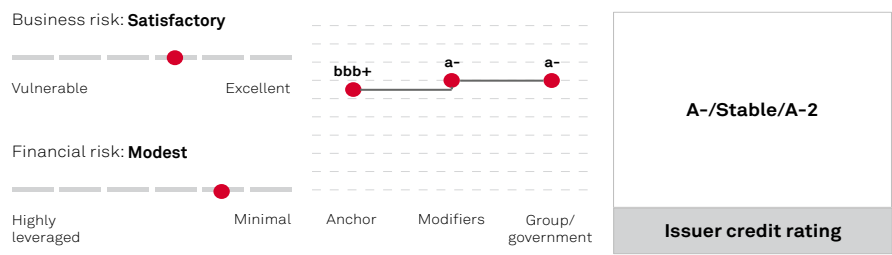


Telekom Austria AG

May 7, 2025

Ratings Score Snapshot



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Credit Highlights

Overview

Key strengths	Key risks
Leading telecommunications operator in Austria, with a market share of around 55% for fixed-line broadband revenue	Intense competition in the domestic mobile business from Hutchison Drei, T-Mobile, and mobile virtual network operators (MVNOs), as well as in several Central and Eastern Europe (CEE) markets.
Favorable domestic frequency holdings, with about half of the total spectrum available in Austria.	Substantial capital expenditure (capex) needed to scale up the fixed-network rollout in Austria, given the relatively low coverage for high-speed broadband.
Supportive and prudent financial policy, which we expect will lead to S&P Global Ratings-adjusted leverage comfortably below 2.0x.	Limited scale compared with peers that have greater diversification, such as Deutsche Telekom, Orange, and Vodafone.
Diversification and growth opportunities further underpinned by leading positions in several European fixed and mobile markets.	Some exposure to potential geopolitically- and foreign-currency-related disruptions in Belarus.

We expect Telekom Austria to rely on CEE markets to drive growth, given we anticipate the domestic market will remain flattish. In our view, competitive pressure will continue to result in a stagnant topline for Telekom Austria's domestic business segment, as seen in 2024 and in the

first quarter of 2025, when revenue declined by 0.2% and 0.3%, respectively. We assign the challenging market conditions to intense competition from incumbents and MVNOs, increased promotional activity, and a sluggish Austrian economy.

The somewhat challenging domestic market will be offset by strong growth in the CEE markets (except for in Slovenia where market conditions remain challenging). We foresee growth in the CEE markets coming from higher service revenues from upselling in the mobile consumer business and growth in the fixed-line business.

We also expect the company will focus on selling new value-added solutions to its business to business (B2B) customers through its Solution segments, which will include a combination of in-house developed products and partnerships with technology firms.

Resilient free operating cash flows (FOCF) despite expected increase in capital expenditure (capex). We expect higher capex in 2025-2026, with capex to sales reaching 18.5% in 2026 from 16.4% in 2024, as the company expands its fiber and 5G networks both domestically and internationally. The company remains committed to continuing its fiber rollout investments in Austria, primarily in rural areas, and aims to increase 5G coverage from the current 86%.

Despite the company's increased investments, we expect high adjusted FOCF of around €750 million-€900 million annually over the forecast years 2025-2027, leading to an adjusted FOCF to debt of around 28%-33% for the same period, from the current 31%.

In our opinion, Telekom Austria will stick to its prudent and supportive financial policy. This comfortably supports leverage below 2.0x, commensurate with the current rating. Telekom Austria has a maximum leverage target of 1.4x, translating into an adjusted leverage of 1.6x. We foresee shareholder distributions of about €260 million-€320 million annually, which is less than our projected free operating cash flow. This level gives Telekom Austria the financial flexibility and capacity to make smaller acquisitions without adding debt. We therefore think Telekom Austria's leverage will remain comfortably below 2.0x during our forecast period.

Outlook

The stable outlook on Telekom Austria reflects our expectation that the company will maintain adjusted leverage sustainably below 2.0x, funds from operations (FFO) to debt above 45%, and FOCF to debt before spectrum payments of more than 15%.

Downside scenario

We could lower our rating on Telekom Austria if its operating performance is weaker than anticipated or it pursues a more aggressive financial policy, such that its adjusted debt to EBITDA sustainably exceeds 2.0x.

