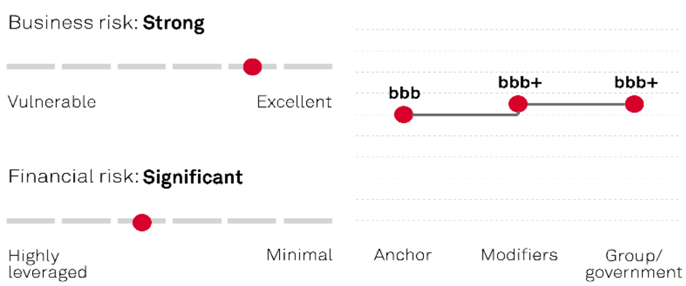
Deutsche Telekom AG

June 18, 2024

Ratings Score Snapshot



BBB+/Stable/A-2

Issuer credit rating

Primary contact

Sandra Wessman
Stockholm
46-84-40-5910
sandra.wessman
@spglobal.com

Secondary contact

Xavier Buffon
Paris
33-14-420-6675
xavier.buffon
@spglobal.com

Credit Highlights

Overview

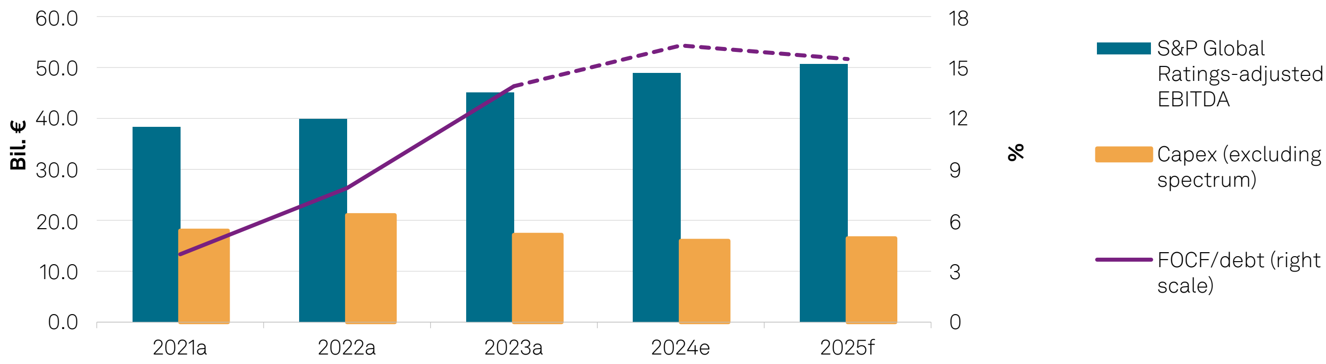
Key strengths	Key risks
Incumbent position in the fixed and mobile segments in the domestic market, characterized by rational pricing and relatively predictable conditions in fixed broadband.	Deutsche Telekom has exceeded the upper limit of its 2.25x-2.75x net debt to EBITDA corridor since the acquisition of Sprint in 2020.
A controlling 50.4% stake in T-Mobile U.S. (TMUS) as of March 31, 2024, the second-largest wireless service provider in the U.S. with strong spectrum holdings.	Continued increase in ownership of TMUS, shareholder distributions, spectrum payments, and acquisitions will limit deleveraging over the next two years.
High-quality mobile network in Germany and a widespread super-vectoring fixed-line broadband network that is gradually complemented with the fiber-to-the-home (FTTH) roll-out.	Potential pressure on capital expenditure (capex) from inflation, competitive pressure to roll-out FTTH in the U.S., or regulatory network requirements in Germany.
Diversification and growth opportunities underpinned by leading positions in several European fixed and mobile markets.	

