

## **EuroRating has downgraded the credit rating for the company Cyfrowy Polsat S.A. to 'BB' from 'BB+'**

**Warsaw, 8 December 2023 – The EuroRating credit rating agency has downgraded the credit rating assigned to the company Cyfrowy Polsat S.A. (Poland) to 'BB' from 'BB+'. The rating outlook was changed to stable from negative.**

### **RATING ACTION RATIONALE**

The downgrade of Cyfrowy Polsat's credit rating to 'BB' is primarily due to the significant increase in interest-bearing liabilities, the continued decline in financial results, as well as the decline in operating cash flow and free cash flow.

EuroRating highlights that the company's existing media and telecommunications profile has recently been expanded to include new areas, i.e. renewable energy and real estate (by the acquisition of a majority stake in the "green assets" of Patnow-Adamow-Konin power plant complex and the purchase of shares in real estate company Port Praski). New investments involve the need to increase financial debt, which at the end of the third quarter of 2023 reached the highest level in the company's history at PLN 16 billion. The increase in the value of liabilities, with a stable level of equity, results in an increasing share of foreign capital in total liabilities.

The agency observes that the surge in debt coincides with weaker operating results of Cyfrowy Polsat. Sale revenues are growing at a pace below the inflation rate, the normalized operating profit (calculated cumulatively for four quarters) has been declining for seven consecutive quarters, and rising financial costs are putting increasing negative pressure on the net income, which (cumulatively for four quarters) is getting close to zero.

EuroRating evaluates negatively the fact, that Cyfrowy Polsat's four-quarters normalized EBITDA has been declining for nine consecutive quarters. With the increase in net debt, that occurred during the first three quarters of this year, the ratio of net financial debt to normalized EBITDA has increased from 2.5x at the end of 2022 to 3.1x at the end of September 2023. This is the highest level of this ratio in seven years. Since the company is planning further significant capital expenditures, it is likely that Cyfrowy Polsat's debt ratios could rise further in 2024.

The credit rating downgrade of Cyfrowy Polsat was also influenced by the deterioration of its cash flow generation. The agency notes that until mid-2021 the company was generating consistently high cash flows from operations, reaching up to PLN 3.5 billion a year. With moderate capital expenditures, this resulted in the generation of consistently positive and high (periodically exceeding PLN 2 billion per year) free cash flows.

Over the last few quarters, the situation in this respect has changed significantly, as a decline in four-quarters operating cash flows was accompanied by a simultaneous increase in capital expenditures. As a result, during 2023, the company will generate negative four-quarters free cash flow for the first time in at least ten years.

When assessing the financial credibility of Cyfrowy Polsat, EuroRating currently takes into account the fact that significant investments carried out by the company should result in an increase in revenues and profits in the future. However, this is temporarily associated with a significant increase in financial leverage and an increase in the company's credit risk.

### **STABLE RATING OUTLOOK**

The stable rating outlook means that, according to the current EuroRating's estimates, the rating assigned to the company should most likely remain unchanged in the horizon of the next 12 months.

### **MAIN FACTORS THAT COULD LEAD TO A RATING CHANGE**

The most significant potential factors that could (individually or collectively) lead to a positive rating action (change of the rating outlook to positive and/or rating upgrade) include: improvement of financial results and increase in cash flows from operating activities; lower than currently expected capital expenditures; a significant increase in the value of generated free cash flows; maintaining the policy of not paying dividends; increase in the share of equity in the total liabilities structure; and a reduction of the ratio of net debt to EBITDA to moderate levels.

The most significant potential factors that could (individually or collectively) lead to a downgrade of Cyfrowy Polsat's current credit rating (and/or to a change of the rating outlook to negative): further deterioration of financial results and/or cash flows from operating activities; continued high capital expenditures and a further increase in financial debt; further increase in the ratio of net debt to normalized EBITDA; further decline in the share of equity in total liabilities; as well as possible deterioration of the company's liquidity position.

