FitchRatings

Fitch Downgrades America Movil to 'A-'; Outlook Revised to Stable

Fitch Ratings-Chicago-31 August 2017: Fitch Ratings has downgraded the Long-Term Foreign and Local Currency Issuer Default Ratings (IDR) and senior unsecured notes ratings of America Movil S.A.B. de C.V. (AMX) to 'A-' from 'A'. The Outlook is revised to Stable from Negative. A full list of rating action follows at the end of this release.

KEY RATING DRIVERS

The downgrade of AMX's ratings to 'A-' from 'A' reflects the company's financial profile deterioration since 2015 despite stable performance in recent quarters. Fitch expects AMX to continue its deleveraging efforts in the short term backed by FCF generation in the absence of sizable shareholder returns and stabilized operating trends in Mexico. Nevertheless, Fitch believes that the company's adjusted net leverage is likely to remain close to 2.0x over the medium term, which is deemed weak for the rating level and is in line with other 'A-' telecom operators in Fitch's rating universe.

AMX's ratings reflect its strong market position as the largest telecom operator in Latin America with well-established multiple service platforms and solid network competitiveness, as well as a high degree of geographical cash flow diversification. Mexico is AMX's largest market, representing 29% of its total EBITDA during first-half 2017 (1H17), followed by Brazil with 21%, Europe with 11%, and Colombia with 10%. The company boasts relatively stable and robust operational cash flow generation, which also enables ample financial flexibility and solid liquidity. Ratings are tempered by high competitive and regulatory pressures in some of its key markets, increased leverage compared to solid historical levels, and mature market conditions.

Stable Performance:
Fitch forecasts AMX to undergo stable revenue and EBITDA growth in the short- to medium-term, continuing from its solid performance during 1H17. The company's revenue and EBITDA expanded by 13% and 15%, respectively, on a year-on-year basis during 1H17, driven by average revenue per user (ARPU) growth and cost control efforts across most of its operating geographies. The weaker Mexican peso against other currencies during 1H17, compared to 1H16, also boosted its Mexican-peso-based consolidated figures. However, continued appreciation of the Mexican peso will dilute to a degree the company's stable performance on constant currency terms during 2H17. Fitch forecasts the company's EBITDA to grow close to 7% to MXN280 billion in 2017, from MXN258 billion in 2016.

Fitch also expects the company's strong market position to remain intact, supported by its solid network competitiveness and service quality. AMX completed an intensive capex cycle of USD10 billion in annual investments during 2011-2015 in upgrading its fixed/mobile networks across the region to improve data capacity and network reach. This has enabled the company to offer attractive bundled fixed-product offerings, as well as to improve its mobile data user base and revenues. The company generated 62% of its consolidated revenues from data and pay-TV, compared with 50% in 2014, which helped mitigate the pressure on voice revenue growth in both mobile and fixed.

Slow Turnaround in Mexico:
Fitch expects AMX's key Mexican operation to slowly recover over the medium term, driven by gradual ARPU improvement. The company's measured tariff policy and its strategy to drive higher data usage, particularly among the prepaid customers, should help it resume modest revenue growth with enhanced profitability in its core market, barring any excessive price-based competition. Nevertheless, Fitch expects the company's EBITDA recovery to a historical level seen until 2015 to be challenging as competition remains high given competitors' plans to improve their market positions.

AMX's Mexican operation has shown a relatively stabilizing trend during 1H17, with a narrower EBITDA deterioration of 8% compared with 1H16, following a 22% EBITDA contraction in 2016 on a year-on-year basis caused by intense price-based competition. The company has maintained relatively stable revenue and EBITDA generation since 3Q16, with its EBITDA successfully turning around for the first time in 2Q17 since 2Q15. ARPU increased by 8% to MXN137 during 2Q17, compared with MXN127 in 2Q16. The impact from the recent regulatory ruling remains uncertain, including new interconnection rates from 2018 and functional separation of its wholesale business, while the company is yet to be allowed to participate in the pay-TV business.

High Leverage:
AMX's financial profile is deemed weak for the 'A' rating level, with its adjusted net leverage sustained over 2.0x since 2015. The company's adjusted net leverage, including off-balance-sheet adjustment for its key operating lease items, has improved during 1H17 to 2.2x from 2.6x at end-2016, thanks to its solid FCF generation and the stronger Mexican peso against U.S. dollar and euro, which accounted for over 70% of its consolidated debt as of June 30, 2017. Fitch expects the company to continue its deleveraging effort for the short term, but its net leverage is likely to remain close to 2.0x, which is more in line with a 'A-' rating.

The company's USD1 billion payment obligation from the arbitral award regarding its concession in Colombia will also delay the deleveraging pace, but the impact is deemed manageable given its strong cash flow generation. Fitch's leverage calculation does not include the fair value of the company's equity stake in Koninklijke KPN B.V. (KPN).

Positive FCF:
Fitch forecasts AMX's positive FCF generation to continue in 2017 and help reduce its net debt. Fitch estimates AMX's CFFO to be around MXN200 billion, which should cover its USD7.5 billion capex (around MXN143 billion) in 2017. Fitch does not foresee any material increase in share buybacks or dividend payments in 2017, as the company remains committed to its deleveraging strategy. AMX's FCF generation turned positive in 2016, despite EBITDA erosion, thanks to its measured shareholder-return policy and stable CFFO generation. The company generated CFFO of MXN209 billion in 2016, which comfortably covered its total dividends and share buybacks of MXN21 billion and capex of MXN155 billion.

