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## **STOCK EXCHANGE ANNOUNCEMENT**

17 January 2022

### **Moody's increases Chorus' credit rating threshold**

Moody's Investors Service has today announced that the downgrade threshold for Chorus has been increased to a debt to EBITDA ratio of 5.25x at the current rating level, compared with a ratio of 4.2x previously.

The report is attached.

The long-term rating remains at Baa2 stable.

Authorised by:  
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**ENDS**

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# MOODY'S

## INVESTORS SERVICE

### CREDIT OPINION

17 January 2022

#### Update

 Rate this Research

#### RATINGS

##### Chorus Limited

Domicile	New Zealand
Long Term Rating	Baa2
Type	LT Issuer Rating - Fgn Curr
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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## Chorus Limited

### Credit Opinion Update

#### Summary

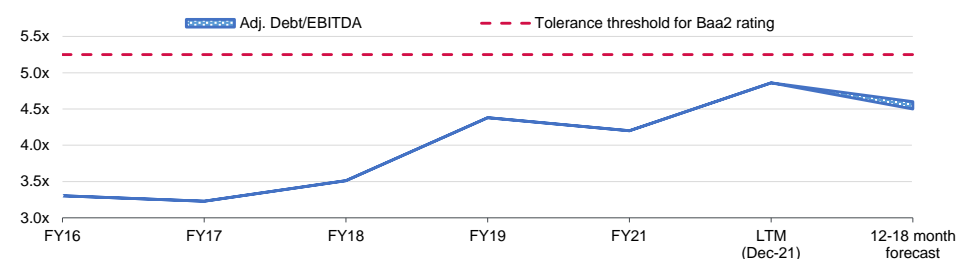
Chorus Limited's (Baa2 stable) credit profile benefits from: (1) its entrenched position in New Zealand's fixed-line access networks and crucial role in the roll-out of the ultra-fast broadband (UFB) network; (2) funding provided by Crown Infrastructure Partners (CIP) to Chorus to partially fund the UFB roll-out, which is a key policy for the New Zealand government; and (3) its transition to a regulated utility model which will improve the predictability of its financial profile.

Elevated capital spending through the UFB build-out process results in negative free cash flow, however, as the UFB roll-out approaches estimated completion in December 2022, capital spending will moderate, and we expect free cash flow (before dividends) to turn positive by fiscal 2023.

Chorus also continues to face competition from local fibre companies and mobile operators offering wireless broadband. We expect the ongoing impact of competition from wireless broadband to be moderate due to the higher cost of mobile data paired with the rise of streaming which supports higher demand for data. Fibre broadband also benefits from performance advantages, including having lower latency as well as being less vulnerable to congestion.

Exhibit 1

**Financial leverage expected to remain below the new tolerance threshold of 5.25x over the next 12-18 months**



[1] All figures and ratios are calculated using Moody's estimates and standard adjustments; [2] Moody's forecasts are Moody's opinion and do not represent the views of the issuer; [3] FY19 debt/EBITDA takes into accounts cash in deposit to prefund debt maturity

Source: Moody's Financial Metrics™, Moody's Investors Service estimates.

## Credit Strengths

- » Entrenched position in New Zealand's fixed-line access networks and crucial role in roll-out of ultra-fast broadband networks
- » CIP securities are supportive of Chorus' leveraged capital structure
- » Transition to regulated utility model will improve revenue predictability

## Credit Challenges

- » Capital expenditure program which is expected to complete by the end of calendar 2022 results in negative free cash flow
- » Competition from local fibre companies and mobile operators

## Rating Outlook

The stable outlook reflects Moody's view that Chorus' credit profile will remain appropriately positioned at Baa2.

## Factors that Could Lead to an Upgrade

The rating could be upgraded if there is a sustained improvement in Chorus' financial profile and change in financial policy such that debt/EBITDA is expected to be sustained at below 4.25x.

## Factors that Could Lead to a Downgrade

The rating could be downgraded if there is a deterioration in Chorus' financial profile with debt/EBITDA increasing above 5.25x.

## Key indicators

Exhibit 2

### Key Indicators Chorus Limited

NZ\$ Millions	Jun-16	Jun-17	Jun-18	Jun-19	Jun-20	Jun-21	12-18 month forecast
Revenue	1,008	1,040	990	970	959	947	920 - 940
FFO Margin %	45.1%	47.0%	51.7%	48.6%	50.7%	56.7%	50% - 52%
(EBITDA - CAPEX) / Interest Expense	0.2x	0.2x	-0.9x	-1.1x	0.0x	0.2x	0.5x - 2.0x
FCF / Debt	-7.7%	-7.5%	-13.2%	-12.8%	-11.1%	-7.2%	-8% - -3%
Debt / EBITDA	3.3x	3.2x	3.5x	4.4x	4.0x	4.2x	4.5x - 4.6x

[1] All figures and ratios are calculated using Moody's estimates and standard adjustments. [2] Moody's Forecasts (f) or Projections (p) are Moody's opinion and do not represent the views of the issuer. [3] FY19 debt/EBITDA takes into accounts cash in deposit to prefund debt maturity. Periods are Financial Year-End unless indicated. LTM = Last Twelve Months.