We could also downgrade the company if we lowered our rating on majority shareholder AMX by multiple notches.

Upside scenario

We regard an upgrade of Telekom Austria as remote because this would require a significant diversification of its business, likely combined with a further strengthening of its financial risk profile. That said, we could raise our rating on Telekom Austria if we raised our rating on AMX by multiple notches.

Our Base-Case Scenario

Assumptions

- Eurozone GDP to expand by 0.9% in 2025, and about 1.4%-1.5% in 2026 and 2027.
- Eurozone Consumer Price Index (CPI) will decrease to 2.1% in 2025, and about 2.0% in 2026 and 2027.
- Revenue increases by about 2.0%-2.5% in 2025-2027, driven by growth in service revenues in CEE markets, counterbalanced by flat development in the Austrian market due to competitive pressure.
- We expect a more-or-less stable S&P Global Ratings-adjusted margin (around 37%-38%) as the company's revenue growth will be balanced by revenue driven costs, such as content and licenses for resale as well as increased employee costs.
- Capex to sales of around 16%-19% in 2025-2027, compared with 16% in 2024, as the company expands its fiber and 5G networks both domestically and internationally.
- Continued dividend increases of €0.04 per share per year 2025-2027 as the company continues to generate healthy free operating cash flow (FOCF).

Key metrics

Telekom Austria AG--Forecast summary

Period ending	Dec-31-2021	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025	Dec-31-2026	Dec-31-2027
(Mil. EUR)	2021a	2022a	2023a	2024a	2025e	2026f	2027f
Revenue	4,748	5,005	5,251	5,413	5,529	5,659	5,798
Gross profit	2,707	2,860	2,988	3,119	3,164	3,278	3,361
EBITDA (reported)	1,706	1,838	1,924	2,021	2,043	2,131	2,185
Plus/(less): Other	(5)	(5)	2	(2)	(3)	(3)	(3)
EBITDA	1,701	1,833	1,926	2,019	2,040	2,127	2,182
Less: Cash interest paid	(99)	(73)	(92)	(102)	(92)	(96)	(103)
Less: Cash taxes paid	(106)	(137)	(180)	(156)	(165)	(178)	(183)
Funds from operations (FFO)	1,496	1,622	1,654	1,761	1,783	1,853	1,896
EBIT	752	878	935	880	865	929	960
Interest expense	105	64	109	110	104	107	114
Cash flow from operations (CFO)	1,487	1,644	1,623	1,712	1,739	1,808	1,849
Capital expenditure (capex)	851	894	1,090	887	857	1,047	1,047
Free operating cash flow (FOCF)	636	750	533	825	882	761	802
Dividends	167	187	213	240	266	292	319
Discretionary cash flow (DCF)	469	564	320	585	616	469	484
Debt (reported)	2,599	1,869	808	749	749	607	685
Plus: Lease liabilities debt	767	681	1,956	1,900	1,847	1,847	1,847
Plus: Pension and other postretirement debt	201	165	177	161	161	161	161
Less: Accessible cash and liquid investments	(404)	(112)	(47)	(203)	(203)	--	--

Telekom Austria AG--Forecast summary

Debt	3,176	2,575	3,021	2,730	2,678	2,662	2,740
Equity	3,061	3,536	4,601	4,989	5,307	5,646	5,978
FOCF (adjusted for lease capex)	534	622	118	524	625	449	491
Interest expense (reported)	99	55	92	95	90	93	100
Capex (reported)	853	896	1,094	890	860	1,050	1,050
Cash and short-term investments (reported)	622	210	253	430	435	100	100
Adjusted ratios							
Debt/EBITDA (x)	1.9	1.4	1.6	1.4	1.3	1.3	1.3
FFO/debt (%)	47.1	63.0	54.8	64.5	66.6	69.6	69.2
FFO cash interest coverage (x)	16.2	23.1	18.9	18.2	20.4	20.3	19.4
EBITDA interest coverage (x)	16.3	28.8	17.7	18.4	19.6	19.8	19.1
CFO/debt (%)	46.8	63.9	53.7	62.7	64.9	67.9	67.5
FOCF/debt (%)	20.0	29.1	17.7	30.2	32.9	28.6	29.3
DCF/debt (%)	14.8	21.9	10.6	21.4	23.0	17.6	17.7
Lease capex-adjusted FOCF/debt (%)	16.8	24.2	3.9	19.2	23.3	16.9	17.9
Annual revenue growth (%)	4.4	5.4	4.9	3.1	2.1	2.4	2.5
Gross margin (%)	57.0	57.2	56.9	57.6	57.2	57.9	58.0
EBITDA margin (%)	35.8	36.6	36.7	37.3	36.9	37.6	37.6
Return on capital (%)	12.0	14.2	13.6	11.5	11.0	11.4	11.3
EBITDA/cash interest (x)	17.2	25.0	20.9	19.8	22.2	22.1	21.2

