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Ratings

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Infrastrutture Wireless Italiane S.p.A.

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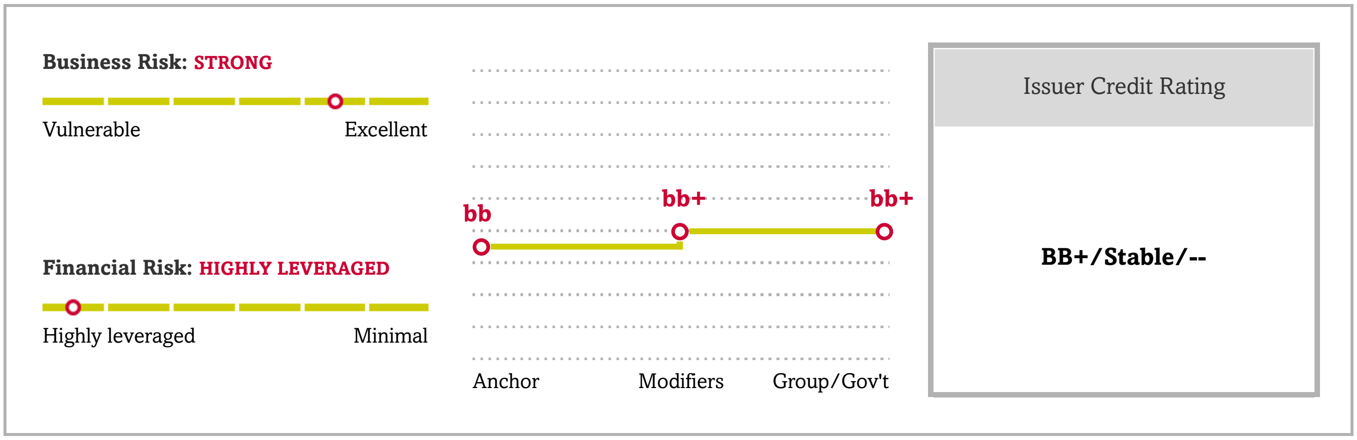

Credit Highlights

Overview

Key strengths	Key risks
High entry barriers in the mobile tower industry with significant growth prospects from the 5G technology rollout.	Heavy customer concentration on Telecom Italia Group and Vodafone.
Very strong market position and long, protective rental contracts with its two anchor customers.	Risk of heightened competition for new tenants after the recent tower market consolidation.
High colocation ratio at 1.9 and superior EBITDA margins.	High debt leverage.
Mature and consolidated tower market in Italy, limited risk of new entrants.	

The tower industry enjoys very supportive credit characteristics. The wireless tower industry's low risk profile reflects the sector's low volatility and cyclicality, and the high predictability of cash flow, given its critical infrastructure nature. This is further supported by typically long-term contracts between tower companies and telecommunications carrier customers; very high barriers to entry, due in particular to permitting and land-sourcing constraints; and the very difficult replication of established networks. In addition, the industry enjoys favorable long-term growth prospects from increasing demand for mobile data and video and continued investment by telecom carriers in wireless networks, including for the 5G technology deployment. Frequencies acquired by mobile network operators (MNOs) were recently tied to 5G coverage obligations, making 5G-related growth opportunities for Infrastrutture Wireless Italiane S.p.A. (INWIT) more certain.

INWIT operates a high-quality network under protective long-term contracts. The high quality of the company's site network stems from its favorable locations, reflecting the first-movers' advantage of TIM and Vodafone's networks, as well as a meaningful amount of its tower backhaul being equipped with fiber, a more powerful technology than traditional airwaves to connect radio sites to clients' local exchanges. In addition, INWIT operates under extremely protective, eight-year, indefinitely renewable, all-or-nothing, Consumer Price Index-adjusted (with 0% floor) contracts signed with TIM and Vodafone, providing high revenue visibility.

INWIT's heavy customer concentration, which is typical for the industry, is not a ratings constraint, given the critical nature of its services and the credit standing of customers. The company's revenues are heavily concentrated on TIM and Vodafone, which together account for about 90% of total revenue. In this regard, INWIT is significantly less diversified than Cellnex, both in terms of countries and end-customers. We do not see a mechanical link between the company's credit quality and that of its customers, given the infrastructure and critical nature of its services for mobile operators. Still, any increasing divergence between INWIT's credit quality and that of either main client could ultimately become a more material constraint on the company's business risk profile and the overall rating.