DERIVATION SUMMARY

AMX's high level of geographical diversification, scale of operation, and strong market position and cash flow generation compare in line with other 'A-' rated telecom operators in the US, such as AT&T Inc., Verizon Communications Inc, and Comcast Corporation. AMX's financial profile, mainly leverage ratios, is also broadly in line with its 'A-' rated peers, and is stronger compared to diversified European telecom operators in the 'BBB' category such as Deutsche Telekom and Telefonica SA. No Parent/subsidiary linkage is applicable, and there was no country ceiling or operating environment influence in effect for the ratings.

KEY ASSUMPTIONS

Fitch's key assumptions within our rating case for the issuer include:
--Low- to mid-single-digit revenue growth over the medium term;
--EBITDA margin around 27% over the medium term;
--Capex-to-sales to remain in the range of 14%-15% over the medium term;
--FCF margin to remain at an average 4% over the medium term;
--Net leverage to gradually recover to 2.0x absent large shareholder distributions.

RATING SENSITIVITIES

Future Developments That May, Individually or Collectively, Lead to Positive Rating Action:
--Continued FCF generation in the absence of any sizable shareholder distribution;
--Adjusted net leverage falling to below 1.5x on a sustained basis.

Future Developments That May, Individually or Collectively, Lead to Negative Rating Action:
-- Increased regulatory and competitive pressures across AMX's operational geographies leading to significant erosion in its market positions and operating margins;
--Aggressive shareholder return policy in terms of both dividends and share buybacks;
--Sizable investments/acquisitions leading to weak cash generation over the medium- to long-term;
-- Negative FCF generation and adjusted net leverage increasing to above 2.5x.

LIQUIDITY

Strong Liquidity: AMX has strong liquidity backed by robust internal cash flow generation and good access to domestic and international capital markets when in need of external financing, which supports its financial flexibility. The company held a readily available cash balance of MXN30 billion at June 30, 2017, excluding the fair value of its stake in Koninklijke KPN B.V, against the short-term debt of MXN58 billion. The company also has two undrawn revolving syndicated facilities, which total USD4.5 billion. Telekom Austria also has an undrawn revolving syndicated facility of EUR1 billion.

FULL LIST OF RATING ACTIONS

America Movil S.A.B de C.V.
--Long-Term Local Currency IDR downgraded to 'A-' from 'A';
--Long-Term Foreign Currency IDR downgraded to 'A-' from 'A';
--Senior unsecured notes issuances downgraded to 'A-' from 'A';
--Subordinated notes issuances downgraded to 'BBB' from 'BBB+';
--Mexican national scale long-term rating affirmed at 'AAA(mex)';
--Certificados Bursatiles issuances affirmed at 'AAA(mex)';
--UF30 million Chilean Notes Program N#474, including Series D issuance, affirmed at 'AA+(cl)'.

The Rating Outlook is revised to Stable from Negative for IDRs. The Rating Outlook remains Stable for national scale ratings.

Telefonos de Mexico S.A.B. de C.V.
--Long-Term Local Currency IDR downgraded to 'A-' from 'A';
--Long-Term Foreign Currency IDR downgraded to 'A-' from 'A';
--Senior notes issuances downgraded to 'A-' from 'A'.

The Outlook on the IDR is revised to Stable from Negative.

Telmex Internacional S.A.B. de C.V. y Subsidiarias
--Mexican national scale long-term rating affirmed at 'AAA(mex)';
--Mexican national scale short term rating affirmed at 'F1+(mex)'.

The Outlook on the national scale ratings remains Stable.

America Movil B.V.
--EUR750 million exchangeable notes downgraded to 'A-' from 'A'.

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Summary of Financial Statement Adjustments -
--Net value of hedge derivatives were reflected in AMX's gross debt calculation.
--50% equity credit was applied to the company's three senior subordinated notes due 2073, per Fitch's criteria.
--AMX's key operating lease expenses were adjusted, using 6x multiples, as an off-balance-sheet debt item.

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Additional information is available on www.fitchratings.com

Applicable Criteria
Corporate Rating Criteria (pub. 07 Aug 2017) (https://www.fitchratings.com/site/re/901296)
National Scale Ratings Criteria (pub. 07 Mar 2017) (https://www.fitchratings.com/site/re/895106)
Non-Financial Corporates Hybrids Treatment and Notching Criteria (pub. 27 Apr 2017)
(https://www.fitchratings.com/site/re/896881)

Additional Disclosures
Dodd-Frank Rating Information Disclosure Form (https://www.fitchratings.com/site/dodd-frank-disclosure/1028542)
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Solicitation Status

Fitch Ratings was paid to determine each credit rating announced in this Rating Action Commentary (RAC) by the obligatory being rated or the issuer, underwriter, depositor, or sponsor of the security or money market instrument being rated, except for the following:

Unsolicited Issuers:

Entity/Security	ISIN/CUSIP/COUPON RATE	Rating Type	Solicitation Status
Telefonos de Mexico S.A.B. de C.V.	-	Long Term Issuer Default Rating	Unsolicited
Telefonos de Mexico S.A.B. de C.V.	-	Local Currency Long Term Issuer Default Rating	Unsolicited
Telefonos de Mexico S.A.B. de C.V. senior unsecured bond/note	US879403AV52	Long Term Rating	Unsolicited
Telefonos de Mexico S.A.B. de C.V. senior unsecured bond/note	USP9048DEC94	Long Term Rating	Unsolicited
Telefonos de Mexico S.A.B. de C.V. senior unsecured bond/note	US879403AU79	Long Term Rating	Unsolicited

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