13 December 2024

Corporates

4iG Nyrt.
Hungary, Telecommunication Services

STABLE

BB-

Key metrics

			Scope estimates	
Scope credit ratios	**2022**	**2023**	**2024E**	**2025E**
Scope-adjusted EBITDA/interest cover	3.1x	3.5x	3.1x	3.9x
Scope-adjusted debt/EBITDA	6.4x	5.0x	5.0x	4.1x
Scope-adjusted funds from operations/debt	10%	13%	12%	17%
Scope-adjusted free operating cash flow/debt	1%	2%	-2%	0%

Rating rationale

The rating continues to be supported by the group's business risk profile, which benefits mainly from the low volatility of the telecommunications services industry and 4iG position as the second largest telecom operator in Hungary, while being hampered by the low geographical diversification. 4iG displays an improved profitability profile following its pivot from a pure IT business to a Telco-focused model, although weaker than other peers.

The group's financial risk profile remains a constraining factor. The assessment reflects the impact of the significant debt accumulated during the last years through telecommunication acquisitions. Moreover, the issuer rating continues to factor in a negative one notch adjustment to the standalone credit assessment, reflecting the ambitious debt-funded acquisitions which have been carried out and our cautious stance regarding 4iG's investment phase over the next years.

Outlook and rating-change drivers

The Stable Outlook reflects our view of a slow deleveraging over the next three years, as the additional debt incurred to finance the recently announced transactions such as Spacecom's debt restructuring plan and small acquisitions, will not be entirely offset by the projected increase in margins. Therefore, leverage, as measured by Scope-adjusted debt/EBITDA, is expected to gradually decline over the forecast period but remain above 4x for the next two years. Furthermore, the Stable Outlook is contingent on 4iG completing the Spacecom transaction in accordance with the agreed terms and only once all the necessary approvals have been obtained. The Outlook also reflects our expectations that 4iG will take the necessary steps to address upcoming refinancing needs well in advance.

The upside scenarios for the ratings and Outlook are (collectively): 1) Improved view on financial policy driven by stabilisation of the group's structure and business model including no material M&A activity or other discretionary spendings. 2) Improved financial risk profile as signalled by a Scope-adjusted debt/EBITDA significantly below 4.0x on a sustained basis.

The downside scenario for the rating and Outlook are (individually): 1) Scope-adjusted debt/EBITDA at or above 5.0x. 2) Significantly negative cash flow cover.

Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
02 Dec 2024	Outlook change	BB-/Stable
22 Dec 2023	Outlook change	BB-/Positive
6 Jan 2023	Upgrade	BB-/Stable

Ratings & Outlook

Issuer	BB-/Stable
Senior unsecured debt	BB-

Analyst

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Related Methodology

Corporate Rating Methodology; October 2023

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Bloomberg: RESP SCOP

Rating and rating-change drivers

Positive rating drivers	Negative rating drivers
• Strong number two position in the Hungarian Telekom Market • Market leader in mobile in Albania and in Montenegro, plus a number two position in fixed broadband in Albania • Low cyclicity of telecommunication services • Improved customer diversification • Moderately good profitability with Scope-adjusted EBITDA margin at around 30-31%	• Deleveraging slowed down by recent operations, including Spacecom's debt settlement and a number of small acquisitions • Financial policy remains a constraining factor of the issuer rating considering 4iG's growth and diversification ambitions, with most transactions being debt funded • Execution and integration risk related to acquisitions • Low geographical diversification with Hungary accounting for more than 85% of the group's EBITDA

Positive rating-change drivers	Negative rating-change drivers
• Improved view on financial policy driven by stabilisation of the group's structure and business model including no material M&A activity or other discretionary spendings. • Scope-adjusted debt/EBITDA significantly below 4.0x on a sustained basis	• Scope-adjusted debt/EBITDA at or above 5.0x • Significantly negative cash flow cover

Corporate profile

4iG was originally one of the largest players in Hungary's fragmented IT market. Following the 2018 change in ownership the company revised business strategy and reorganised its activities. In 2021 4iG started pursuing a strong M&A driven growth that transformed it into a telecom-focused group, with some IT diversification. Numerous acquisitions have taken place in Hungary and in the Balkans, in a short period of time, mostly financed by debt. The telecom business now represents over 80% of group revenue and over 95% of its EBITDA. The group now includes key players of the Hungarian telecom market such as Vodafone Hungary, DIGI and Antenna Hungria as well as leading providers in Albania (One Albania) and Montenegro (One Montenegro).

