

Research Update:

# Colombia Telecomunicaciones S.A. E.S.P. 'BB+' Ratings Affirmed After Operating Spin-Off By Parent; Outlook Still Stable

December 3, 2019

## Rating Action Overview

- We continue to view Colombian telecommunication services operator, Colombia Telecomunicaciones S.A. E.S.P. (Coltel), as a moderately strategic subsidiary for its parent Telefonica S.A. (BBB/Stable/A-2) after the parent's operating spin-off announcement.
- On Dec. 3, 2019, S&P Global Ratings affirmed its long-term 'BB+' global scale issuer credit rating on Coltel and its 'BB+' issue-level rating on the company's senior unsecured bond. At the same time, we affirmed Coltel's hybrid capital securities rating at 'BB-'.
- The stable outlook reflects our expectation that Coltel will maintain its position as the second-largest wireless player in Colombia thanks to its planned LTE deployment and its "#RECONNECTA" strategy, which will increase the company's share in the fixed-line and broadband markets. This, along with higher cash flows due to a lower debt burden, should enable the company to post debt to EBITDA of about 2.3x and funds from operations (FFO) to debt of between 30% and 45% in the next 12-18 months.

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## Rating Action Rationale

This rating action reflects our view that Coltel still represents a moderately strategic subsidiary for its parent Telefonica, based mainly on its reasonably successful performance within the telecom industry and the likelihood it will to receive support from Telefonica if needed, as it has in the past. We believe that the new operating strategy doesn't represent any immediate changes in Coltel's ownership by Telefonica S.A., or its ongoing operations under Telefonica's brand name. Thus, our ratings on Coltel continue incorporating a one-notch uplift.

On Nov. 27, 2019, Telefonica announced a new strategic plan for eight of its Latin American subsidiaries in Colombia, Argentina, Chile, Peru, Mexico, Ecuador, Uruguay, and Venezuela. This operating spin-off will group these assets into a new entity (Telefónica Hispanoamerica) with an autonomous management, in order to maximize their value and allow them to promptly act on their economic, regulatory, and competitive exposures.

We will continue monitoring Coltel's relevance to its parent's long-term strategy and Telefonica's possible divestiture plans in the region. In our view, these factors could represent a sign of a lower likelihood of support from Telefonica if needed.

## Ratings Score Snapshot

Issuer Credit Rating: BB+/Stable/--

Business risk: Fair

- Country risk: Moderately high
- Industry risk: Intermediate
- Competitive position: Fair

Financial risk: Significant

- Cash flow/leverage: Significant

Anchor: bb

Modifiers

- Diversification/portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Financial policy: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Management and governance: Fair (no impact)
- Comparable rating analysis: Neutral (no impact)
- Entity status within group: Moderately strategic (+1 notch from SACP)
- Likelihood of government support: Low (no impact)

## Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology And Assumptions: Assigning Equity Content To Hybrid Capital Instruments Issued By Corporate Entities And Other Issuers Not Subject To Prudential Regulation, Jan. 16, 2018
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global

Corporate Issuers, Dec. 16, 2014

- Criteria | Corporates | Industrials: Key Credit Factors For The Telecommunications And Cable Industry, June 22, 2014
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

## Ratings List

### Ratings Affirmed

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#### Colombia Telecomunicaciones S.A. E.S.P

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Issuer Credit Rating BB+/Stable/--

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#### Colombia Telecomunicaciones S.A. E.S.P

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Senior Unsecured BB+

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Subordinated BB-

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