

CREDIT OPINION

3 December 2021

Update

✓ Rate this Research

RATINGS

Elisa Corporation

Domicile	Helsinki, Finland
Long Term Rating	Baa2
Type	LT Issuer Rating
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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Elisa Corporation

Update to credit analysis

Summary

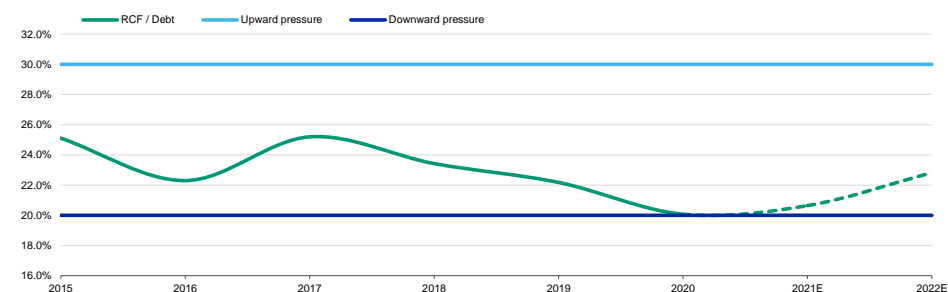
[Elisa Corporation's](#) (Elisa) Baa2 rating reflects the company's integrated business profile and leading positions in Finland's fixed and mobile markets; the stable operating environment in [Finland](#) (Aa1 stable), which supports a rational pricing environment; the company's solid financial profile; its track record of operating with predictable financial policies, including a target leverage (net reported debt/EBITDA) of 1.5x-2.0x; and solid and stable cash flow metrics for the Baa2 rating.

The rating also factors in Elisa's small scale and revenue concentration in Finland, except for its increasing exposure to Estonia; and the company's limited free cash flow generation because of the generous shareholder remuneration policy.

Exhibit 1

Elisa's cash flow metrics expected to recover across next 12-18 months

Evolution of Moody's-adjusted retained cash flow (RCF)/debt



Source: Moody's Financial Metrics™

Credit strengths

- » Strong market position in Finland
- » Integrated business model and moderate technology risk
- » Elisa operates in the most advanced mobile market in the world with best-in-class mobile service revenue growth due to its unique value creative pricing model
- » Stable market structure, despite keen pricing competition in the mobile segment
- » Relatively high EBITDA margin and low capital spending intensity, which support cash flow generation
- » Predictable financial policies, which support stable and conservative credit metrics

Credit challenges

- » Small scale
- » Revenue concentration in Finland, notwithstanding increased exposure to Estonia
- » A competitive domestic market, which limits growth opportunities

Rating outlook

The stable rating outlook takes into consideration the fact that Elisa will perform according to its business plan while maintaining its credit metrics for the current rating category. In addition, the stable outlook factors in our expectation that the company will maintain adequate liquidity at all times.

Factors that could lead to an upgrade

Positive pressure could be exerted on Elisa's rating if the company's credit metrics improve, such that its Moody's-adjusted gross debt/EBITDA remains well below 2.0x and retained cash flow (RCF)/adjusted debt remains above 30%.

Factors that could lead to a downgrade

Negative rating pressure could result from any unexpected deterioration in market conditions; or larger-than-expected investments and further returns to shareholders, causing the company's Moody's-adjusted gross debt/EBITDA to rise above 2.5x and RCF/adjusted debt to trend towards 20%, without any prospect of recovery.

Key indicators

Exhibit 2

Elisa Corporation

EUR Millions	2016	2017	2018	2019	2020	2021E	2022E
Revenue	1,636	1,787	1,832	1,844	1,895	1,945	1,984
Debt / EBITDA	2.2x	2.0x	2.0x	1.9x	2.1x	2.1x	1.9x
RCF / Debt	22.3%	25.2%	23.4%	22.2%	20.1%	20.6%	22.8%
(EBITDA - CAPEX) / Interest Expense	12.4x	12.7x	12.9x	17.7x	23.6x	22.7x	23.8x
Net Debt/EBITDA	2.2x	1.9x	1.9x	1.9x	1.8x	1.9x	1.7x
RCF/ Net Debt	23.0%	26.1%	24.9%	23.1%	23.3%	22.2%	24.9%

All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. RCF calculated as funds from operations less dividends.

