Telecom Operator Coltel Downgraded To 'B' From 'BB' On Strained Liquidity And Financial Metrics, On CreditWatch Negative

- Telecom services provider Colombia Telecomunicaciones S.A. E.S.P. (Coltel)'s lower cash flow than we expected, continuous cash outflows, and long- and short-term debt maturities are weighing on liquidity for the next 12 months.
- Moreover, competition, higher costs, and elevated inflation have lowered cash flow and impaired leverage metrics.
- Therefore, on Dec. 18, 2023, S&P Global Ratings lowered its issuer credit and issue ratings on Coltel to 'B' from 'BB' and placed the ratings on CreditWatch with negative implications.
- We aim to resolve the CreditWatch placement and revise the ratings in the next 30-60 days when we have more visibility on the company's ability to secure sufficient funds for refinancing.

MEXICO CITY (S&P Global Ratings) Dec. 18, 2023--S&P Global Ratings today took the rating actions listed above.

Coltel's lower cash balance, weaker cash generation, and higher short-term maturities increase liquidity risk for the next year, while the company looks for refinancing opportunities through uncommitted credit lines. Lower cash flow generation because of a competitive market and an elastic industry, as well as higher-than-expected capital expenditure (capex) requirements, are straining Coltel's cash balance. Its cash balance reached a historical low of COP50 billion as of Sept. 30, 2023, compared with COP482 billion at the beginning of the year.

In addition, during 2023, the company's share of short-term debt due in the next 12 months has increased, pressuring the maturity schedule. The main maturities include about COP1.2 trillion, including COP350 billion from its local bond due May 2024, and the remaining from bank loans, lease obligations, interests, spectrum license, and mark to market derivatives for the next 12 months.

The cash balance is currently COP283 billion in our estimation, and we expect about COP650 billion in cash generation through operations for the next 12 months. Compared with the reported COP800 billion in short-term debt maturities, as well as COP400 billion in short-term lease obligations for the next 12 months, this suggests potential liquidity risk. However, Coltel has historically maintained ample access to bank lending through uncommitted credit lines. Also, the company expects to renew its current financings, as well as renew others, which would give it greater flexibility to meet its current maturities.

Coltel's profitability has not improved as we expected, weakening its financial leverage metrics, and we do not expect metrics to improve next year.Given a competitive pricing environment, Coltel has shown less flexibility to transfer connection costs, inflation, and Colombian peso depreciation to subscribers, resulting in lower EBITDA generation and deteriorating leverage ratios.

In 2022, Coltel sold its infrastructure assets to ONNET, so we expected connectivity costs to increase and the company to reduce its investments related to such infrastructure. However, costs increased as we expected, but investments remained high due to the company's catch-up on copper transition to fiber optic, to align with 4G deployment.

Coltel's leverage worsened, with debt to EBITDA above 4x and negative free operating cash flow (FOCF) to debt. If Coltel is a 5G spectrum winner, we expect that the financing of this license could also negatively affect its leverage metrics because it will be considered as long-term debt, like what we saw in 2022 with the renewal of its 1,900 mhz spectrum. However, we note that the investments will be split in half between Coltel and Millicom via its joint agreement. Hence, we do not expect full effect on the company, and the conditions seem to be more favorable than the previous spectrum valuations, in our view.

High price competition and inability to make significant investments will continue to impair Coltel's credit profile.The competitive environment continues to affect Coltel's financial results while cash outflows continue. Most telecom operators have entered a vicious cycle of competition. To maintain their market share, they have limited price increases in recent years, unable to compensate for rising inflation, interest rates, operating costs, and investments. Carriers end up compensating for losses by tightening their liquidity positions or taking on more debt. We expect intense competition to continue over the next year.

We now view the comparable ratings analysis as negative, from neutral previously.We add a one-notch negative adjustment in our analysis of Coltel given that its business and financial profiles, as well as its liquidity management, are relatively weaker within their respective categories.

CreditWatch

The CreditWatch negative placement reflects the significant cash outflows, low cash balances, and the COP1.20 trillion in short-term debt and financial lease maturities. Furthermore, we forecast weaker cash flow generation through 2024. Coltel has been stretching the timing of its refinancings, which in our opinion represents aggressive liquidity management. We aim to resolve the CreditWatch in the next 30-60 days when we have more visibility on the company's ability to secure sufficient funds for refinancing.

We could lower the ratings on Coltel within the next three months by one or more notches for the following reasons:

- We perceive there is higher refinancing risk and/or continued pressure on cash generation.
- The company fails to strengthen operating cash flows for license renewals and capex, incurring additional debt, and/or the company's liquidity erodes further.
- Despite the refinancing, we expect the company will have considerable liquidity deficits in 2024.

We could remove the ratings from CreditWatch negative and raise the ratings if we have high certainty that Coltel's cash generation and/or future refinancings will allow liquidity to strengthen and if capex commitments do not put further pressure on leverage metrics. In particular, we would look for liquidity sources to meet expected uses for the next year by at least one time (1x). We would also look for a significant decline in leverage, to debt to EBITDA below 4.0x and FOCF to debt toward 10%, on a consistent basis, through enhancements on its pricing power, a larger subscriber base, and stronger cash generation.

Related Criteria

- **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: Rating Government-Related Entities: Methodology And Assumptions**, March 25, 2015
- **Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers**, Dec. 16, 2014
- **Criteria | Corporates | Industrials: Key Credit Factors For The Telecommunications And Cable Industry**, June 22, 2014
- **Criteria | Corporates | General: Corporate Methodology**, Nov. 19, 2013
- **General Criteria: Country Risk Assessment Methodology And Assumptions**, Nov. 19, 2013
- **General Criteria: Methodology: Industry Risk**, Nov. 19, 2013
- **General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities**, Nov. 13, 2012
- **General Criteria: Principles Of Credit Ratings**, Feb. 16, 2011

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.

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