Outlook: Stable

The stable outlook reflects our view that management continues to smoothly execute the merger of TIM and Vodafone's tower portfolios, and leverage the extended network sharing opportunities. It also indicates INWIT's very strong market position, and its potential as an MNO to generate new revenue on the back of 4G densification and the 5G rollout. We also anticipate continuation of the solid operating efficiency track record and the successful execution of cost synergies allowed by the merged network optimization.

The stable outlook also reflects our forecast that S&P Global Ratings-adjusted leverage, funds from operations (FFO)-to-debt and free operating cash flow (FOCF)-to-debt ratios will remain sustainably below 6x, and above 12% and 7%, respectively.

Downside scenario

We could lower our rating on INWIT should we see:

- Any setbacks in the implementation of development plans; or
- S&P Global Ratings-adjusted debt to EBITDA above 6x, or adjusted FFO to debt or FOCF to debt below 12% and 7%, respectively, due to operational setbacks or a more aggressive financial policy than foreseen.

Upside scenario

Ratings upside would occur if:

- The company made swift progress in management's development plans;
- Adjusted leverage, FFO-to-debt, and FOCF-to-debt ratios improved to less than 5x, above 15%, and 10%, respectively; and
- We were confident that these levels, which could be reached by 2022, were sustainable, and that management was willing to sustain leverage at below 5x.

At this stage, we understand that management targets leverage of less than 6x, so we would not expect leverage of lower than 5x to be sustained.

Our Base-Case Scenario

Assumptions

- Revenue of about €790 million and €860 million in fiscal year (FY) ending Dec. 31, 2021 and FY2022 respectively.
- Revenue up 19.4% in 2021, including some perimeter impact, and 8.7% in 2022; driven, in particular, by additional points of presence rented to TIM and Vodafone in the existing network and a rapid deployment of small cells to expand the 5G indoor coverage.

- Reported EBITDA margin of about 91% before leases, with absolute EBITDA rising along with revenue.
- Heavy growth-oriented capital expenditure (capex) of about 20%-25% of sales over 2021-2022, including hefty spending on land acquisitions and small cell deployments.
- Maintenance capex of about 2% of sales.
- Ordinary dividend payments of about €280 million-€320 million over 2021-2022.

Key metrics

Infrastrutture Wireless Italiane S.p.A.--Key Metrics*

	2020a§	2021e	2022f	2023f
(Mil. €)				
EBITDA margin (%)	90.9	91.4	91.9	91.4
Debt to EBITDA (x)	6.4	5.9	5.4	4.8
FFO to debt (%)	15.5	13.0	15.8	18.4
FOCF to debt (%)	10.2	9.7	10.9	14.0

*All figures adjusted by S&P Global Ratings. §Based on reported figures, including three-quarters only of the merged assets. a--Actual. e--Estimate. f--Forecast. FFO--Funds from operations. FOCF--Free operating cash flow.

INWIT has a strong operating efficiency track record and meaningful synergies likely from the merger of TIM and Vodafone's networks. Management's track record is solid, reflected in steady increases in colocation and revenue per site, as well as an ongoing reduction in ground lease costs. Significant potential synergies exist, ranging from ground leases, optimized site portfolio, and increased colocation on existing sites. This stems from INWIT's post-merger stronger local position and the passive and active network sharing between TIM and Vodafone, which will free up space for third parties, as well as the site opening to third parties.

Company Description

INWIT is the largest independent cellphone tower company (towerco) in Italy and the third-largest independent towerco in Europe, with more than 22,000 towers, after Cellnex Telecom and Vantage Towers.