Source: Moody's Financial Metrics™

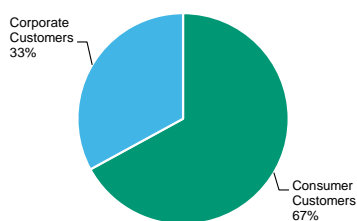
This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody.com for the most updated credit rating action information and rating history.

Profile

Elisa Corporation (Elisa) is an integrated provider of telecommunication services in Finland, with over 4.9 million mobile and over 1.4 million fixed subscriptions as of Q3 2021. Elisa holds leading positions in Finland, in both mobile and fixed-line segments, with a 41% subscriber market share in mobile and 35% in fixed broadband. The company also operates in Estonia as the second-largest integrated telecommunications operator, with a total subscription market share of 33% in mobile and 23% in fixed broadband. The company offers fixed broadband, mobile, pay-TV and corporate network services. As of November 2021, the Finnish state, through its investment arm, Solidium, owns a 10% stake in Elisa. In addition, the State Pension Fund owns a 0.66% stake in the company. In the 12 months ended September 2021, Elisa generated revenue and EBITDA of €1.96 billion and €699 million, respectively.

Exhibit 3

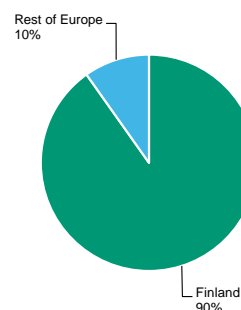
Elisa provides fixed and mobile services to consumers and businesses in Finland and Estonia
Q3 2021 EBITDA breakdown by segment



Source: Company data

Exhibit 4

Elisa's operations are concentrated in Finland, which accounted for ca. 90% of revenue in Q3 2021
Q3 2021 revenue breakdown by geography



Source: Company data

Detailed credit considerations

Small size and limited geographical diversification, partially offset by a strong market position in Finland

With revenue of €1.96 billion and EBITDA of €699 million in the 12 months that ended September 2021, Elisa is a relatively small incumbent telecom operator in Europe. The company's operations are concentrated in Finland, which accounted for ca. 90% of its revenue in Q3 2021, and where it holds leadership positions in mobile and fixed broadband. In Estonia, accounting for almost 10% of Elisa's revenue as of Q3 2021, the company historically operated as a wireless network operator. However, Elisa's competitive position has improved in Estonia after the acquisition of Starman in 2016 and Santa Monica in 2017, creating an integrated operator offering fixed broadband, mobile and pay-TV services. In the near term, we expect Elisa's management to remain focused on building a competitive position in its core markets, Finland and Estonia. Furthermore, we expect a conservative M&A policy focused on small bolt-on acquisitions designed to strengthen the company's market position in strategic segments, such as the digital services business; this has been confirmed also by the recent 50.1% acquisition of TenForce, a Belgium-based software company which provides operational risk management software, occurred in September 2021.

An integrated business model and moderate technology risk

Elisa is an integrated operator in Finland. Overall, we view integrated operators more favorably than standalone fixed-line operators or mobile-only companies. As markets converge, integrated operators are better positioned to benefit from growth trends in either the fixed-line or mobile business, while hedging their exposure to slowing sub-segments, such as fixed voice. Similarly, converged operators tend to merge corporate functions, such as sales, marketing and network operations, thereby enhancing operating efficiency.

We view Elisa's technology risk as moderate, given its leading position in 4G networks, in terms of both coverage and speed. The company has made heavy investments in its 4G LTE network, reaching over 99% coverage in Finland and 98% coverage in Estonia. Elisa is also leading in 5G: as of September 2021, Elisa's 5G network has the widest coverage in Finland, reaching ca. 60% population in approximately 130 locations. In June 2020, Elisa won 800 MHz of spectrum licences in the 26 GHz band to continue expanding its 5G network. In Finland, the firm has secured all main frequencies until 2033, and from 2019 it has had the largest amount of spectrum in the country. Because of its large spectrum ownership and the low population density in Finland, Elisa has more spectrum per capita

than other European operators. As a result, it is one of the few European companies that differentiate their offers by speed rather than the size of data buckets.

The governments of Estonia and the US have signed a memorandum of understanding that will restrict the use of Huawei equipment in Estonia's 5G mobile core networks. However, although Elisa's suppliers for Radio Access Network are [Nokia Oyj](#) (Ba2 positive) and Huawei, the company's core equipment is provided by Ericsson and Nokia.