In November 2023, 4iG has launched a comprehensive Group Transformation Program to streamline operations, eliminate redundancies, and enhance revenue and cost synergies. The program focuses on the structural separation of its Hungarian Telecom operations and reorganization of its business into four core units:

- Hungarian Telecom Commercial Unit: Handling customer-facing operations.
- Hungarian Telecom Infrastructure Unit: Managing fixed and mobile network assets.
- IT/SI: Consolidating IT, systems integration activities.
- Space & Defence Technologies Unit: Consolidating space and defence technologies activities.

The program, which is currently undergoing, is expected to conclude by end-2025. In addition, starting January 2025, all group's telecommunications services for both consumers and businesses will be unified under a single brand, "One." The rebranding includes offerings from Vodafone Hungary, DIGI, Antenna Hungária, and Invitech.

Financial overview

			Scope estimates		
Scope credit ratios	**2022**	**2023**	**2024E**	**2025E**	**2026E**
Scope-adjusted EBITDA interest cover	3.1x	3.5x	3.1x	3.9x	4.2x
Scope-adjusted debt/EBITDA	6.4x	5.0x	5.0x	4.1x	3.8x
Scope-adjusted FFO/debt	10%	13%	12%	17%	18%
Scope-adjusted FOCF/debt	1%	2%	-2%	0%	1%
Scope-adjusted EBITDA in HUF m					
Reported EBITDA	74,074	200,564	200,351	235,631	248,785
Recurring associate dividends received	2,251	1,250	1,751	1,500	1,625
Other items (incl. one-offs)	-20	-17,639	0	0	0
Scope-adjusted EBITDA	**76,305**	**184,175**	**202,101**	**237,131**	**250,410**
Scope-adjusted funds from operations (FFO) in HUF m					
Scope-adjusted EBITDA	76,305	184,175	202,101	237,131	250,410
less: Scope-adjusted interest	-24,866	-53,004	-65,831	-60,640	-60,158
less: taxes paid	-4,002	-9,910	-12,450	-12,546	-15,676
Scope-adjusted FFO	**47,437**	**121,261**	**123,820**	**163,945**	**174,576**
Scope-adjusted free operating cash flow (FOCF) in HUF m					
Scope-adjusted FFO	47,437	121,261	123,820	163,945	174,576
Working capital changes	6,923	-9,573	13,454	1,736	-4,886
Non-operating cash flow	-16,038	22,083	-20,780	-19,700	-18,510
less: Capex (net)	-25,978	-91,579	-112,184	-125,807	-115,629
less: lease amortization	-9,055	-24,747	-24,247	-24,836	-26,389
Scope-adjusted FOCF	**3,289**	**17,445**	**-19,936**	**-4,662**	**9,162**
Scope-adjusted interest in HUF m					
Net cash interest per cash flow statement	24,568	52,718	65,625	60,376	59,906
add: other interest	298	286	206	264	252
Scope-adjusted interest	**24,866**	**53,004**	**65,831**	**60,640**	**60,158**
Scope-adjusted debt in HUF m					
Reported financial debt	475,610	904,172	992,585	970,511	941,541
less: cash and cash equivalents	0	0	0	0	0
add: non-accessible cash	0	0	0	0	0
add: asset retirement obligations	5,961	5,724	4,128	5,271	5,041
add: other debt-like items	3,601	5,712	7,308	6,165	6,395
Scope-adjusted debt (SaD)	**485,172**	**915,608**	**1,004,021**	**981,947**	**952,977**

Table of Content

Environmental, social and governance (ESG) profile[1]

