28 MAR 2023

Fitch Affirms Inwit at 'BBB-'; Outlook Stable

Fitch Ratings - Milan - 28 Mar 2023: 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.

Inwit's ratings reflect its well-entrenched position as a leading Italian provider of mission-critical passive tower infrastructure for mobile operators, with stable and visible revenue derived from long-term, CPI-linked service contracts. Its strong profitability is supported by a high industry-leading colocation rate and lower lease expenses from investment into land acquisition.

Inwit's strong pre-dividend cash flow generation on the back of low maintenance capex and new investment projects being demand-driven under customer off-take commitments allow it to manage leverage in the targeted range of 5.0x-5.5x net debt/EBITDA (company definition).

Key Rating Drivers

Mission Critical Infrastructure Provider: As a provider of passive tower infrastructure, Inwit faces low risk of technological obsolescence, with no credible alternative in sight that could replace mobile sites. We view the prospect of losing a large customer as a distant threat for Inwit. We believe any re-organisation at Telecom Italia S.p.A. (BB-/Negative), including a separation of network and commercial activities, is unlikely to change its strong dependence on Inwit's infrastructure for the ubiquitous provision of mobile services, with a potential successor respecting the current contractual terms.

Symbiotic Relationship with Telecom Operators: From a mobile operator's perspective, any potential cost benefits from changing a tower provider may not be significant, as expenses on mobile infrastructure are typically moderate, while a dedicated tower operator with a high colocation rate is best positioned to efficiently operate site infrastructure. An abrupt change of a tower provider could lead to operating challenges and have a negative impact on mobile service quality and coverage.

Inwit's revenue from Telecom Italia for renting macro-sites was 11.3% of the latter's mobile service revenues in Italy, while for Vodafone this ratio was 11.6% in 2022.

Solid Contractual Arrangements: Inwit benefits from strong contractual arrangements that provide it with long-term revenue stability and visibility, and protect it against inflation. The company's two anchor tenants, Telecom Italia S.p.A. (BB-/Negative) and the Italian subsidiary of Vodafone Group Plc (BBB/Stable) outsource virtually all of their mobile infrastructure to Inwit, and are critically dependent on the latter's services. These operators accounted for 82% of Inwit's 2022 revenues, and are committed to providing further growth for Inwit by off-taking new towers and through its preferred supplier role for additional services.

The contracts with two anchor customers are eight years long and automatically renewable for another eight years for an indefinite number of cycles on 'all-or-nothing' terms, with a 100% linkage to prior year CPI with no cap and a 0% floor. Contracts with other operators are typically on a six plus six- year basis, or on a nine plus nine-year basis, with a 75% CPI linkage with some caps. All contracts stipulate full energy pass-through to customers.

Strong Market Positions: We expect Inwit to maintain its strong market positions supported by its active construction of new sites. The company launched 480 new towers in 2022 in Italy, compared with 1,015 by Cellnex, its key competitor. The latter estimated its remaining build-to-suit committed pipeline at 1,555 sites in Italy while Inwit expects to launch approximately 1,100 new macro sites in 2024-2026. With more than 23,000 macro sites in operation, Inwit estimated its market share at above 45% followed by close peer Cellnex with above 21,000 sites in Italy at end-2022.

High Efficiency Drives Profitability: We expect continuing improvement in the colocation ratio and lower (as a percentage of revenues) lease payments to drive profitability improvement. Inwit achieved a 2.16x colocation tenancy ratio at its sites, one of the highest in the industry and well ahead of Cellnex (for the latter this ratio was equal to 1.57x in Italy) at end-2022. Inwit is aiming to grow this metric to 2.6x in 2026, which will be an important contributor to further margin strengthening.

The company is also planning to significantly increase the share of owned land in the total, to over 20% by 2026 from 9% in 2022. With leases accounting for more than 70% of total costs, a proportional reduction of lease payments will be strongly margin-accretive, although the company expects lease expense to remain broadly stable in absolute terms.

