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Rating Action
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Rating Action: Eutelsat Communications SA

Moody's changes rating outlook for Eutelsat to positive (from stable)

New York, April 07, 2008 -- Moody's Investors Service today changed the rating outlook for Eutelsat Communications S.A. (Corporate Family Rating at Ba2) to positive (from stable). The outlook change recognizes Eutelsat's continued strong operating performance and its sustained focus on infrastructure strengthening.

Eutelsat remains on a good growth trajectory and appears to be on track to achieve its guidance on revenues of Euro 850-860 million and of EBITDA margin in excess of 78% in FY2007-08. With its HY 2007-08 results, the company confirmed its mid-term growth objectives announced in October 2007 covering the period 2007-2010 of achieving a CAGR of above 5.5% with an EBITDA margin in excess of 77%. The expected growth in revenues and profitability is underpinned by the solid business position of Eutelsat in Video Applications as well as the promising growth in its broadband services business. The positive outlook factors in Moody's expectation that Eutelsat can maintain its growth momentum with continued visible organic growth and commensurate profit development while continuing to build on its revenues from Video Applications as well as focusing on expanding revenues from broadband services.

Eutelsat has set clear medium term growth objectives and has outlined its plans of increasingly investing in infrastructure strengthening over the course of 2007-10 with an average annual expected capital expenditure of ~Euro 450 million during the period. The company is planning to launch seven new satellites during 2008-10 including KA-SAT, a Ka-band satellite primarily to be used for consumer broadband service across Europe. Though Moody's acknowledges that the enhancement of in-orbit resources from the launches of the planned new satellites should help to facilitate incremental growth in Eutelsat's overall revenues over the medium-term (notably broadband revenues subject to market acceptance of satellite broadband services), risks from the successful and timely launch and entry into service of the planned satellites continue to exist in Moody's view, in addition to the sector typical technological risks of malfunctioning and/ or breakdown. While Eutelsat's business is characterized by high EBITDA margins which translate into strong operational cash flows, high level of capex in conjunction with a progressive distribution policy with a pay-out ratio between 50% and 75% of net income Group share during the period 2007-2010 is expected to hold-back free cash flow generation in the near term. High capex levels reflect both, growth and replacement investment. However, Moody's would expect the company to return to visible free cash flow generation post completion of the planned investment programme by the end of 2010.

Moody's notes that Eutelsat has committed to adhere to a leverage target of Net Financial Debt/ EBITDA (as defined by the company) between 3x-4x over the medium term. For the last twelve months ending December 31, 2007, Eutelsat reported gross debt (including performance incentives, operating leases and pension adjustments) to EBITDA ratio as calculated by Moody's of 3.7x. While, Moody's expects no significant improvement in the leverage position of the company in the near term due to the enhanced capex programme in addition to the dividend outflows, it draws comfort from the company's commitment to a specific leverage target over the medium-term. Moody's would expect the company to manage any acquisitions in a prudent manner enabling it to adhere to its leverage guidance.

Continued solid operational progress and maintenance of Gross Debt/ EBITDA (as defined by Moody's) at around 4x while successfully pursuing a strategy of combining further strengthening of its premium video neighbourhoods (comprising 13 degrees East and 28.5 degrees East positions) together with the development of its other major video neighbourhoods and simultaneously making sustained efforts towards enhancing revenues from Value-added Services via continuous expansion of broadband services, would likely lead to further positive ratings evolution. At the same time, Moody's would also expect the company to continue maintaining a strong order backlog and return to satisfactory free cash flow generation post completion of the ongoing investment programme.

Moody's believes Eutelsat's liquidity position is sufficient for its current needs. The company has no long-term maturities until 2011. Although the company's free cash flow generation will be constrained in the near term due to high capex requirements, we note that there is headroom under the company's committed bank facilities, including the revolving credit facility of EUR 650 million at Eutelsat SA (due 2011) and EUR 300 million at Eutelsat Communications (due 2013).

For the first half of 2007/8, Eutelsat reported revenues of EUR 429.4 million (EUR 415.3 million in 2006/7), registering an increase of 3.4%. Growth was mainly driven by higher revenues (increase of 10.2%) from the video segment reflecting the arrival of new channels targeted to strengthen Group's premium and major video neighbourhoods. While revenues for the Data Services division fell by 12.9% due primarily to the reallocation of capacity to Video Applications, revenues at Value Added Services registered a 13.6% increase driven mainly by the strong take-up of the DSTAR broadband service. Revenues at Multi-Usage remained stable at Euro 29.5 million for the period. EBITDA margins improved to 81.3% (from 79.4% in H106-07) during the period due to lower in-orbit insurance costs, provision reversals together with lower allowance for provisions on trade receivables, and also due to the postponement of certain expenses to the second half of the year. Eutelsat expects the EBITDA margin for the second half of 2007/08 to be relatively lower than the first half of the year due to seasonal effects.

Headquartered in Paris, Eutelsat Communications SA is a leading, internationally operating supplier of fixed satellite services.

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