FitchRatings

28 MAR 2025

Fitch Affirms ColTel at 'BB+'; Outlook Stable

Fitch Ratings - New York/Bogota - 28 Mar 2025: Fitch Ratings has affirmed 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) at 'BB+' and the Long-Term National Scale rating at 'AA+(col)'. Fitch has also affirmed ColTel's USD500 million notes due 2030 and local issuances of bonos ordinarios at 'BB+' and 'AA+(col)', respectively. In addition, Fitch has affirmed the National Short-Term rating at 'F1+(col)'. The Rating Outlook is Stable.

The affirmation reflects the company's solid market position in the competitive Colombian telecom sector, as well as its credit metrics. Fitch expects the proposed acquisition of Millicom would likely be neutral to the ratings.

Key Rating Drivers

Millicom Take Over Offer: Fitch views Millicom's offer to acquire ColTel as neutral for the rating, as both ratings are the same and there is limited impact from this transaction on Millicom's credit metrics. Millicom has entered into a definitive agreement for the acquisition of Telefónica's controlling 67.5% equity stake in ColTel for US400 million, subject to regulatory approvals.

Millicom has also agreed to offer to purchase the remaining 32.5% of ColTel equity owned by La Nación and other investors. The transaction would include acquiring the remaining interests in EPM's 50% stake in Tigo UNE. This acquisition would create a strong number two telecom operator in Colombia, following Claro Colombia. The deal could be completed in late 2025 or early 2026, pending the necessary regulatory approvals.

Steady Net Leverage: Fitch expects that ColTel's adjusted net leverage reached 3.2x in 2024, aligning with the rating. We expect net leverage to remain around 3x-3.5x in 2025, amid pressure on FCF due to increased capex, including spectrum. We forecast adjusted EBITDA to remain stable at about COP 1.1 trillion to COP 1.2 trillion. Slightly higher revenues from terminal equipment sales, a higher take-up rate in the fixed segment, a less aggressive rollout of new fiber subscribers, and ongoing operating efficiencies support this stability.

Negative FCF: Fitch expects negative FCF due to increased capex, including spectrum renewal anticipated in 2025. Capex, including spectrum renewals, is projected to reach COP750 billion to COP800 billion in 2025, compared to an estimated COP603 billion in 2024. In 2026, ColTel is expected to benefit from reduced capex (including spectrum) owing to the mobile network-sharing agreement with Tigo UNE. This agreement allows Tigo and Movistar to jointly manage mobile access infrastructure and share radio spectrum usage, enabling more efficient mobile network and spectrum operations, alongside the rollout of 5G in Colombia.

Intense Competition: The mobile market in Colombia is expected to remain competitive due to high mobile penetration, which is above 170% compared with 135% in 2019. Competition is also increasing in fixed broadband; however, Fitch expects ColTel to be a challenger in this subsector with its fiber optic rollout, 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 fiber to the home and continues to defend its position in the mobile market. The company's competitive position is supported by subscriber shares of 23% in mobile and 17% in broadband. In addition, the company has a business-to-business offering, which generates about 27% of its consolidated revenue through the expansion of digital services.

Parent and Government Linkages: Fitch rates Coltel on a standalone basis. The company is 67.5% owned by Telefónica SA (BBB/Stable), but ColTel's ratings are assessed on a standalone basis without assuming Telefónica's support, given Fitch's view of low legal, strategic, and operational support and the upcoming transaction with Millicom. Also, there are no debt guarantees or cross-default clauses linking the two entities, and ColTel contributes less than 5% to Telefónica's consolidated revenues. 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 affect the ratings.

Peer Analysis

Coltel's overall business is similar to that of its direct competitor UNE EPM Telecomunicaciones S.A. (BB+/Stable), with a comparable revenue share of the overall Colombian market. Tigo Une has a strong postpaid mobile offer, but ColTel has developed a fixed network based on fiber. Although Tigo Une has a longer history of maintaining lower leverage, it suffers from a weaker governance structure due to the dynamics between its shareholders, Millicom International Cellular S.A. (BB+/Stable) and Empresas Públicas de Medellín E.S.P. (EPM) (BB+/Negative).

Empresa Nacional de Telecomunicaciones S.A. (Entel; BBB-/Stable) benefits from its position as the leading mobile player in Chile. ColTel's greater scale and diversified revenue streams compare favorably with Colombian fixed-line provider Empresa de Telecomunicaciones de Bogotá, S.A., E.S.P. (BB+/Negative).

Key Assumptions

--Net fixed subscriber additions of less than 100,000 in 2025;

--Single-digit revenue growth based on higher equipment sales and steady fixed and mobile revenues;

--EBITDA close to COP 1.1 trillion to COP1.2 trillion;

--Capex including spectrum of less than COP800 billion in 2025.

RATING SENSITIVITIES

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

--Total net debt/EBITDA rising above 3.5x on a sustained basis;

--Weak liquidity;

--Multi-notch rating downgrade of Colombia or Millicom should the acquisition be completed.

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%;

--An upgrade of Millicom should the acquisition be completed.

Liquidity and Debt Structure

Liquidity is supported by operating cash flow generation and good access to bank debt. Fitch estimates that cash and equivalents reached close to COP525 billion as of YE24 and that the company will maintain good access to bank debt. The company faces COP307 billion of bank debt in 2025. ColTel's USD500 million 2030 bond is fully hedged, which reduces FX risk.

Issuer Profile

ColTel is an integrated telecommunications provider offering 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.

MACROECONOMIC ASSUMPTIONS AND SECTOR FORECASTS

Click here to access Fitch's latest quarterly Global Corporates Macro and Sector Forecasts data file which aggregates key data points used in our credit analysis. Fitch's macroeconomic forecasts, commodity price assumptions, default rate forecasts, sector key performance indicators and sector-level forecasts are among the data items included.

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.

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Rating Actions

ENTITY/DEBT	RATING			RECOVERY	PRIOR
Colombia Telecomunicaciones S.A. E.S.P. BIC	LT IDR	BB+	Affirmed		BB+
	LC LT IDR	BB+	Affirmed		BB+
	Natl LT	AA+(col)	Affirmed		AA+(col)

ENTITY/DEBT	RATING			RECOVERY	PRIOR
	Natl ST	F1+(col)	Affirmed		F1+(col)
• senior unsecured	LT	BB+	Affirmed		BB+
• senior unsecured	Natl LT	AA+(col)	Affirmed		AA+(col)

RATINGS KEY	OUTLOOK	WATCH
POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

Applicable Criteria

Corporate Rating Criteria (pub.06 Dec 2024) (including rating assumption sensitivity)

Metodología de Calificaciones en Escala Nacional (pub.22 Dec 2020)

Metodología de Calificación de Finanzas Corporativas (pub.14 Feb 2025)

Metodología de Vínculo de Calificación entre Matriz y Subsidiaria (pub.13 Jul 2023)

National Scale Rating Criteria (pub.22 Dec 2020)

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

Sector Navigators – Addendum to the Corporate Rating Criteria (pub.06 Dec 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

Solicitation Status

Endorsement Status

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

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The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. For more details on sector-specific best- and worst-case scenario credit ratings, please see Best- and Worst-Case Measures under the Rating Performance page on Fitch's website.

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