

Research Update:

Chorus Ltd. Outlook Revised To Positive On Updated Methodology; 'BBB' Rating Affirmed; Off UCO

November 10, 2025

(Editor's Note: In this article, published earlier today, we misstated the debt-to-EBITDA ratio in the Overview section. A corrected version follows.)

Rating Action Overview

- We believe Chorus' underlying creditworthiness, which benefits from regulated cash flow, allows it to tolerate higher leverage at the current rating level, so we have loosened our rating triggers.
- This follows our review of the New Zealand-based fixed line wholesale-telecom company following our implementation of the methodology for rating digital infrastructure companies, including wholesale fiber businesses.
- On Nov. 11, 2025, S&P Global Ratings revised its outlook on Chorus to positive from stable. At the same time, we affirmed our 'BBB' long-term issuer credit rating on Chorus. We also affirmed our 'BBB' long-term issue credit ratings on the company's senior unsecured notes and our 'BB+' rating on its subordinated capital notes. We removed the ratings from under criteria observation (UCO).
- The positive outlook reflects our view that the group's strong regulated cash flow, prudent capital management, and robust balance sheet could support us raising the long-term rating to 'BBB+' over the next 12 months. This would entail Chorus' FFO-to-debt ratio staying above 13%, which would correspond to its debt-to-EBITDA ratio being below 6x.

Rating Action Rationale

Chorus' shift toward becoming a utility-like business, characterized by high predictability of earnings and low volatility, underpins our view that the company can accommodate higher leverage. Chorus' near monopoly over the fixed-line telecommunications wholesale access network in New Zealand, high barriers to entry, and cash flow certainty from its regulated business support its robust business risk profile.

We have loosened our credit metric thresholds for the rating on Chorus in recognition of its business strengths relative to peers, following our implementation of the methodology for rating

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digital infrastructure companies. We have also transitioned our primary credit metric to a funds from operations (FFO)-to-debt measure to align with other capital-intensive regulated businesses. At the current rating of 'BBB' the downside trigger has been set at FFO to debt of below 9%. This is roughly equivalent to a debt-to-EBITDA metric maintained above 7x, which compares with the prior downside threshold of above 5x.

Chorus' capital management and clarity on financial policies remain key for potential ratings upside. The recent announcement by the New Zealand government (October 2025) regarding the possible sale of National Infrastructure Funding and Financing (NIFF) debt and equity securities--issued to support the ultra-fast broadband (UFB) network buildout--may weigh on Chorus' capital structure.

While the likelihood and timing of any transaction are uncertain, a change in ownership to a less credit supportive financial investor could affect our assessment of the subordinated NZ\$683 million of NIFF equity securities, reclassifying them as debt rather than equity. This would materially increase Chorus' leverage.

Accordingly, any transaction could materially affect Chorus' capital structure, credit metrics, and consequently its financial policies. In addition, how Chorus manages growth capital expenditure (capex), such as expanding the UFB network, will also be important in the evolution of the company's capital structure.

Chorus has a record of maintaining a disciplined approach to shareholder returns and financial policy decisions. Our base-case forecast is for Chorus to achieve FFO-to-debt above 15% over the next two years absent any significant growth capex spending, assuming business as usual. The company's capital management objectives include maintaining balance sheet headroom against the company's leverage target of net debt to EBITDA of up to 5x (which calibrates to about 15% FFO to debt). Given inherent additional debt capacity from the relaxation of rating triggers we look to understand what effect, if any, this may have on Chorus' financial policies.

We expect Chorus to maintain its business position as regulated earnings contribute more to revenue and earnings. The group continues to benefit from its near monopoly market position through additional fiber uptake driven by demand for faster and more reliable connectivity. Chorus' revenue from fiber that is subject to the regulatory regime contributed to about 83% of total revenue as of fiscal 2025. We expect this to increase to about 84%-86% over next two years, as the company aims to retire the remaining copper network by 2030.

