

Rating Action: Moody's Changes the Outlook on ENTEL's Ratings to Stable; affirms Baa3 ratings

Global Credit Research - 15 May 2017

New York, May 15, 2017 -- Moody's Investors Service, ("Moody's") affirmed the Baa3 long-term issuer and senior unsecured ratings of Empresa Nacional de Telecomunicaciones S.A. ("Entel") and changed the outlook to stable from negative.

Ratings affirmed as follows:

Issuer: Empresa Nacional de Telecomunicaciones S.A.

LT Issuer Rating: Baa3

USD 1.0 billion Senior Unsecured Bond due 10/30/2024: Baa3

USD 800 million Senior Unsecured Bond due 08/01/2026: Baa3

Outlook Actions:

Issuer: Empresa Nacional de Telecomunicaciones S.A.

Outlook: Changed to Stable from Negative

RATINGS RATIONALE

The change in outlook reflects Moody's expectation that from 2017 through 2019, Entel's performance will be characterized by positive momentum, including expanding profitability, improved free cash flow generation and declining leverage. The stable outlook incorporates the continued reversal of negative trends in profitability and cash generation following Entel's expansion in Peru beginning in 2013.

During 2016, Entel's performance recovered from a material deterioration in 2015, signaling the easing of operating pressures surrounding its expansion in Peru. EBITDA margins rose to 30% in 2016, after dipping to under 28% (as adjusted by Moody's) in 2015 in line with a multi-year decline. During the same period, leverage continued to fall from a peak of over 4 times to 3.5 times by year end 2016. Moody's forecasts that the Peru operation will break even toward the second half of 2018 and, combined with cost savings in Chile, strong EBITDA generation will lead to an ongoing decline in leverage towards 2.5 times by 2019. In addition to increased profitability, Moody's estimates that capital spending will decline from 35% of revenues in 2016 to under 24% in 2017. While lower capital intensity will promote better cash generation, free cash flow will remain flat to slightly negative through 2018, as adjusted and forecasted by Moody's.

Entel Chile's Baa3 ratings are supported by the company's leading market position in Chile, where it is one of the largest wireless services providers with a 34% subscriber market share. The company's high quality subscriber base and state of the art technology also allow for solid revenue growth and EBITDA margins in Chile, which helped absorb losses from the ramping up of Peruvian operations since 2013. The ratings also reflect Entel Chile's adequate liquidity and comfortable maturity profile. The ratings are constrained by high leverage for the rating level and negative free cash flow in line with decreasing, although still high CAPEX needs as the company grows its presence and revenues in Peru. The ratings also incorporate Entel Chile's operations within highly competitive environments, and the company's small scale relative to global industry peers.

Moody's could consider a rating upgrade if Entel posts sustained improvements in its credit metrics. Quantitatively, an upgrade would be considered if the company posts sustained revenue and EBITDA margin growth, while operations in Peru achieve the breakeven point. If the company reduces and maintains adjusted gross leverage toward 2.75 times, an upgrade could also be considered.

Moody's could consider a ratings downgrade if pressures from continued high CAPEX and dividends result in additional increase in leverage to finance negative FCF, such that adjusted debt to EBITDA ratio remains

above 3.5 times over the long-term. The rating could also come under pressure if operating and competitive pressures or longer than expected breakeven in Peruvian operations reduce the company's EBITDA margins.

The principal methodology used in these ratings was Telecommunications Service Providers published in January 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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