Deutsche Telekom AG's (DT) solid operational performance remains supported by strong mobile service revenue growth across regions, and fixed wireless access (FWA) growth in the U.S. We expect that DT will continue to monetize on its well-invested mobile networks and strong brand recognition, leading to an annual growth rate of about 2% in 2024-2025. Its 5G network now covers 96.5% of the population in Germany, and is a key enabler behind the 3.4% service revenue growth in its domestic market during the first quarter of 2024. Furthermore, DT showed strong revenue growth of 6.3% in its European segment during the same quarter, primarily attributable to mobile service revenue growth and its expanding 5G network coverage (68.2% of the population in the European segment at March 31, 2024). Additionally, we expect solid service revenue growth for DT's controlled subsidiary, TMUS, benefiting from higher postpaid average revenue per user and 0.5 million postpaid phone net adds during first-quarter 2024. Subscriber growth has also been strong for TMUS' FWA segment over the past couple of years, adding about 0.5 million subscribers per quarter. TMUS reached 4.8 million subscribers at year-end 2023 and is on target to reach 7 million-8 million by the end of 2025. In our view, FWA is an excess capacity business model, limiting the addressable market, and we therefore expect the pace of growth to slow.

Service revenue growth will also translate into higher S&P Global Ratings-adjusted EBITDA margin, which we expect will be somewhat balanced by integration costs from new acquisitions. We anticipate a gradual increase in the adjusted EBITDA margin toward 44% in 2025 from 40.3% in 2023. This improvement stems from sustained growth in service revenue and benefits of scale, in the U.S. in particular. That said, we expect these supportive margin trends will be balanced by the recently announced acquisition of United States Cellular, since we expect it will be accompanied by integration expenses of $2.2 billion-$2.6 billion in the next two-to-three years (see "T-Mobile US Inc.'s Announced Acquisition Of United States Cellular's Operations Is Credit Positive, May 29, 2024," published May 29, 2024, on RatingsDirect). Furthermore, we expect that the current higher inflation in Europe could put pressure on operating expenditure.

Since 5G coverage is approaching 100% of the German and U.S. population, we expect capex will shift toward FTTH roll-out and network densification. In 2023, DT allocated more than €2.5 billion to expand its fiber-optic infrastructure in Germany. We expect DT to continue fiber rollout as it targets an average of 2.5 million additional FTTH connections per annum to reach its target of 10 million homes passed by 2024 (9.3 million at first-quarter 2024). Apart from the FTTH roll-out, we expect densification of DT's mobile networks across regions will receive the majority of the capex. Furthermore, we note that DT may be subject to new mobile network coverage requirements, since part of the German regulatory authority consultation will extend current mobile frequencies (800 megahertz (MHz), 1800 MHz, and 2600 MHz) until 2030, from the previous expiry date of 2025.

Sustained EBITDA expansion and slow down in capex will lead FOCF/debt



Note: a--Actual. e--Estimate. f--Forecast. Capex--Capital expenditure. FOCF--Free operating cash flow.
Source: S&P Global Ratings

DT remains committed to invest in long-term growth drivers and collaborations. In 2024 TMUS announced a joint venture with private equity firm EQT to buy Lumos Networks, as a way of participating in the expanding FTTH market in the U.S. This transaction entails TMUS acquiring a 50% stake in Lumos, all its fiber customers, and investing $950 million into the venture in late 2024 to early 2025. TMUS will make another $500 million investment in 2027-2028. These investments, coupled with the contributions from EQT, will enable Lumos to build out its FTTH network (marketed under the T-Mobile name) to about 3.5 million homes by 2028. TMUS has disclosed that it will not consolidate the joint venture in its financials. That said, the transaction is relatively small and over time the company may be pushed to pursue more aggressive fiber acquisitions to achieve greater economies of scale. Apart from traditional telecommunication infrastructure investments, DT continues to explore and invest in potential future growth streams, a commitment exemplified by the launch of the €2 billion tech fund.

