FitchRatings

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Fitch Affirms Inwit at 'BBB-'; Outlook Stable

Fitch Ratings - Milan - 07 Apr 2022: Fitch Ratings has affirmed Infrastrutture Wireless Italiane Spa's (Inwit) Long-Term Foreign-Currency Issuer Default Rating (IDR) and senior unsecured rating at 'BBB-'. The Outlook on the IDR is Stable.

The ratings of Inwit reflect its stable and visible revenue derived from long-term, CPI-linked contracts of its mobile tower portfolio in Italy, where it has a strong market position. Inwit has a cash-generative business model with low maintenance capex and demand-driven growth capex that reduces investment risks. A focus on passive infrastructure reduces risks related to technology obsolescence.

Inwit is on track to reduce funds from operations (FFO) net leverage to within the thresholds of its rating this year. This follows a leverage increase created by its merger with Vodafone's Italian tower unit in 2020. Inwit will benefit from a strong organic deleveraging capacity during 2022 and 2023, due to EBITDA growth and reduced tax payments. This will provide Inwit with financial flexibility for investments or increasing shareholder remuneration.

Fitch has withdrawn instrument ratings of Inwit's EUR1 billion term loan B and EUR500 million revolving credit facilities as they have been replaced or amended and are no longer relevant to Fitch's coverage.

Key Rating Drivers

Structurally Entrenched Market Position: Inwit has two leading Italian mobile operators as anchor tenants that provide security of revenue and a partnership for growth. A significant proportion of this growth is contracted. The company manages a portfolio of about 22,800 towers in Italy, representing a market share of just below 50% (Fitch estimate). This is one of the highest in-market shares in Europe and entrenches Inwit in the network-functioning and -deployment of its two core tenants. These are non-contractual factors that support Inwit's operating and credit profile.

Recurring and Stable FCF: Inwit has an eight-year service agreement with its two anchor tenants, Vodafone Italy and TIM. The contracts can be renewed on an 'all-or-nothing' basis and accounted for about 85% of its revenue on a committed basis in 2021. This provides visible and stable rental revenues with inflation-linked pricing escalators with a 0% floor that are not exposed to economic cyclicality. The service contracts also provide visibility on costs as variable operating costs such as energy can be passed onto its tenants. The combination of these factors drives the stability and visibility of recurring free cash flows (FCF).

Cash-Generative Business Model: Inwit has strong FCF generation, as demonstrated by a pre-dividend FCF margin of 19% in 2021 (Fitch-defined, adjusted for one-off cash items). The strong margin

reflects the set return on capital employed embedded in the pricing of its rental contracts, a low mix of variable costs and maintenance capex at 2%-3% of revenue. While Inwit will have further capex related to expansion projects, this is typically deployed with pre-agreed contractual agreements that significantly reduce investment risks and strengthen visibility of medium-term returns on the cash outlay.

Mobile Industry Trends Supportive: A number of trends in the mobile industry support growth into the medium term for mobile tower operators. These include the deployment of 5G, growth in digital applications, increasing penetration of fixed wireless access, inflation-linked contracts and the need for mobile operators to reduce costs and improve returns (tower operators enable a low level of network-sharing as an independent third party). EU digital and infrastructure funds are also likely to indirectly increase demand for Inwit over the next two years.

EBITDA Growth: Inwit has strong scope to grow EBITDA over the next five years through increasing revenues and operational leverage. Approximately 80% of operational costs relate to ground or roof-top lease rentals, which Inwit can lower through renegotiation or purchasing the freehold. Potential sources of revenue growth outside its existing service contracts with Vodafone Italia and TIM include the expansion of fibre to towers, deployment of small cell sites and increasing tenancy ratios through servicing other mobile operators such as Iliad and fixed wireless operators.

Deleveraging on Track, Building Headroom: We expect Inwit's funds from operations (FFO) net leverage to reduce to 6.0x by end-2022 from 7.6x at end-2021 and to within our rating sensitivities. The reduction is driven by EBITDA growth and lower tax payments, providing Inwit with a deleveraging capacity of around 0.6x FFO net leverage during 2022 and 2023. The reduction provides Inwit with headroom for inorganic investments or increasing shareholder remuneration.

