

## CREDIT OPINION

22 March 2024

Update



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### RATINGS

#### Telefonica del Peru S.A.A.

Domicile	Lima, Peru
Long Term Rating	B2
Type	LT Corporate Family Ratings
Outlook	Negative

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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# Telefonica del Peru S.A.A.

## Update to credit analysis

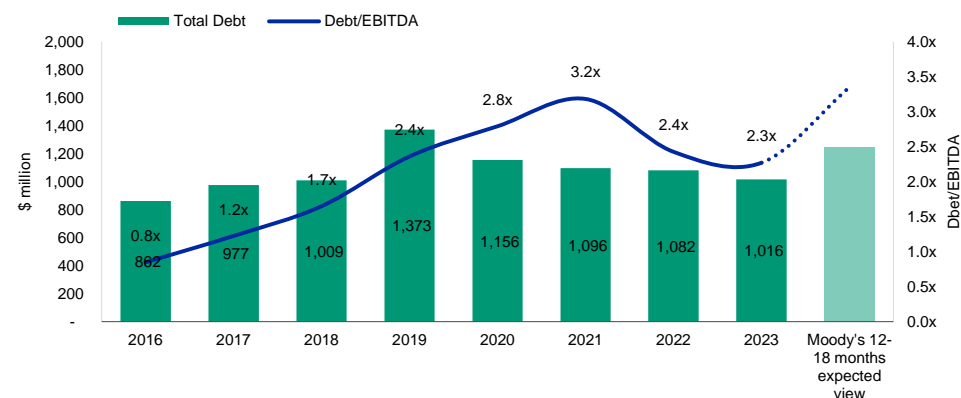
### Summary

[Telefonica del Peru S.A.A.](#)'s B2 corporate family rating reflects the execution risks derived from the challenges the company faces to continue improving profitability and the heightened liquidity risk stemming from the cash needs to face the SUNAT settlement and upcoming debt amortizations. Despite the recent improvement in cost structure and recovery in service revenues when compared to pandemic lows, Moody's believes that operating performance will remain pressured over the next 12-24 months given the intense market competition and challenging macroeconomic environment in Peru. Telefonica del Peru's Moody's adjusted EBITDA margin is expected to remain around 24% over the next 12-24 months.

In addition, we expect a deterioration in liquidity and leverage over the next 12-18 months due to the settlement of a PEN2.7 billion (\$701 million) tax dispute with the tax authority, SUNAT. Although the timing for this settlement is not finalized, Moody's expects that a significant portion of the amount due will need to be settled over 2024, which will strain the company's liquidity and leverage. Despite the additional liquidity provided by its main shareholder, Telefonica Hispanoamerica S.A. (Telefonica Hispam), in the form of a convertible intercompany loan, we expect a significant portion of the settlement to be debt-funded, further increasing the company's Moody's-adjusted leverage to around 4.0x in 2024 from 2.3x as of December 2023 (see Exhibit 1).

Exhibit 1

#### Telefonica del Peru S.A.A. Total Debt and Moody's Adjusted Debt/EBITDA



Source: Moody's Ratings

## Credit strengths

- » Largest integrated telecommunications company in Peru
- » Comfortable debt maturity profile
- » Strong shareholder structure, ultimately owned and controlled by [Telefonica S.A.](#) (Telefonica, Baa3 stable) through Telefonica Hispam.

## Credit challenges

- » Unfavorable operating environment as a result of intense market competition and the difficult macroeconomic scenario in Peru
- » Low profitability, despite recent recovery in operating performance
- » Deteriorating liquidity because of tax liability settlements with the tax authority, SUNAT, which will also significantly hurt leverage
- » Small scale compared with that of its global peers

## Rating outlook

The negative outlook captures the challenges Telefonica del Peru is facing in improving profitability amid intense competition and an economic environment that, although improving, will remain challenging in 2024. Furthermore, the negative outlook considers the increase in liquidity risk stemming from the short-term cash needs to cover the SUNAT settlement and upcoming debt amortizations. We expect the company to need to raise debt in the next 12-18 months to face these obligations.

## Factors that could lead to an upgrade

An upgrade is unlikely at this point given the negative outlook. However, we could stabilize the rating outlook if there is strong evidence that the company will be able to sustain positive revenue growth and steady improvement in profitability over the rating horizon, while maintaining leverage below 3.5x and interest coverage, measured as (EBITDA-CAPEX)/interest expense, of 2.5x or higher on a sustained basis. In addition, the company needs to demonstrate adequate liquidity and the ability to secure financing to meet the tax settlement with SUNAT on time, as well as for upcoming debt amortizations and capital spending needs.

