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Tear Sheet:

Infrastrutture Wireless Italiane S.p.A.

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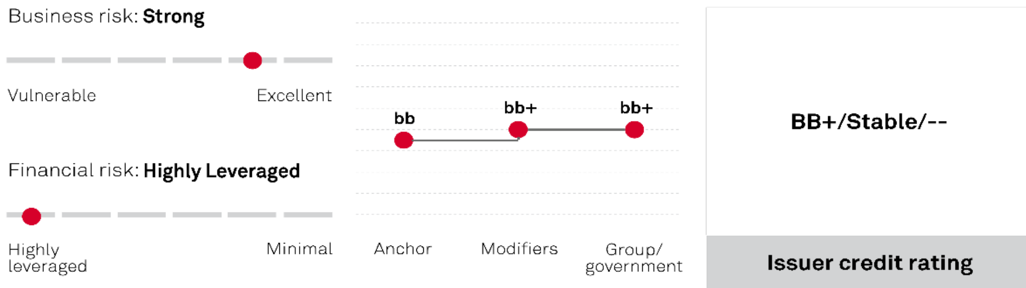
Revenue is accelerating and contract indexation and efficiencies support high margins. Infrastrutture Wireless Italiane S.p.A. (Inwit) posted revenue growth of 12.8% in first-quarter 2023, and we anticipate annual revenue to rise more than 40% overall by 2026. Main reasons for this include the deployment of 5G and densification of 4G, leading to additional points of presence (up 7% for the 12 months to March 31, 2022) for anchor tenants (Vodafone and Telecom Italia); and new tenants and new services (small cells for 5G indoor coverage across areas including hospitals, airports, and transport infrastructure). In addition, cost efficiencies and the protective contract indexation helped further expand margins to a record 71% after leases (92% before) in first-quarter 2023 compared with 67% (91%) a year earlier, and should help it reach 92% by 2026.

Leverage should drop further despite recent share buybacks and increased dividends. The company announced a €300 million share buyback over 2023-2024 and an acceleration in dividend growth from 2024 onward, but the fast EBITDA growth still translates into as steadily diminishing leverage, toward 5x in 2023, which should increase flexibility and reduce sensitivity to interest rates.

Inwit relies heavily on Telecom Italia (TIM) and is exposed to risks of mobile networks consolidation in the fragmented, low-price, and unpredictable Italian wireless market, although this is mitigated by its extensive and high-quality network, coverage obligations, and steadily growing data usage. The company's revenue is heavily concentrated on both TIM (Telecom Italia SpA, B+/Negative/B) and Vodafone (BBB/Stable/A-2), which together account for more than 80% of total revenue, and TIM has undergone steadily weakening credit quality. In addition, extremely low prices in the Italian mobile market, combined with the presence of four network based operators, makes it susceptible to network sharing arrangements or consolidation of networks or operators. This could be a risk for revenue of the local tower operators, including Inwit. This risk is hypothetical at this stage, however, and the effects could widely differ depending on the degree of tower overlap between the local tower companies at that time, as well as on the specific scenario of any consolidation, which is difficult to predict. In fact, due to the very strong positioning of Inwit’s network, such a consolidation may also generate revenues from new points of presence requested by an anchor tenant taking part in a consolidation. Overall, these risks are mitigated by the critical nature of Inwit's infrastructure services for mobile operators; its extensive and high-quality national network accounting for about half of the tower market in Italy; its protective, endless “8+8” years renewable, 100% consumer price index-adjusted (with a 0% floor) contracts with TIM and Vodafone, which were renewed in 2020; and the steady growth factors of higher coverage requirements and increase in data usage and connectivity.

Ratings Score Snapshot



Company Description

Inwit is the largest independent cellphone tower company in Italy and the fourth-largest in Europe. It operates more than 23,000 towers, behind Cellnex Telecom, Vantage Towers, and the European arm of American Towers.

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 benefits from tailwinds such as the strong growth in data usage and connectivity, coverage obligations for mobile operators, and inflation. We therefore forecast that headroom within the rating parameters will significantly increase.

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 financial policy than expected.

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%. We would need to be convinced those levels can be sustained, however, depending on operational performances and on financial policy parameters.

