S&P Global
Ratings

Press release:

S&P Global Ratings affirms 'B+' rating for telecommunications operator Coltel following binding takeover bid by Millicom; outlook remains positive

March 25, 2025

Main analytical contact

Luis Fabricio Gómez
Mexico City 52-55-5081-4487
luis.fabricio.gomez @spglobal.com

Secondary contacts

Fabiola Ortiz
Mexico City 52-55-5081-4449
fabiola.ortiz @spglobal.com

Summary of the Qualification Action

- On March 12, 2025, Millicom International Cellular S.A. (unqualified) announced a binding offer to acquire a 67.5% interest in Colombia Telecomunicaciones S.A. E.S.P. (Coltel) currently owned by Telefónica Hispanoamérica S.L. (not rated).
- We believe that the proposed acquisition could strengthen Coltel's business, but the timing for approving and implementing the transaction, as well as the related financial details, are not yet clear.
- On March 25, 2025, S&P Global Ratings affirmed its 'B+' issuer and issue credit ratings on Coltel.
- We maintained the positive outlook on the rating, reflecting our that Coltel will continue to strengthen its individual credit profile as it recovers business growth and continues to work on operating cash and debt refinancing while improving credit metrics over the next 12 to 18 months.

Basis of the Qualification Action

In our view, Millicom's proposed acquisition will likely have a positive impact on Coltel's competitive position in Colombia, but the timing of the transaction remains uncertain. Millicom's US$400 million offer is aimed at consolidating the second and third largest telecommunications players in Colombia: Coltel and UNE EPM Telecomunicaciones S.A. E.S.P. (TIGO; not rated), respectively.

In recent years, players other than market leader Claro (non-qualified) have been challenged by fierce competition: aggressive strategies focused on increasing market share for new entrants have hindered the abilities to implement better pricing strategies and, , have affected profitability. In that sense, the intention of the transaction is to create a larger player, with a margin of

The resulting entity's business risk profile can be strengthened by broader operational maneuverability, more efficient network investments and more robust business strategies.

Millicom currently has a 50% interest in TIGO. We expect that Millicom will also seek 100% ownership by aiming to acquire the remaining 50% owned by the municipality of Medellín. This is in line with Millicom's intention to acquire the remaining ownership of Coltel, held by the Colombian government and other investors, as part of its strategy to consolidate a larger operator. Although details of the resources required and the related financing mechanisms to complete these acquisitions are currently unknown, we do not expect them to adversely affect the credit quality of the resulting group.

We do not expect Millicom's proposed acquisition of the 67.5% stake in Coltel to close in 2025 due to the required regulatory approvals. In addition, the sale of the public stake in both Coltel and TIGO involves several steps, in accordance current legislation. , while we believe that the proposed transaction could strengthen the competitive position of Millicom and the resulting entity in the Colombian market-and potentially have a positive impact from a credit perspective-the timeline for the approval of the transaction and a potential merger between the two brands is unlikely to have an effect in the short term.

We continue to believe that Coltel could improve its financial risk profile in the near , which could improve its individual credit profile, regardless of whether the acquisition is completed. Over the past three quarters, Coltel's adjusted EBITDA have benefited from the company's efforts to reduce expenses and optimize its operations, following stiff competition for revenue growth. We expect the company to post adjusted EBITDA margins above 22% in 2024 and for margins to remain at similar levels for the next two years.

As a , and given Coltel's efforts to refinance and reduce its short-term debt maturities, leverage indicators have improved. We expect adjusted debt to EBITDA to remain below 3.5x in the 2024-2026 period, compared to 3.7x in 2023, and to gradually decline towards 3.0x.

There are two remaining aspects that we would expect Coltel to strengthen to improve its financial risk profile:

Consistent cash flow generation. In 2024, Coltel improved free operating cash flow as a result of manageable capex and a more working capital position. However, to consider upgrading the ratings, we would look for Coltel to post a 10% free operating cash flow to debt ratio on a consistent basis, which can be consolidated through the shared infrastructure strategy.