Source: Moody's Financial Metrics™; Moody's Investors Service estimates.

## Profile

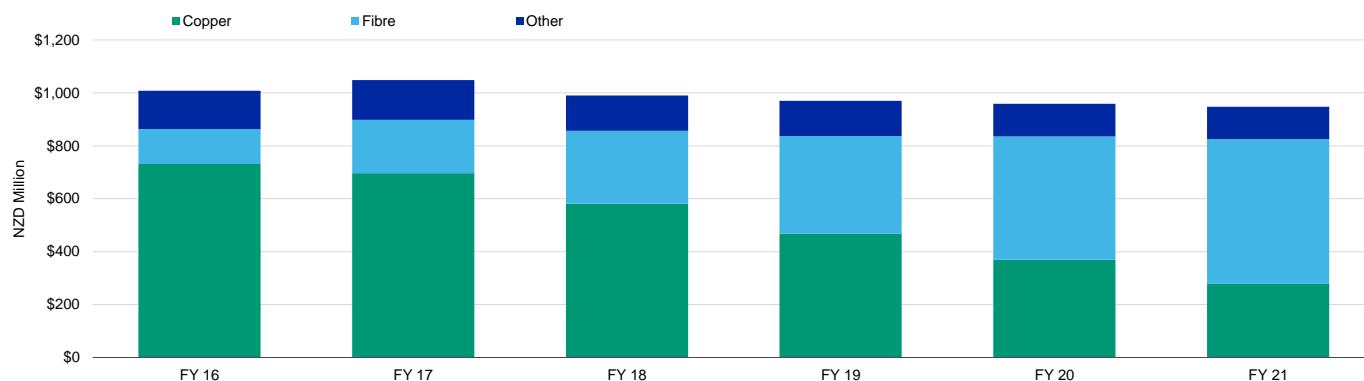
Chorus Limited ("Chorus") is a New Zealand Stock Exchange-listed telecommunications utility group. It owns copper and fibre optic fixed-line telecommunications networks in New Zealand, together with exchanges, roadside cabinets, and associated infrastructure. It is a wholesaler of access to these networks.

Chorus is building a fibre-to-the-premises network in New Zealand, with the largest portion of the build, UFB1 being completed in December 2019 and for UFB2, the target date is December 2022. It was appointed by the government's Crown Infrastructure Partners to deliver the majority of its UFB commitment.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on [www.moodys.com](http://www.moodys.com) for the most updated credit rating action information and rating history.

Exhibit 3

## Revenue by segment



Source: Company reports

## ESG considerations

## CHORUS LIMITED's ESG Credit Impact Score is Neutral-to-Low CIS-2

Exhibit 4

## ESG Credit Impact Score

CIS-2

Neutral-to-Low



For an issuer scored CIS-2 (Neutral-to-Low), its ESG attributes are overall considered as having a neutral-to-low impact on the current rating; i.e., the overall influence of these attributes on the rating is non-material.

Source: Moody's Investors Service

Chorus Limited's ESG Credit Impact Score is Neutral-to-Low (**CIS-2**). ESG attributes have low credit impact on Chorus' current rating as the company has historically maintained a conservative financial policy. Its management also has a good track record of managing the environmental and social risks and responding to issues appropriately.

Exhibit 5

## ESG Issuer Profile Scores

ENVIRONMENTAL

E-2

Neutral-to-Low



SOCIAL

S-2

Neutral-to-Low



GOVERNANCE

G-2

Neutral-to-Low



Source: Moody's Investors Service

## Environmental

The company's environmental risk exposure is low due to the environmental benefits of fiber broadband, which uses materially less electricity than copper and mobile technology, and enables New Zealanders to work more flexibly, reducing carbon emissions associated with commuting.

## Social

In terms of social risks, data privacy, information security and cyber security are key risks in the sector. Telecommunications providers exchange large amounts of data, and a breach could have legal, regulatory or reputation ramifications. We view Chorus as having a lower risk than retail service providers due to lower levels of private data.

## Governance

Chorus has neutral exposure to governance risk. It has a conservative financial policy and an explicit target to maintain a Baa2 rating.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

## Detailed Credit Considerations

### Entrenched position in New Zealand's fixed-line access networks and a crucial role in the roll-out of the ultra-fast broadband network

Chorus' rating reflects its entrenched position in New Zealand's fixed-line copper and fibre markets; and its strategic importance in the UFB initiative having won mandates for around 75% of the total UFB footprint.