We assume limited deleveraging over the next two years, since we expect DT will continue to increase its ownership of TMUS, shareholder distributions, acquisitions, and spectrum payments. DT's adjusted leverage declined sharply to 3.1x at year-end 2023 from 3.7x in 2022 (company defined net debt to EBITDA of 2.82x in 2023 from 3.07x in 2022). The improvement was fueled by strong operating performance leading to higher EBITDA, lower restructuring costs, a stronger free operating cash flow (FOCF) profile, and the sale of GD Towers. Although we continue to expect an expansion of EBITDA and FOCF, we anticipate cash outflows related to shareholder distributions (share buybacks and dividends at TMUS and DT), spectrum license payments and acquisitions (Mint Mobile, US Cellular) will exceed FOCF after leases in 2024 and 2025. We also note that the Softbank option was fully exercised in June 2024. As a result, we project the company will reduce net leverage slightly, just reaching the upper limit of their policy corridor and translating to adjusted leverage at or just above 3.0x over the coming two years.

Outlook

The stable outlook indicates our expectation that DT will expand its adjusted EBITDA margin above 40%, while capex will be managed at about 15% of sales, which in our view should lead to annual adjusted FOCF of about €20 billion and leverage comfortably below 3.5x.

Downside scenario

We could lower the rating if DT fails to sufficiently strengthen credit metrics so that leverage rebounds above 3.5x. This could stem from a more aggressive financial policy than we currently foresee, or any material operational setbacks.

Upside scenario

We could raise the rating if DT's cash flow metric improves to the extent that funds from operations (FFO) exceed 30% of debt and free cash flow exceeds 15% of debt, while leverage reduces to below 3.0x.

Our Base-Case Scenario

Assumptions

- Real GDP growth in Germany of 0.3% in 2024 and 1.2% in 2025.
- Real GDP growth in the U.S. of 2.5% in 2024 and 1.5% in 2025.
- Real GDP growth in the eurozone of 0.7% in 2024 and 1.3% in 2025.
- Annual revenue growth of 2%-3% on a currency-adjusted basis over the next two years, stemming primarily from strong service revenue growth across regions.
- Gradual strengthening of the adjusted EBITDA margin to 42.9% in 2024 and over 43.7% by year-end 2025, compared with 40.3% in 2023 and 34.9% in 2022.
- Capex (excluding spectrum payments) of 14%-15% of sales in 2024-2025 compared with 15.3% in 2023 and 18.4% in 2022. Following a slowdown in 5G-related expenditure in the U.S., we expect that capex will be used to continue enhancing and densifying the U.S. mobile network, as well as continuing the FTTH roll out in Europe.
- Spectrum outlays of US$3.5 billion for the 600 MHz license in the U.S. in 2024. Although the amount is uncertain, there are also upcoming spectrum auctions in Poland and Slovakia.
- Continued increase of DT's stake in TMUS (DT held 50.6% of shares in TMUS as of year-end 2023) during 2024.

- $19 billion of shareholder distributions (sharebuybacks and dividends) authorized until December 2024 for TMUS.
- Share buybacks of €2 billion by DT.

Since the publication of our captive finance criteria on Oct. 23, 2023, we no longer adjust for TMUS' captive finance operations which previously had a positive impact of about 0.15x on adjusted debt-to-EBITDA.

We fully consolidate TMUS in our credit metrics.