Key Metrics

Period ending	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025	Dec-31-2026
(Mil. €)	2020a	2021a	2022a	2023f	2024f	2025f	2026f
Revenue	663	785	853	972	1,070	1,145	1,262
EBITDA	603	717	779	889	980	1050	1107
Funds from operations (FFO)	603	517	670	754	834	880	910
Capital expenditure (capex)	89	168	255	267	294	235	210
Free operating cash flow (FOCF)	397	49	432	486	527	645	699
Dividends	697	287	307	333	458	493	530
Share repurchases (reported)	1	0	2	150	150	0	0
Adjusted ratios							
Debt/EBITDA (x)	6.4	5.9	5.5	5.0	4.8	4.5	4.3
FFO/debt (%)	15.5	12.2	15.8	17.1	17.9	18.8	19.3
FOCF/debt (%)	10.2	1.2	10.2	11.0	11.3	13.7	14.9
Annual revenue growth (%)	67.8	18.4	8.6	14.0	10.0	7.0	5.0
EBITDA margin (%)	90.9	91.3	91.3	91.4	91.6	91.8	92.1

Financial Summary

Period ending	Dec-31-2020	Dec-31-2021	Dec-31-2022
Reporting period	2020a	2021a	2022a
Display currency (mil.)	EUR	EUR	EUR
Revenues	663	785	853
EBITDA	603	717	779
Funds from operations (FFO)	603	517	670
Interest expense	65	86	80
Cash interest paid	0	90	81
Operating cash flow (OCF)	486	218	687
Capital expenditure	89	168	255
Free operating cash flow (FOCF)	397	49	432
Discretionary cash flow (DCF)	(300)	(238)	122
Cash and short-term investments	120	96	73
Gross available cash	120	96	73
Debt	3,883	4,230	4,253
Common equity	4,580	4,484	4,466
Adjusted ratios			
EBITDA margin (%)	90.9	91.3	91.3

Return on capital (%)	5.3	4.2	4.8
EBITDA interest coverage (x)	9.3	8.3	9.8
FFO cash interest coverage (x)	NM	6.7	9.2
Debt/EBITDA (x)	6.4	5.9	5.5
FFO/debt (%)	15.5	12.2	15.8
OCF/debt (%)	12.5	5.1	16.2
FOCF/debt (%)	10.2	1.2	10.2
DCF/debt (%)	(7.7)	(5.6)	2.9

Peer Comparison

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

	Infrastrutture Wireless Italiane SpA	Cellnex Telecom S.A.	SBA Communications Corp.	Operadora de Sites Mexicanos S.A.B. de C.V.
Foreign currency issuer credit rating	BB+/Stable/--	BB+/Positive/--	BB+/Stable/--	BB+/Stable/--
Local currency issuer credit rating	BB+/Stable/--	BB+/Positive/--	BB+/Stable/--	BB+/Stable/--
Period	Annual	Annual	Annual	Annual
Period ending	2022-12-31	2022-12-31	2022-12-31	2022-12-31
Mil.	EUR	EUR	EUR	EUR
Revenue	853	3,768	2,464	506
EBITDA	779	2,792	1,920	492
Funds from operations (FFO)	670	2,046	1,415	432
Interest	80	738	514	150
Cash interest paid	81	657	475	60
Operating cash flow (OCF)	687	1,800	1,340	533
Capital expenditure	255	325	200	197
Free operating cash flow (FOCF)	432	1,476	1,140	336
Discretionary cash flow (DCF)	122	1,137	440	128
Cash and short-term investments	73	1,038	134	29
Gross available cash	73	1,131	134	29
Debt	4,253	20,980	14,120	2,017
Equity	4,466	15,188	(4,907)	2,104
EBITDA margin (%)	91.3	74.1	77.9	97.3
Return on capital (%)	4.8	1.5	11.7	5.5
EBITDA interest coverage (x)	9.8	3.8	3.7	3.3
FFO cash interest coverage (x)	9.2	4.1	4.0	8.2

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

Debt/EBITDA (x)	5.5	7.5	7.4	4.1
FFO/debt (%)	15.8	9.8	10.0	21.4
OCF/debt (%)	16.2	8.6	9.5	26.4
FOCF/debt (%)	10.2	7.0	8.1	16.6
DCF/debt (%)	2.9	5.4	3.1	6.3

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 used mainly to feed the radio base stations and to cool equipment. The company reported a 100% share of renewable energy in 2022 and targets carbon neutrality by 2026.

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