## Factors that could lead to a downgrade

We could downgrade Telefonica del Peru's ratings if liquidity deteriorates further as a result of persistent negative FCF generation driven by diminished performance, increased capital spending needs or additional claims associated with the company's tax proceedings. We could also downgrade the ratings if the company is not able to secure financing to meet the SUNAT obligations or its leverage exceeds 4.0x without a clear path for leverage reduction.

## Key indicators

Exhibit 2

### Telefonica del Peru S.A.A.

US Millions	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22	LTM (Dec-23)	Moody's 12 - 18 months forward view
Revenue	2,465.7	2,361.6	1,883.4	1,819.7	1,866.6	1,731.1	\$1,700- \$1,800
Debt / EBITDA	1.7x	2.4x	2.8x	3.2x	2.4x	2.3x	2.5x - 4.0x
RCF / Net Debt	38.3%	6.9%	20.2%	-1.5%	-1.1%	21.9%	20% - 35%
(EBITDA - CAPEX) / Interest Expense	0.8x	1.7x	1.9x	1.6x	2.6x	1.5x	1.5x - 2.5x

All figures and ratios are calculated using Moody's estimates and standard adjustments. Moody's forecasts (f) or projections (proj.) are Moody's opinion and do not represent the views of the issuer. Periods are financial year-end unless indicated. LTM = Last 12 months.

Source: Moody's Ratings

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody.com> for the most updated credit rating action information and rating history.

## Profile

Telefonica del Peru S.A.A. (TdP) is the largest telecommunications company in Peru, with a 28% share of the mobile market and 39.5% of the fixed internet segment as of December 2023, according to the Peruvian telecommunications regulator Organismo Superior de Inversion Privada en Telecomunicaciones (OSIPTTEL). The company is an integrated telecommunications service provider offering mobile, fixed, pay TV and business-to-business services through its Movistar brand. It is also Peru's largest telecommunications company in terms of revenue, and a leader in most segments, with more than 12.6 million revenue-generating units (RGUs) in mobile and almost 3.3 million RGUs in fixed broadband and pay TV. In 2023, the company generated revenue of around PEN6.5 billion (\$1.7 billion). TdP is controlled by Telefonica Hispanoamerica S.A. (Telefonica Hispam), which holds 99.15% of its shares and is a subsidiary of Telefonica S.A. (Telefonica). The remaining shares are traded on the Lima Stock Exchange — Bolsa de Valores de Lima.

In November 2019, Telefonica, announced a new strategic plan prioritizing markets where the company perceives long-term sustainable growth, benefiting from infrastructure and improving efficiency. This action plan included, among other things, the spin-off of its businesses in Hispano America, including TdP. Since then, however, Telefonica has provided new leadership and a clear strategic focus to local management to help turn around the business. Nevertheless, there is no indication that Telefonica S.A.'s plans for Telefonica del Peru have changed. As a result, the rating incorporates no support from the parent.

## Detailed credit considerations

### Ongoing strategy focuses on recovering margins

TdP still faces significant challenges in reversing the deterioration in its operating metrics and loss of market share that started in 2014. The company has suffered from adverse macroeconomic conditions, considering high inflation, exchange volatility, persistent unemployment and political instability. Total reported revenue decreased 9.5% on a year-over-year basis in 2023. The intense competition environment has resulted in a decrease in all segments market share and the company is now the second largest provider of mobile services in Peru, with 28.0% market share.

To turn its performance around, since the beginning of 2022, the company has been implementing a well-defined strategy to prioritize profitability growth. To achieve this goal, the company has focused on cost reductions and cost management, as well as on making improvements to the commercial strategy to reduce churn and grow revenue. In 2023, the company achieved a Moody's-adjusted EBITDA margin of about 25.6%, which compares negatively with the 36.4% as of year-end 2016, when competition from new entrants was limited. Nevertheless, these results demonstrate another improvement from the 19.5% reported in 2021 and 23.8% reported in 2022, signaling a change in trajectory. Compared to previous expectations, the new strategy has delivered improvements in profitability, however the company still struggles to maintain market share.