Key metrics

Deutsche Telekom AG--Forecast summary

Period ending	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025
(Mil. EUR)	2020a	2021a	2022a	2023a	2024e	2025f
Revenue	100,999	108,794	114,197	111,970	114,192	115,936
Gross profit	56,325	59,111	61,271	64,769	68,755	70,776
EBITDA (reported)	36,972	40,538	43,047	44,759	48,348	50,058
Plus: Pension & other postretirement expense	(215.0)	(87.0)	37	31	31	31
Plus: Stock compensation expense	628	540	655	674	674	674
EBITDA - Gain/(Loss) on disposals of PP&E	368	161	(92.0)	42	0.0	0.0
EBITDA - Business Divestments	(10.0)	(214.0)	(2,732.0)	(239.0)	0.0	0.0
EBITDA - Other (situational)	(2,706.7)	(2,640.4)	(1,057.1)	(157.4)	(100.0)	(100.0)
EBITDA	35,036	38,298	39,858	45,110	48,953	50,663
Less: Cash interest paid	(7,586)	(5,241)	(5,669)	(6,136)	(6,018)	(5,688)
Less: Cash taxes paid	(690)	(893)	(902)	(1,312)	(5,537)	(5,907)
Funds from operations (FFO)	26,760	32,164	33,287	37,662	37,398	39,068
EBIT	9,082	10,666	12,382	18,637	24,692	25,627
Interest expense	5,157	5,307	5,720	7,021	6,236	5,939
Cash flow from operations (CFO)	24,361	31,868	35,805	37,255	40,206	39,937
Capital expenditure (capex)	18,360	26,154	23,989	17,659	15,979	16,478
Free operating cash flow (FOCF)	6,001	5,714	11,816	19,596	24,227	23,459
Dividends	3,067	3,145	3,385	4,027	5,400	6,000
Debt (reported)	107,108	111,466	113,030	104,523	104,630	108,642
Plus: Lease liabilities debt	32,715	33,134	38,792	40,793	41,201	39,965
Plus: Pension and other postretirement debt	7,036	5,877	4,057	3,962	3,962	3,962
Less: Accessible cash and liquid Investments	(10,918)	(5,509)	(5,325)	(7,473)	(4,024)	(4,024)
Plus: Trade receivables sold	2173	2265	2154	1990	1990	1990
Plus: ARO debt adjustment	1905.7	2051.1	1276.6	1172.4	1172.4	1172.4
Debt - Derivatives	(2,622.0)	(2,162.0)	(2,889.0)	(2,564.0)	0.0	0.0
Debt - Other (situational)	(3,242.0)	(3,454.0)	(2,345.0)	(921.0)	0.0	0.0
Debt	134,156	143,668	148,751	141,482	148,931	151,707
Equity	72,550	81,468	87,320	91,237	85,932	83,689
Interest expense (reported)	4,638	5,052	5,679	6,588	5,803	5,506

Deutsche Telekom AG--Forecast summary

Capex (reported)	18,694	26,365	24,114	17,866	16,186	16,685
Cash and short-term investments (reported)	12,939	7,617	5,772	7,280	5,000	5,000
Adjusted ratios						
Debt/EBITDA (x)	3.8	3.8	3.7	3.1	3.0	3.0
FFO/debt (%)	19.9	22.4	22.4	26.6	25.1	25.8
FFO cash interest coverage (x)	4.5	7.1	6.9	7.1	7.2	7.9
EBITDA interest coverage (x)	6.8	7.2	7.0	6.4	7.9	8.5
CFO/debt (%)	18.2	22.2	24.1	26.3	27.0	26.3
FOCF/debt (%)	4.5	4.0	7.9	13.9	16.3	15.5
DCF/debt (%)	2.2	1.8	5.7	11.0	3.6	4.5
Annual revenue growth (%)	25.4	7.7	5.0	(2.0)	2.0	1.5
Gross margin (%)	55.8	54.3	53.7	57.8	60.2	61.0
EBITDA margin (%)	34.7	35.2	34.9	40.3	42.9	43.7
Return on capital (%)	5.4	4.9	5.4	8.0	10.6	10.9
Return on total assets (%)	4.1	3.9	4.2	6.3	8.5	8.9
EBITDA/cash interest (x)	4.6	7.3	7.0	7.4	8.1	8.9
EBIT interest coverage (x)	1.8	2.0	2.2	2.7	4.0	4.3
Debt/debt and equity (%)	64.9	63.8	63.0	60.8	63.4	64.4

Company Description

DT is one of the world's largest telecom operators, with headquarters in Bonn, Germany. It offers fixed and mobile telecom services to retail and business customers, as well as information technology services. The company's geographic EBITDA split in 2023 was about 25% in Germany, 10% in Europe, and about 65% in the U.S. DT's largest shareholder is the German state, which as of Dec. 31, 2023 held a direct stake of 14% and an indirect stake of 17% through the German government-owned bank kfW. That said, since the latest reporting period, we understand that the German state, via kfW, has sold 110 million shares in DT. Following this, the combined ownership share of the German government is now estimated at 27.8%.