Stable market structure supports a rational pricing environment

Elisa is one of the more stable operators in the European telecom peer group in terms of operating performance and cash flow generation. This stability stems from Elisa's long-term strategy, its execution and unchanged capital allocation policies, and a favorable operating environment where the three established national operators — Elisa, [Telia Company AB](#) (Telia, Baa1 stable) and DNA Oyj (DNA, owned by [Telenor ASA](#) [A3 negative]) — own fixed broadband and mobile assets, and try to take their fair share of modest market growth, with no major shifts in market position. Average prices are relatively low by the European market standard, leaving little room for discounted offers by mobile virtual network operators, which only have a less than 1% share of the market.

The Finnish mobile market remains dominated by Elisa, which has a 41% market share in terms of subscribers, followed by Telia with 32% and DNA with 27%. As of Q3 2021, in fixed broadband, Elisa has a strong position with a 30.5% market share, DNA is market leader with 32.6%.

While macroeconomic environment has improved in Finland over last quarters, competition in mobile and in fixed broadband in the Finnish telecommunications market remained intense in 2021. Elisa believes that its ability to continue to defend its market share depends on its superior network quality; wider portfolio of digital services businesses; premium packages that are unique to the market; and lean cost structure, which provides it with the capacity to invest more in customer acquisitions, if required.

Upselling to higher speeds supported good operating performance, despite intense competition

In the first nine months of 2021, Elisa's operating performance was solid; compared to the same period last year, revenues grew 4.7% and EBITDA increased 1.5%. Particularly, revenue increase is mainly due to the camLine acquisition and Elisa Viihde Viaplay cooperation, as well as growth in mobile services, domestic digital services and equipment sales; on the other hand, decrease in usage and subscriptions of traditional fixed telecom services, other fixed services as well as interconnection and roaming affected revenue negatively. EBITDA growth was mainly driven by revenue growth and efficiency improvement measures.

In the mobile segment, Elisa has been successful in upselling higher speeds to customers at higher prices; during 2021, upselling of mobile subscriptions is still continuing, mainly driven by 5G. In Finland, mobile post-paid ARPU increased to EUR 20.1 in Q3 2021 from EUR 19.0 in Q3 2020, and mobile post-paid churn decreased to 16.3% from 17.6%; in the same 12-months period, total subscriptions in Finland increased 3% to over 4.2 million (of which, 92% are post-paid subscriptions). The shift to higher speeds has been accelerated by the rapid uptake of smartphones in Finland (as of Q3 2021, 92% of Elisa's customers used smartphones compared to 87% in Q3 2020, with 4G/5G speed penetration now reaching 80%), greater demand for online TV and videos, and the company's unlimited mobile data pricing model, among others. In addition, Elisa continues to record strong demand for premium subscriptions in Finland, with 84% of post-paid subscriptions being fixed-monthly-fee, unlimited bundles.

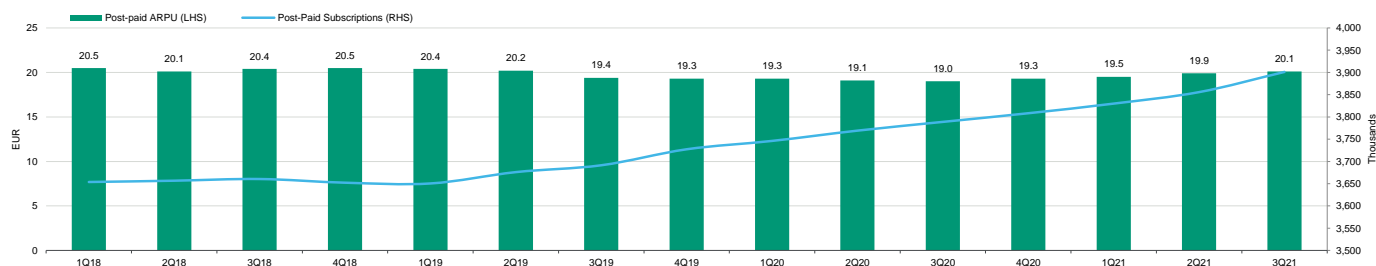
For the full year 2021, Elisa estimates its revenue to be slightly higher than in 2020, and the same guidance applies also to EBITDA. Mobile data and digital services are expected to increase revenue, along with productivity improvement and quality enhancement measures that will likely increase customer satisfaction and efficiency, while reducing costs. On the downside, competition in the Finnish telecommunications market remains keen and greater promotional activity might be needed. Noticeably, the impact of COVID-19 on Elisa's business has been limited, with the firm only marginally impacted by lower roaming revenue due to the reduced amount of travel.

