

## Fitch Affirms Telecel's IDR at 'BB'; Outlook Stable

Written by Australian Business

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RIO DE JANEIRO--( [BUSINESS WIRE](#) )--Fitch Ratings has affirmed Telefonica Celular del Paraguay S.A.'s (Telecel) ratings as follows:

--Foreign currency Issuer Default Rating (IDR) at 'BB';

--USD300 million senior unsecured notes due 2022 at 'BB'.

The Rating Outlook is Stable.

Telecel's ratings reflect its strong financial profile, underpinned by low leverage, solid cash flow generation and extended debt maturity schedule. The ratings also consider the company's leading market position in mobile, broadband and Pay-TV services in Paraguay; strong brand recognition; extensive network coverage; diverse service offering; and low-to-moderate regulatory risk. Telecel's credit quality is tempered by an increasingly competitive environment and capped by the Paraguayan country ceiling rating at 'BB' due to limited geographic diversification.

The ratings factor in Telecel's relationship with its parent company Millicom International Cellular S.A. (MIC) (rated by Fitch at 'BB+', Outlook Stable), which fully owns it. Telecel benefits from synergies related to MIC's larger scale and management expertise, but the ratings also consider Telecel's payment of management fees and high dividends to the parent. Positively, MIC presents a solid consolidated financial profile. For the last 12 months (LTM) ended Sept. 30, 2013, MIC had USD5.1 billion in revenues, USD1.9 billion in EBITDAR, funds flow from operations (FFO) of USD1.3 billion, indebtedness of USD4.2 billion and cash balances of US1 billion.

Leverage to Remain Low

Telecel's net leverage is expected to remain at a low level, below 1.5x. From 2008 to 2011, the company presented a positive net cash position, which since 2012 turned into a

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very conservative net debt-to-EBITDA ratio after the acquisition of Cablevision. The company is being able to maintain conservative credit metrics despite substantial dividend payouts in recent years. During the LTM ended Sept. 30, 2013, Telecel reported a total debt-to-EBITDA ratio of 1x and a net debt-to-EBITDA ratio of 0.7x, which already considers the cash payment of PGY767 billion in October 2012 for Cablevision.

### Margins Better than Peers

Fitch expects EBITDA margins to trend downwards toward the 45%-50% level in the medium term due to the consolidation of the lower margin Pay-TV and broadband businesses, as well as the competitive environment and potential regulatory changes. Telecel's EBITDA margin after fees paid to MIC declined gradually to 50.4% in the LTM ended Sept. 2013 from 60.9% in 2009, which still compares favorably with its peers in Latin America. The company's net revenues have benefited from a growing customer base, increasing value-added services participation, and, more recently, the consolidation of Cablevision. In the LTM ended Sept. 30, 2013, net revenues of PYG3,187 billion were 12.8% higher than in 2012. Following the same increasing trend, EBITDA of PYG1,606 billion was a record for the company even with the margin dropping 440 basis points compared to 2012.

Fitch expects Telecel's free cash flow (FCF) to remain negative in the next five years based on aggressive dividend payments to shareholders. Annual capital expenditures should also increase between 2014 and 2017 as a result of growth opportunities. In the LTM ended Sept. 30, 2013, cash flow from operations (CFFO) was PYG1,123 billion, with investments of PYG324 billion and dividends of PYG1,058 billion leading to a negative FCF of PYG259 billion.

### Leading Market Position

Telecel's ratings are supported by its strong market position as the main operator in the Paraguayan telecom sector. The company has extensive network coverage in the country and a diverse service offering. Telecel's market share in the mobile business is estimated at 58% and the company has strengthened its competitive position through the acquisition of Cablevision in 2012, as it expanded the company's product portfolio with Pay-TV and fixed-broadband and allowed some synergies. The group is currently the market leader in both segments in Paraguay, with 50% and 52% market share,

respectively. The mobile segment has lower room to grow customers than in the past as penetration is around 97.2%. The market has four players and price competition is aggressive, putting downward pressure on average revenue per user (ARPU).

### Manageable Liquidity

Telecel has a manageable liquidity position, underpinned by its cash balances, strong operational cash generation, and a lengthened debt maturity profile. Fitch expects Telecel to maintain strong short-term debt coverage ratios. As of Sept. 30, 2013, only 5% of total debt of PYG1,637 billion matures in the short term (PYG86 billion). Cash and marketable securities of PYG450 billion covers short-term debt by 5.2x and (CFFO + cash and marketable securities)/short-term debt was 18.2x. Telecel's consolidated debt comprised basically the USD300 million senior notes due 2022 and the USD75 million European Investment Bank (EIB) loan. Currency exposure is mitigated by low leverage, long-term debt maturity profile and by 90% of the cash balance being kept in U.S. dollars.

### Key Rating Drivers:

A negative rating action could be triggered by leveraged acquisitions, a substantial increase in capital expenditures, or deteriorating cash flow generation that results in a material change in the company's capital structure. A multiple-notch downgrade on the parent company's (MIC) IDR could also pressure the ratings. A positive rating action is constrained by Paraguay's current country ceiling.

Additional information is available at '[www.fitchratings.com](http://www.fitchratings.com)'.

### Applicable Criteria and Related Research:

--'Corporate Rating Methodology', Aug. 5, 2013.

Applicable Criteria and Related Research:

Corporate Rating Methodology: Including Short-Term Ratings and Parent and Subsidiary Linkage

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Additional Disclosure

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