S&P Global Market Intelligence RatingsXpress® Credit Research

Research Update:

Telecommunications Services of Trinidad and Tobago Ltd. Upgraded To 'BB-' From 'B+' On Improved Metrics; Outlook Stable

23-Oct-2023

Rating Action Overview

- Telecommunications Services of Trinidad and Tobago Ltd.'s (TSTT's) EBITDA margin rose significantly, to above 44% for the 12 months ended June 30, 2023, following substantial investments and restructuring efforts to improve its pricing and bundling of services, reduce administrative costs, and expand the fiber network coverage.
- TSTT maintains a sufficient liquidity position to cope with the upcoming investments for optic fiber deployment. Therefore, we do not expect additional debt requirements, and, thus, TSTT should keep leverage at about 3.5x over the upcoming years. We revised our assessment of TSTT's financial risk profile to a stronger category accordingly, triggering an upgrade.
- As a result, on Oct. 23, 2023, S&P Global Ratings raised its global scale issuer credit and issue-level ratings on TSTT to 'BB-' from 'B+'.
- The stable outlook reflects our expectation that the company will maintain gross debt to EBITDA below 4x in the next 12-18 months. We forecast the company's improved profitability and capex plans will allow it to generate free operating cash flow (FOCF).

Rating Action Rationale

TSTT's efforts to raise profitability will keep adjusted EBITDA margins above 40% in the medium term, improving prospects for its credit metrics. In the last three years, TSTT implemented investments and restructured operations to improve profitability and ensure its long-term financial health, including:

- An optimized mix of bundled packages to couple service offerings;
- A sharp reduction in labor costs, in the form of a lower headcount; and
- An increased optic fiber network, which allows transferring customers from the legacy copper network to a more modern service.

In the last 12 months, TSTT benefited from implemented layoffs to cut SG&A expenses by more than 10%, increased its fiber customer base by double digits, and completed price adjustments. All these factors caused a faster-than-expected strengthening of cash generation, with adjusted EBITDA margins rising to above 40% and positive FOCF in the last three quarters. We believe that the implementation of the abovementioned measures can bolster profitability and, in turn, credit metrics on a recurring basis.

We expect TSTT to maintain leverage below 4x and continue generating FOCF for the next three years. We expect the company to keep adjusted EBITDA margins above 40%. We also forecast FOCF to stem from price increases, lower costs as a percentage of revenue, and a larger fiber network that facilitates bundling. Furthermore, we believe that the company's current cash position and funds from operations will be sufficient to cover capex, most of which will be for the expansion of the optic fiber network, set to reach 194,000 homes passed in the next quarter. A larger network is a core component of the company's strategy. In our view, it will also enhance TSTT's ability to protect its competitive position and improve its service offering in the Trinidadian market, enabling increases in average revenue per user (ARPU) and lowering substitution risk from competitors.

These factors reduce the need for incremental debt funding in the short to medium term, leading us to expect credit metrics to keep improving, as seen since the end of fiscal 2023. We now forecast a quicker drop in adjusted debt to

EBITDA close to 3.5x than our previous base-case scenario. This expectation prompted us to revise our view on TSTT's financial risk profile to a stronger category, triggering an upgrade.

Our rating analysis continues to consider a moderately high likelihood of extraordinary government support, supporting TSTT's credit quality. All of the company's operations are in Trinidad and Tobago (T&T; BBB-/Stable/A-3), which curtails the company's business risk profile compared with those of larger international peers with a broader footprint. However, T&T's controlling ownership of TSTT is a credit strength, in our view. The rating on the company is one notch above its 'b+' stand-alone credit profile, stemming from its strong link with the government, along with its large share of the domestic telecom market. These factors explain our view of the likelihood of government support in the event of financial distress.

Outlook

The stable outlook on our rating on TSTT reflects our expectation that it will maintain gross debt to EBITDA below 4x in the next 12-18 months. We forecast the company's improved profitability and capex plans will result in FOCF generation. These metrics are tied to the company's measures to sustain adjusted EBITDA margins above 40%. At the same time, the outlook reflects our view that TSTT will protect its competitive position in T&T amid the expansion of its fiber network.

Downside scenario

We could lower the ratings on TSTT during the next 12 months if adjusted debt to EBITDA rises above 4x and the company fails to generate FOCF consistently. This could occur in any of the following scenarios:

- Profitability weakens, or the company fails to retain a sufficient number of customers while transitioning to fiber and bundling, reducing EBITDA.
- TSTT incurs additional debt for a much larger-than-expected capex or due to any deviation from its currently supportive financial policy.

