FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Inwit at 'BBB-'; Outlook Stable

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Fitch Ratings - Frankfurt am Main - 07 Jun 2024: Fitch Ratings has affirmed Infrastrutture Wireless Italiane S.p.A.'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 strong position in a highly consolidated Italian market 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 co-location rate and declining lease expenses following investments into land ownership.

We expect Inwit to manage its leverage within its targeted range of 5.0x-5.5x net debt/EBITDA (company definition), with significant deleveraging flexibility. The latter is driven by 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.

KEY RATING DRIVERS

Mission-Critical Infrastructure Provider: As a provider of passive tower infrastructure, Inwit faces low risk of technological obsolescence, with no credible alternatives that could replace mobile sites located on towers. We view the prospect of losing a large customer as a distant threat. From mobile operators an abrupt change of a tower provider could lead to operating disruptions while potential cost benefits may not be significant. This is because expenses on mobile infrastructure are typically moderate, at below 15% of total costs for mobile operators.

Telecoms Industry Changes Neutral: We believe forthcoming changes in the structure of the Italian telecoms industry are likely to be broadly neutral for Inwit. Re-organisation at Telecom Italia S.p.A. (BB-/Rating Watch Positive), 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 successor company likely to respect current contractual terms.

Similarly, the announced acquisition of Vodafone Italia by Swisscom and the subsequent joint operations with its sister Italian company Fastweb are unlikely to trigger any significant revenue reduction for Inwit as Fastweb generated only euro single-digit million revenue.

Solid Contractual Arrangements: Inwit benefits from strong contractual arrangements, which provide it with long-term revenue stability and visibility and protect against inflation. The contracts with two anchor customers run for eight years and automatically renewable for another eight years for an indefinite number of cycles on 'all-or-nothing' terms, and with a 100% linkage to prior-year CPI with no cap and a 0% floor.

Strong Market Positions: We expect Inwit to maintain its strong market positions, supported by its active construction of new sites. With more than 24,000 macro sites in operation, Inwit estimated its market share at above 45%, followed by close peer Cellnex with above 22,000 sites in Italy at end-2023.

Robust Growth Outlook: Inwit has a robust growth outlook, supported by rapid development of new services, most notably DAS networks, and continuing addition of new sites and indoor coverage locations by anchor and other tenants. Management projects an above 6% average annual growth in points of presence in 2024-2026, with around 60% of new business already committed. We estimate that this is likely to lead to mid-to-high single-digit revenue growth. DAS networks have a shorter equipment investment cycle, but are complimentary to the existing tower business, and have a comparably high EBITDA margin.

Land Investments Credit-Supportive: Inwit plans to significantly increase land ownership, which would lead to stronger cash flow generation and enhance deleveraging flexibility. Inwit is going to increase its land ownership to over 20% by 2026 from 11% at end-2023. It purchased land worth EUR36 million in 2023 and EUR10 million in 2022, and expects land acquisitions to be part of its announced EUR150 million capex increase in 2024-2026.

Land, Co-location Drive Profitability Improvements: We expect Inwit to continue improving its profitability, supported by increasing co-location ratio and lease cost savings. With Inwit having a master service agreement with two leading Italian operators, it expects an initial co-location ratio on new sites to be equal to 2, unlike typically 1 for many of its peers. The announced relaxation of Italian electromagnetic regulatory limitations would facilitate growth further. Profitability also stands to gain from increasing land ownership, as land lease costs were equal to around 20% of tower-site revenues in 2023.

Increasing Financial Flexibility: Strong and improving cash flow generation leads to higher financial flexibility. We expect Inwit to maintain its pre-dividend fee cash flow (FCF) margin at close to 30% in 2024-2027 even with the announced capex increase. This should allow it to complete its EUR300 million share buy-back in 2024 and raise its annual dividends at 7.5% per year but also accumulate some additional cash on the balance sheet for shareholder distributions and to fund new growth opportunities.

With a Fitch-defined EBITDA margin close to 70% and low maintenance capex (management estimates it at between 2% and 3% of revenues), Inwit's business model is intrinsically strongly cash-flow generative.

Leverage Consistent with Rating: 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 4.8x at end-2023.This is consistent with its 'BBB-' rating. We believe any cash accumulation on the balance sheet and the resultant lower net leverage outside the targeted range may be temporary.

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 with greater leverage capacity than that of telecoms operators such as Vodafone Group Plc (BBB/Positive) 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 its two anchor customers. Those contracts benefit from CPI protection, with 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 considerably smaller scale, limited geographic diversification and a weaker ability to tap equity funding to support inorganic expansion. 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+/Stable) and Crown Castle Inc. (BBB+/Negative).

KEY ASSUMPTIONS

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

- On average mid-single digit revenue growth in 2024-2027

- Fitch-defined EBITDA margin (post lease depreciation and amortisation and lease interest costs) gradually improving to above 72% in 2027 from 70% in 2024 in on the back of lease costs declining as a share of revenues

- Capex at close to 25% on average in 2024-2026, and declining to 20% and below from 2027

- Dividend payments increasing EUR100 million in 2024 and growing 7.5% per year to 2027, in line with the company guidance

- Share-backs of EUR164 million in 2024, completing the announced EUR300 million share buy-backs split between 2023 and 2024. Share buy-backs to continue in future

RATING SENSITIVITIES

Factors That Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade:

- EBITDA net leverage below 5.5x on a sustained basis

- Shareholder plan for, and record of, distributions that are consistent with 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

LIQUIDITY AND DEBT STRUCTURE

Comfortable Liquidity: At end-2023, Inwit had EUR95 million of cash and cash equivalents and access to a EUR500 million revolving credit facility with maturity in March 2027 (as of end-2023, this was EUR125 million drawn). The company's EUR1 billion bond matures in July 2026. We expect Inwit to manage its refinancing risk prudently.

ISSUER PROFILE

Inwit is the largest mobile tower company in Italy with above a 45% market share by the number of mobile sites at end-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 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.

MACROECONOMIC ASSUMPTIONS AND SECTOR FORECASTS

Click here to access Fitch's latest quarterly Global Corporates Macro and Sector Forecasts data file which aggregates key data points used in our credit analysis. Fitch's macroeconomic forecasts, commodity price assumptions, default rate forecasts, sector key performance indicators and sector-level forecasts are among the data items included.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY / DEBT	RATING			PRIOR
Infrastrutture Wireless Italiane S.p.A.	LT IDR	BBB- Rating Outlook Stable	Affirmed	BBB- Rating Outlook Stable
senior unsecured	LT	BBB-	Affirmed	BBB-

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Corporates Recovery Ratings and Instrument Ratings Criteria (pub. 13 Oct 2023) (including rating assumption sensitivity)

Corporate Rating Criteria (pub. 03 Nov 2023) (including rating assumption sensitivity)

Sector Navigators – Addendum to the Corporate Rating Criteria (pub. 03 Nov 2023)

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

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

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

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The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. For more details on sector-specific best- and worst-case scenario credit ratings, please see Best- and Worst-Case Measures under the Rating Performance page on Fitch's website.

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