Environment	Social	Governance
Resource management (e.g. raw materials consumption, carbon emissions, fuel efficiency)	Labour management	Management and supervision (supervisory boards and key person risk)
Efficiencies (e.g. in production)	Health and safety (e.g. staff and customers)	Clarity and transparency (clarity, quality and timeliness of financial disclosures, ability to communicate)
Product innovation (e.g. transition costs, substitution of products and services, green buildings, clean technology, renewables)	Clients and supply chain (geographical/product diversification)	Corporate structure (complexity)
Physical risks (e.g. business/asset vulnerability, diversification)	Regulatory and reputational risks	Stakeholder management (shareholder payouts and respect for creditor interests)

Legend

Green leaf (ESG factor: credit positive)

Red leaf (ESG factor: credit negative)

Grey leaf (ESG factor: credit neutral)

Stakeholder management risk mitigated by increased structured corporate governance

While Mr Jászai (52% controlling shareholder) plays a key role in the company, we deem that the risk associated with this are mitigated by 4iG's overall governance structure. The company has appropriate governing bodies and an experienced management team which has been significantly expanded following its recent growth through debt-funded acquisitions.

From our point of view no other ESG factors have effect on the issuer rating.

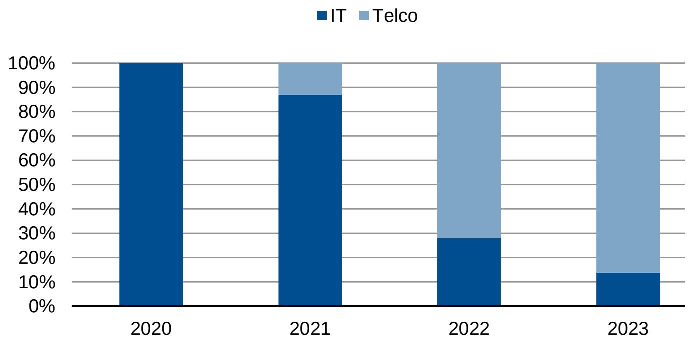
[1] These evaluations are not mutually exclusive or exhaustive as ESG factors may overlap and evolve over time. We only consider ESG factors that are credit-relevant, i.e. those that have a discernible, material impact on the rated entity's cash flow and, by extension, its credit quality.

Business risk profile: BBB-

Industry risk profile: A

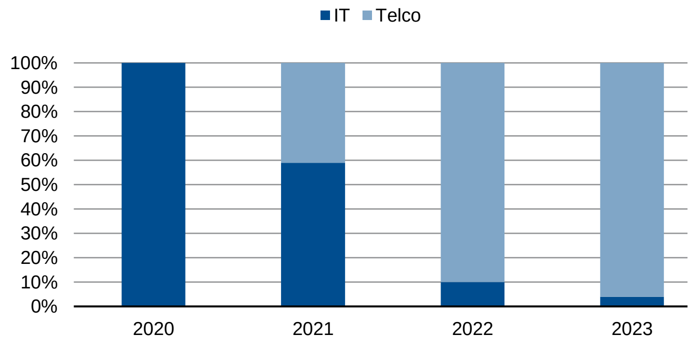
The significant M&A activity undertaken by 4iG over the past five years has resulted in a substantial transformation of its business model, evolving from a pure IT services company to a telecommunications-focused group, as illustrated in Figures 1 and 2. In 2023 the telecommunications segment accounted for 86% of the group's revenues and over 95% of its reported EBITDA. The remaining contribution came from the group's legacy IT operations. As a result, we assess the industry risk profile at A, consistent with our assessment of the telecommunications services industry. This evaluation reflects the sector's low cyclicality, medium entry barriers, and a medium to low risk of substitution.