Peer Comparison

We regard DT’s business risk profile as strong compared to similarly-rated peers, given its exposure to high quality markets. This includes its dominant position in the German telecom market, its strong market position in the U.S. through TMUS (particularly post integration of Sprint), and the additional diversification provided through its European business segment.

Furthermore, we believe that the German market is characterized by rational mobile network pricing and predictable conditions in fixed-line broadband. The market is therefore benign compared with other large European markets that exhibit a higher degree of overlapping infrastructures and pricing pressures.

We regard, TMUS' business risk profile in the U.S as comparable with that of Verizon Communications Inc. and AT&T Inc. We regard its strong mobile network and solid portfolio of spectrum holdings as a competitive advantage, while at the same time we note TMUS' margins are modestly weaker than key peers due to its lack of fiber ownership.

Deutsche Telekom AG--Peer Comparisons

	Deutsche Telekom AG	Orange S.A.	Vodafone Group PLC	Verizon Communications Inc.	AT&T Inc.
Foreign currency issuer credit rating	BBB+/Stable/A-2	BBB+/Stable/A-2	BBB/Stable/A-2	BBB+/Stable/A-2	BBB/Stable/A-2
Local currency issuer credit rating	BBB+/Stable/A-2	BBB+/Stable/A-2	BBB/Stable/A-2	BBB+/Stable/A-2	BBB/Stable/A-2
Period	Annual	Annual	Annual	Annual	Annual
Period ending	2023-12-31	2023-12-31	2023-03-31	2023-12-31	2023-12-31
Mil.	EUR	EUR	EUR	EUR	EUR
Revenue	111,970	44,122	45,706	119,765	110,021
EBITDA	45,110	14,174	19,096	47,030	47,908
Funds from operations (FFO)	37,662	11,922	15,838	38,486	38,200
Interest	7,021	1,467	2,655	7,685	7,659
Cash interest paid	6,136	1,124	2,024	6,424	8,261
Operating cash flow (OCF)	37,255	12,226	16,985	36,359	37,189
Capital expenditure	17,659	7,910	9,213	15,334	15,361
Free operating cash flow (FOCF)	19,596	4,316	7,772	21,026	21,828
Discretionary cash flow (DCF)	15,569	1,982	3,021	11,052	9,467
Cash and short-term investments	7,280	5,505	18,722	1,868	6,081
Gross available cash	9,285	8,183	18,769	1,868	6,081
Debt	141,482	40,950	50,772	148,100	170,443
Equity	91,237	33,565	69,454	82,504	92,647
EBITDA margin (%)	40.3	32.1	41.8	39.3	43.5
Return on capital (%)	8.0	7.1	4.5	11.5	9.4
EBITDA interest coverage (x)	6.4	9.7	7.2	6.1	6.3
FFO cash interest coverage (x)	7.1	11.6	8.8	7.0	5.6
Debt/EBITDA (x)	3.1	2.9	2.7	3.1	3.6
FFO/debt (%)	26.6	29.1	31.2	26.0	22.4
OCF/debt (%)	26.3	29.9	33.5	24.6	21.8
FOCF/debt (%)	13.9	10.5	15.3	14.2	12.8
DCF/debt (%)	11.0	4.8	6.0	7.5	5.6

Business Risk

Strong market position in the rational German market. DT holds an incumbent position in its domestic market in Germany, with a market share of 38% ahead of Telefonica O2, Vodafone Group PLC, and 1&1. Furthermore, DT has a fixed broadband market share of about 40%, which could expand further with the ongoing FFTH deployment. We note that the FTTH coverage in the German market stood at 40.3% in September 2023, according to the FTTH Council Europe, which is below the EU average of 69.9%. In addition, we note that the take-up rate is 24.9%, below the EU average of 49.6%. We assign this development, in part, to the strong super-vectoring fixed-line broadband network which is already in place. However, over time, we expect the demand for higher speed fixed-line connections, such as FTTH, will gradually become aligned with other western-European markets.

