'.

High-Quality Anchor Tenant: A1 Towers will generate around 95% of 2023 revenues from its anchor tenant, TAG, across six markets in Europe. In Austria, Bulgaria and north Macedonia TAG is the mobile market leader and we estimate that these three countries will represent around 82% of A1 Towers' 2023 revenue. Counterparty risk from the consolidation of mobile network operators is lower where the anchor tenant is the market-leading mobile operator with a stronger competitive position than the third or

fourth operators. TAG shows strong market positions, shares the same controlling shareholder and had low leverage at around 1x on a pre-IFRS16 basis at end-2022.

Limited Customer Diversification: With the majority of its revenues coming from its anchor tenant, A1 Towers is more exposed to risk of disruption from a single customer than a more diversified, independent tower company like Cellnex Telecom SA. A1 Towers operates in competitive tower markets with two other independent tower companies in its largest market. Competition for co-location growth in new-build sites is likely to be high. TAG has the same controlling shareholder as A1 Towers and will have exclusive right of use over a small number of sites. The structure and exclusive rights could negatively affect its competitive positioning relative to other independent tower companies when seeking new tenancy growth.

Industry Growth: A1 Towers does not have a committed build-to-suit (BTS) contract with its anchor tenant, which reduces the revenue visibility relative to that of European peers, like Cellnex Telecom SA. While not contracted, we still expect A1 Towers to add around 900 sites across its markets between 2022 and 2026. This reflects growth in the telecom markets served by A1 Towers. For 5G networks to be effective in meeting the latency and speed demands of technologies like Internet-of-Things and artificial intelligence network densification is needed. More spectrum frequencies are expected to become available in the mid- and high-band frequencies, which are high speed over short distances and will need more sites. National network roll-out requirements also increase the need for towers in rural and suburban areas.

DERIVATION SUMMARY

As a provider of passive tower infrastructure on long-term contract terms, A1 Towers benefits from superior revenue stability and visibility, typical for the mobile tower industry. Consequently, we view the operating profile as having less risk and greater leverage capacity than that of telecoms operators such as Vodafone Group Plc (BBB/Positive) and Deutsche Telekom AG (BBB+/Stable), which face higher technological risks and have lower visibility on investment returns.

Compared with European tower peers, A1 Towers benefits from the leading market share of towers in its largest market and a high-quality counterparty in its anchor tenant (TAG). Relative to Infrastrutture Wireless Italiane S.p.A. (Inwit, BBB-/Stable), A1 Towers has better geographic diversification. Inwit has a stronger market share than A1 Towers with the two market-leading mobile network operators as anchor tenants, yielding a tenancy ratio above 2x. Unlike A1 Towers, Inwit has no cap on inflation price increases for anchor tenants and a higher proportion of revenues from non-anchor tenants.

Cellnex Telecom S.A. (BBB-/Stable) is better diversified than A1 Towers, has longer-term contracts and greater visibility on future revenue growth from new sites with BTS commitments. Cellnex Telecom S.A. has larger FCF, as well as a demonstrated record of raising debt and equity financing to support investments. Cellnex Telecom S.A.'s EBITDA net leverage has been heightened by acquisitions, although we expect organic deleveraging. Cellnex Telecom S.A. is exposed to anchor tenants with a weaker market share than TAG's, meaning higher counterparty risk from market consolidation.

KEY ASSUMPTIONS

- Revenue growth of 4.9% in 2023 following inflation-linked price increases, site number growth and committed third-party lease increases. This is followed by average revenue growth of 3.9% to 2026
- Fitch-defined EBITDA margin to reach 55.2% in 2023, and to gradually increase to 57.6% by 2026
- Lease profit & loss (P&L) charges (right-of-use amortisation and lease interest) around 30% of revenue per year to 2026
- Capex to average 24.2% of revenue between 2023 and 2026
- No dividends paid through to 2026
- No M&A assumed through to 2026

RATING SENSITIVITIES

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

- EBITDA net leverage trending below 6.0x on a sustained basis, which is above A1 Towers' target net leverage of 5x
- A change in Fitch's assessment of legal or operational incentives for AMX to support A1 Towers to 'moderate' or 'high'

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

- Failure to reduce EBITDA net leverage below 7x
- Deterioration in FCF generation or a change in EBITDA mix with a greater contribution of FCF derived from higher-risk assets and less predictable revenue

streams

- Loss of anchor tenant contracts across any of its six markets

- AMX's shareholding in EuroTeleSites AG at below 50% or Fitch's assessment of strategic incentive for AMX to support A1 Towers to 'low' or a downgrade of AMX's rating to 'BB+' or below

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

Adequate Liquidity, Long Debt Maturity: Following the planned refinancing we assume limited debt maturities until 2028. Aside from any planned revolving credit facility (RCF), we expect future liquidity to be supported by double-digit FCF margins from 2026, following a period of new site build and tower upgrade capex which would constrain FCF generation till 2025.

ISSUER PROFILE

A1 Towers is an existing subsidiary of TAG representing its passive tower infrastructure (around 13,000 towers) in the six countries where it operates (Austria, Bulgaria, Croatia, Slovenia, Serbia and north Macedonia). A1 Towers is expected to be spun off shortly from TAG into a newly created entity with the same ownership structure as TAG.

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.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

A1 Towers' ratings are linked to AMX's.

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 ⚡
A1 Towers Holding GmbH	LT IDR BBB-(EXP) Rating Outlook Stable Expected Rating
senior unsecured	LT BBB-(EXP) Expected Rating

[VIEW ADDITIONAL RATING DETAILS](#)

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APPLICABLE CRITERIA

[Corporates Recovery Ratings and Instrument Ratings Criteria \(pub. 09 Apr 2021\)](#)
(including rating assumption sensitivity)

[Corporate Rating Criteria \(pub. 28 Oct 2022\)](#) (including rating assumption sensitivity)

[Parent and Subsidiary Linkage Rating Criteria \(pub. 16 Jun 2023\)](#)

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

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A1 Towers Holding GmbH

EU Issued, UK Endorsed

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