



Rating Action: Moody's assigns first-time Baa2 issuer rating to A1 Towers; outlook stable

29 Jun 2023

Madrid, June 29, 2023 – Moody's Investors Service (Moody's) has today assigned a first-time issuer rating of Baa2 and a Baseline Credit Assessment (BCA) of baa3 to A1 Towers Holding GmbH (A1 Towers), an Austrian tower infrastructure company with operations in Austria, Bulgaria, Croatia, Serbia, Slovenia, and North Macedonia. Concurrently, Moody's has assigned a Baa2 rating to the proposed issuance of €500 million senior unsecured notes to be issued by A1 Towers. The outlook on the rating is stable.

"The Baa2 rating reflects the high predictability of the company's revenue and EBITDA, supported by long-term contracts with a solid anchor tenant. However, given the high initial leverage, the rating is initially weakly positioned in the category, with limited room for deviation relative to our expectations," says Carlos Winzer, a Moody's Senior Vice President and lead analyst for A1 Towers.

"The Baa2 rating also benefits from a one-notch uplift owing to government support, given the Government of Austria's 28.42% stake in the company," adds Mr Winzer.

A full list of affected ratings is provided towards the end of this press release.

RATINGS RATIONALE

The Baa2 issuer rating reflects Moody's assessment of A1 Towers' (1) stable and predictable business model, (2) its large long-term backlog of contracts with its main anchor tenant (Telekom Austria AG, Baa1 stable), (3) its high EBITDA margins of around 87%, (4) the diversification into higher growth markets such as Bulgaria, Croatia, Serbia, Slovenia and North Macedonia, (5) the business plan supported by organic growth and some increase in the tenancy ratio, with limited M&A risk, (6) its plan to pursue a deleveraging path within a reasonable time horizon, supported by the commitment not to pay dividends until 2027, and (7) the benefits resulting from America Movil, S.A.B. de C.V.'s (America Movil, Baa1 stable) 51% shareholding in A1 Towers.

These factors are balanced against (1) the high starting leverage of around 6.6x, (2) its small size (€232 million of revenues and €202 million of EBITDA in 2022) relative to other rated peers in the tower sector globally, (3) the high concentration of revenues (95%) with its main customer (anchor tenant), (4) its degree of exposure to country risk in some speculative grade rated countries, and (5) its initially limited free cash flow generation and weak EBITDA-Capex/interest expense ratio owing to a sustained capex plan to develop 5G infrastructure in the countries where it operates.

A1 Towers qualifies as a government-related issuer (GRI) as per Moody's methodologies given that the Government of Austria (Aa1 stable) owns a 28.42% stake in the company. The Baa2 rating benefits from a one notch uplift owing to government support. The issuer rating of Baa2 reflects the combination of (1) the baa3 Baseline Credit Assessment (BCA), which reflects the company's standalone credit quality; (2) the moderate support assumption owing to Moody's expectation that the government would be unlikely to be the sole provider of support but instead jointly with other shareholders in case of need; the European Union policy barriers to the provision of direct financial support; and the Austrian government's historical moderately interventionist approach; and (3) the low level of default dependence between A1 Towers and the Government of Austria owing to the limited financial and operational links between the company and the Austrian economy.

A1 Towers has a stable and predictable business model supported by a large amount of "locked in" minimum

revenues from its anchor tenant (Telekom Austria AG) through long term contracts. In addition, the company benefits from the high barriers to entry for competitors and the high barriers to exit for customers, which are characteristic of the tower industry.

The Baa2 rating also reflects the expectation of A1 Towers' sound revenue and EBITDA growth on the back of 5G upgrades, increased densification, the increase in the tenancy ratio to 1.30x by 2026 from 1.21x in Q1 2023 and scale efficiencies. A1 Towers' Baa2 rating also reflects its high EBITDA margins of around 87%.

The rating agency also recognizes its anchor tenant's investment-grade credit profile as well as A1 Towers' strong market position and geographical diversification into higher growth markets such as Bulgaria, Croatia, Serbia, Slovenia and North Macedonia. These countries generate around 40% of the company's revenues and EBITDA, and while they have a higher growth profile than the core Austrian market, they also have a higher degree of country risk.

Moody's also positively values the company's plan to pursue a deleveraging path within a reasonable time horizon, supported by the commitment not to pay dividends until 2027. Moody's understands that the company's growth strategy will be purely organic and that its ambition is to maintain its current footprint unchanged, with no M&A envisaged in the plan.