The regulatory regime applicable to Chorus' fiber network determines an annual maximum allowable revenue that Chorus can earn over each regulatory period. Chorus has regulatory certainty until the end of 2028. The company entered the four-year regulatory period PQP2 (Price-Quality Path 2), and the New Zealand Commerce Commission has applied a revenue cap of NZ\$4.1 billion for Chorus over the regulatory period from Jan. 1, 2025, to Dec. 31, 2028. A wash-up mechanism adjusts for any under or over recovery of revenue arising from differences between projected and actual demand. This adds a layer of earnings certainty. How the regulatory framework evolves through subsequent resets for PQP3 and the resultant cash flow certainty and predictability is likely to drive future leverage tolerance parameters for the rating.

Chorus retains some longer-term exposure to competition from alternative technologies.

Presently, we do not see wireless broadband as a direct substitute for fixed broadband, the rollout of 5G is yet to complete in New Zealand. Fixed-line fiber networks are generally faster, less prone to congestion, more scalable, more reliable, and have longer life cycles. That said,

vertically integrated mobile network operators are incentivized to bypass fixed-line wholesalers to capture the full value chain and achieve higher margins compared with fiber resellers. Consequently, clarity regarding the relative market share of fixed wireless and fiber, and ultimately the effect on Chorus' demand remains unclear for now, in our view. Key will also be the impact of alternatives like satellite technologies and the ability of these to attract customers from fiber networks.

Outlook

The positive outlook reflects our view that the group's strong regulated cash flow, prudent capital management, and robust balance sheet could support us raising the long-term rating on the group to 'BBB+' over the next 12 months. This would entail Chorus' FFO-to-debt ratio staying above 13%.

We note that the New Zealand government is currently assessing its options for its stake in Chorus, which it holds via the NIFF securities. If the government chooses to sell these securities, we will likely reclassify them as debt. This, together with any material additional debt funded growth capex or increase in shareholder returns, could moderate upside rating pressure.

Downside scenario

We could revise the outlook to stable if we believe Chorus' FFO-to-debt ratio will trend to 13% or below. This could occur if:

- The sale of the NIFF securities occurs and there is a material adverse effect on Chorus' capital structure; and
- Chorus pursues a more aggressive financial policy that is not supportive of a higher rating, including significant debt-financed returns to shareholders, growth capex, or acquisitions.

Upside scenario

We may raise the rating to 'BBB+' over the next 12 months if we expect Chorus to sustain FFO to debt above 13%, supported by robust financial policies. An upgrade would also be dependent on the outcome of any sale of the NIFF securities being consistent with a higher rating.

Inherent to our view of potential rating upside is that the company does not materially expand into unregulated businesses, or the regulatory regime evolves in a manner that materially reduces the predictability and sustainability of the group's earnings and cash flow.