A substantial increase in scale in the U.S. following the merger with Sprint. In our view, TMUS has demonstrated success with its integration of Sprint following the merger in April 2020. The company's greater size and scale since the acquisition of Sprint improved its capabilities, expanded its reach, and gave it a greater negotiating position with vendors and suppliers. We note that the company continues to take postpaid mobile market share from its peers, and is increasing service revenue, expanding margins, and improving free cash flow in the face of aggressive competition from AT&T, Verizon, and incumbent cable providers, the latter of which are bundling mobile service with in-home broadband. The company now has a postpaid phone market share of about 30%, modestly higher than AT&T's 28% but still lagging industry leader Verizon's 36%.

European markets add scale and growth opportunities but tend to be more volatile. We believe DT's operations in eight Central and Eastern European markets provide it with additional diversification and expansion opportunities, as mobile data consumption and broadband penetration expand with the current build out of the 5G network and FTTH roll-out. This expansion, in combination with a strong brand recognition has increased growth in DT's converged offerings in several countries. That said, in many countries, DT is also exposed to tough competition and economic and regulatory conditions that we regard as less stable than those in its domestic market. This will likely result in higher earnings volatility over time.

Financial Risk

We expect DT's adjusted debt to EBITDA will remain at 3.1x-3.0x in 2024-2025, since we forecast that strengthening FOCF will be offset by shareholder returns, ownership increase in TMUS, acquisitions, and spectrum payments.

We expect the improvement in FOCF will primarily stem from an expansion in adjusted EBITDA and lower capex in the U.S. That said, we still expect adjusted FFO to debt will remain below 30% in 2024 and 2025, and adjusted FOCF to debt at about 14.1% in 2024 and 15.1% in 2025.

Since the publication of our captive finance criteria on Oct. 23, 2023, we no longer adjust for TMUS' captive finance operations, which previously had a positive impact of about 0.15x on DTs leverage metric.

We fully consolidate TMUS in our credit metrics.

Debt maturities

Deutsche Telekom AG (excluding the U.S.)--Debt maturity as of March 31, 2024

Year	Amount
2024	€1.7 billion
2025	€1.5 billion
2026	€2.2 billion
2027	€3.6 billion

Deutsche Telekom AG (excluding the U.S.)--Debt maturity as of March 31, 2024

Year	Amount
2028	€3.6 billion
Thereafter	€15.4 billion

Deutsche Telekom AG--Financial Summary

Period ending	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023
Reporting period	2018a	2019a	2020a	2021a	2022a	2023a
Display currency (mil.)	EUR	EUR	EUR	EUR	EUR	EUR
Revenues	75,656	80,531	100,999	108,794	114,197	111,970
EBITDA	24,715	27,080	35,036	38,298	39,858	45,110
Funds from operations (FFO)	19,481	22,055	26,760	32,164	33,287	37,662
Interest expense	3,404	3,230	5,157	5,307	5,720	7,021
Cash interest paid	4,537	4,267	7,586	5,241	5,669	6,136
Operating cash flow (OCF)	19,934	22,832	24,361	31,868	35,805	37,255
Capital expenditure	12,202	14,014	18,360	26,154	23,989	17,659
Free operating cash flow (FOCF)	7,732	8,818	6,001	5,714	11,816	19,596
Discretionary cash flow (DCF)	3,387	5,008	2,934	2,569	8,431	15,569
Cash and short-term investments	3,679	5,393	12,939	7,617	5,772	7,280
Gross available cash	4,333	6,333	13,820	8,586	7,596	9,285
Debt	80,179	85,323	134,156	143,668	148,751	141,482
Common equity	43,437	46,231	72,550	81,468	87,320	91,237
Adjusted ratios						
EBITDA margin (%)	32.7	33.6	34.7	35.2	34.9	40.3
Return on capital (%)	6.9	7.3	5.4	4.9	5.4	8.0
EBITDA interest coverage (x)	7.3	8.4	6.8	7.2	7.0	6.4
FFO cash interest coverage (x)	5.3	6.2	4.5	7.1	6.9	7.1
Debt/EBITDA (x)	3.2	3.2	3.8	3.8	3.7	3.1
FFO/debt (%)	24.3	25.8	19.9	22.4	22.4	26.6
OCF/debt (%)	24.9	26.8	18.2	22.2	24.1	26.3
FOCF/debt (%)	9.6	10.3	4.5	4.0	7.9	13.9
DCF/debt (%)	4.2	5.9	2.2	1.8	5.7	11.0