All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. e--Estimate. f--Forecast. EUR--Euro.

Company Description

Headquartered in Vienna, Telekom Austria is the leading telecom operator in Austria and a mobile operator and fixed line broadband provider in Bulgaria, Croatia, Belarus, Slovenia, Serbia, and North Macedonia. It also provides telephony and TV services in all of these countries except Serbia. In 2024, the company's domestic market contributed around 53% of its revenue and 51% of its EBITDA.

Peer Comparison

In our view, Telekom Austria's business risk profile compares well with peers we assess as being at the stronger end of a satisfactory business risk profile. These peers, such as KPN and Proximus, are characterized by their strong domestic positions. However, Telekom Austria's smaller scale and narrower international diversification make it weaker than peers like Orange and DT, which we classify as having strong business risk profiles.

The company's market share in fixed retail broadband remains significantly stronger than most of its incumbent peers in Europe, but we expect it will need to invest in rolling out fiber in the coming years--the Austrian market lags many of its European peers in terms of high bandwidth/fast fixed broadband. Fiber penetration was 10.6% in Austria as of September 2023, which is lower than in comparable countries.

Telekom Austria AG--Peer Comparisons

	Telekom Austria AG	Proximus S.A.	Tele2	Koninklijke KPN N.V.	Orange S.A.
Foreign currency issuer credit rating	A-/Stable/A-2	BBB+/Negative/A-2	BBB/Stable/A-2	BBB/Stable/A-2	BBB+/Stable/A-2
Local currency issuer credit rating	A-/Stable/A-2	BBB+/Negative/A-2	BBB/Stable/A-2	BBB/Stable/A-2	BBB+/Stable/A-2
Period	Annual	Annual	Annual	Annual	Annual
Period ending	2024-12-31	2023-12-31	2024-12-31	2024-12-31	2023-12-31
Mil.	EUR	EUR	EUR	EUR	EUR
Revenue	5,413	6,043	2,582	5,603	44,122
EBITDA	2,019	1,770	1,027	2,607	14,174
Funds from operations (FFO)	1,761	1,620	830	2,194	11,922
Interest	110	123	104	305	1,467
Cash interest paid	102	101	97	266	1,124
Operating cash flow (OCF)	1,712	1,620	853	2,240	12,226
Capital expenditure	887	1,794	347	1,314	7,910
Free operating cash flow (FOCF)	825	(174)	506	926	4,316
Discretionary cash flow (DCF)	585	(561)	90	(221)	1,982
Cash and short-term investments	430	749	34	802	5,505
Gross available cash	367	749	34	802	8,183
Debt	2,730	4,470	2,881	6,704	40,950
Equity	4,989	3,403	1,928	3,033	33,565
EBITDA margin (%)	37.3	29.3	39.8	46.5	32.1
Return on capital (%)	11.5	7.3	10.6	14.5	7.1
EBITDA interest coverage (x)	18.4	14.4	9.9	8.5	9.7
FFO cash interest coverage (x)	18.2	17.0	9.6	9.2	11.6
Debt/EBITDA (x)	1.4	2.5	2.8	2.6	2.9
FFO/debt (%)	64.5	36.2	28.8	32.7	29.1
OCF/debt (%)	62.7	36.2	29.6	33.4	29.9
FOCF/debt (%)	30.2	(3.9)	17.6	13.8	10.5
DCF/debt (%)	21.4	(12.6)	3.1	(3.3)	4.8