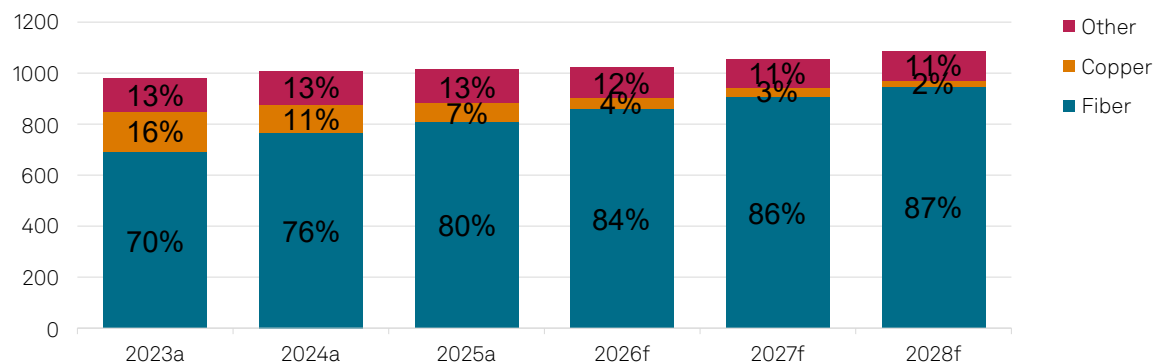
Company Description

Chorus is New Zealand's largest fixed-line wholesale communications company, including the legacy copper network (which is on the decline). The company owns the majority of telephone lines and exchange equipment in New Zealand and is responsible for building approximately 80% of the new fiber optic network. UFB1 (the original phase of the rollout), UFB2, and UFB2+ are subsequent phases announced in 2017. The government-backed UFB covers 87% of the population and the fiber uptake has reached 72.2% in Chorus' UFB rollout areas.

In 2011, Chorus was structurally separated from Telecom New Zealand, later rebranded as Spark New Zealand prior to the UFB rollout.

Chorus Ltd.'s Revenue Contribution From Fiber To Increase With Copper-To-Fiber Migration

Revenue distribution for fiscal year ending June 30



a--Actual. f--Forecast. Sources: S&P Global Ratings.

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Our Base-Case Scenario

Assumptions

- New Zealand's GDP growth to be around 1.2% in calendar 2025 and then recover to 2.1% in 2026, compared with -0.4% in 2024.
- Revenue growth 1%-3% in fiscal 2026 and fiscal 2027, supported by increasing fiber-based revenues (fiber broadband and fiber premium), while copper-based revenues will continue to decline.
- Modest EBITDA growth over the next two years.
- EBITDA margins of about 70% in next three years.
- Capex of about NZ\$410 million in fiscal 2026 and NZ\$365 million in fiscal 2027.
- Dividends of 60 cents per share in fiscal 2026, subject to no material adverse changes in circumstances or outlook.

Key metrics

Period ending	June-30-2024	June-30-2025	June-30-2026	June-30-2027	June-30-2028
(Mil. NZD)	2024a	2025a	2026e	2027f	2028f
Revenue	1,010	1,014	1,025	1,055	1,085
EBITDA	700	705	720	740	770
Capital expenditure (capex)	442	397	410	365	380
Funds from operations (FFO)	534	551	560	560	570
Debt	2,980	3,256	3,310	3,340	3,515
Adjusted ratios					
Debt/EBITDA (x)	4.3	4.6	4.6	4.6	4.6
FFO/Debt (%)	17.9	16.9	16.9	16.6	16.4

FOCF/debt (%)	2.3	4.9	5.9	7.2	6.9
DCF/debt (%)	(4.5)	(2.0)	(1.8)	(0.6)	(0.9)
EBITDA margin (%)	69.3	69.5	70.2	70.0	70.7

All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. e--Estimate. f--Forecast

Liquidity

We consider Chorus' liquidity to be adequate, reflecting our expectation that the group's sources of liquidity will cover its uses by about 1.2x over the 12-month period ending June 30, 2026. We also expect the company's net sources to remain positive even if EBITDA were to decline by 15%.

Also supporting the group's liquidity are its sound relationships with banks and its generally high standing in credit markets. Chorus has accessed funding in the domestic New Zealand, Australian, and euro medium-term note markets. Following are the sources and uses of liquidity as of June 30, 2025.

Principal liquidity sources	Principal liquidity uses
<ul style="list-style-type: none"> Cash and cash equivalents of NZ\$80 million as of June 30, 2025. Undrawn committed bank facilities of about NZ\$230 million, expiring beyond 12 months. Cash FFO of about NZ\$550 million-NZ\$600 million. 	<ul style="list-style-type: none"> No debt of maturing within the 12 months to June 30, 2026. Capex of NZ\$410 million over the same period. Dividends of 60 cents per share over the same period.