Reconciliation Of Deutsche Telekom AG Reported Amounts With S&P Global Adjusted Amounts (Mil. EUR)

		Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Financial year	Dec-31-2023										

Reconciliation Of Deutsche Telekom AG Reported Amounts With S&P Global Adjusted Amounts (Mil. EUR)

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Company reported amounts	104,523	56,925	111,970	44,759	20,798	6,588	45,110	37,298	4,027	17,866
Cash taxes paid	-	-	-	-	-	-	(1,312)	-	-	-
Cash interest paid	-	-	-	-	-	-	(5,929)	-	-	-
Trade receivables securitizations	1,990	-	-	-	-	-	-	164	-	-
Lease liabilities	40,793	-	-	-	-	-	-	-	-	-
Postretirement benefit obligations/ deferred compensation	3,962	-	-	31	31	164	-	-	-	-
Accessible cash and liquid investments	(7,473)	-	-	-	-	-	-	-	-	-
Capitalized interest	-	-	-	-	-	207	(207)	(207)	-	(207)
Share-based compensation expense	-	-	-	674	-	-	-	-	-	-
Asset-retirement obligations	1,172	-	-	-	-	62	-	-	-	-
Nonoperating income (expense)	-	-	-	-	(1,874)	-	-	-	-	-
Noncontrolling/ minority interest	-	34,312	-	-	-	-	-	-	-	-
Debt: Derivatives	(2,564)	-	-	-	-	-	-	-	-	-
Debt: Debt serviced by third parties	(921)	-	-	-	-	-	-	-	-	-
EBITDA - Gain/(loss) on disposals of PP&E	-	-	-	42	42	-	-	-	-	-
EBITDA: Business divestments	-	-	-	(239)	(239)	-	-	-	-	-
EBITDA: other	-	-	-	(157)	(157)	-	-	-	-	-
D&A: Impairment charges/ (reversals)	-	-	-	-	36	-	-	-	-	-
Total adjustments	36,959	34,312	-	351	(2,161)	433	(7,448)	(43)	-	(207)
S&P Global Ratings adjusted	**Debt**	**Equity**	**Revenue**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from Operations**	**Operating cash flow**	**Dividends**	**Capital expenditure**
	141,482	91,237	111,970	45,110	18,637	7,021	37,662	37,255	4,027	17,659

Liquidity

We assess DT's liquidity as strong based on our expectation that liquidity sources will exceed uses 1.6x in the 12 months started April 1, 2024, and by more than 1.0x in the subsequent 12 months. In addition, we believe DT enjoys a high standing in capital markets and has well-established and solid relationships with its banks.

Principal liquidity sources

- Cash and liquid investments of about €4.5 billion (excluding the U.S.).
- €12.0 billion available under undrawn committed credit facilities which do not contain covenants or material adverse clauses.
- Cash FFO (excluding the U.S.) of about €7.6 billion.

Principal liquidity uses

- Debt maturities of about €1.7 billion over the 12 months.
- Capex (excluding the U.S. and spectrum payments) of about €7.5 billion.
- Dividend payments of €5.6 billion.

Covenant Analysis

Requirements

DT is not subject to any maintenance covenants in its outstanding bonds or existing credit facilities.

Environmental, Social, And Governance

Governance factors are a moderately positive consideration in our credit rating analysis of DT. This reflects DT's deep and broad management expertise and its strong operational track record, as illustrated by the company's successful diversification into the U.S., the ongoing integration of Sprint within TMUS, which has gone smoothly, and the execution to regain DT's majority economic interest in the combined U.S. operations.