Peer Comparison

Table 1

Infrastrutture Wireless Italiane S.p.A.--Peer Comparison

Industry sector: Tower companies	Infrastrutture Wireless Italiane S.p.A.	Cellnex Telecom S.A.	SBA Communications Corp.	Operadora de Sites Mexicanos S.A. de C.V.
Ratings as of June 25, 2021	BB+/Stable/--	BB+/Stable/--	BB/Stable/--	BB+/Stable/--
	--Fiscal year ended Dec. 31, 2020--			
(Mil. €)				
Revenue	663.4	1,604.8	1,702.9	327.8
EBITDA	603.3	1,157.0	1,423.9	312.5

Table 1

Infrastrutture Wireless Italiane S.p.A.--Peer Comparison (cont.)

Industry sector: Tower companies

	Infrastrutture Wireless Italiane S.p.A.	Cellnex Telecom S.A.	SBA Communications Corp.	Operadora de Sites Mexicanos S.A. de C.V.
Funds from operations (FFO)	603.3	852.6	1,002.3	252.0
Interest expense	65.2	258.5	454.9	106.9
Cash interest paid	0.0	265.8	405.1	60.5
Cash flow from operations	486.1	806.8	1,016.1	20.2
Capital expenditure	88.8	198.0	104.6	44.4
Free operating cash flow (FOCF)	397.3	608.8	911.5	(24.2)
Discretionary cash flow (DCF)	(299.9)	573.0	39.2	(25.4)
Cash and short-term investments	120.2	4,652.0	252.2	55.2
Debt	3,883.1	6,763.7	10,743.3	1,365.8
Equity	4,580.5	8,932.7	(3,931.4)	1,491.6
Adjusted ratios				
EBITDA margin (%)	90.9	72.1	83.6	95.3
Return on capital (%)	5.3	1.4	9.1	6.0
EBITDA interest coverage (x)	9.3	4.5	3.1	2.9
FFO cash interest coverage (x)	N.M.	4.2	3.5	5.2
Debt/EBITDA (x)	6.4	5.8	7.5	4.4
FFO/debt (%)	15.5	12.6	9.3	18.5
Cash flow from operations/debt (%)	12.5	11.9	9.5	1.5
FOCF/debt (%)	10.2	9.0	8.5	(1.8)
DCF/debt (%)	(7.7)	8.5	0.4	(1.9)

N.M.--Not meaningful.

Business Risk: Strong

INWIT has a very strong position in Italy, capturing about half of the Italian tower market through a nationwide network of 22,000 sites hosting about 43,000 points of presence. The network overlap with competition is limited, which strengthens INWIT's pricing power.

Financial Risk: Highly Leveraged

INWIT has industry-leading margins, thanks to its high colocation ratio and strong market position, but it also has smaller scale and diversity than most rated peers. Cellnex, for example, has lower margins and colocation, reflecting in particular the effect of its aggressive mergers and acquisitions growth, but it also has a much larger scale and broader market and client diversity than INWIT.

Financial summary

Table 2

Infrastrutture Wireless Italiane S.p.A.--Financial Summary

Industry sector: Tower companies

	--Fiscal year ended Dec. 31--
	2020
Company status: Public	Public
(Mil. €)	
Revenue	663.4
EBITDA	603.3
Funds from operations (FFO)	603.3
Interest expense	65.2
Cash interest paid	0.0
Cash flow from operations	486.1
Capital expenditure	88.8
Free operating cash flow (FOCF)	397.3
Discretionary cash flow (DCF)	(299.9)
Debt	3,883.1
Equity	4,580.5
Adjusted ratios	
EBITDA margin (%)	90.9
Return on capital (%)	5.3
EBITDA interest coverage (x)	9.3
FFO cash interest coverage (x)	N.M.
Debt/EBITDA (x)	6.4
FFO/debt (%)	15.5
Cash flow from operations/debt (%)	12.5
FOCF/debt (%)	10.2
DCF/debt (%)	(7.7)

N.M.--Not meaningful

Reconciliation

Table 3

Infrastrutture Wireless Italiane S.p.A.--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. €)

	--Fiscal year ended Dec. 31, 2020--				
Infrastrutture Wireless Italiane S.p.A. reported amounts					
	Debt	**EBITDA**	**Operating income**	**Cash flow from operations**	**Capital expenditure**
Reported	2,782.0	604.5	290.7	486.6	89.3
S&P Global Ratings' adjustments					
Reported lease liabilities	1,051.7	--	--	--	--