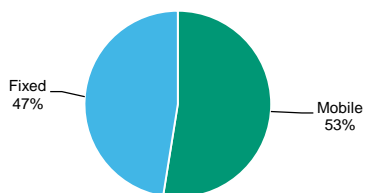
### Second market leader and one of the largest integrated telecommunications company in Peru

TdP is smaller than its global peers. However, the company is a solid competitor in Peru's telecommunications market, positioned as the largest company in the mobile and fixed internet markets, considering number of accesses. As of December 2023, the mobile segment generated 53% of TdP's total revenue and fixed services generated 47%. According to the regulator OSIPTTEL, the company held 28.0% of the mobile market share and 39.5% of the fixed internet market. In 2023, TdP continued to increase its fiber reach to 3.2 million homes passed, an increase of 56% year over year, including PangeaCO and its own connections. We expect the fiber network deployment to gradually offset the declining demand in the fixed voice segment.

Exhibit 3

**Telefonica del Peru S.A.A.**

Total revenue breakdown as of 31 December 2023



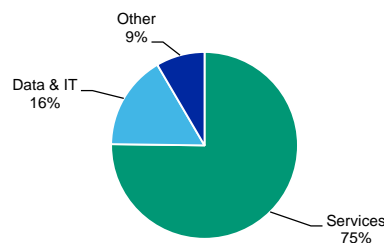
Last 12 months' data.

Source: Company's fillings

Exhibit 4

**Telefonica del Peru S.A.A.**

Fixed revenue breakdown, as of 31 December 2023



Last 12 months' data.

Source: Company's fillings

**Long-term positive market fundamentals will support growth despite intense competition**

Peru has a highly competitive and price-sensitive telecom market. In 2014, Entel and Bitel entered the market and disrupted the comfortable competitive landscape of a two-player market dominated by TdP and Claro. These new competitors entered the market through aggressive promotional initiatives, driving down the market shares and profitability of TdP and Claro. Entel is owned by [Empresa Nacional de Telecomunicaciones S.A.](#) (Baa3 negative), and Bitel is owned by Viettel, a Vietnamese state-owned entity.

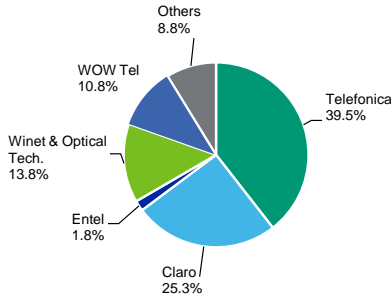
We expect fierce competition to persist in Peru, aggravated by the sluggish economic activity and political uncertainties. However, long-term fundamentals, especially strong growth in data consumption, will continue to benefit telecom companies in the country, and revenue should resume a positive momentum in 2024. Fixed-line data connections to homes offer room for growth, as penetration remains below 40% in Peru. However, companies will need to invest heavily in the expansion and improvement of existing networks to capitalize on these opportunities.

TdP's investments over the next few years will focus on upgrading existing fixed infrastructure. Fiber to the home (FTTH) expansion is being carried out by PangeaCo, a fiber-only company focused on deployment of greenfield fiber network, targeting 5.2 million homes passed until 2026. PangeaCo is a subsidiary of Telefonica and has its own capital spending budget, separate from Telefonica del Peru. The company will develop its own infrastructure in areas where TdP does not have a network and in areas served by the competition with older technologies. Ramp-up started in Q4 2022, reaching 600 thousand homes passed. In 2023, the company added 1.1 million homes in its customer basis and expects to add more 1.1 million homes in 2024.

We expect TdP's capital spending to be slightly below 10% of revenue over the next three years, which is lower than that of peers and reflects the partnership with PangeaCo and the absence of 5G spectrum investments in Peru. The reliance on PangeaCO for fiber network expansion reduces the company's capital spending needs and provides relief for FCF generation.

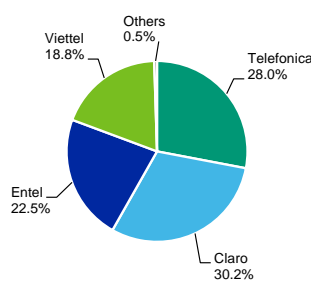
The 5G spectrum auction in Peru was initially scheduled to happen in 2021 and later postponed to 2022. In February 2002, the government canceled the auction once again because of concerns from interested parties about requirements such as minimum speed guarantee and coverage of rural areas. There is currently no certainty about the auction date.