In January 2017, Chorus reached an agreement with CIP to expand the UFB rollout, labeled as UFB2, to a further 9% of the population.

In September 2017, UFB2+ was announced, adding a further 2% of the population. This will be completed by December 2022. We see the ongoing increases to Chorus' mandate as indicative of the strong and symbiotic relationship between Chorus and the New Zealand Government.

### CIP securities supportive of Chorus' leveraged capital structure

The government, via CIP issued CIP securities, contributed NZD924 million to Chorus to finance the roll-out of the UFB1, split on a 50% debt : 50% equity basis, with the debt portion further split into senior and subordinated tranches. The structure of this funding is such that there is no interest payable at any time on the debt and no dividend payments before 2025 on the equity.

UFB2 and UFB2+ is expected to be equity funded for the first 75% of the NZD411 million commitment, and thereafter debt funding will be used. The UFB2 and UFB2+ equity securities will only attract a dividend from June 2030, at which time the debt starts to fall due. The proportion of equity that attracts a dividend and debt that becomes due, steps up every three years until June 2036 when the full equity outstanding will be paying a dividend and the debt has been fully repaid.

We view this pre-committed long-term funding as evidence of the intended support by the New Zealand Government for the rollout, which in turn is supportive of Chorus' credit profile.

### Transition to a regulated utility model will improve revenue predictability and stability

The new regulatory regime came into force on 1 January 2022, setting a three-year price-quality path for Chorus. The final decision on the price-quality path was announced on 16th December and contained no major surprises relative to the most recent draft decision. The initial Regulatory Asset Base (RAB) was set at NZD5.425 billion, which includes a Financial Loss Asset (FLA) to recognise losses that Chorus incurred during the rollout of its UFB network. The aggregate Maximum Allowable Revenue (MAR) for the 3 years is NZD2.27 billion split up into NZD690.2 million in 2022, NZD747.4 million in 2023, and NZD789.5 million in 2024 .

Over time, we expect that Chorus will display a utility-like revenue profile, with the majority of the company's revenue subject to regulation. We consider the new regulatory framework to be supportive of Chorus' credit profile because its revenue predictability and stability will improve, allowing Chorus to operate with higher financial leverage at its current Baa2 rating. We have therefore increased Chorus's leverage tolerance threshold to 5.25x

### Capital expenditure to decline as UFB rollout approaches completion

The UFB roll-out had required significant capital spending from Chorus, resulting in continued negative free cash flow over the past decade.

The UFB roll-out is now approaching completion, with capital spending having peaked in fiscal 2019, and it will continue to reduce significantly over the period to fiscal 2024. This is credit positive as free cash flow (before dividends) is expected to turn positive by fiscal 2023.

### Competition from local fibre companies and mobile operators

Chorus continues to face competition from local fibre companies and mobile operators offering wireless broadband. In the first half of fiscal 2021 the retailers were aggressively promoting fixed wireless broadband, resulting in a loss of 6,000 broadband services, but the second half showed a significant improvement with a net increase of 11,000 broadband services.

### Liquidity Analysis

We regard Chorus' liquidity profile as adequate. Primary liquidity sources over the next 12 months include: (1) cash holding of NZD53 million and undrawn bank facilities of NZD210 million as of 30 June 2021; (2) expected operating cash flow of NZD460-480 million; (3) Crown funding of NZD146 million for fiscal 2022.

The above sources of liquidity are expected to be sufficient for expected uses. Expected liquidity uses over the next 12 months include: (1) capital spending of around NZD570 million; and (2) dividends of around NZD75 million. Chorus' next debt maturities will occur in fiscal 2024.

Chorus' **net** debt/EBITDA financial covenant level included in its committed syndicated bank facilities is 4.75x. We expect Chorus to remain comfortably in compliance with its financial covenant. At 30 June 2021, Chorus' reported net debt/ EBITDA was 4.24x based on the bank covenant methodology.

### Rating methodology and scorecard factors

The following table shows Chorus Limited's scorecard-indicated outcome using Communications Infrastructure Industry, with data as of June 30, 2021, and on a forward-looking basis. The rating outcome is two notches above the scorecard-indicated rating.