A downgrade could also result if the likelihood of extraordinary government support under a stress scenario diminishes, in our view. A negative rating action is also possible if we were to downgrade T&T by two or more notches.

Upside scenario

Although unlikely, we could upgrade TSTT during the next 12 months in any of the following scenarios:

- Adjusted debt to EBITDA falls below 2.5x, while the company generates sizable FOCF, resulting in adjusted FOCF to debt above 10% consistently, and an ample liquidity headroom.
- An upgrade of T&T by two or more notches, or the likelihood of extraordinary government support to the company increases, in our view.

An upgrade would require a strengthening of the company's market position in T&T, so that its revenue and subscriber base is comparable to those of larger international peers with a broader geographic footprint.

Company Description

TSTT is a limited liability company incorporated in T&T in May 1968. The company is jointly owned by National Enterprises Ltd. (NEL; not rated), an investment holding company operating on behalf of the government, and Cable & Wireless (West Indies) Ltd. (C&W; a subsidiary of Cable & Wireless Communications Ltd. [BB-/Stable/B]). NEL owns 51% of TSTT's issued share capital, while C&W holds 49%.

TSTT offers fixed-line services on an all-digital network, mobile services on a FDD 4G LTE network, high-speed broadband utilizing a fiber (GPON) network, and fixed wireless broadband services on a TDD LTE network. It also provides metro Ethernet network services, videoconferencing, subscription-based IP television, digital terrestrial television, as well as business and home alarm monitoring services.

Our Base-Case Scenario

S&P Global Ratings' main macroeconomic assumptions:

- T&T's GDP growth of 1.7% in 2024 and 2025, and average CPI inflation of 2.9% and 2.0%, respectively.
- These economic conditions support our forecasted increase in the subscriber base, primarily for the wireless and residential fiber services.
- Average foreign-exchange (FX) rate of TT$6.73 per $1 for the next few years, broadly in line with the previous two years due to the company's managed float system, which provides some degree of certainty against potential FX volatility.

In addition, our operating and financial assumptions on TSTT incorporate the following:

- The residential copper services' migration will continue until 2025, with a 50% decrease in the subscriber base likely by the end of fiscal 2024.
- The wireless subscriber base to increase by 1% annually in fiscals 2024 and 2025, as the number of postpaid customers rise and a corresponding churn of prepaid customers continues. The segment revenue should grow by high single digits in fiscal 2024 as a result of price increases, and consequently, higher ARPU.
- As the wind-down of residential copper services continues, residential fiber services will capture the bulk of those subscribers, as well as through the expected packaging offers. We expect an increase in residential fiber services subscribers of nearly 10% for the next two years.
- For enterprise services, a broadly flat number of subscribers, given the ongoing need among government entities for data center services.
- Revenue growth of 9% in fiscal 2024 and 4% in fiscal 2025.
- Following the company's restructuring, SG&A costs as a percentage of revenue to stabilize at about 20-25%, which is considerably below previous years. The bundling strategy should optimize operating costs, favoring profitability.
- An increase in adjusted EBITDA to TT$850 million in fiscal 2024 and to TT$900 million in fiscal 2025.
- Capex of TT$350 million in fiscal 2024 and TT$245 million in fiscal 2025, due to the scheduled expansion of fiber optic that's set to peak in the next 12 months, but which will still require investments for the upcoming years.
- About TT$17 million in 2024 and TT$3 million in 2025 in proceeds from asset sales.
- No dividend payments for the next two years, as the company continues to focus on raising profitability.
- TSTT to repay its TT$100 million in commercial paper program maturing in the short term, while it should be able to refinance its remaining short-term debt maturities close to TT$38 million. Considering the company's investment needs, we forecast a broadly stable adjusted debt of about TT$3.1 billion.

Telecommunications Services of Trinidad and Tobago Ltd.--Forecast summary

Industry sector: Diversified telecom

	--Fiscal year ended Mar. 31--				
(Mil. TT$)	**2022a**	**2023a**	**2024f**	**2025f**	**2026f**
Revenue	1,939	1,886	2,057	2,139	2,198
EBITDA	724	780	850	902	929
Funds from operations (FFO)	443	475	504	555	580
Cash flow from operations (CFO)	118	(28)	436	524	573
Capital expenditure (capex)	185	259	349	244	249
Free operating cash flow (FOCF)	(67)	(287)	87	280	324
Debt	2,714	2,969	3,116	3,118	3,119
Adjusted ratios					
Debt/EBITDA (x)	3.7	3.8	3.7	3.5	3.4
FFO/debt (%)	16.3	16.0	16.2	17.8	18.6
FOCF/debt (%)	(2.5)	(9.7)	2.8	9.0	10.4

All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. e--Estimate. f--Forecast.

