MOODY'S
INVESTORS SERVICE

Rating Action: Moody's affirms TDC's Baa3 ratings on planned dividend cut; stable outlook

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Madrid, February 01, 2016 -- Moody's Investors Service has today affirmed the Baa3 issuer and Baa3/(P)Baa3 senior unsecured ratings and Ba2/(P)Ba2 junior subordinated ratings of Denmark-based telecoms company TDC A/S, following its recently announced plans to reduce dividend payouts to offset anticipated weak operating performance in 2016. The outlook on all ratings remains stable.

"We are affirming TDC's ratings because its plan to cut cash payouts to shareholders will help preserve liquidity. It will also prevent a more material weakening of the company's credit metrics at a time when it is trying to cope with ongoing market weakness and implement significant restructuring plans," says Carlos Winzer, a Moody's Senior Vice President and lead analyst for TDC.

RATINGS RATIONALE

Today's affirmations primarily reflect the impact that TDC's planned dividend cut will have on broadly offsetting the expected DKK1 billion reduction in reported EBITDA in 2016, as operating performance forecasts deteriorate. Once completed, TDC's planned restructuring, focused on simplifying its operations and improving competitiveness, should compensate for any remaining performance shortfalls.

TDC's 2016 operating performance is expected to deteriorate as a result of (1) high regulatory pressure evidenced by the unbundling of the cable network and abolition of roaming rates; (2) low prices driven by aggressive competition in both the mobile residential and business segments; (3) the renegotiation at lower prices of high margin public contracts; and (4) the recalibration of the product portfolio with high-priced products for the small and medium business segment.

Management stated that it expects a reduction in EBITDA in 2016 of some DKK1 billion, which will have a negative effect on operating cash flow and leverage pushing the Moody´s-adjusted debt/EBITDA ratio to around 3.5x by end-2016.

TDC´s acknowledgement of an expected deterioration in operating performance in 2016 has triggered management´s reaction to offset weaker operating cash flow generation. An ambitious set of measures have been announced with an aim to return to EBITDA stability by 2017 and growth in 2018. The cash dividend payment cut in 2016 will offset weaker operating cash flow and should help to sustain retained cash flow/debt at above 20%.

In addition, Moody´s expects that TDC's gradually improving operating performance will be underpinned by increasing prices, reduced churn rates, product differentiation supported by future network investments and the implementation of planned restructuring measures. These will enable TDC to deliver EBITDA stability in 2017 and growth in 2018.

The restructuring measures announced by management together with TDC´s strong positions in Denmark and Norway and its lower dividend distribution policy will enable the company to sustain financial ratios within the guidance for the current rating.

Moody´s expects TDC's management to face a significant challenge in the execution of the strategy which includes rebranding, process reengineering and better integration of both the CATV and telecom networks and simplification of tariff offerings.

TDC's ratings reflect Moody´s expectation that management will deliver on its recently announced strategy as well as: (1) the strength of the company's operations in Denmark (strong market shares including 41% in the mobile segment) and the Nordic countries; (2) the strategic fit and importance of all of TDC's subsidiaries, particularly its CATV business (YouSee), which differentiates the company from its European peers and is an important part of the new strategy; (3) the company's relatively small size and low but increasing international diversification; (4) its highly advanced fixed-line infrastructure; and (5) its appropriate liquidity risk management.

The rating also reflects (1) the pressure on TDC's domestic operations as a result of price declines caused by heightened competition in the Danish mobile market and regulation; (2) the company's strong cost control in order to maintain EBITDA margin at above 40%; (3) TDC's rebranding strategy to have "yousee" as the prevalent brand; and (4) its aim to combine in the different regions the CATV and fixed telephony broadband offers. TDC's current rating reflects its proposed new strategy.

RATIONALE FOR STABLE OUTLOOK

The stable outlook reflects Moody's expectation that TDC will regain strong cash flow generation after capex through a combination of operating stability, efficiency gains and capex optimisation. The rating agency has also taken into consideration the dividend reduction, which should help to preserve liquidity and credit metrics until a recovery in operating trends emerges. The outlook also reflects Moody's expectation that TDC will execute the revised strategy, which will enable the company to stabilize its operating performance in 2017 and deliver growth from 2018 onwards.

WHAT COULD CHANGE THE RATING UP/DOWN

Although not currently expected, the rating could come under positive pressure on evidence that the company would achieve sustained improvements in its debt protection ratios, such as adjusted RCF/gross debt above 20% and gross adjusted debt/EBITDA trending to 2.5x, based on an improved business environment.

Moody's could downgrade TDC's rating if (1) the company were to deviates from the execution of its new strategy (as evidenced by deviation from a reported EBITDA of DKK 8.8 billion for 2016); (2) the company were to embark on an aggressive expansion/acquisition programme (most likely outside of its existing footprint), leading to higher financial, business and execution risk; or (3) its credit metrics were to deteriorate, including adjusted RCF/gross debt falling to below 15% or adjusted gross debt/EBITDA trending towards 3.5x on an ongoing basis

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Global Telecommunications Industry published in December 2010. Please see the Ratings Methodologies page on www.moodys.com for a copy of this methodology.

Headquartered in Copenhagen, Denmark, TDC A/S is the leading integrated telecommunications provider and cable TV offerings in Denmark. The company also provides telecoms services to business customers throughout the Nordic region. TDC's preliminary EBITDA for year-end December 2015 amounted to DKK9.8 billion (around EUR1.3 billion). The company's main market is Denmark, although it also has operations in Norway and Sweden through its subsidiary TDC Nordic.

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