In the next 12-18 months, we expect revenue to slightly increase at around 2% and reported EBITDA margin to remain close to 36%. Earnings growth should be supported by continued upselling of customers from 3G to 4G and from 4G to 5G, as well as growth in digital services revenue, and further productivity improvements.

Exhibit 5

Post-paid subscriptions and ARPU have been increasing during last 12 months ended September 2021. Subscription growth is mainly with M2M/IoT-subscriptions

Evolution of post-paid subscriptions and ARPU in Finland



Source: Company data

Predictable financial policies drive stable and conservative credit metrics

Elisa has a track record of a stable financial policy. The company's medium-term financial targets as of Q3 2021 remain unchanged from previous year and include reported net debt/EBITDA of 1.5x-2.0x, equity above 35%, and maximum capital spending/sales of 12% excluding leases and spectrum licences. Elisa's capital spending intensity is lower than the European average of around 15%, which management attributes to the company's strict capital spending policy, lean strategy focused on market demand and effectiveness in actively managing its network.

Elisa's stable financial policy provides good cash flow visibility and supports a generous dividend policy aimed at distributing 80%-100% of net profit, provided net debt/EBITDA remains within 1.5x-2.0x. Given the fact that the vast majority of the excess cash flow is distributed to shareholders, this policy leaves little capacity to accommodate extraordinary capital spending plans (beyond Elisa's 12% capital spending/sales target) or sizeable debt-financed M&A. Furthermore, in light of its generous dividend policy, we expect Elisa to continue to exhibit credit metrics most closely associated with a Baa2 rating.

Environmental, social and governance (ESG) considerations

The company's exposure to environmental risks is Neutral-to-Low, in line with exposures of the telecommunications industry. The company's objectives to increase renewable power usage is in line with telecommunications industry trends. The nature of its telecommunications activities, with limited exposure to physical climate risk and very low emissions of pollutants and carbon, results in low environmental risk.

In terms of social risks, data security and data privacy issues these are prominent in Elisa. The company exchanges large amounts of data, and a breach could cause legal, regulatory or reputation issues. In addition, a breach could result in increased operational costs to mitigate cyberattacks and reduce exposure to the loss of private data. Electromagnetic radiation (for example, from mobile antennas or mobile handsets) has repeatedly been said to be potentially harmful to the environment and health. While the need for higher mobile data speeds will increase electromagnetic radiation, we do not see it as a significant environmental risk for Elisa, given the existing regulatory radiation limits in Finland and ongoing technology improvements.

Elisa has neutral exposure to governance factors. Elisa has a long track record operating under a well-defined, predictable financial policy, which provides good cash flow visibility and supports a generous dividend policy aimed at distributing 80%-100% of net profit, provided net debt/EBITDA remains within 1.5x-2.0x. The company is listed and while the Finnish state, through its investment arm, Solidium, owns a 10.0% stake in Elisa, this is not considered a concentrated ownership.

