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Infrastrutture Wireless Italiane S.p.A.

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Ratings Score Snapshot

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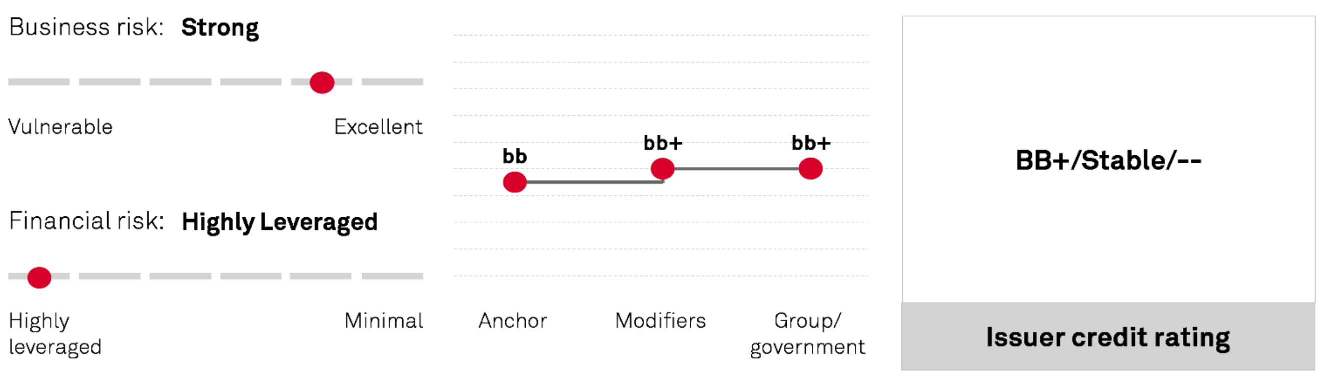

Credit Highlights

Overview

Key strengths	Key risks
High barriers to entry for the mobile tower industry and significant growth prospects because of the rollout of 5G technology.	Heavy customer concentration on Vodafone and Telecom Italia Group (TIM), and weakening credit quality of the latter.
Very strong market position and long, protective rental contracts with its two anchor customers that have a built-in hedge against inflation.	The fragmented, fiercely price-competitive, and potentially unstable nature of the wireless end-market.
High and industry-leading co-location ratio at more than 2x, superior EBITDA margins, and meaningful organic revenue growth.	High debt leverage.
Mature and consolidated tower market in Italy, with limited risk of new entrants.	

Revenue at Infrastrutture Wireless Italiane S.p.A. (INWIT) is accelerating. The company posted revenue growth of 9% in the first quarter of 2022, and its growth rate has steadily accelerated through the previous quarters. It benefits from the deployment of 5G technology as well as new points of presence (up 9% over the 12 months to March 31, 2022) driven by existing as well as new tenants. It also saw new applications for connectivity solutions such as small cells for 5G indoor coverage across various verticals (including hospitals, airports, and transport infrastructure). These are providing substantial traction. The company's guidance suggests a 40% increase in revenue by 2026, compared with 2021.

The wireless tower industry enjoys very supportive credit characteristics. We consider the sector's risk profile to be low because as critical infrastructure it has low volatility and cyclicality and highly predictable cash flow. Contracts between tower companies and telecommunications carrier customers are typically long term and there are very high barriers to entry, largely because of permitting and land-sourcing constraints, combined with how difficult it is to replicate established networks. In our view, the industry enjoys favorable long-term growth prospects based on increasing demand for mobile data and video and continued investment by telecom carriers in wireless networks, including for the deployment of 5G technology, which itself is driven by deployment obligations linked to frequencies acquired by mobile network operators (MNOs).

INWIT operates a high-quality network under protective long-term contracts and is protected against inflation. The high quality of the company's site network stems from its favorable locations, reflecting the first-movers' advantage of Telecom Italia (TIM) and Vodafone's networks, as well as a meaningful amount of its tower backhaul being equipped with fiber, a more powerful technology than the traditional airwaves that connect radio sites to clients' local exchanges. In addition, INWIT operates under extremely protective, eight-year, indefinitely renewable, all-or-nothing, consumer price index (CPI)-adjusted (with 0% floor) contracts signed with TIM and Vodafone, giving it high revenue visibility. Revenue from the anchor tenants is 100% linked to prior-year average CPI, with a 0% floor and no cap; although costs are themselves linked to inflation to various extents, this is more than offset by the revenue indexation. The company estimates therefore that a 1% inflation causes an increase in its EBITDA after leases of more than €5 million.

Heavy customer concentration and TIM's weakening credit quality. The company's revenue is heavily concentrated on TIM and Vodafone, which together account for more than 80% of total revenue. In this regard, INWIT is significantly less diversified than Cellnex, both in terms of countries and end-customers. That said, we consider Cellnex to be an exception--heavy customer concentration is typical in the industry and is offset by the critical nature of its infrastructure services for mobile operators. Our rating on TIM (BB-/Negative/B) has been weakening over the past year, however. Should this downward trend continue, this could ultimately constrain INWIT's business risk profile and rating.

