FitchRatings

RATING ACTION COMMENTARY

Fitch Downgrades ColTel to 'BB+'; Outlook Stable

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Fitch Ratings - New York/Bogota - 04 Apr 2024: Fitch Ratings has downgraded Colombia Telecomunicaciones S.A. E.S.P.'s (ColTel) ratings, including the Long-Term Foreign Currency (FC) and Local Currency (LC) Issuer Default Ratings (IDR) to 'BB+' from 'BBB-' and the National Scale rating to 'AA+(col)' from 'AAA(col)'. Fitch also downgraded ColTel's USD500 million notes due 2030 and local issuances of bonos ordinarios to 'BB+' from 'BBB-' and to 'AA+(col)' from 'AAA(col)', respectively . Fitch affirmed the National Short-Term rating at 'F1+(col)'. The Rating Outlook is stable.

The downgrade reflects Coltel's credit metrics above Fitch's previous rating sensitivities, pressured by EBITDA margin from intense competition, and negative free cash flow generation due to higher interest paid and capex, including spectrum payments. The 'BB+' rating factors in the company's strong market position in the competitive Telecom Colombian sector, as well as the shift of the company toward an asset-light model in the fixed and mobile segments with the recent network sharing agreement with UNE EPM (Tigo Une).

KEY RATING DRIVERS

Steady Net Leverage: ColTel's net leverage reached 3.2x (3.9x adjusted for capitalized leases and connectivity fees) in 2023, which is in line with a 'BB+' rating. Fitch expects net leverage to remain steady in 2024 and 2025 at close to 3x, assuming no material improvement in its free cash flow generation due to pressure on the mobile segment, increased connectivity fees, and high capex, including spectrum. Fitch forecasts adjusted EBITDA to improve modestly to about COP 1.2 trillion from COP 1.1 trillion in 2023, based on high single-digit fixed RGUs growth with one million new homes passed, reaching a total of 6 million by YE24, while mobile revenue is projected to remain steady.

Negative FCF: Fitch anticipates that free cash flow (FCF) will remain negative and be constrained by significant capital expenditures, including the renewal of spectrum anticipated for 2024 and 2025. The expected capex, including spectrum renewals, is projected to average COP 875 billion in 2024-2025, compared to COP 871 billion in 2023. Post-2026, ColTel will benefit from a further decrease in capex (including spectrum) owing to the mobile network sharing agreement with Tigo Une. This agreement enables both Tigo and Movistar to create a new jointly owned mobile access infrastructure and share radio spectrum usage. It also allows both companies to operate their mobile networks and the spectrum they use more efficiently, in addition to the rollout of 5G in Colombia.

Intense Price Competition: The Colombian mobile market should continue to show significant pricing pressure as incumbent operators maintain promotional activity. The country's mobile penetration, which is above 150% compared to 135% in 2019, is also contributing to lower ARPU. Competition is growing in fixed broadband as well, although Fitch expects ColTel to be a challenger in this segment, with fiber-optic expansion accelerating customer acquisitions and leading to market share gains over the rating horizon.

Good Market Positions: ColTel enjoys a good market position as the second-largest mobile operator in Colombia, behind America Movil S.A.B. de C.V.'s (A-/Positive) subsidiary Claro Colombia S.A., which is roughly twice the size, and is the third-largest in broadband internet. Coltel maintains its leadership in FTTH and continues to defend its position in the mobile market. The company's competitive position is supported by subscriber shares of 25% in mobile and 16% in broadband (increasing market share by about 2% yoy). In addition, the company has a solid business-to-business offering, which generates approximately 28% of its consolidated revenue through the expansion of digital services.

Parent and Government Linkages: The company is 67.5% owned by Telefonica SA (BBB/Stable), but ColTel's ratings are assessed on a standalone basis without assuming Telefonica's support. This is because Fitch views the potential for legal, strategic, and operational support to be low. There are no debt guarantees or cross-default clauses linking the two entities, and ColTel contributes less than 4% to Telefonica's consolidated revenues. ColTel operates and finance independently. Although the Colombian government holds a 32.5% stake in ColTel, it does not influence the company's management, so the government's involvement does not directly impact the ratings.