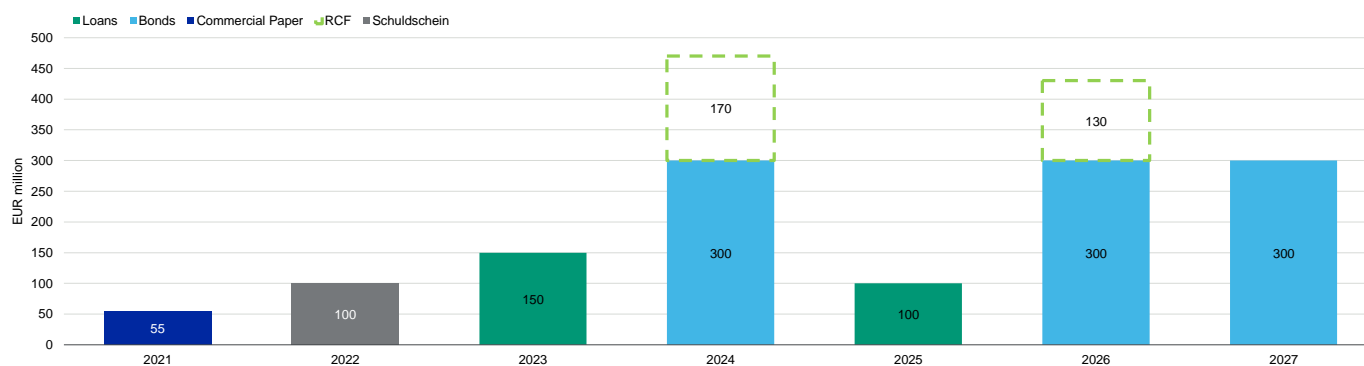
Liquidity analysis

Elisa's liquidity is adequate, supported by cash and cash equivalents of €89 million as of September 2021 and full availability under its €300 million committed revolving credit facilities, including the €170 million RCF maturing in 2024 and the €130 million sustainability-linked RCF issued in Q3 2021 and maturing in 2026 (with two years extension option). These sources, together with expected annual funds from operations of €620 million-€640 million, will more than cover Elisa's cash needs over the next 12-18 months, including €55 million in commercial paper maturities, €100 million Schuldschein loan issued in Q1 2021 and maturing in 2022, around €275 million in capital spending and around €320 million in dividends.

Exhibit 6

We expect internal sources of liquidity to more than cover debt maturing over 2021-22

Debt maturity profile as of 30 September 2021



RCFs are fully undrawn as of September 2021

Source: Company data

Methodology and scorecard

The scorecard-indicated outcome for Elisa, according to the Telecommunications Service Providers rating methodology and based on our forecasts for the next 12-18 months, is in line with the actual rating of Baa2. The outcome reflects the company's status as an integrated incumbent in a highly competitive domestic market, as well as its small scale compared with that of its industry peers. The outcome also incorporates the company's strong interest expense coverage ratio and modest leverage for its rating category.

Exhibit 7

Rating factors

Elisa Corporation

	Current FY 12/31/2020		Moody's 2022 Forward View As of Nov-21	
Telecommunications Service Providers Industry Scorecard [1][2]	Measure	Score	Measure	Score
Factor 1 : Scale (12.5%)				
a) Revenue (USD Billion)	\$2.2	B	\$2.4	B
Factor 2 : Business Profile (27.5%)				
a) Business Model, Competitive Environment and Technical Positioning	Baa	Baa	Baa	Baa
b) Regulatory Environment	Ba	Ba	Ba	Ba
c) Market Share	Baa	Baa	Baa	Baa
Factor 3 : Profitability and Efficiency (10%)				
a) Revenue Trend and Margin Sustainability	Baa	Baa	Baa	Baa
Factor 4 : Leverage and Coverage (35%)				
a) Debt / EBITDA	2.1x	Baa	1.9x	A
b) RCF / Debt	20.1%	Ba	22.8%	Ba
c) (EBITDA - CAPEX) / Interest Expense	23.6x	Aaa	23.8x	Aaa
Factor 5 : Financial Policy (15%)				
a) Financial Policy	Baa	Baa	Baa	Baa
Rating:				
a) Scorecard-Indicated Outcome		Baa2		Baa2
b) Actual Rating Assigned				Baa2

All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. This represents Moody's forward view, not the view of the issuer, and unless noted in the text, does not incorporate significant acquisitions or divestitures.

Source: Moody's Financial Metrics™

Ratings

Exhibit 8

Category	Moody's Rating
ELISA CORPORATION	
Outlook	Stable
Issuer Rating	Baa2
Senior Unsecured -Dom Curr	Baa2