Outlook

The stable outlook reflects INWIT's smooth operational execution, swift organic growth, and industry-leading efficiency indicators. It also factors in that the company is benefitting from tailwinds such as the strong growth in connectivity needs across various verticals and the inflationary environment. We therefore forecast that headroom within the rating parameters will increase. For example, S&P Global Ratings-adjusted leverage is likely to fall to 5.5x, significantly below the maximum 6x that we consider commensurate with the rating.

Downside scenario

We could lower our rating on INWIT if our adjusted debt to EBITDA rises above 6x, or adjusted funds from operations (FFO) to debt weakens to below 12% or free operating cash flow (FOCF) to debt drops below 7% due to operational setbacks or a more aggressive than expected financial policy.

Upside scenario

We could raise the rating if adjusted leverage improved to less than 5x, FFO-to-debt rose above 15%, and FOCF-to-debt rose above and 10%, and we were confident that these levels would be sustained. At this stage, we understand that management targets leverage of less than 6x, so we would not expect the company to sustain leverage of below 5x.

Our Base-Case Scenario

Assumptions

- Revenue up 9% on average over 2022-2024, driven, in particular, by inflation, additional points of presence to historical and new tenants, and new connectivity applications in various verticals, including small cells to expand the 5G indoor coverage.
- Steady reported EBITDA margin of about 91% before leases, with absolute EBITDA rising along with revenue.
- Heavy growth-oriented capital expenditure (capex) of about 15%-20% of sales over 2022-2024, including hefty spending on land acquisitions and small cell deployments.
- Maintenance capex of about 2% of sales.
- Ordinary dividend payments of about €300 million-€350 million over 2022-2024.

Key metrics

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

Mil. €	2021a	2022e	2023f	2024f
EBITDA margin (%)	91.3	91.4	91.4	91.3
Debt to EBITDA (x)	5.9	5.5	5.0	4.6
FFO to debt (%)	12.2§	15.8	17.0	18.3
FOCF to debt (%)	1.2	10.8	11.9	14.2

*All figures adjusted by S&P Global Ratings. a--Actual. e--Estimate. f--Forecast. FFO--Funds from operations, FOCF--Free operating cash flow. §2021 FOCF incorporates a €334 million voluntary one-off fiscal upfront payment that will generate tax savings in the following years.

Company Description

INWIT is the largest independent cellphone tower company in Italy and the fourth-largest in Europe. It operates more than 22,000 towers, behind Cellnex Telecom, Vantage Towers, and the European arm of American Towers.

Peer Comparison

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

	Infrastrutture Wireless Italiane S.p.A.	Cellnex Telecom S.A.	SBA Communications Corp.	Vantage Towers AG	Operadora de Sites Mexicanos S.A. de C.V.
Foreign currency issuer credit rating	BB+/Stable/--	BB+/Stable/--	BB/Stable/--	BBB-/Stable/--	BB+/Stable/--
Local currency issuer credit rating	BB+/Stable/--	BB+/Stable/--	BB/Stable/--	BBB-/Stable/--	BB+/Stable/--
Period	Annual	Annual	Annual	Annual	Annual
Period ending	2021-12-31	2021-12-31	2021-12-31	2022-03-31	2021-12-31
Mil.	EUR	EUR	EUR	EUR	EUR
Revenue	785	2,533	2,030	1,023	373
EBITDA	717	1,765	1,660	963	360
Funds from operations (FFO)	517	1,152	1,209	861	284
Interest	86	532	481	69	120
Cash interest paid	90	447	429	10	56
Operating cash flow (OCF)	218	1,146	1,163	1,001	388
Capital expenditure	168	239	117	307	466
Free operating cash flow (FOCF)	49	907	1,046	695	(78)
Discretionary cash flow (DCF)	(238)	817	248	411	(84)
Cash and short-term investments	96	3,927	323	22	16
Gross available cash	96	3,927	323	22	16
Debt	4,230	15,461	12,483	4,493	1,660
Equity	4,484	15,842	(4,630)	5,364	1,844
EBITDA margin (%)	91.3	69.7	81.8	94.1	96.7
Return on capital (%)	4.2	0.3	11.2	5.5	5.2
EBITDA interest coverage (x)	8.3	3.3	3.5	13.9	3.0
FFO cash interest coverage (x)	6.7	3.6	3.8	85.4	6.1
Debt/EBITDA (x)	5.9	8.8	7.5	4.7	4.6
FFO/debt (%)	12.2	7.5	9.7	19.2	17.1
OCF/debt (%)	5.1	7.4	9.3	22.3	23.4
FOCF/debt (%)	1.2	5.9	8.4	15.5	(4.7)
DCF/debt (%)	(5.6)	5.3	2.0	9.1	(5.1)

Business Risk

INWIT has a very strong position in Italy, capturing about half of the Italian tower market through a nationwide network of 22,800 sites hosting about 46,800 points of presence. Network overlap with its competition is limited, which strengthens INWIT's pricing power.