Environmental, Social, And Governance

We view Chorus' environmental risk as somewhat lower than the average telecom company, due to the environmental benefits of fiber broadband, which uses materially less electricity than copper and mobile technology.

Chorus' targets are science-aligned, following guidance from the Science Based Targets Initiative for the information communications technology sector.

Chorus' focus remains on reducing electricity use and exploring opportunities to invest in renewables. In fiscal 2025, the company achieved a 5% reduction in electricity against fiscal 2024, largely due to a copper withdrawal program and upgrading or removing legacy network equipment.

Issue Ratings--Subordination Risk Analysis

Capital structure

As of June 30, 2025, Chorus' capital structure consisted of NZ\$220 million bank facilities, €800 million medium-term notes, A\$300 million medium-term notes, NZ\$900 million New Zealand domestic bonds, NZ\$170 million in capital notes, and NIFF debt securities of about NZ\$240 million, which we treat as debt.

Analytical conclusions

We rate Chorus' senior unsecured bonds at 'BBB', the same as the long-term issuer credit rating. This is given the debt is senior, and no significant elements of subordination risk are present.

In addition, we rate the subordinated debt two notches below at 'BB+', in line with our criteria on hybrids. This is given the debt's subordinated nature and deferability characteristics.

The subordinated capital notes have a final maturity of 31 years, i.e., June 3, 2056, with a 25 basis points (bps) step-up in year 11 (2036) and another 75 bps step-up in year 26 (2051). While our long-term issuer credit rating on Chorus is in the 'BBB' rating category or higher, we will reclassify the capital notes as having no equity content from intermediate when the period remaining to effective maturity is less than 20 years (2031).

Rating Component Scores

Rating Component Scores

Component	
Foreign currency issuer credit rating	BBB/Positive/--
Local currency issuer credit rating	BBB/Positive/--
Business risk	Excellent
Country risk	Low risk
Industry risk	Low risk
Competitive position	Excellent
Financial risk	Significant
Cash flow/leverage	Significant
Anchor	a-
Modifiers	
Diversification/portfolio effect	Neutral/Undiversified
Capital structure	Neutral
Financial policy	Negative
Liquidity	Adequate
Management and governance	Neutral
Comparable rating analysis	Negative
Stand-alone credit profile	bbb

Related Criteria

- [Criteria | Corporates | General: Sector-Specific Corporate Methodology](#), July 7, 2025
- [General Criteria: Hybrid Capital: Methodology And Assumptions](#), Feb. 10, 2025
- [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

Chorus Ltd. Outlook Revised To Positive On Updated Methodology; 'BBB' Rating Affirmed; Off UCO

- [Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments](#), April 1, 2019
- [Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings](#), March 28, 2018
- [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

Ratings List

Ratings List

Ratings Affirmed; Outlook Action

	To	From
Chorus Ltd.		
Issuer Credit Rating	BBB/Positive/--	BBB/Stable/--

Ratings Affirmed

Chorus Ltd.	
Senior Unsecured	BBB
Subordinated	BB+

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STOCK EXCHANGE ANNOUNCEMENT

11 November 2025

S&P affirms Chorus' BBB rating - outlook raised to positive

S&P Global Ratings (**S&P**) has released the attached update on Chorus.

The update states that S&P has applied new digital infrastructure rating criteria to Chorus. Under the new criteria, Chorus is now measured using a 'Funds From Operations' (**FFO**)-to-debt ratio, a core leverage metric used by S&P to assess a company's creditworthiness, especially capital-intensive regulated entities in New Zealand. Previously S&P measured Chorus on a debt-to-EBITDA basis.

S&P has noted that, at the current rating of 'BBB', the downside trigger has been set at FFO to debt of below 9% (which is roughly equivalent to a debt-to-EBITDA metric maintained above 7x, compared with Chorus' prior downside debt-to-EBITDA threshold of 5x).

As part of its review, S&P has changed Chorus' long-term credit rating outlook to BBB 'positive' (from stable).

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