Financial Risk

Telekom Austria AG--Financial Summary

Period ending	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023	Dec-31-2024
Reporting period	2019a	2020a	2021a	2022a	2023a	2024a
Display currency (mil.)	EUR	EUR	EUR	EUR	EUR	EUR
Revenues	4,565	4,549	4,748	5,005	5,251	5,413
EBITDA	1,553	1,568	1,701	1,833	1,926	2,019

Telekom Austria AG--Financial Summary

Funds from operations (FFO)	1,372	1,401	1,496	1,622	1,654	1,761
Interest expense	110	108	105	64	109	110
Cash interest paid	111	102	99	73	92	102
Operating cash flow (OCF)	1,347	1,379	1,487	1,644	1,623	1,712
Capital expenditure	871	741	851	894	1,090	887
Free operating cash flow (FOCF)	476	638	636	750	533	825
Discretionary cash flow (DCF)	336	485	469	564	320	585
Cash and short-term investments	140	376	622	210	253	430
Gross available cash	140	211	534	150	169	367
Debt	3,782	3,557	3,176	2,575	3,021	2,730
Common equity	2,596	2,747	3,061	3,536	4,601	4,989
Adjusted ratios						
EBITDA margin (%)	34.0	34.5	35.8	36.6	36.7	37.3
Return on capital (%)	10.1	9.8	12.0	14.2	13.6	11.5
EBITDA interest coverage (x)	14.2	14.6	16.3	28.8	17.7	18.4
FFO cash interest coverage (x)	13.3	14.8	16.2	23.1	18.9	18.2
Debt/EBITDA (x)	2.4	2.3	1.9	1.4	1.6	1.4
FFO/debt (%)	36.3	39.4	47.1	63.0	54.8	64.5
OCF/debt (%)	35.6	38.8	46.8	63.9	53.7	62.7
FOCF/debt (%)	12.6	17.9	20.0	29.1	17.7	30.2
DCF/debt (%)	8.9	13.6	14.8	21.9	10.6	21.4

All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. e--Estimate. f--Forecast. EUR--Euro.

Reconciliation Of Telekom Austria AG Reported Amounts With S&P Global Adjusted Amounts (Mil. EUR)

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Financial year	Dec-31-2024									
Company reported amounts	749	4,986	5,413	2,021	861	95	2,019	1,814	240	890
Cash taxes paid	-	-	-	-	-	-	(156)	-	-	-
Cash interest paid	-	-	-	-	-	-	(99)	-	-	-
Lease liabilities	1,900	-	-	-	-	-	-	-	-	-
Postretirement benefit obligations/deferred compensation	161	-	-	(3)	(3)	6	-	-	-	-
Accessible cash and liquid investments	(203)	-	-	-	-	-	-	-	-	-
Capitalized interest	-	-	-	-	-	3	(3)	(3)	-	(3)

Reconciliation Of Telekom Austria AG Reported Amounts With S&P Global Adjusted Amounts (Mil. EUR)

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Share-based compensation expense	-	-	-	1	-	-	-	-	-	-
Asset-retirement obligations	122	-	-	-	-	5	-	-	-	-
Nonoperating income (expense)	-	-	-	-	22	-	-	-	-	-
Reclassification of interest and dividend cash flows	-	-	-	-	-	-	-	(99)	-	-
Noncontrolling/minority interest	-	2	-	-	-	-	-	-	-	-
Debt: Earnouts and deferred consideration for business acquisitions	2	-	-	-	-	-	-	-	-	-
Total adjustments	1,982	2	-	(2)	18	15	(258)	(102)	-	(3)
S&P Global Ratings adjusted	Debt	Equity	Revenue	EBITDA	EBIT	Interest expense	Funds from Operations	Operating cash flow	Dividends	Capital expenditure
	2,730	4,989	5,413	2,019	880	110	1,761	1,712	240	887

Liquidity

We assess Telekom Austria's liquidity as adequate, based on our expectation that sources will cover uses by more than 2.8x in the 12 months from March 31, 2025. Our assessment is also supported by Telekom Austria's financial risk management, which we view as prudent; the company's good standing in the credit markets; and its solid relationships with its banks.