Derivation Summary

As mobile tower operator Inwit has a hybrid operating profile with visibility and stability of rental income based on passive infrastructure and inflation-linked long-term contracts. These strengths are offset by specificity of the underlying asset that affects liquidity of sale and exposure to technological trends of the telecoms sector. Overall, we view the operating profile as carrying less risk and greater leverage capacity than telecoms operators such as Vodafone Group Plc (BBB/Stable) and Deutsche Telekom AG (BBB+/Stable), which have higher technological risks, greater cashflow volatility and lower visibility on investment returns.

Within Fitch's portfolio of tower operator peers, Inwit has a slightly lower leverage capacity than Cellnex Telecom S.A (BBB-/Stable) and US-based peers, such as American Tower Corporation (BBB+/Rating Watch Negative) and Crown Castle International Corp. (BBB+/Stable). This reflects Inwit's smaller scale, limited geographic diversification and a lower demonstrated ability to tap equity funding to support inorganic expansion when needed. However, Inwit has a strong in-market share and anchor tenancy from the top-two mature-phase mobile operators in the Italian market with complete management of their entire tower portfolios. The in-market share and anchor tenancy are, in our view, important factors in our assessment of Inwit's credit profile and help to partially offset some of the differences in scale and geographic diversification of its peers.

Key Assumptions

Fitch's Key Assumptions Within Our Rating Case for the Issuer

- Revenue of about EUR850 million in 2022, growing 5%-6% in 2023 and 2024

- Fitch-defined EBITDA margin (post lease depreciation and amortisation and lease interest costs) of 66% in 2022 and remaining broadly stable thereafter to 2024

- Average maintenance capex at 2%-3% of sales per year between 2022 and 2024

- Dividend payment to grow 7.5% per year in 2023 and 2024, from EUR310 million in 2022

RATING SENSITIVITIES

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

- FFO net leverage trending sustainably below 6.2x (equivalent to Fitch-defined net debt / EBITDA of about 5.5x)

- A record of, and shareholder intention with reference to, dividend distributions that are consistent with the thresholds of a higher rating

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

- FFO net leverage trending above 6.7x on a sustained basis (equivalent to Fitch-defined net debt / EBITDA of about 6.0x)

- 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

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

Comfortable Liquidity: At end-2021 Inwit had EUR96 million of cash and cash equivalents and access to an undrawn, EUR500 million revolving credit facility. The company has no debt maturities until 2023.

Summary of Financial Adjustments

Fitch has made the following adjustments in relation to Inwit's published financial statements:

- Large non-recurring, one-off cash tax items amounting to EUR334 million in relation to two transactions for goodwill tax schemes in 2021, have been excluded from FFO. These items are included within other non-operating, non-recurring items after Fitch-defined cash flow from operations (CFO) to better assess the company's underlying cash-generative capacity

- One-off extraordinary dividends to shareholders following the company's merger with Vodafone's mobile tower assets, amounting to EUR570 million, have been excluded from Fitch-defined FCF and included within net acquisitions and divestitures in 2020.

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

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

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Rating Actions

ENTITY/DEBT	RATING			RECOVERY	PRIOR
Infrastrutture Wireless Italiane S.p.A.	LT IDR	BBB- ◘	Affirmed		BBB- ◘
• senior unsecured	LT	WD	Withdrawn		BBB-
• senior unsecured	LT	BBB-	Affirmed		BBB-

RATINGS KEY	OUTLOOK	WATCH
POSITIVE	⊕	⬘
NEGATIVE	⊖	⬙
EVOLVING	◈	◆
STABLE	◘	

Applicable Criteria

Corporate Rating Criteria (pub.15 Oct 2021) (including rating assumption sensitivity)

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

Sector Navigators - Addendum to the Corporate Rating Criteria (pub.15 Oct 2021)

Applicable Models

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.0.2 (1)

Additional Disclosures

Solicitation Status

Endorsement Status

Infrastrutture Wireless Italiane S.p.A.	EU Issued, UK Endorsed

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