Cash-Generative Business Model: With a Fitch-defined EBITDA margin at above 65% and low maintenance capex (2.7% of revenue in 2022, by the company estimates), Inwit's business model is intrinsically strongly cash-flow generative. We expect Inwit to utilise internally generated cash flow for investments into new tower construction, land acquisition and opportunistic expansion into new services that may be synergetic with the existing tower operations such as on-site edge data centres and fibre back-hauling to towers, with the balance likely returned to shareholders.

Deleveraging Flexibility: We expect Inwit to manage its leverage in line with its public guidance of between 5.0x and 5.5x net debt/EBITDA (company-defined on post-IFRS 16 basis), which maps to Fitch's net debt/EBITDA metric of approximately 0.2x higher (Fitch-defined EBITDA net leverage was 5.4x at end-2022).

We estimate that Inwit will generate sufficient cash flow to pay out higher dividends in line with its updated guidance in March 2023, with further flexibility for additional shareholder distributions without compromising its leverage. This flexibility may decrease after 2026 once the company starts paying higher taxes after utilising most of its current scheme that helps save over EUR100 million in taxes per year.

Derivation Summary

As a provider of passive tower infrastructure on long-term contract terms, Inwit benefits from superior revenue stability and visibility, typical for the mobile tower industry. Consequently, we view the operating profile as having less risk and greater leverage capacity than that of telecoms operators such as Vodafone Group Plc (BBB/Stable) and Deutsche Telekom AG (BBB+/Stable), which face higher technological risks and have lower visibility on investment returns.

Inwit has a strong domestic market share position supported by long-term contracts with the two anchor customers, benefiting from CPI protection, renewal terms and other contractual arrangements being among the most comfortable in the industry. It has a higher colocation ratio and higher profitability than its key peers.

However, it has significantly smaller absolute scale, limited geographic diversification and a lower demonstrated ability to tap equity funding to support inorganic expansion when needed. In view of this, within Fitch's portfolio of tower operator peers, Inwit has slightly lower leverage capacity than Cellnex Telecom S.A (BBB-/Stable) and US-based peers, such as American Tower Corporation (BBB+/Negative) and Crown Castle Inc. (BBB+/Stable).

Key Assumptions

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

- Strong correlation of revenue to the previous-year CPI, with the overall revenue growth rate in mid-to-high single-digits in 2023-2026

- Fitch-defined EBITDA margin (post lease depreciation and amortisation and lease interest costs) gradually improving on the back of lease costs declining as a percentage of revenues

- Capex at above 20% on average in 2023-2024, reflecting significant new site construction and land acquisition

- Dividend payments increasing by EUR100 million in 2024 and growing by 7.5% per year afterwards in line with the updated company guidance

- EUR300 million share buy-backs split between 2023 and 2024

RATING SENSITIVITIES

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

- EBITDA net leverage trending sustainably below 5.5x

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

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

- EBITDA net leverage trending above 6.0x

- Deterioration in free cash flow (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-2022, Inwit had EUR73 million of cash and cash equivalents and access to a EUR500 million revolving credit facility with maturity in 2027 (as of end-3Q22, this was EUR135 million drawn). The company has a modest EUR40 million bank debt maturity in December 2023, with the first large maturity only in 2025 being its EUR500 million ESG KPI-linked loan.

Issuer Profile

Inwit is the largest mobile tower company in Italy with above 45% market share by the number of mobile sites at end-2022. Inwit derives more than 80% of its revenues from two leading Italian mobile operators under long-term master service agreements with strong off-take commitments, all-or-nothing renewal clause and CPI protection.

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 funds from operations. These items are included within other non-operating, non-recurring items after Fitch-defined cash flow from operations 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	BBB-	Affirmed		BBB-

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

Applicable Criteria

Corporate Rating Criteria (pub.28 Oct 2022) (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.28 Oct 2022)

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

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

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