

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.

European Endorsement Status

Global-scale credit rating(s) issued by S&P Global Ratings' affiliates based in the following jurisdictions **[To read more, visit [Endorsement of Credit Ratings](#)]** have been endorsed into the EU and/or the UK in accordance with the relevant CRA regulations. Note: Endorsements for U.S. Public Finance global-scale credit ratings are done per request. To review the endorsement status by credit rating, visit the [spglobal.com/ratings](http://www.spglobal.com/ratings) website and search for the rated entity.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and

analyses. S&P's public ratings and analyses are made available on its Web sites, www.spglobal.com/ratings (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.spglobal.com/usratingsfees.

Any Passwords/user IDs issued by S&P to users are single user-dedicated and may ONLY be used by the individual to whom they have been assigned. No sharing of passwords/user IDs and no simultaneous access via the same password/user ID is permitted. To reprint, translate, or use the data or information other than as provided herein, contact S&P Global Ratings, Client Services, 55 Water Street, New York, NY 10041; (1) 212-438-7280 or by e-mail to: research_request@spglobal.com.