Figure 1: Revenue breakdown by business segment



Sources: 4iG, Scope

Figure 2: EBITDA breakdown by business segment

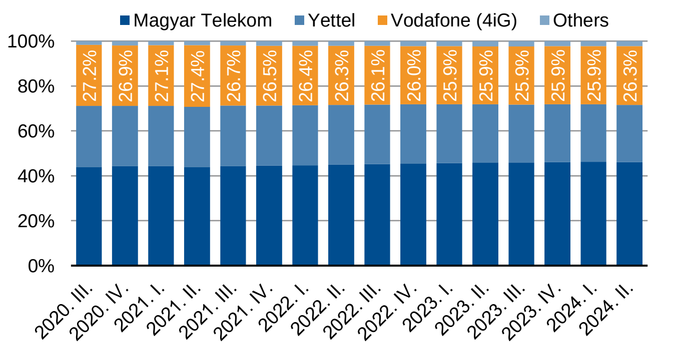


Sources: 4iG, Scope

Several acquisitions shaping the group's current market standing

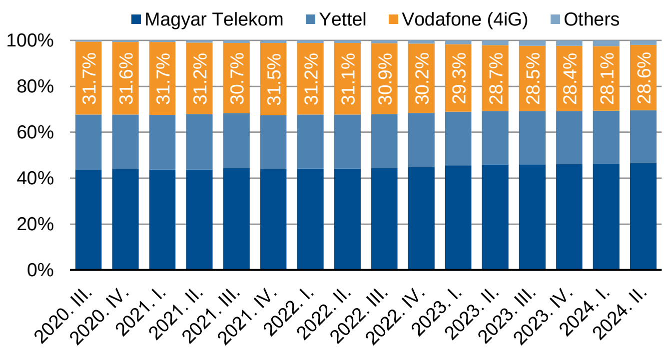
As mentioned before, over the past five years, 4iG has implemented a comprehensive acquisition strategy which has bolstered its market presence in the telecommunications and IT sectors. This transformation was marked by the latest big acquisition in January 2023 of Vodafone Hungary, the second-largest telecom operator in Hungary. It is noteworthy that 4iG strategically increased its stake in Vodafone to 70.5% through a swap of its shares in Yettel. The Vodafone transaction expanded 4iG's footprint in mobile and fixed broadband services. Earlier acquisitions include key domestic players such as DIGI and Invitech, as well as regional operators outside of Hungary Telenor Montenegro, ALBtelecom, and One Telecommunication. The integration of Antenna Hungaria further consolidated 4iG's telecom and broadcasting activities under a unified structure. This series of acquisitions has positioned 4iG as a key player in Hungary's telecom sector, with substantial diversification across mobile, fixed broadband, and corporate IT services.

Figure 3: 4iG's market share in the Hungarian mobile market based on the number of voice call subscriptions



Sources: NMHH, Scope

Figure 4: 4iG's market share in the Hungarian mobile market based on call traffic

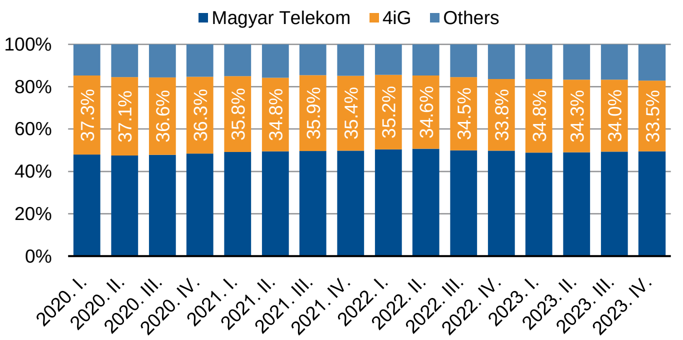


Sources: NMHH, Scope

Second-largest telco operator in Hungary

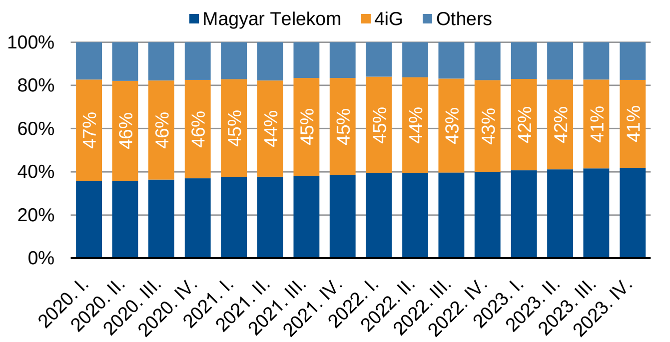
4iG has emerged as the second-largest telecommunications operator in Hungary. In the mobile segment, following the consolidation of Vodafone Hungary, 4iG holds a market share of approximately 26%, on par with Yettel. In the smaller fixed broadband market, 4iG's position is significantly stronger, with a market share of approximately 40%, driven by the integration of Vodafone Hungary's and DIGI's combined operations, including Vodafone's earlier acquisition of UPC Hungary. This establishes 4iG as the clear number two in the segment, behind the market leader, Magyar Telekom. In the television market, 4iG is the leading operator, commanding approximately 47% market share, a position that will be further strengthened by its ongoing acquisitions of PR Telekom and the Canal+ customer base. In conclusion, while Magyar Telekom remains the leader in the Hungarian mobile and fixed broadband market, 4iG's growth reflects its focus and strategy on expanding its operations and strengthening its presence in Hungary's telecommunications industry.