Table 3

Infrastrutture Wireless Italiane S.p.A.--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. €) (cont.)					
Postretirement benefit obligations/deferred compensation	2.0	--	--	--	--
Accessible cash and liquid investments	(120.2)	--	--	--	--
Capitalized development costs	--	(0.5)	(0.5)	(0.5)	(0.5)
Asset-retirement obligations	167.6	--	--	--	--
Nonoperating income (expense)	--	--	0.0	--	--
EBITDA: Gain/(loss) on disposals of PP&E	--	(0.8)	(0.8)	--	--
Total adjustments	1,101.1	(1.3)	(1.3)	(0.5)	(0.5)
S&P Global Ratings' adjusted amounts					
	Debt	**EBITDA**	**EBIT**	**Cash flow from operations**	**Capital expenditure**
Adjusted	3,883.1	603.3	289.4	486.1	88.8

Liquidity: Adequate

We assess INWIT's liquidity as adequate based on our expectation that liquidity sources will exceed uses by 1.20x in the 12 months started March 31, 2021. In addition, we think INWIT has sound relationships with its banks.

Principal liquidity sources	Principal liquidity uses
• €186 million of cash and liquid investments; • €500 million of undrawn availability under its five-year revolver, which does not contain material adverse clauses; and • Cash FFO of about €404 million.	• Capex of about €200 million, mainly growth-oriented; and • Dividend payments of about €280 million-€300 million.

Debt maturities

As of March 31, 2021:

- 2025: €500 million
- 2026: €1 billion
- 2028: €750 million
- 2031: €500 million

Covenant Analysis

INWIT's bank debt comprises a maintenance covenant tested every semester.

Compliance expectations

We expect adequate headroom under the covenant.

Issue Ratings - Recovery Analysis

Key analytical factors

- The issue ratings and recovery ratings on the unsecured notes are 'BB+' and '3'. Recovery prospects for the noteholders exceed 70%, but we cap our recovery estimate at 65%, owing to the unsecured nature of the instruments.
- We simulate a hypothetical default in 2026, as a result of operating underperformance, most likely caused by loss of contracts, increased competition, and inability to keep pace with technological advances.
- We value INWIT as a going concern, reflecting its strong asset base in Italy, and our view that the business would retain more value as an operating entity and hence is likely to be reorganized in a bankruptcy scenario. A few towers, however, could be sold to other operators to improve liquidity.
- We consequently use a discrete-asset valuation method to evaluate the recovery prospects, using a discount to recent average market valuations in Europe and applying derived value per tower to INWIT's portfolio of sites.

Simulated default assumptions

- Year of default: 2026
- Jurisdiction: Italy

Simplified waterfall

- Gross enterprise value at default: €4.4 billion
- Administrative costs: 5%
- Net value available to creditors: €4.2 billion
- Priority claims*: nil
- Unsecured debt claims*: €3.3 billion
- --Recovery expectation: 50%-70% (capped estimate 65%)

*All debt amounts include six months of prepetition interest. RCF assumed to be 85% drawn on the path to default.

Ratings Score Snapshot

Issuer Credit Rating

BB+/Stable/--

Business risk: Strong

- **Country risk:** Moderately high
- **Industry risk:** Intermediate
- **Competitive position:** Strong

Financial risk: Highly leveraged

- **Cash flow/leverage:** Highly leveraged

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:** Satisfactory (no impact)
- **Comparable rating analysis:** Positive (+1 notch)

Stand-alone credit profile : bb+

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016
- Criteria | Corporates | Recovery: Methodology: Jurisdiction Ranking Assessments, Jan. 20, 2016
- 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: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Business And Financial Risk Matrix

Business Risk Profile	Financial Risk Profile					
	Minimal	Modest	Intermediate	Significant	Aggressive	**Highly leveraged**
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	**bb**
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Ratings Detail (As Of July 19, 2021)*

Infrastrutture Wireless Italiane S.p.A.	
Issuer Credit Rating	BB+/Stable/--
Senior Unsecured	BB+
Issuer Credit Ratings History	
23-Apr-2020	BB+/Stable/--

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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