Source: Moody's Investors Service

Appendix

Exhibit 9

Peer comparison

(in USD millions)	Elisa Corporation			Telenor ASA			Telia Company AB			Koninklijke KPN N.V.		
	Baa2 Stable			A3 Negative			Baa1 Stable			Baa3 Stable		
	FYE Dec-19	FYE Dec-20	LTM Sep-21	FYE Dec-19	FYE Dec-20	LTM Jun-21	FYE Dec-19	FYE Dec-20	LTM Sep-21	FYE Dec-19	FYE Dec-20	LTM Jun-21
Revenues	2,064	2,162	2,343	12,926	13,090	13,584	9,098	9,718	10,382	6,156	6,030	6,258
EBITDA	739	790	836	5,740	5,779	6,088	3,288	3,743	3,825	2,563	2,813	2,927
Total Debt	1,444	1,757	1,619	16,244	17,934	16,797	12,010	12,365	11,581	8,603	9,291	8,744
Cash & Cash Equivalents	58	269	103	1,557	2,382	2,290	658	985	1,601	1,169	1,061	950
EBITDA Margin	35.8%	36.5%	35.7%	44.4%	44.2%	44.8%	36.1%	38.5%	36.8%	41.6%	46.7%	46.8%
(EBITDA-CAPEX) / Interest Expense	17.7x	23.5x	30.9x	5.2x	7.4x	8.1x	4.5x	5.0x	4.8x	3.4x	4.7x	4.7x
Debt / EBITDA	1.9x	2.1x	2.0x	2.8x	2.8x	2.7x	3.6x	3.0x	3.1x	3.3x	3.1x	3.0x
FCF / Debt	1.6%	2.4%	1.0%	-5.8%	2.6%	-0.3%	0.8%	1.9%	1.6%	3.5%	3.6%	4.5%
RCF / Debt	22.2%	20.1%	20.0%	13.2%	18.3%	16.1%	15.9%	19.1%	17.3%	20.4%	21.0%	20.8%

All figures and ratios are calculated using Moody's estimates and standard adjustments. FYE = Financial year-end. LTM = Last 12 months. RUR* = Ratings under review, where UPG = for upgrade and DNG = for downgrade.

Source: Moody's Financial Metrics™

Exhibit 10

Moody's-adjusted debt breakdown

Elisa Corporation

(in EUR Millions)	FYE Dec-15	FYE Dec-16	FYE Dec-17	FYE Dec-18	FYE Dec-19	FYE Dec-20
As Reported Debt	991.1	1,168.6	1,117.5	1,148.6	1,236.2	1,426.8
Pensions	14.6	15.4	14.8	13.9	15.3	9.6
Operating Leases	167.4	168.9	166.2	172.5	0.0	0.0
Non-Standard Adjustments	13.8	29.2	18.1	34.3	35.4	0.0
Moody's-Adjusted Debt	1,186.9	1,382.1	1,316.6	1,369.3	1,286.9	1,436.4

All figures are calculated using Moody's estimates and standard adjustment

Source: Moody's Financial Metrics™

Exhibit 11

Moody's-adjusted EBITDA breakdown

Elisa Corporation

(in EUR Millions)	FYE Dec-15	FYE Dec-16	FYE Dec-17	FYE Dec-18	FYE Dec-19	FYE Dec-20
As Reported EBITDA	535.3	566.1	654.9	640.5	660.4	692.1
Pensions	-0.1	0.0	0.0	0.0	0.0	0.0
Operating Leases	55.8	56.3	55.4	57.5	0.0	0.0
Unusual	-2.1	-2.2	-47.5	-6.5	-0.4	0.0
Non-Standard Adjustments	-2.3	1.4	0.0	0.4	0.2	0.0
Moody's-Adjusted EBITDA	586.6	621.6	662.8	691.9	660.2	692.1

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

Source: Moody's Financial Metrics™

Exhibit 12

Selected historical and projected Moody's-adjusted financial data

Elisa Corporation

(in EUR Millions)	2016	2017	2018	2019	2020	2021E	2022E
INCOME STATEMENT							
Revenue	1,636	1,787	1,832	1,844	1,895	1,945	1,984
EBITDA	622	663	692	660	690	701	716
BALANCE SHEET							
Cash & Cash Equivalents	45	44	81	52	220	104	113
Total Debt	1,382	1,317	1,369	1,287	1,478	1,453	1,353
CASH FLOW							
Capex = Capital Expenditures	259	304	285	254	270	275	276
Dividends	223	240	263	280	296	315	319
Free Cash Flow (FCF)	55	7	17	21	35	20	28
RCF / Debt	22.3%	25.2%	23.4%	22.2%	20.1%	20.6%	22.8%
PROFITABILITY							
EBITDA Margin %	38.0%	37.1%	37.8%	35.8%	36.4%	36.1%	36.1%
INTEREST COVERAGE							
EBITDA / Interest Expense	21.2x	23.4x	22.0x	28.7x	32.1x	37.3x	38.6x
(EBITDA - CAPEX) / Interest Expense	12.4x	12.7x	12.9x	17.7x	23.6x	22.7x	23.8x
LEVERAGE							
Debt / EBITDA	2.2x	2.0x	2.0x	1.9x	2.1x	2.1x	1.9x

All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. This Represents Moody's forward view, not the view of the issuer

Source: Moody's Financial Metrics™ and Moody's Investors Service estimates

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