Liquidity

We continue viewing TSTT's liquidity as adequate, given that the company maintains a sufficient cash balance and expects to generate cash flows to cover capex, working capital needs, and short-term debt maturities. As a result, we expect the forecasted sources of cash to exceed uses by more than 1.2x for the next 12 months, even if EBITDA declines by 15%. At the same time, we expect TSTT to maintain prudent risk management, adequate covenant headroom, and a sound relationship with banks, as seen in the government providing financial support, when needed, through Republic Bank Ltd.

Principal liquidity sources:

- Cash and liquid investments for about TT$322.4 million as of June 30, 2023; and
- Projected cash FFO of about TT$561 million for the next 12 months.

Principal liquidity uses:

- Short-term debt maturities of TT$135.1 million as of June 30, 2023;
- Working capital requirements of up to TT$138 million for the next 12 months; and
- Total capex, including maintenance and expansion investments, of TT$333 million for the next 12 months.

Covenants

The senior secured notes have two incurrence covenants until their maturity in 2029:

- 4.0x net debt to EBITDA ratio; and
- 2.0x fixed-charge coverage ratio.

These covenants limit the issuance of additional debt, distribution of dividends, creation of liens, sale of assets, incurring in investments, and intercompany transactions among other restrictions. As of June 30, 2023, the company was in compliance with its incurrence covenants. Furthermore, we expect TSTT to remain in compliance with its covenants, even if EBITDA falls by about 25%.

Environmental, Social, And Governance

Governance factors are a moderately negative consideration in our credit rating analysis of TSTT, particularly because of the lack of independence of board members. About half of the company's board members are nominated by the Trinidadian government, which could expose the company's strategic decisions to some conflicts of interest. The government's stake represents 51% of total issued share capital.

Issue Ratings--Subordination Risk Analysis

Capital structure

As of June 30, 2023, TSTT's consolidated debt mainly consisted of TT$3.1 billion under its 8.875% and 8.30% senior secured notes due 2029, TT$100 million of commercial paper, and about TT$39.8 million in other short-term working capital facilities. As a collateral, the notes hold a lien on all of the company's assets.

Analytical conclusions

We continue rating TSTT's senior secured notes at the same level as the issuer credit rating, given that they're secured and constitute the large majority of the company's capital structure, mitigating potential subordination risk. In this sense, we raised the issue-level ratings on the senior secured notes due 2029 to 'BB-' from 'B+'.

Ratings Score Snapshot

Issuer credit rating: BB-/Stable/--

Business risk: Weak

- Country risk: Moderately high

- Industry risk: Intermediate risk
- Competitive position: Weak

Financial risk: Aggressive

- Cash flow/Leverage: Aggressive

Anchor: b+

Modifiers:

- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Financial policy: Neutral (no impact)
- Management and governance: Fair (no impact)
- Comparable rating analysis: Neutral (no impact)

Stand-alone credit profile: b+

Government-related entity: Moderately high likelihood of extraordinary government support (+1 notch)

Sovereign local currency rating: BBB-/Stable/A-3

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 | General: Corporate Methodology**, Nov. 19, 2013
- **General Criteria: Methodology: Industry Risk**, Nov. 19, 2013
- **General Criteria: Country Risk Assessment Methodology And Assumptions**, 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

Related Research

- **Price Dynamics And Ability To Invest In New Technology Will Determine The Path Ahead For Latin American Telecom Companies**, Oct. 5, 2023
- **Trinidad and Tobago**, July 26, 2023
- **Industry Top Trends 2023: Telecommunications**, Jan. 23, 2023
- **Telecommunications Services of Trinidad and Tobago Ltd.** Oct. 28, 2022

Ratings List

Upgraded		
	To	**From**

Telecommunications Services of Trinidad and Tobago Ltd.		
Issuer Credit Rating	BB-/Stable/--	B+/Stable/--
Telecommunications Services of Trinidad and Tobago Ltd.		
Senior Secured	BB-	B+

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