Exhibit 6

#### Rating Factors Chorus Limited

Communications Infrastructure Industry Scorecard [1][2]			Current FY 06/30/2021		Moody's 12-18 Month Forward View As of 12/8/2021 [3]	
Factor 1 : Scale (10%)	Measure	Score	Measure	Score	Measure	Score
a) Revenue (USD Billion)	\$0.7	B	\$0.6	B		
Factor 2 : Business Profile (25%)						
a) Business Model	A	A	A	A		
b) Competitive Environment and Business Conditions	A	A	A	A		
Factor 3 : Profitability & Efficiency (20%)						
a) FFO Margin	56.7%	Baa	50% - 52%	Baa		
Factor 4 : Leverage & Coverage (30%)						
a) (EBITDA - CAPEX) / Interest Expense	0.2x	Ca	0.5x - 2x	B		
b) FCF / Debt	-7.2%	Ca	-8% - -3%	Ca		
c) Debt / EBITDA	4.2x	Ba	4.5x - 4.6x	Ba		
Factor 5 : Financial Policy (15%)						
a) Financial Policy	A	A	A	A		
Rating:						
a) Scorecard-Indicated Outcome		Ba1		Ba1		
b) Actual Rating Assigned				Baa2		

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.

[2] As of FY 6/30/2021

[3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.

Source: Moody's Financial Metrics™

## Ratings

Exhibit 7

Category	Moody's Rating
<b>CHORUS LIMITED</b>	
Outlook	Stable
Issuer Rating	Baa2

Source: Moody's Investors Service

## Appendix

Exhibit 8

### Peer Comparison Chorus Limited

	Chorus Limited Baa2 Stable			CETIN a.s. Baa2 Stable			VECTOR Limited (P)Baa1 Stable		
(in US millions)	FYE Jun-19	FYE Jun-20	FYE Jun-21	FYE Dec-19	FYE Dec-20	LTM Jun-21	FYE Jun-19	FYE Jun-20	FYE Jun-21
Revenue	\$651	\$611	\$658	\$836	\$815	\$825	\$885	\$824	\$889
EBITDA	\$433	\$437	\$472	\$373	\$371	\$398	\$378	\$368	\$447
Total Debt	\$1,900	\$1,781	\$1,998	\$1,144	\$1,225	\$1,205	\$1,810	\$1,898	\$2,172
Cash & Cash Equivalents	\$183		\$37	\$75	\$65	\$42	\$19	\$18	\$12
FFO Margin %	48.6%	50.7%	56.7%	38.5%	40.5%	44.1%	23.2%	26.0%	28.1%
(EBITDA - CapEx) / Interest Expe	-1.1x	0.0x	0.2x	8.9x	7.6x	15.1x	1.1x	0.7x	1.0x
FCF / Debt	-12.8%	-11.1%	-7.2%	0.9%	-0.8%	2.0%	-11.9%	-11.6%	-10.2%
RCF / Debt	14.9%	14.8%	15.8%	18.7%	18.5%	22.4%	5.2%	5.8%	6.2%
DEBT / EBITDA	4.4x	4.0x	4.2x	3.0x	3.1x	3.0x	4.8x	5.1x	4.8x

All figures & ratios calculated using Moody's estimates & standard adjustments. FYE = Financial Year-End. LTM = Last Twelve Months. RUR\* = Ratings under Review, where UPG = for upgrade and DNG = for downgrade.

Source: Moody's Financial Metrics™

Exhibit 9

### Moody's-Adjusted Debt Breakdown Chorus Limited

(in NZ\$ Millions)	FYE Jun-16	FYE Jun-17	FYE Jun-18	FYE Jun-19	FYE Jun-20	FYE Jun-21
<b>As Reported Debt</b>	<b>1,676</b>	<b>1,768</b>	<b>2,050</b>	<b>2,486</b>	<b>2,593</b>	<b>2,637</b>
Operating Leases	35	35	0	0	0	0
Non-Standard Adjustments	299	357	269	344	174	223
<b>Moody's-Adjusted Debt</b>	<b>2,010</b>	<b>2,160</b>	<b>2,319</b>	<b>2,830</b>	<b>2,767</b>	<b>2,860</b>

All figures are calculated using Moody's estimates and standard adjustments.

Source: Moody's Financial Metrics™

Exhibit 10

### Moody's-Adjusted EBITDA Breakdown Chorus Limited

(in NZ\$ Millions)	FYE Jun-16	FYE Jun-17	FYE Jun-18	FYE Jun-19	FYE Jun-20	FYE Jun-21
<b>As Reported EBITDA</b>	<b>601</b>	<b>662</b>	<b>660</b>	<b>646</b>	<b>687</b>	<b>679</b>
Operating Leases	7	7	0	0	0	0
<b>Moody's-Adjusted EBITDA</b>	<b>608</b>	<b>669</b>	<b>660</b>	<b>646</b>	<b>687</b>	<b>679</b>

All figures are calculated using Moody's estimates and standard adjustments.

Source: Moody's Financial Metrics™

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