Exhibit 5  
Broadband market share, as of December 2023



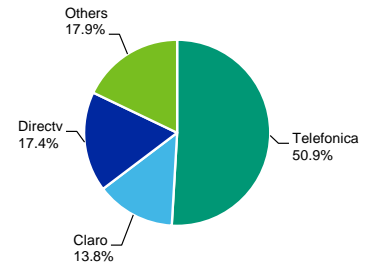
Source: OSIPTEL

Exhibit 6  
Mobile lines' market share, as of December 2023



Source: OSIPTEL

Exhibit 7  
Pay TV market share, as of December 2023



Source: OSIPTEL

## ESG considerations

### Telefonica del Peru S.A.A.'s ESG credit impact score is CIS-4

Exhibit 8  
ESG credit impact score

**CIS-4**



NEGATIVE IMPACT : : POSITIVE IMPACT

ESG considerations have a discernible impact on the current rating, which is lower than it would have been if ESG risks did not exist. The negative impact of ESG considerations on the rating is higher than for an issuer scored CIS-3.

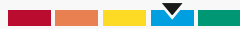
Source: Moody's Ratings

Telefonica del Peru's CIS-4 indicates the rating is lower than it would have been if ESG risk exposures did not exist. The company has exposure to governance risks related to its operating track record, which has been characterized by declining revenues, profitability and market share since 2014.

Exhibit 9  
ESG issuer profile scores

ENVIRONMENTAL

**E-2**



SOCIAL

**S-3**



GOVERNANCE

**G-4**



Source: Moody's Ratings

### Environmental

Telefonica del Peru's adheres to the sustainability practices and targets set by its main shareholder, Telefonica S.A. The company has developed programs to address its environmental impact, including carbon emissions, energy consumption and waste management. In 2021, Telefonica del Peru implemented initiatives to improve energy consumption efficiency, achieving significant savings of 20.070

MWh. The company also implemented an extensive campaign to support the proper disposal and recycle of electric and electronic equipment.

### Social

Telefonica del Peru exposure to cyber security risks and data privacy could negatively impact customer relations. Telefonica del Peru's operations benefit from its exposure to demographic and social trends towards the use of telecommunication services including low penetration rates and younger population driving demand for connectivity.

### Governance

Telefonica del Peru's governance profile reflects the company's operating track record, which has been characterized by declining revenues, profitability and market share since 2014, when the entry of two new and aggressive competitors disrupted the previously comfortable competitive landscape in Peru. Telefonica del Peru is controlled by Telefonica S.A., which indirectly holds 99.15% of its shares. The remaining shares are traded on the Lima Stock Exchange — Bolsa de Valores de Lima. Telefonica del Peru follows Telefonica S.A.'s financial and compliance policies and procedures and also complies with local disclosure and reporting requirements and governance best practices established by the Superintendencia de Mercados de Valores

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

### Liquidity analysis

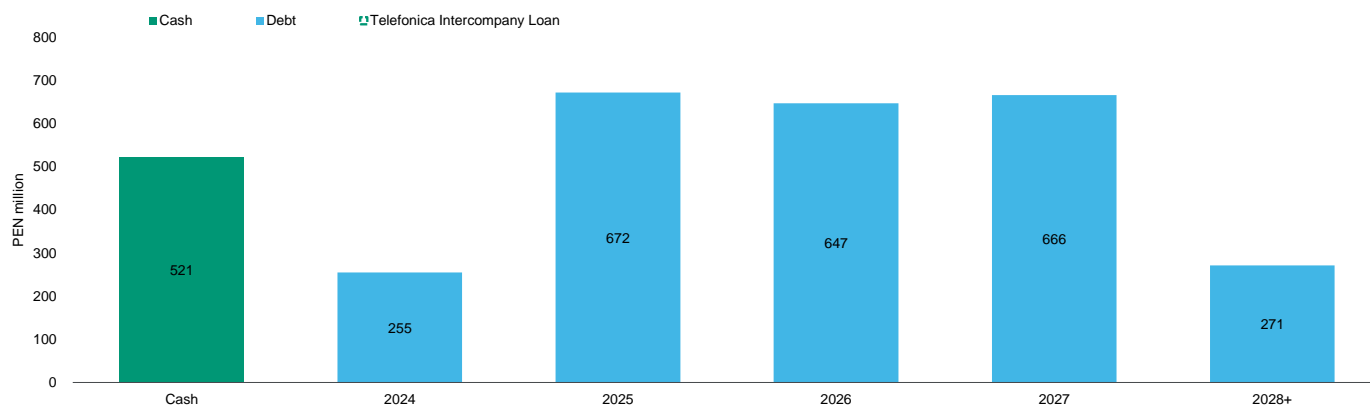
TdP's liquidity remains adequate when considering its operating needs and debt maturity schedule. The company closed 2023 with PEN521 million in cash and PEN255 million in debt maturing in 2024. However, TdP's PEN2.7 billion tax liability to SUNAT adds pressure to short-term liquidity. In 2023, the company settled in cash PEN600 million out of this total, and we assume the difference will likely be settled in 2024 with a combination of local bank debt and additional equity from Telefonica Hispam. As a result, the company's leverage should increase to about 4.0x in 2024 from around 2.3x in December 2023.

