

Bulletin:

# Dutch Telco Koninklijke KPN N.V.'s Fiber Joint Venture Is Credit Neutral

April 1, 2021

PARIS (S&P Global Ratings) April 1, 2021--S&P Global Ratings today said that Dutch telecommunications incumbent operator Koninklijke KPN N.V.'s (KPN; BBB/Stable/A-2) recently announced acceleration of fiber investment through a joint venture (JV) is neutral for overall credit quality. Since the JV is deconsolidated and a greenfield fiber venture, there is no material impact on adjusted debt or EBITDA, and our forecast for adjusted leverage in 2021 and 2022 remains unchanged at about 2.6x.

The 50-50 JV will not be consolidated in KPN's reported financials, though in the long term KPN might reconsolidate it through exercising a call option to own just over 50%. Likewise, we will not partially consolidate the JV in our adjusted financials for KPN, due to a lack of materiality. Partial consolidation of the JV's capex, free cash flow, net debt, and EBITDA would have a minimal impact on our adjusted credit metrics for KPN over the next few years. By 2025, we estimate that the impact of partial consolidation would be limited to a 0.1x increase in KPN's adjusted leverage and less than 3% reduction in KPN's free operating cash flow to debt.

The JV brings forward the long tail of KPN's fiber investment plan for medium-density areas and business parks. We view the accelerated replacement of its copper network with fiber as positive since it will help to reduce customer losses to competitors in these areas. This is partly offset by KPN's relinquishment of full control over these customers to the JV through migration agreements.

KPN will receive about €220 million in 2021 from its JV partner APG (a pension investor), and another €220 million over time through annual installments as the roll-out progresses. We estimate that KPN will receive about €150 million of net proceeds in 2021 (after tax and first year equity contributions by KPN), which will slightly benefit its adjusted credit metrics. In subsequent years we assume deferred sales proceeds from APG and equity contributions by KPN will broadly offset one another.

The JV's capex will amount to €1.2 billion spread over the course of 2021-2026, 70% debt financed on a nonrecourse basis. It will also generate growing EBITDA over time. We estimate that the JV will reach positive free cash flow by about 2026 or 2027, after the roll-out has been completed.

This report does not constitute a rating action.

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