Sustainable revenues. Despite favorable trends at the subsector level for some of its services, such as fiber, during 2024 revenues declined more than we expected. This was largely due to lower equipment sales, as high inflation and high interest rates reduced incentives for equipment renewal. We expect Coltel to stabilize this trend (regardless the upside potential of the acquisition) and low single-digit (1% to 2%) consolidated revenue growth over the next two years.

Perspective

The positive outlook indicates our view of Coltel's stronger credit metrics. However, we would look for continuity and consistency in cash generation from operations (excluding one-off asset sales and others) to revise our assessment of Coltel's financial risk profile to a stronger category.To maintain current assessment of the business risk profile, we expect the company to continue to focus on strengthening market share and increasing its subscriber base, which will allow for greater absorption of operating costs, while reducing capex for fiber deployment.

Over the next 12 to 18 months, we expect the company to record a debt/EBITDA ratio close to 3x (times) and positive free operating cash flow (FOCF).

In addition, we believe that Millicom's proposed acquisition could lead to an improvement because a larger commercial position would be beneficial to operations. However, the timing of approval, closing and implementation of the transaction remains uncertain.

Negative scenario

We could revise the outlook to stable or downgrade Coltel's rating in the next 12 months if we do so:

- Liquidity pressures increase due to debt maturities, cash or higher than expected cash expenditures, which would lead the company to rely on higher debt or refinancings, which could suggest weaker risk or unsustainable debt;
- The company fails to strengthen operating cash flow, pushing the debt/EBITDA ratio towards 4x, while FOCF to debt remains below 10%;
- The company deviates from the current projected scenario, suggesting a weaker business risk profile; or
- The acquisition by Millicom is completed through substantial incremental indebtedness, which is detrimental to the group's credit profile.

Positive scenario

We could upgrade Coltel's rating in the next 12 to 18 months if:

- Maintains debt to EBITDA ratio close to 3x, while strengthening the FOCF to debt ratio above 10%;
- Higher than expected operating income, suggesting favorable business dynamics; and
- Demonstrates business efficiencies through consistently EBITDA, maintains adequate sources of liquidity, and meets working capital capital expenditure needs without requiring additional debt or reducing its cash balance at year-end.

Description of the company

Coltel is an integrated telecommunications provider that operates under the Movistar trademark. It has been part of the Telefónica group since 2006. In 2012, Coltel merged with Telefónica.

Móviles Colombia S.A. Telefónica currently owns 67.5% of Coltel and the Colombian government owns the rest. Coltel provides fixed and mobile telephony, internet, broadband, data transmission, satellite television and corporate services (such as data centers and IT services).

Our baseline scenario

Assumptions

Macroeconomic assumptions include the following:

- Our economists expect Colombia's gross domestic product (GDP) growth of 1.7% in 2024 and 2.5% in 2025, and consumer price index (CPI) inflation of 6.7% and 3.9%, respectively.
- Colombia's low economic growth and higher inflation rates could suggest a continuously higher elasticity for the telecommunications industry as higher prices affect the customer base.
- We expect that the high competition of recent years will continue to hinder price increases and that Coltel will seek to recover revenues through its subscriber base.
- Coltel's operating currency is the Colombian peso (COP). On a pro forma basis, as of September 30, 2024, about 47.5% of total debt is denominated in U.S. dollars and the remaining 50.5% is denominated in pesos. The company faces low foreign exchange volatility on its U.S. dollar-denominated debt because it manages risks with derivative financial instruments on exchange rates and interest rates. Coltel also takes into account net balance sheet positions in order to take advantage natural hedges to avoid excessive *bid-offer spread* costs in hedging transactions.

