FitchRatings

RATING ACTION COMMENTARY

Fitch Revises Telekom Austria Outlook to Stable; Affirms IDR at 'A-'

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Fitch Ratings - Paris - 11 Jul 2025: Fitch Ratings has revised the Outlook on Telekom Austria AG (TKA) to Stable from Positive. Fitch has also affirmed TKA's Long-Term Issuer Default Rating (IDR) and its senior unsecured rating at 'A-'. This includes the bond issued by Telekom Finanzmanagement GmbH. Fitch has also affirmed TKA's Short-Term IDR at 'F1', reflecting strong financial flexibility and structure.

The Outlook revision follows a similar action on TKA's parent company, America Movil S.A.B. de C.V. (AMX, A-/Stable). Fitch now expects TKA to continue to be rated in line with its Standalone Credit Profile (SCP) reflecting that both parent and subsidiary IDRs are the same. TKA's rating has links to AMX, which owns 60.8% of TKA.

TKA's SCP reflects its leading position in its domestic telecom market, which contributes over 50% of its total EBITDA, and its diverse portfolio of international assets in central and eastern Europe (CEE). The company maintains one of the lowest leverage profiles among European telecom operators, underpinned by a conservative financial policy. However, Fitch expects free cash flow (FCF) to remain constrained in the short to medium term by fibre and 5G infrastructure investments.

KEY RATING DRIVERS

Solid Domestic Market Position: TKA holds a leading position in the Austrian market, with mobile and fixed service revenue market shares of about 40% and 55%, respectively. It is one of three major mobile network operators and one of two principal local access network infrastructure providers in Austria. TKA's operations cover retail, business, wholesale, and pay TV segments, allowing it to offer convergent products and services that drive economies of scale.

Fitch expects TKA to face competitive pressures in its home market, despite its strong market position. In the mobile segment, mobile virtual network operators (MVNOs) are active with attractive offers and aggressive marketing strategies to attract new customers. In fixed line, the roll-out of fibre infrastructure challenges TKA's dominance, as it will face increased competition from more infrastructure providers, which could affect its wholesale profitability. However, this impact is softened by slow migration to fibre and Austria's prevalent use of mobile data, where TKA can compete effectively through its mobile broadband offerings.

Low Leverage, Conservative Financial Policy: TKA has publicly committed to a conservative financial policy to maintain a Fitch 'A-' rating or Moody's 'A3' rating. Its leverage falls comfortably within Fitch's threshold for an 'A-' rating. We forecast that TKA's EBITDA net leverage will decline to 0.1x at end-2025, from 0.2x at end-2024, and remain stable over the next three years.

Geographic Diversification: TKA operates in six CEE markets — Bulgaria, Croatia, Belarus, Serbia, Slovenia and North Macedonia — where it is either the leading or second-largest market provider, except in Serbia and Slovenia, where it is third. Most of these international markets have undergone some consolidation, with two or three operators, except for Slovenia, which has strong competitive pressure with four mobile operators. In August 2024 TKA signed a share purchase agreement for the fixed-line provider Conexio Metro d.o.o., enabling it to offer convergent services in Serbia, where 5G spectrum allocations are likely in 2025.

FCF Margins Constrain SCP: TKA's SCP is constrained by its low-single-digit FCF margin after dividends. Fitch expects its FCF margin to be 3.4% in 2025, before declining to a neutral level from 2026. This is due to high capex from an intensified fibre roll-out and 5G deployment, rising dividends, and higher working-capital outflows related to increased instalment sales business volume. However, excluding dividends, we expect FCF margins to remain moderate, at mid single digits, over 2025-2028.

Belarus Risks: TKA is exposed to political, economic and FX risks in Belarus, which contributes about 10% to the group's EBITDA. A1 Belarus recently faced financial penalties of EUR24 million for administrative violations, which were converted into an obligation to expand its mobile network. In 2Q24, the government imposed temporary restrictions on dividend payments to foreign investors from the European Union, affecting TKA's ability to upstream annual dividends of EUR60 million-80 million from the country. However, Fitch assesses the impact on TKA's financial profile as minimal.

Limited FX Risk: Most of TKA's markets are euro denominated or pegged/linked to the euro, minimising meaningful FX exposure. The only exceptions are Belarus and Serbia, although the Serbian dinar has remained stable against the euro in recent years.

Parent and Subsidiary Linkage Assessment: TKA is rated on a standalone basis, as its SCP is aligned with the IDR of AMX at 'A-'. Fitch assesses the strategic incentives for AMX to support TKA as 'Medium' under the Parent and Subsidiary Linkage Criteria, given TKA's contribution of about 10% to AMX's consolidated EBITDA and provision of hard-currency cash flows. However, Fitch considers legal and operational incentives to be 'Low', reflecting the absence of legal guarantees or cross-defaults issued by the parent and limited operational synergies, primarily related to procurement and industry-specific knowledge sharing.

