

# MOODY'S

## RATINGS

### **Rating Action: Moody's Ratings downgrades Telefonica del Peru to Caa1 and places the company under review for further downgrade**

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11 Dec 2024

New York, December 11, 2024 -- Moody's Ratings (Moody's) today downgraded Telefonica del Peru S.A.A.'s ("Telefonica del Peru") Corporate Family Rating (CFR) and senior unsecured rating to Caa1 from B2. The ratings were placed under review for further downgrade. Previously, the outlook was negative.

#### RATINGS RATIONALE

The downgrade to Caa1 reflects the increasing refinancing risk and risk of debt restructuring over the next few months following the deterioration in Telefonica del Peru's liquidity position that has resulted from the combination of the company's persistently weak operating performance and the sizable tax liability currently in the process of being settled with the Peruvian tax authority, the SUNAT. The action considers the uncertainty surrounding Telefonica del Peru's ability to refinance the first PEN672 million (\$180 million) installment of its outstanding PEN1.7 billion (\$460 million) 2027 Notes due in April 2025, given limited liquidity, weak operating performance and uncertain financial support from its ultimate shareholder, Telefonica S.A. (Baa3 stable).

We estimate Telefonica del Peru's free cash flow (FCF) generation to remain negative at least until 2026, further pressuring liquidity. As the maturity date for the first installment of the 2027 notes approaches, it is crucial that the company secure access to financial markets to refinance this debt. Failure to do so elevates the risk of the company having to consider either debt restructuring or a distressed debt exchange to fulfill its financial commitments. The company does not have committed credit lines as defined by us.

The review for downgrade will focus on the company's ability to secure market access to refinance the 2025 maturity, as well as its ability to reinforce its liquidity position. The review will also take into consideration Telefonica del Peru's strategic plan to improve operating performance in the context of intense competition and a

challenging economic environment.

Although Telefonica del Peru benefits from its scale as the largest telecommunications operator in Peru, the company faces significant competitive and operational challenges. Despite significant efforts to improve profitability over the last three years, while experiencing a decrease in fixed line services due to competition against HFC, operating costs continue to increase, mainly due to the efforts to convert its copper and HFC network to fiber and have not been followed by improvement in revenues. Moody's-adjusted EBITDA margin dropped to about 10% for the last twelve months as of September 2024, which negatively compares with the 25.6% achieved as of year-end 2023. Moody's adjusted leverage has increased to 6.8x as of September 2024 up from 2.3x at year-end 2023, mainly due to the significant EBITDA deterioration over the period.

Since 2019, Telefonica del Peru's ultimate parent company, Telefonica S.A., has prioritized markets where it perceives long-term sustainable growth and has worked to reduce its exposure to businesses in Hispano America, including Telefonica del Peru. Given this context, the rating incorporates no financial support from the parent.

The downgrade also reflects governance considerations as key drivers of the rating action including the company's operating track record, which has been impacted by loss of profitability and market share since 2014, resulting in high liquidity and refinancing risks. These factors are reflected in the company's Financial Strategy and Risk Management assessment of 5, and the overall exposure to governance risks (Issuer Profile Score or "IPS") of G-5. The ESG Credit Impact Score is CIS-5, since ESG considerations are a constraint for the rating.

#### FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

An upgrade is unlikely at this point given the ongoing review for downgrade. Nonetheless, we might confirm the rating if the company successfully secures financing to meet its forthcoming debt amortizations. On the other hand, failure to obtain financing for its imminent financial obligations increasing the risk of a distressed exchange or debt restructuring that leads to higher-than-expected losses for creditors, could lead to a downgrade of the ratings.

Telefonica del Peru is the largest telecommunications company in Peru, with a mobile market share of around 27.5% and 39.5% in the fixed internet segment as of December 2023, according to the Peruvian telecommunications regulator — OSIPTEL. The company is an integrated telecommunications service provider offering mobile, fixed, pay-TV and business-to-business services through its Movistar brand. Telefonica del Peru is Peru's largest telecommunications company in terms of revenue, and a leader in all 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. For the last twelve months ending in September 2024, the company generated

revenue of around PEN6.13 billion (\$1.65 billion). Telefonica del Peru is controlled by Telefonica Hispanoamerica which indirectly holds 99% of its shares. The remaining are traded on the Lima Stock Exchange — Bolsa de Valores de Lima.

The principal methodology used in these ratings was Telecommunications Service Providers published in November 2023 and available at <https://ratings.moodys.com/rmc-documents/411275>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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At least one ESG consideration was material to the credit rating action(s) announced and described above. Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at [https://ratings.moodys.com/documents/PBC\\_1355824](https://ratings.moodys.com/documents/PBC_1355824).

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