Our company-specific operating and financial assumptions include (without assuming any impact from the potential acquisition as the terms and timing of the transaction are still uncertain):

- Revenues will decline by more than 6.0% to COP6.7 trillion in 2024 and then grow in the low single digits over the next two years, approaching COP6.9 trillion in 2026, in line with our current economic growth rates for Colombia.
- Operating costs in 2024 will decrease at a slower rate than revenues due to the operating efficiencies implemented, which should support more stable profit margins. By 2025 and 2026, we project that operating costs will grow in line with inflation, especially labor costs and interconnection expenses linked to the expected increase in traffic.
- Adjusted EBITDA of approximately COP1.5 billion per year during the period 2024- 2026.
- Capex will remain in line with network and fiber deployment, under the shared infrastructure strategy, totaling around COP490 in 2024, COP593 in 2025 and COP504 billion in 2026. This will still represent slightly less than 8% of total revenues.
- There will be no dividend payments during the next three years, given our expectation that Coltel will focus on preserving its liquidity and prudently allocate cash generation for capital expenditures, license renewals and debt maturities.
- There is no additional debt, on a net adjusted basis, given the ongoing refinancing transactions and considering only intra-seasonal spectrum license amortization needs.

Main Indicators

Colombia Telecomunicaciones, S.A. E.S.P. - Projections of key indicators

End of period	December 31, 2022	December 31, 2023	December 31, 2024	December 31, 2025	December 31, 2026
Billions of COP	**2022r**	**2023r**	**2024e**	**2025p**	**2026p**
Revenues	7,864	7,123	6,683	6,750	6,885
EBITDA	1,510	1,512	1,502	1,513	1,517
Funds from operations (FFO)	782	693	734	727	690
Cash flow from operations (CFO)	1,609	1,216	1,205	776	837
Capital expenditure (capex)	431	815	490	593	504
Free operating cash flow (FOCF)	1,178	401	715	183	333
Dividends	96	--	--	--	--
Share repurchases (amounts reported)	--	--	--	--	--
Discretionary cash flow (DCF)	1,082	401	715	183	333
Debt	5,179	5,584	5,124	5,011	4,794
Adjusted indexes					
Annual revenue growth (%)	33.0	-9.4	-6.2	1.0	2.0
EBITDA margin (%)	19.2	21.2	22.5	22.4	22.0
Debt/EBITDA (x)	3.4	3.7	3.4	3.3	3.2
FFO/debt (%)	15.1	12.4	14.3	14.5	14.4
Interest coverage with EBITDA (x)	3.1	2.5	3.0	3.3	3.1
CFO/debt (%)	31.1	21.8	23.5	15.5	17.5
FOCF/debt (%)	22.7	7.2	14.0	3.7	6.9
DCF/debt (%)	20.9	7.2	14.0	3.7	6.9

All figures adjusted by S&P Global Ratings. R-Actual. E-Estimate. P-Projection. *COP: Colombian pesos.

Liquidity

The company is making efforts to reduce short-term liabilities as it seeks greater cash generation from operations. , we continue to forecast that Coltel's expected sources of liquidity will cover approximately 1.2x of expected liquidity uses for the next 12 , even if EBITDA were to decline by 15%. We also believe that Coltel has strong relationships with banks, which has allowed it to access financing when needed. We will monitor future liability management transactions based on the behavior of the maturity schedule.

Main sources of liquidity

- Cash and liquid investments of COP80,700 million as of September 30, 2024;
- Cash proceeds from operations of COP846 billion are expected for the next 12 months;

- Working capital inflows of approximately COP122 billion for the next 12 months; and
- Funds are expected to come from the refinancing of bank loans to cover debt maturities in the next 12 months for COP 616,000 million.

Main uses of liquidity

- Scheduled maturities of short-term debt of COP 553 billion, as reported on September 30, 2024; and
- Estimated capital expenditure of COP 593 billion for the next 12 months.

Financial restrictions (*covenants*)

As of September 30, 2024, Coltel does not have any financial *covenants* on its debt.

Environmental, Social and Corporate Governance (ESG) Factors

ESG factors are neutral and do not have a material impact on our ratings analysis of Coltel.