Figure 5: 4iG's* market share in the Hungarian fixed internet market for non-residential customers



Sources: NMHH, Scope
* Vodafone, Invitech, Invitel and DIGI

Figure 6: 4iG's* market share in the Hungarian fixed internet market for residential customers

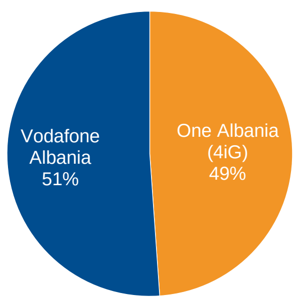


Sources: NMHH, Scope
* Vodafone, Invitech, Invitel and DIGI

Limited diversification constrains business risk profile

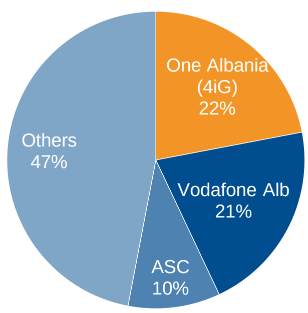
4iG's diversification profile is shaped by its significant focus on the Hungarian market, with most of its operations concentrated within a single industry: telecommunication services. The acquisition of Vodafone Hungary has enhanced service diversification, notably through substantial expansion in the mobile segment, and broadened the company's customer base. However, these gains are offset by the increased geographic EBITDA concentration, with over 85% of total EBITDA generated in Hungary as of 2023, constraining the overall business risk profile assessments.

Figure 7: One Albania (4iG) market share in the Albanian mobile market as of Q1 2024



Sources: AKEP[2], Scope

Figure 8: One Albania (4iG) market share in the Albanian fixed broadband market as of Q2 2023



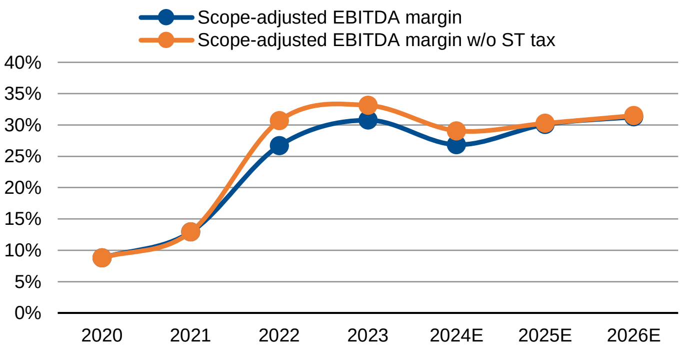
Sources: AKEP, Scope

[2] Albanian Electronic and Postal Communications Authority

Solid market position in Albania and Montenegro

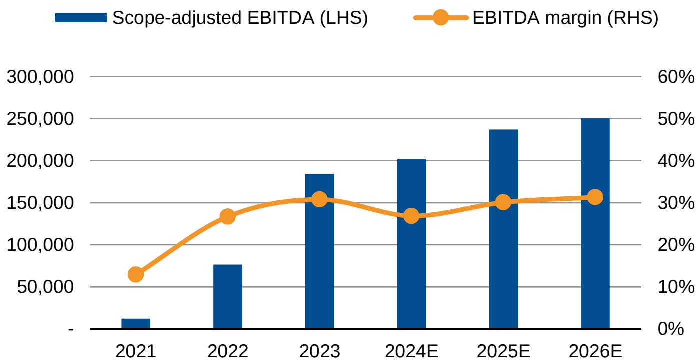
In Albania (about 9% of group revenue), 4iG's business is complemented by two operators ALBtelecom and One Telecommunication, now merged under the brand One, making it the clear market leader, with a market share of about 49% in the mobile segment as of Q1 2024 and 22% in the fixed broadband segment as of Q2 2023, an exceptionally high level in Europe. In Montenegro, the subsidiary is the market leader (in revenue) in a three-player mobile market.