Principal liquidity sources

- Cash and liquid investments of about €550 million;
- Availability under undrawn committed lines of about €1.3 billion, maturing in more than 12 months; and
- Sizable FFO of about €1.5 billion.

Principal liquidity uses

- Annual capex of about €850 million-€1,050 million; and
- Dividends of about €266 million-€319 million.

Group Influence

We regard Telekom Austria as a moderately strategic subsidiary of its 61% shareholder, America Movil S.A.B. de C.V. (AMX). That said, we believe our 'A-' rating on Telekom Austria to be

somewhat insulated from that on its parent and consider its credit quality to be insulated from that of its largest and controlling shareholder, AMX. In our view, Telekom Austria is operationally and financially separate from the AMX group. The Austrian government holds a 28.4% stake and we consider that it acts as a significant minority shareholder by placing material limitations on AMX's control. As such, we could rate Telekom Austria above the parent. Currently, we rate both entities at the same level.

Government Influence

We continue to regard Telekom Austria as a government-related entity, based on the 28.4% stake held by Austria (AA+/Stable/A-1+). That said, our 'A-' rating on Telekom Austria is based on our stand-alone view of its credit quality and does not include any uplift from potential extraordinary government support. We see a low likelihood of timely and sufficient extraordinary government support for Telekom Austria in the event of financial distress.

Issue Ratings--Subordination Risk Analysis

Capital structure

All of the group's debt is senior unsecured and located at the group's financing entity, Telekom Finanzmanagement GmbH. The company currently has a €750 million fixed interest bond maturing in 2026 outstanding, representing nearly all of its reported debt.

Analytical conclusions

The financial risk profile assessment is modest, and leverage is low enough to limit the possibility of any lenders being significantly disadvantaged, relative to other lenders. Therefore, our long-term issue rating on the company's senior unsecured debt is 'A-', in line with the issuer credit rating. No significant elements of subordination risk are present in the capital structure.

Rating Component Scores

Foreign currency issuer credit rating	A-/Stable/A-2
Local currency issuer credit rating	A-/Stable/A-2
Business risk	Satisfactory
Country risk	Intermediate
Industry risk	Intermediate
Competitive position	Satisfactory
Financial risk	Modest
Cash flow/leverage	Modest
Anchor	bbb+
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Neutral (no impact)
Comparable rating analysis	Positive (+1 notch)
Stand-alone credit profile	a-

Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology, April 4, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- General Criteria: National And Regional Scale Credit Ratings Methodology, June 8, 2023
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

European Telecoms Investment-Grade Portfolio: How Credit Stories Unfolded, Feb. 11, 2025

Industry Credit Outlook 2025: Telecommunications, Jan. 14, 2025

Ratings Detail (as of May 07, 2025)*

Telekom Austria AG	
Issuer Credit Rating	A-/Stable/A-2
Issuer Credit Ratings History	
25-Oct-2022	A-/Stable/A-2
12-Aug-2019	BBB+/Stable/A-2
23-May-2017	BBB/Positive/A-2
Related Entities	
America Movil B.V.	
Short-Term Debt	A-2
America Movil S.A.B. de C.V.	
Issuer Credit Rating	A-/Stable/--
<i>CaVal (Mexico) National Scale</i>	mxAAA/Stable/mxA-1+
Senior Unsecured	
<i>CaVal (Mexico) National Scale</i>	mxAAA
Senior Unsecured	A-
Short-Term Debt	
<i>CaVal (Mexico) National Scale</i>	mxA-1+
Telefonos de Mexico, S.A.B. de C.V.	
Issuer Credit Rating	A-/Stable/--
<i>CaVal (Mexico) National Scale</i>	mxAAA/Stable/mxA-1+
Senior Unsecured	
<i>CaVal (Mexico) National Scale</i>	mxAAA
Telekom Finanzmanagement GmbH	
Issuer Credit Rating	A-/Stable/A-2
Telmex Internacional S.A.B. de C.V.	
Issuer Credit Rating	
<i>CaVal (Mexico) National Scale</i>	mxAAA/Stable/mxA-1+
VTR Comunicaciones SpA	
Senior Secured	CCC+
VTR Finance N.V.	
Issuer Credit Rating	CCC+/Positive/--
Senior Unsecured	CCC

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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