Issue Rating - Subordination Risk Analysis

Capital structure

The company's gross debt as of September 30, 2024 totaled COP 4,739 billion, of which:

- COP2.081 billion correspond to its senior unsecured notes due 2030 at 4.95%;
- COP152,205 million in local bonds maturing in 2029; and
- The remainder corresponds to bank loans and other financial obligations.

Analytical conclusions

Our issue rating on Coltel's outstanding US$500 million senior unsecured notes due 2030 remains at 'B+', in line with our issuer credit rating. Neither secured debt nor subsidiary-level debt exceeds 50% of the 's financial debt. , there is no material subordination risk on the senior unsecured bonds.

Summary of rating factors

Colombia Telecomunicaciones, S.A. E.S.P.	
Issuer credit rating in foreign currency	B+/Positive/--
Issuer's credit rating in local currency	B+/Positive/--
Business risk	Reasonable
Country risk	Moderately high
Industry risk	Intermediate
Competitive position	Reasonable
Financial risk	Aggressive
Cash flow/leverage	Aggressive
Anchor	bb-
Modifiers	
Diversification/portfolio effect	Neutral / Not diversified
Capital structure	Neutral
Liquidity	Adequate
Financial policy	Neutral
Management and corporate governance	Neutral
Comparative rating analysis	Negative (-1 level [*notch*])
Individual credit profile (SACP)	b+

Criteria

- Methodology for rating companies, specific by sector, .April 4, 2024
- Methodology for rating companies, .January 7, 2024
- Management credit factors and corporate governance for companies, .January 72024
- Environmental, social and corporate governance principles in credit ratings, .October 10, 2021
- Group ratings methodology, July 1, 2019.
- Methodology for Rating Companies: Indexes and Adjustments, April 1, 2019.
- Reflecting subordination risk in corporate issue ratings, March 28, 2018.
- Rating Government-Related Entities (GREs): Methodology and Assumptions, March 25, 2015.
- Methodology and Assumptions: Liquidity Descriptors for Corporate Issuers, December 16, 2014.
- Methodology and assumptions for country risk assessment, November 19, 2013.
- Methodology: Industry risk, November 19, 2013.
- Principles of Credit Ratings, February 16, 2011.

Related Articles

- S&P Global Ratings upgraded telecom operator Coltel's ratings to 'B+' for planned refinancing of short-term debt and improved liquidity; outlook is positive, April 23, 2024.
- S&P Global Ratings revised Colombia's outlook to negative due to moderate economic growth expectations; affirmed foreign currency ratings of 'BB+/B', January 18, 2024
- *Industry Credit Outlook 2024: Telecommunications*, January 9, 2024.
- S&P Global Ratings downgrades telecom operator Coltel to 'B' from 'BB' due to liquidity stress and financial indicators; placed on negative Special Review, December 18, 2023.

Certain terms used in this report, in particular certain adjectives used to express our opinion on important rating factors, have specific meanings ascribed to them in our criteria and, therefore, should be read in conjunction with them. For more information, please see our Rating Criteria at https://disclosure.spglobal.com/ratings/es/regulatory/ratings-criteria. A description of each of S&P Global Ratings' rating categories can be found in "S&P Global Ratings' Ratings Definitions" at https://disclosure.spglobal.com/ratings/es/regulatory/article/-/view/sourceId/100003912. All ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings referenced in this document can be found on the S&P Global Ratings public website at www.spglobal.com/ratings.

European Endorsement

The global scale credit rating() of S&P Global Ratings affiliates based in the following jurisdictions [To read more, visit Endorsement of Credit Ratings] have been endorsed in the European Union and/or the United Kingdom in accordance with applicable credit rating agency regulations. Note: Endorsements for U.S. Public Finance global scale credit ratings are processed upon request. To review the endorsement status by credit rating, please visit the spglobal.com/ratings website and go to the rated entity page.