Figure 9: Scope-adjusted EBITDA margin vs Scope-adjusted EBITDA margin excluding ST tax



Sources:4iG, Scope estimates

Figure 10:Scope-adjusted EBITDA (HUF m) and EBITDA margin



Sources:4iG, Scope estimates

Profitability profile evolving with business model

4iG's profitability profile has materially strengthened following its strategic pivot from a pure IT business to a Telco-focused model, with over 85% of EBITDA now derived from the Telco segment. This shift has enhanced its profitability profile, as the Telco sector delivers an average EBITDA margin of approx. 30-35%, significantly outperforming the IT segment's avg. 9% margin. The rebalancing of its business mix toward higher-margin Telco operations underscores a more robust and sustainable earnings trajectory.

Improving profitability in 2023 and expected within a range of 29%-32% in 2024-2026

4iG achieved a significant milestone in 2023, with Scope-adjusted EBITDA rising to HUF 184.2bn, more than doubling the 2022 figure of HUF 76.3bn and reflecting a 30.8% Scope-adjusted EBITDA margin, up from 26.7% in the prior year. This robust performance was primarily driven by inorganic growth, including an 11-month contribution from Vodafone Hungary following its acquisition in January 2023, alongside strong B2C mobile performance in the Western Balkans. Looking ahead, we project Scope-adjusted EBITDA to reach approx. HUF 200bn in 2024 and further increase to around HUF 250bn by 2026. These results are expected to be supported by the full-year impact of the acquisitions performed, inflation-driven price adjustments leading to higher ARPU, and positive customer base dynamics. However, the Scope-adjusted EBITDA margin is anticipated to temporarily decline below 30% in 2024, primarily due to the impact of the supplementary telecom tax and higher costs associated with the group's ongoing reorganization. From 2025, we expect margin improvement to be further supported by the discontinuation of the aforementioned sector tax, which will be fully phased out from January 2025. In our opinion this development should support profitability returning to approximately 30-31% in 2025-2026.

Financial risk profile: B+

The Scope-adjusted debt is calculated according to our definition and assumptions, including:

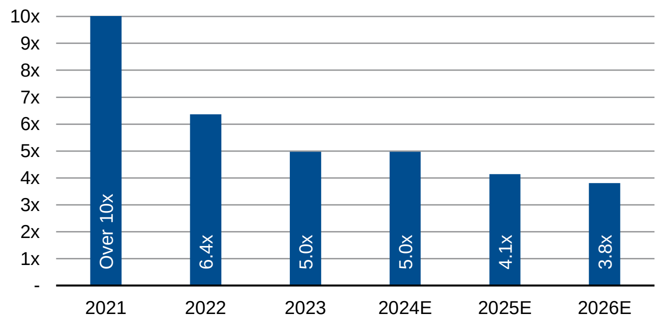
- Gross financial debt including bank loans, bonds and lease liabilities
- Contingent liabilities mainly referring to provisions and asset retirement obligations

- We do not include cash and cash equivalent in our Scope-adjusted debt calculation, as due to the size and complexity of transactions as well as the pledges granted for the new loans, cash and cash equivalent might not be permanent and accessible.