DERIVATION SUMMARY

ColTel's overall business is similar to direct competitor UNE EPM Telecomunicaciones S.A, with a similar revenue share of the overall Colombian market, although Tigo Une has a longer history of maintaining lower leverage but suffer from weaker governance structure due to the dynamics between its Tigo UNE's shareholders, Millicom and Empresas Publicas de Medellin (EPM). Tigo Une is also relatively stronger in the fixed broadband in terms of market share and PayTV business.

Telefonica del Peru, S.A.A. (TdP; B+/Negative), has a well-diversified business, but the company's market position and profitability have been weakened as a result of intense competition in Peru. Fitch expects TdP leverage to weaken over the rating horizon, given the expectation that a portion of the tax payments will be financed with debt financing.

Empresa Nacional de Telecomunicaciones S.A.'s (Entel; BBB-/Stable) benefits from its position as the leading mobile player in Chile. Tigo UNE and ColTel are concentrated in Colombia, which is a riskier market than Chile.

ColTel's greater scale and diversified revenue streams compare favorably with Colombian fixed-line provider Empresa de Telecomunicaciones de Bogota, S.A., E.S.P. (BB+/Negative), which has a conservative financial structure.

KEY ASSUMPTIONS

--Net Fixed subscriber additions of about one million in 2024;

--Fixed RGUs grows to high-single digits in 2024;

--Steady blended fixed ARPUs 2024;

--Steady Mobile revenues in 2024-2025;

--Fiber take-up rate at about 25% -26% in 2024;

--Capex including spectrum average COP 875 billion in 2024-2025.

RATING SENSITIVITIES

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

--Total net debt/EBITDA falling below 2.5x on a sustained basis;

--EBITDA margin above 20%;

--(CFO-Capex)/Debt above 7.5%.

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

--Total net debt/EBITDA rising above 3.5x or capitalization-adjusted adjusted net debt leverage of 4.5x on a sustained basis due to a weakening of competitive position,

--Weak liquidity;

--Multi notch downgrade of Colombia.

LIQUIDITY AND DEBT STRUCTURE

Adequate Liquidity: Liquidity is supported by operating cash flow generation and good access to bank debt. The company had cash and equivalents of COP362 billion as of YE23 and maintains good access to bank debt. The company faces COP348 billion of local notes due in May 2024 and COP298 billion bank debt in 2024, which Fitch expects the company to repay thanks to access to bank lines. ColTel's USD500 million 2030 bond is fully hedged, which reduces FX risk.

ISSUER PROFILE

ColTel is an integrated telecommunications provider that offers mobile, fixed voice, Pay TV and broadband services to consumers, businesses, and government customers in Colombia. The company is 67.5% owned by Telefonica S.A. of Spain and 32.5% owned by the Colombian government.

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

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY / DEBT	RATING		PRIOR
Colombia Telecomunicaciones S.A. E.S.P. BIC	LT IDR	BB+ Rating Outlook Stable Downgrade	BBB- Rating Outlook Negative
	LC LT IDR	BB+ Rating Outlook Stable Downgrade	BBB- Rating Outlook Negative
	Natl LT	AA+(col) Rating Outlook Stable Downgrade	AAA(col) Rating Outlook Negative

	Natl ST	F1+(col)	Affirmed	F1+(col)
senior unsecured	LT	BB+	Downgrade	BBB-
senior unsecured	Natl LT	AA+(col)	Downgrade	AAA(col)

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

National Scale Rating Criteria (pub. 22 Dec 2020)

Parent and Subsidiary Linkage Rating Criteria (pub. 16 Jun 2023)

Corporate Rating Criteria (pub. 03 Nov 2023) (including rating assumption sensitivity)

Sector Navigators – Addendum to the Corporate Rating Criteria (pub. 03 Nov 2023)

Government-Related Entities Rating Criteria (pub. 12 Jan 2024)

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

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Colombia Telecomunicaciones S.A. E.S.P. BIC	EU Endorsed, UK Endorsed

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