Following the Supreme Court's decision in favor of SUNAT in January 2023, TdP's shareholders authorized the Board of Directors to approve capital increases up to PEN2.11 billion for the next five years, as necessary. Between October 2022 and July 2023, the company received PEN1.4 billion in shareholder loans, which have been capitalized in full from February 2023 to February 2024.

Exhibit 10

#### Telefonica del Peru S.A.A. debt amortization schedule, excluding SUNAT's liabilities

As of 31 December 2023



Sources: Company's financials and Moody's Ratings

## Methodology and scorecard

Telefonica del Peru's 12-18 months forward view scorecard-indicated outcome under our [Telecommunications Service Providers](#) rating methodology maps to B1, one notch above the assigned rating. The difference reflects the increase in liquidity risk stemming from the short-term cash needs to cover the SUNAT settlement and upcoming debt amortizations.

Exhibit 11

### Telefonica del Peru S.A.A.

Methodology: Telecommunications Service Providers published on 31 Dec 2023	Current LTM (Dec-23)		Moody's Forward View Next 12-18 months (as of Mar-24)	
	Measure	Score	Measure	Score
<b>Factor 1: SCALE (10%)</b>				
a) Revenue (USD Billion)	\$1.7	B	\$1.7 - \$1.8	B
<b>Factor 2: BUSINESS PROFILE (25%)</b>				
a) Competitive Position	Ba	Ba	Ba	Ba
b) Market Share	Baa	Baa	Ba	Ba
<b>Factor 3: PROFITABILITY AND EFFICIENCY (10%)</b>				
a) Revenue and Margin Sustainability	B	B	B	B
<b>Factor 4: LEVERAGE AND COVERAGE (40%)</b>				
a) Debt / EBITDA	2.3x	Baa	2.5x - 4.0x	Ba
b) RCF / Net Debt	21.9%	Ba	20% - 35%	Ba
c) (EBITDA - CAPEX) / Interest Expense	1.5x	B	1.5x - 2.5x	B
<b>Factor 5: FINANCIAL POLICY (15%)</b>				
a) Financial Policy	B	B	B	B
<b>Rating Outcome:</b>				
a) Scorecard-Indicated Outcome		Ba3		B1
b) Actual Rating Assigned				B2

Source: Moody's Ratings

## Ratings

Exhibit 12

Category	Moody's Rating
<b>TELEFONICA DEL PERU S.A.A.</b>	
Outlook	Negative
Corporate Family Rating	B2
Senior Unsecured -Dom Curr	B2
<b>PARENT: TELEFONICA S.A.</b>	
Outlook	Stable
Senior Unsecured -Dom Curr	Baa3
Commercial Paper	P-3