These factors are balanced against A1 Towers' high starting leverage of around 6.6x in 2023, which will reduce by around 1.2x to 5.4x in 2025.

Other challenges include its small size and high concentration of revenues (95%) with its main customer, which exposes A1 Towers to counterparty risk in the unlikely event that Telekom Austria's credit quality deteriorated significantly in the future.

Moody's also noted the limited room to gain market share in the countries where A1 Towers operates as MNOs have ties with their current tower companies.

A1 Towers' limited free cash flow generation as well as weak EBITDA-Capex/interest expense ratio owing to sustained capex plan to develop 5G infrastructure also weigh on its credit profile. A1 Towers operates a capital intensive business model as it requires high expansionary capital spending, at an average of 25% of its revenues per annum over FY2023-FY2026, in order to meet its revenue growth targets and to fulfil contractual built-to-suit commitments. This capex is relatively high compared with the industry average, considering that A1 Towers does not plan to pursue the acquisition of land where its towers are based.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE CONSIDERATIONS

Governance risks as per Moody's ESG framework were considered key drivers for this action. A1 Towers is a public company, with the Austrian government owning 28.43% of the company. In addition, America Movil, owns a 51% equity stake, controls and fully consolidates A1 Towers into its accounts. A1 Towers' moderate exposure to governance risks reflects the concentrated ownership and lack of track record as a standalone company.

LIQUIDITY

A1 Towers' liquidity is adequate, based on its cash flow generation and the absence of dividend distributions until at least 2027, its initial cash balance of around EUR56 million, and access to an undrawn EUR75 million revolving credit facility due in June 2028, with no financial covenants. A1 Towers will not face any debt maturities until 2028.

RATIONALE FOR STABLE OUTLOOK

The stable outlook on the rating reflects the predictability of A1 Towers' revenue and EBITDA, which supports Moody's expectation that the company's performance and deleveraging trajectory will be largely in line with its business plan over the next 2 to 3 years. However, given the high initial leverage, the company is initially weakly positioned in the category, with limited room for deviation relative to Moody's expectations.

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

Upward rating pressure could develop over time if A1 Towers establishes a track record operating as an independent company with continued growth in revenue and EBITDA, supported by improving tenancy ratios as well as an increasing share of revenues from customers other than Telekom Austria. Credit metrics that could support upward pressure on the ratings include a Moody's adjusted gross leverage ratio improving sustainably well below 4.75x.

Downward rating pressure could arise if A1 Towers significantly underperforms compared to its current business plan and medium term growth targets; the credit quality of its key customer, Telekom Austria, weakens sustainably; and A1 Towers is unable to reduce its Moody's adjusted gross leverage to well below 6.0x by 2025, as envisaged in the business plan. Additional negative pressure could arise if the company embarks on debt financed M&A that slows its deleveraging profile.

In addition, Moody's would most likely no longer apply the GRI methodology to A1 Towers or incorporate an uplift into its final rating if the government were to reduce its stake in the group to below 20% or if Moody's were to lower the support assumptions for the group. While either one of these factors would likely result in a one-notch downgrade, there is no indication that either will occur. Moreover, there is a lock-up shareholder agreement by which the government will retain its current ownership for at least 5 years.

LIST OF AFFECTED RATINGS

Assignments:

..Issuer: A1 Towers Holding GmbH

.... Issuer Rating, Assigned Baa2

.... Baseline Credit Assessment, Assigned baa3

....Backed Senior Unsecured Regular Bond/Debenture, Assigned Baa2

..Issuer: A1 Towers Holding GmbH

....Outlook, Assigned Stable

PRINCIPAL METHODOLOGIES

The methodologies used in these ratings were Communications Infrastructure published in February 2022 and available at <https://ratings.moodys.com/rmc-documents/379527>, and Government-Related Issuers Methodology published in February 2020 and available at <https://ratings.moodys.com/rmc-documents/64864>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of these methodologies.

COMPANY PROFILE

A1 Towers is the Austrian TowerCo providing leasing of antenna and equipment space as well as power backup through its nationwide network of close to 13k sites across Austria, Bulgaria, Croatia, Serbia, Slovenia, and North Macedonia. A1 Towers is a spin-off from Telekom Austria and the company will be listed on the Vienna Stock Exchange in 2023. Its shareholder composition mirrors that of Telekom Austria with America Movil owning 51%, OBAG (Government of Austria's investment vehicle) 28.42% and the remaining 20.58% being free float. In 2022, A1 Towers' proforma revenues and adjusted EBITDA amounted to €232 million and €202 million, respectively.

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

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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.moodys.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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