Minimal Impact from State Ownership: AMX acts in concert with Österreichische Beteiligungs AG (ÖBAG), a state fund that owns 28.4% of TKA. Both parties have a shareholder agreement, which Fitch believe does not detract from AMX's strategic incentives to support TKA. The state's ownership through ÖBAG does not warrant rating support, resulting in a low support score under Fitch's Government-Related Entities Criteria.

PEER ANALYSIS

TKA is rated on a par with European incumbent telecoms group Royal KPN N.V. (BBB/Stable). TKA's higher 'a-' SCP than KPN's 'BBB' IDR reflects its more conservative leverage profile and financial policy. Competitor e& PPF Telecom Group B.V. (BBB/Stable; SCP: bbb-), which also operates in CEE markets, has a weaker operating profile as its domestic Czech assets have been transferred out of the group. Its predominant mobile-only profile, combined with the partial sale of its network infrastructure to minority investors, leads to lower leverage capacity than TKA.

TKA has slightly lower debt capacity than larger diversified western European telecom operators such as Deutsche Telekom AG (BBB+/Stable), Orange S.A. (BBB+/Stable), and Vodafone Group Plc (BBB/Positive), because of its significantly smaller FCF scale.

TKA's debt capacity is also lower than those of larger global peers, such as Verizon Communications Inc. (A-/Stable), AMX and Comcast Holdings Corporation (A-/Stable), whose EBITDA are 10x-30x greater than TKA's and whose FCF margins are higher.

KEY ASSUMPTIONS

Fitch's Key Assumptions within our Rating Case for the Issuer

-- Low single-digit revenue growth between 2025 and 2028

-- Fitch-defined EBITDA margin (before restructuring) of 30%-31% between 2025 and 2028

-- Working-capital outflow at 0.7% of revenue in 2025, worsening to between 1.5% and 2% between 2026 and 2028

-- Capex (excluding spectrum costs) at 14%-17% of revenue between 2025 and 2028

-- Dividend payout of EUR266 million and EUR292 million in 2025 and 2026, respectively

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- A downgrade of AMX by more than two notches, assuming no change to Fitch's assessment of parent-subsidiary linkage

The SCP could be revised lower if: Fitch-defined EBITDA net leverage exceeds 1.5x on a sustained basis; there is a material deterioration in the company's domestic market position, FCF generation or the operating environment of CEE operations; or there is a change in financial policy that targets leverage above the thresholds consistent with the rating.

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

- An upgrade of AMX's IDR

The SCP could be revised higher if growth in profitability leads to FCF margins in mid single digits and if Fitch-defined EBITDA net leverage is managed at below 0.8x, both on a sustained basis.

LIQUIDITY AND DEBT STRUCTURE

At end-March 2025 TKA had EUR505 million of cash and cash equivalents and access to a EUR1 billion undrawn revolving credit facility (RCF) maturing in July 2026 and a EUR300 million bilateral RCF maturing in March 2028. This, combined with good access to capital markets, provides sufficient cover for near-term cash requirements. Fitch expects TKA's EUR750 million bond maturing in December 2026 to be repaid with a combination of cash and new debt.

A strong liquidity profile is a key driver to TKA's financial flexibility and its 'F1' Short-Term IDR. Essential to this is the absence of the need for external funding, except for any funds under already committed facilities, over the next 24 months.

ISSUER PROFILE

TKA, also known as A1 Group, is a leading telecommunications provider in CEE, serving about 30 million customers in Austria, Bulgaria, Croatia, Belarus, Slovenia, North Macedonia and Serbia.

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.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

Telekom Austria AG is rated on a standalone basis, as its IDR is the same as that of AMX. However, if the ratings were different, Telekom Austria AG's rating would be directly linked to its parent's.

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

Telekom Austria AG	LT IDR A- Rating Outlook Stable Affirmed	A- Rating Outlook Positive
	ST IDR F1 Affirmed	F1
Telekom Finanzmanagement GmbH		
senior unsecured	LT A- Affirmed	A-

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Government-Related Entities Rating Criteria - Effective from 9 July 2024 to 18 July 2025 (pub. 09 Jul 2024)

Corporates Recovery Ratings and Instrument Ratings Criteria (pub. 02 Aug 2024) (including rating assumption sensitivity)

Parent and Subsidiary Linkage Rating Criteria (pub. 27 Jun 2025)

Corporate Rating Criteria (pub. 27 Jun 2025) (including rating assumption sensitivity)

Sector Navigators – Addendum to the Corporate Rating Criteria (pub. 27 Jun 2025)

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

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Telekom Austria AG	EU Issued, UK Endorsed
Telekom Finanzmanagement GmbH	EU Issued, UK Endorsed

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