Spacecom debt settlement overview

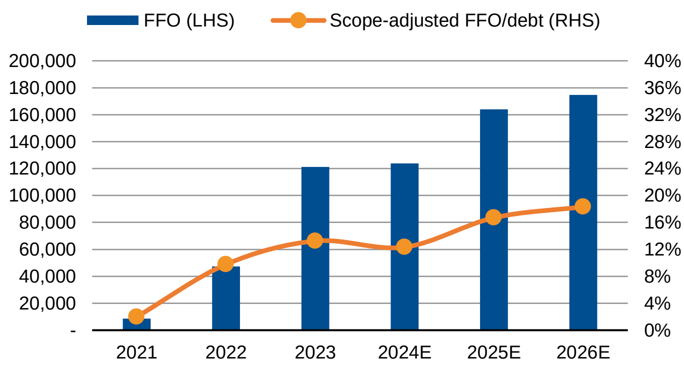
In April 2024, 4iG's Board of Directors announced the group's participation on a debt settlement plan for Space-Communications Ltd. (Spacecom), in which 4iG holds a 20% stake. The plan offered two options: an asset purchase and leaseback of the AMOS-17 satellite or a direct loan provision, both entailing a commitment of USD 150m, aimed at addressing Spacecom's bond debt. Approved by bondholders in July 2024, we expect 4iG to proceed with providing to Spacecom a bridge loan for USD 150m by YE 2024. We note that, the Spacecom transaction holds a strategic value for the group, which aims at maintaining the current 20% stake in the company and, subject to the necessary approvals, to convert the bridge loan into an asset deal, acquiring the AMOS 17 satellite and leasing it back to Spacecom, thereby supporting and diversifying cash generation and profitability and strengthening its strategic role in the satellite communications sector.

Figure 11: Scope-adjusted debt/EBITDA (x)



Sources: 4iG, Scope estimates

Figure 12: FFO (HUF m) versus Scope-adjusted FFO/debt



Sources: 4iG, Scope estimates

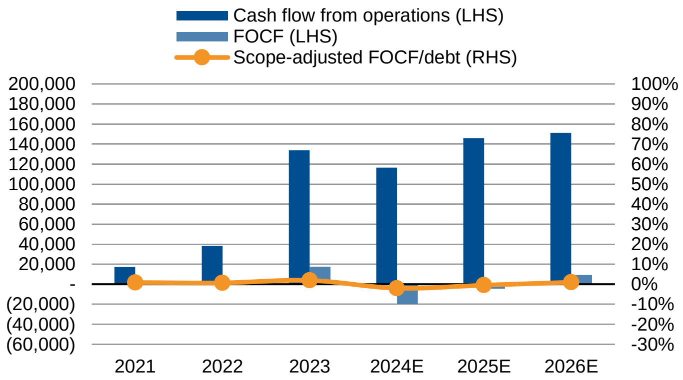
Increased debt burden to slow down deleveraging

Debt (which excludes netting of cash and cash equivalents) increased to HUF 915.6bn at YE 2023 (HUF 485.2bn at YE 2022) following the consolidation of Vodafone Hungary. Nevertheless, leverage, as measured by Scope-adjusted debt/EBITDA improved to 5.0x (6.4x at YE 2022) supported by Scope-adjusted EBITDA that has more than double for the same reason. In 2024 we expect the execution of the announced debt settlement plan for Spacecom and the announced acquisitions to result in an increase of debt to approx. HUF 1,000bn, with leverage projected to remain in line with 2023. In 2025-2026, we project leverage to gradually decline supported by decreasing debt and robust margins, but to remain above 4x in 2025 and to fall below that level only starting 2026. However, this does not take into account other potential debt funded M&A transactions, which could eventually have an impact on the group's deleveraging.

EBITDA/interest cover trending between 3x and 4x

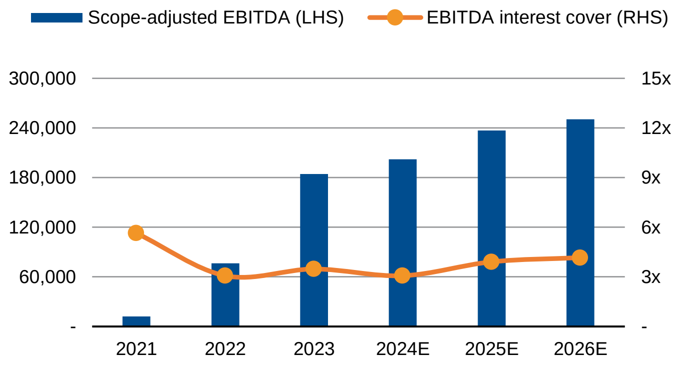
Starting in 2022, the 4iG's debt protection, as measured by Scope-adjusted EBITDA interest coverage, has trended around 3.0x, marking a decline from historical levels exceeding 5.0x. This decrease primarily reflects the increased debt burden and the rising cost of debt, resulting from several acquisitions, including Vodafone Hungary, over the past five years. In 2023, Scope-adjusted EBITDA interest cover improved slightly to 3.5x (2022: 3.0x), despite higher interest expenses, due to strong profitability performance. Looking forward, we expect debt protection to temporarily fall below 3.5x in 2024, before gradually recovering to above 4.0x by 2026, despite higher interest paid in light of projected increasing debt levels. We assume that this anticipated improvement will be driven by growing Scope-adjusted EBITDA and higher interest income.