That said, cyber-attacks among U.S. telecom providers have increased in frequency, and TMUS has been hit by three such data breaches since 2021. The first occurred in August 2021 and as a result, the company agreed to settle a class action lawsuit for $350 million in addition to incurring significant expenses to improve its cybersecurity. The latter two were smaller in scale and more-sensitive information, such as customer payment data, social security numbers, and government identification numbers, was not exposed.

Government Influence

We do not factor any support from the German government into our rating on DT because we see a low likelihood that Germany, which directly and indirectly controls about 27.8% (following the sale of 110 million shares in June 2024) of the company's common shares, would provide timely and sufficient extraordinary government support in the event of financial distress.

Issue Ratings--Subordination Risk Analysis

Capital structure

At year-end 2023, about 72% of DT's consolidated external debt was at the U.S. level, and the rest was mainly at the parent or fully owned subsidiary Deutsche Telekom International Finance

B.V. The latter is used as a finance vehicle, and the parent guarantees its issuances. Based on DT's 50.2% existing economic stake in TMUS, the structural subordination ratio was about 51%.

Analytical conclusions

We do not notch down the debt issued at DT (parent) even though the structural subordination ratio now exceeds 50%. In our view, significant mitigants exist to the structural subordination. Firstly, we regard DT's majority stake in TMUS to be highly liquid, given TMUS is a listed company and has considerable equity value (about €90 billion as of March 31, 2024). This provides a strong cushion to the creditors at the parent level. Furthermore, in the situation of a default at TMUS, the European business would have significant network assets and contribute a substantial proportion of cash flow. We believe these assets and funds would be largely available to the parent’s creditors, given the modest amount of priority debt in European subsidiaries. In addition, we regard the operations of TMUS and DTexUS as independent. Furthermore, DT's debt is not cross defaulted with its U.S. subsidiary's debt, and the latter does not benefit from any guarantee from the parent.

Rating Component Scores

Foreign currency issuer credit rating	BBB+/Stable/A-2
Local currency issuer credit rating	BBB+/Stable/A-2
Business risk	Strong
Country risk	Very Low
Industry risk	Intermediate
Competitive position	Strong
Financial risk	Significant
Cash flow/leverage	Significant
Anchor	bbb
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Strong (no impact)
Management and governance	Positive (no impact)
Comparable rating analysis	Positive (+1 notch)
Stand-alone credit profile	bbb+

Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology, Apr 4, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Methodology: The Impact Of Captive Finance Operations On Nonfinancial Corporate Issuers, Oct. 23, 2023
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Tear Sheet: Deutsche Telekom AG, April 12, 2024
- Research Update: Deutsche Telekom Upgraded To 'BBB+/A-2' On Solid Deleveraging Trajectory; Outlook Stable, May 19, 2023
- Bulletin: T-Mobile US Inc.'s Announced Acquisition Of United States Cellular's Operations Is Credit Positive, May 29, 2024
- T-Mobile US Inc., May 16, 2024

Ratings Detail (as of June 18, 2024)*

Deutsche Telekom AG

Issuer Credit Rating	BBB+/Stable/A-2
Commercial Paper	
Foreign Currency	A-2
Senior Unsecured	BBB+

Ratings Detail (as of June 18, 2024)*

Issuer Credit Ratings History	
19-May-2023	BBB+/Stable/A-2
22-Apr-2022	BBB/Positive/A-2
01-Apr-2020	BBB/Stable/A-2
Related Entities	
Deutsche Telekom International Finance B.V.	
Issuer Credit Rating	BBB+/Stable/A-2
Hellenic Telecommunications Organization S.A.	
Issuer Credit Rating	BBB+/Stable/A-2
Sprint Capital Corp.	
Issuer Credit Rating	BBB/Stable/NR
Sprint Communications Inc.	
Issuer Credit Rating	BBB/Stable/NR
Sprint Corp.	
Issuer Credit Rating	BBB/Stable/--
Senior Unsecured	BBB-
T-Mobile USA Inc.	
Senior Secured	BBB
Senior Unsecured	BBB
T-Mobile US Inc.	
Issuer Credit Rating	BBB/Stable/A-2

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.