Financial Risk

INWIT has industry-leading margins, thanks to its high, industry-leading colocation ratio and strong market position, but it also has smaller scale and diversity than most rated peers. Cellnex and Vantage Tower, for example, have lower margins and colocation, but also have greater scale, broader market diversity, and more client diversity than INWIT.

Debt maturities

As of March 31, 2022 (excluding the €250 million EIB loan, of which €33 million amortizes annually during 2026-2033):

- 2023: €40 million
- 2025: €500 million
- 2026: €1 billion
- 2028: €750 million
- 2031: €500 million

Financial summary

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

Period ending	Dec-31-2020	Dec-31-2021
Reporting period	2020a	2021a
Display currency (mil.)	EUR	EUR
Revenues	663	785
EBITDA	603	717
Funds from operations (FFO)	603	517
Interest expense	65	86
Cash interest paid	0	90
Operating cash flow (OCF)	486	218
Capital expenditure	89	168
Free operating cash flow (FOCF)	397	49
Discretionary cash flow (DCF)	(300)	(238)
Cash and short-term investments	120	96
Gross available cash	120	96
Debt	3,883	4,230
Common equity	4,580	4,484
Adjusted ratios		
EBITDA margin (%)	91	91
Return on capital (%)	5	4
EBITDA interest coverage (x)	9	8
FFO cash interest coverage (x)	N.M.	7
Debt/EBITDA (x)	6	6
FFO/debt (%)	16	12
OCF/debt (%)	13	5
FOCF/debt (%)	10	1
DCF/debt (%)	(8)	(6)

The 2021 OCF, FOCF, and DCF incorporate a €334 million voluntary one-off fiscal upfront payment that will generate tax savings in the following years. N.M.--Not meaningful.

Reconciliation Of Infrastrutture Wireless Italiane S.p.A. Reported Amounts With S&P Global Adjusted Amounts (Mil. EUR)

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Financial year Dec-31-2021										
Company reported amounts	3,169	4,484	785	710	355	86	717	218	287	168
Cash taxes paid	-	-	-	-	-	-	(110)	-	-	-
Cash interest paid	-	-	-	-	-	-	(90)	-	-	-
Lease liabilities	982	-	-	-	-	-	-	-	-	-
Postretirement benefit obligations/ deferred compensation	2	-	-	-	-	0	-	-	-	-
Accessible cash and liquid investments	(96)	-	-	-	-	-	-	-	-	-
Asset-retirement obligations	173	-	-	-	-	-	-	-	-	-
EBITDA - Gain/(loss) on disposals of PP&E	-	-	-	5	5	-	-	-	-	-
EBITDA: other	-	-	-	2	2	-	-	-	-	-
Total adjustments	1,061	-	-	7	7	0	(200)	-	-	-
S&P Global Ratings adjusted	**Debt**	**Equity**	**Revenue**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from Operations**	**Operating cash flow**	**Dividends**	**Capital expenditure**
	4,230	4,484	785	717	362	86	517	218	287	168

Liquidity

We assess INWIT's liquidity as adequate, based on our expectation that liquidity sources will exceed uses by 1.2x in the 12 months from March 31, 2022. In addition, we think INWIT has sound relationships with its banks.

Principal liquidity sources

- €96 million of cash and liquid investments;
- €500 million of undrawn availability under its 2027 revolving credit facility (RCF), which does not contain material adverse clauses; and
- Cash FFO of about €506 million.

Principal liquidity uses

- Capex of about €211 million, mainly growth-oriented; and
- Dividend payments of about €309 million.

Covenant Analysis

Requirements

INWIT's debt has no maintenance covenants.

Environmental, Social, And Governance

ESG Credit Indicators

E-1	**E-2**	E-3	E-4	E-5	S-1	**S-2**	S-3	S-4	S-5	G-1	**G-2**	G-3	G-4	G-5

ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1 -5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicator Definitions And Applications, " published Oct. 13, 2021.

ESG factors have no material influence on our credit rating analysis of INWIT. Electricity is mainly used to feed the radio base stations and to cool equipment. We note that INWIT reported a 55% share of renewable energy in 2020 and targets carbon neutrality by 2025.

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 2027, as a result of operating underperformance, most likely caused by loss of contracts, increased competition, and an 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: 2027
- Jurisdiction: Italy

Simplified waterfall

- Gross enterprise value at default: €4.6 billion
- Administrative costs: 5%
- Net value available to creditors: €4.4 billion

- Priority claims*: nil
- Unsecured debt claims*: €3.4 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.

Rating Component Scores

Foreign currency issuer credit rating	**BB+/Stable/--**
Local currency 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**
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

Ratings Detail (as of July 11, 2022)*

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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