Figure 13: OCF and FOCF (HUF m) versus Scope-adjusted FOCF/debt



Sources: 4iG, Scope estimates

Figure 14: Scope-adjusted EBITDA (HUF m) versus Debt protection



Sources: 4iG, Scope estimates

Cash flow cover expected at breakeven over the cycle

Over the last three years 4iG has displayed cash flow cover ratios, as measured by Scope-adjusted FOCF/debt on average around 1%. We expect such ratio to remain weak, reaching only breakeven, in 2024-2026 due to increased capex spending (gross capex on average around HUF 118bn per year).

Adequate liquidity

4iG's liquidity profile is deemed adequate, supported by projected liquidity ratios comfortably exceeding 200% for 2024-2025, despite pressures from negative free operating cash flow. Scheduled debt repayments of HUF 12.7bn in 2024 and HUF 14.7bn in 2025 are expected to be covered by available cash and cash equivalents, amounting to HUF 50.8bn as of June 2024. However, liquidity ratios are projected to weaken below 100% in 2026, primarily due to the maturity of the first HUF 38bn instalment of bonds issued under the Hungarian National Bank's Bond Funding for Growth Scheme. We expect that these debt maturities will be potentially refinanced, supporting the overall liquidity profile.

Full covenant compliance

The senior unsecured bonds issued by 4iG under the Hungarian National Bank's Bond Funding for Growth Scheme have a covenant requiring the accelerated repayment of the outstanding nominal debt amount if the debt rating of the bond stays below B+ for more than two years (grace period) or drops at CCC (or below). Such a development could adversely affect the company's liquidity profile. The rating headroom to entering the grace period remains two notches in this scenario. We therefore see no significant risk of the rating-related covenant being triggered. In addition to the rating deterioration covenant, bond covenants include a financial covenant of maximum 5.0x net debt/EBITDA to be first measured on YE 2024 results where breaches in three consecutive years would cause an event of default (meaning the earliest is a risk when checked in 2027 spring based on 2024-26 results). Based on our projections, net debt/EBITDA ratio is expected to remain below 5x in the three years considered.

Balance in HUF m	2024E	2025E	2026E
Unrestricted cash (t-1)	53,175	48,934	33,484
Open committed credit lines (t-1)	-	-	-
FOCF	(19,936)	(4,662)	9,162
Short-term debt (t-1)	12,663	14,668	55,875
Coverage	**>200%**	**>200%**	**76%**

Supplementary rating drivers: -1 notch

Credit negative financial policy

We view 4iG's financial policy as a negative rating driver, resulting in a one-notch negative adjustment to the standalone credit assessment. This is driven by the rather ambitious debt-funded acquisitions which have been carried out during the last four years and originally limited exposure to telecoms services, leading to heightened execution and integration risks. Moreover, the maintenance of such assessment on the company's financial policy reflects our cautious stance regarding 4iG's investment phase over the next years. As such, the issuer rating will continue to incorporate the one-notch negative adjustment until we gain more confidence about the company's investments and growth plans in the medium term.

Long-term ratings

Senior unsecured debt rating: BB-

We have affirmed the BB- rating for senior unsecured debt which primarily relates to the two bonds issued by 4iG in March 2021 and December 2021, respectively, for HUF 15bn (ISIN:HU0000360276) and HUF 370bn (ISIN: HU0000361019) through the Hungarian Central Bank's Bond Funding for Growth Scheme. The assessment incorporates our view on pressure exerted on recovery rates by i) pledges in favour of creditors, which could lead to restrictions on the transfer of funds within the group, and ii) future debt issuance will mainly be taking place at HDT and Antenna Hungaria level, resulting in structural subordination of senior unsecured debt at 4iG level. This results in an average recovery value for this debt category based on a hypothetical default scenario at year-end 2026.

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