Source: Moody's Ratings

## Appendix

Exhibit 13

## Peer comparison [1][2]

(in US millions)	Telefonica del Peru S.A.A.			Telefonica Celular del Parag			Millicom International Cellu			Telefonica S.A.			America Movil, S.A.B. de C.V		
	B2 Negative			Ba2 Stable			Ba2 Stable			Baa3 Stable			Baa1 Stable		
	FYE Dec-22	FYE Dec-23	LTM Dec-23	FYE Dec-21	FYE Dec-22	LTM Sep-23	FYE Dec-21	FYE Dec-22	LTM Sep-23	FYE Dec-21	FYE Dec-22	LTM Sep-23	FYE Dec-21	FYE Dec-22	LTM Sep-23
Revenue	\$1,867	\$1,731	\$1,731	\$556	\$557	\$563	\$4,261	\$5,624	\$5,567	\$46,471	\$42,150	\$43,438	\$40,970	\$41,994	\$45,614
Operating Profit	\$105	\$37	\$37	\$73	\$74	\$75	\$409	\$883	\$800	\$4,776	\$3,555	\$3,656	\$8,252	\$8,486	\$9,353
EBITDA	\$443	\$443	\$443	\$214	\$215	\$220	\$1,670	\$2,225	\$2,195	\$14,998	\$13,162	\$12,552	\$16,087	\$16,524	\$17,277
Total Debt	\$1,082	\$1,016	\$1,016	\$837	\$787	\$776	\$8,912	\$7,820	\$7,741	\$61,732	\$54,474	\$55,791	\$38,488	\$39,674	\$44,130
Cash & Cash Equiv.	\$114	\$141	\$141	\$153	\$73	\$85	\$895	\$1,039	\$811	\$9,757	\$7,732	\$8,278	\$1,890	\$1,729	\$1,627
EBIT / Int. Exp.	0.9x	0.6x	0.6x	1.6x	1.3x	1.3x	1.2x	1.6x	1.4x	2.4x	1.8x	1.5x	4.6x	3.8x	3.3x
Debt / EBITDA	2.4x	2.3x	2.3x	4.0x	3.8x	3.6x	5.3x	3.5x	3.5x	4.3x	4.1x	4.5x	2.4x	2.3x	2.4x
RCF / Net Debt	-1.1%	21.9%	21.9%	22.2%	18.8%	20.8%	13.3%	21.7%	20.7%	16.0%	25.0%	24.7%	32.1%	30.7%	30.3%
FCF / Debt	-11.2%	-16.8%	-16.8%	2.3%	-2.9%	1.7%	-0.5%	0.8%	1.2%	-1.2%	5.1%	4.3%	4.8%	-0.7%	0.3%

[1] All figures and ratios calculated using Moody's estimates and standard adjustments.

[2] FYE = Financial year-end. LTM = Last 12 months. RUR\* = Ratings under review, where UPG = for upgrade and DNG = for downgrade.

Source: Moody's Ratings

Exhibit 14

## Moody's-adjusted debt reconciliation for Telefonica del Peru S.A.A. [1][2]

in PEN millions	FYE Dec-2018	FYE Dec-2019	FYE Dec-2020	FYE Dec-2021	FYE Dec-2022	LTM Sep-2023
<b>As Reported Debt</b>	<b>2,129.3</b>	<b>4,545.1</b>	<b>4,180.9</b>	<b>4,375.7</b>	<b>4,126.8</b>	<b>3,816.8</b>
Leases	1,280.3	0.0	0.0	0.0	0.0	0.0
<b>Moody's-Adjusted Debt</b>	<b>3,409.6</b>	<b>4,545.1</b>	<b>4,180.9</b>	<b>4,375.7</b>	<b>4,126.8</b>	<b>3,816.8</b>

[1] All figures are calculated using Moody's estimates and standard adjustments.

[2] Periods are financial year-end unless indicated. LTM = Last 12 months.

Source: Moody's Ratings

Exhibit 15

## Moody's-adjusted EBITDA reconciliation for Telefonica del Peru S.A.A. [1][2]

in PEN millions	FYE Dec-2018	FYE Dec-2019	FYE Dec-2020	FYE Dec-2021	FYE Dec-2022	LTM Sep-2023
<b>As Reported EBITDA</b>	<b>1,200.2</b>	<b>1,259.9</b>	<b>1,026.4</b>	<b>908.4</b>	<b>1,219.8</b>	<b>1,327.5</b>
Unusual Items - Income Stmt	439.4	664.9	471.0	466.4	384.5	423.5
Leases	426.8	0.0	0.0	0.0	0.0	0.0
<b>Moody's-Adjusted EBITDA</b>	<b>2,066.3</b>	<b>1,924.8</b>	<b>1,497.4</b>	<b>1,374.8</b>	<b>1,604.3</b>	<b>1,751.0</b>

[1] All figures are calculated using Moody's estimates and standard adjustments.

[2] Periods are financial year-end unless indicated. LTM = Last 12 months.

Source: Moody's Ratings



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