### **BEST/WORST RATING SCENARIO**

The full range of best- and worst-case scenarios for all rating categories spans from 'AAA' to 'D'. Historical long-term statistics on rating migrations (changes between individual rating classes) for entities rated by EuroRating are published in the report on rating statistics, available at:

<https://www.eurorating.com/en/ratings/statistics> (annexes No. 6-9).

## REGULATORY DISCLOSURES

### Information on the EuroRating credit rating agency

EuroRating is a fully independent international credit rating agency operating since 2007, specializing in assessing the credit risk of enterprises and financial institutions.

EuroRating Sp. z o.o. is formally registered by the European Securities and Markets Authority (ESMA) as a credit rating agency authorized to issue public credit ratings throughout the European Union (in accordance with the Regulation of the European Parliament and of the Council No. 1060/2009 on credit rating agencies) and is under direct supervision of ESMA.

EuroRating holds the ECAI (External Credit Assessment Institution) status in the European Union, pursuant to the Regulation of the European Parliament and of the Council No. 575/2013 on prudential requirements for credit institutions and investment firms (CRR Directive). The credit ratings (including unsolicited ratings) assigned by EuroRating are valid throughout the European Union and can be used for regulatory purposes under EU legislation by all financial institutions or any other entities and are entirely equal to credit ratings issued by other credit rating agencies registered by ESMA.

### Methodology

The presented credit rating for the company Cyfrowy Polsat S.A. is an issuer credit rating – it is a general assessment of the creditworthiness of the assessed entity and concerns the credit risk of its senior, unsecured and unsubordinated financial obligations.

The presented credit rating has been assigned in accordance with the Regulation (EC) No. 1060/2009 of the European Parliament and of the Council on credit rating agencies.

The methodology used in this rating was "Credit rating methodology for non-financial corporations" published in June 2023 and available at: <https://www.eurorating.com/en/ratings/methodology/credit-risk-assessment-methodology>

The rating scale of the EuroRating credit rating agency as well as detailed rating definitions are published at: <https://www.eurorating.com/en/ratings/rating-scale>

Historical default statistics for entities assessed by EuroRating are published in the report on rating statistics, available at: <https://www.eurorating.com/en/ratings/statistics>

EuroRating's definition of default as well as definitions of rating notations can be found in the agency's website at: <https://www.eurorating.com/en/ratings/methodology/definition-of-default>

Credit ratings assigned by the EuroRating credit rating agency are not solely estimates of the probability of default of a rated entity, but represent a total estimated assessment of a risk of loss (i.e. the ultimate loss of part or all of the receivables along with any interest) by the creditors of the rated entity in the event of its default. Ratings assigned by EuroRating therefore express a combination of the estimated probability of default of the rated entity and the estimated level of loss of receivables by its creditors in the event of an actual default (Loss Given Default).

### Public status of the credit rating / terms of use

The presented credit rating for the company Cyfrowy Polsat S.A. is a public rating. The date of the first publication of the rating, the current rating level and the full rating history are published free of charge on the European Rating Platform provided by ESMA ([https://registers.esma.europa.eu/publication/searchRegister?core=esma\\_registers\\_radar](https://registers.esma.europa.eu/publication/searchRegister?core=esma_registers_radar)), as well as on the EuroRating's website in the section "Credit ratings", in the relevant tab on the rated entity/security.

The terms of use for credit ratings issued by EuroRating are published on the agency's website at: <https://www.eurorating.com/en/ratings/about-credit-ratings/terms-of-use>

**Solicitation status**

The rating assigned to the company Cyfrowy Polsat S.A. was not solicited by the rated entity or any related third parties. The rated entity did not participate in the rating process, the agency had no access to internal documents or the management of the rated entity, and the analytical process was based on publicly available information. The main sources of information used in the rating process were: annual and quarterly financial statements, presentations and reports of the rated entity, as well as publications in the media about the economy, the industries in which the company operates and about the rated entity itself. The information on the assigned credit rating was presented to the rated entity in advance. The rating was issued without any changes resulting from this disclosure.

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