



Correction: Fitch Upgrades DKT's IDR to 'BB-'; Outlook Stable

Fitch Ratings - Moscow - 09 November 2018: This commentary replaces the version published on 19 October 2018 to add the recovery ratings (RRs) to the instruments.

Fitch Ratings has upgraded DKT Holdings ApS's (DKT) Long-Term Issuer Default Rating (IDR) to 'BB-' from 'B+' following the announcement that the Danish telecoms company will spend a major part of the proceeds from the sale of its Norwegian business on the prepayment of its term loan B (TLB) to reduce leverage.

DKT's subsidiary TDC A/S (TDC) will prepay an equivalent DKK15 billion of the DKK29 billion TLB, which Fitch expects will reduce pro-forma funds from operations (FFO) adjusted net leverage to 5.5x at end-2018 compared with an estimated 6.7x without the disposal. Fitch expects DKT's leverage to remain largely stable as strong cash flow generation will primarily be used for shareholder remuneration while excessive dividend payments are constrained by debt covenants. The usage of the remaining equivalent of DKK2 billion of proceeds is yet to be determined. DKT completed the sale of Get AS (Get) to Telia Company AB on 15 October 2018.

RATING ACTIONS

ENTITY	RATING	RECOVERY	PRIOR
DKT Finance ApS			
senior secured	LT B+ Upgrade		
EUR 1.05 bln 7% bond/note 17-Jun- 2023 XS1841967356	LT B+ Upgrade	RR5	B-
USD 410 mln 9.375% bond/note 17-Jun- 2023 255882AA0	LT B+ Upgrade	RR5	B-
DKT Holdings ApS	LT IDR BB- ● Upgrade		B+ ●
TDC A/S			
senior unsecured	LT BB- Upgrade		

EUR 4 bln Euro Medium Term Note Programme - Senior	LT BB- Upgrade	RR4	B+
GBP 550 mln 5.625% Notes 23 Feb 2023 XS0593952111	LT BB- Upgrade	RR4	B+
EUR 500 mln 3.75% Notes 2 Mar 2022 XS0752467497	LT BB- Upgrade	RR4	B+
EUR 800 mln 1.75% Notes 27 Feb 2027 XS1196041419	LT BB- Upgrade	RR4	B+
senior secured	LT BB Downgrade		
EUR 2.7 bln Term Loan B 04-Jun-2025	LT BB Downgrade	RR1	BB+
USD 1.42 bln Term Loan B 04-Jun-2025	LT BB Downgrade	RR1	BB+

KEY RATING DRIVERS

Debt Reduction: On a pro-forma basis the sale of Get and TLB prepayment reduce DKT's FFO adjusted net leverage to 5.5x at end-2018, below the upgrade threshold of 5.7x, compared with 6.7x expected at the time of the review in May 2018. We expect leverage to remain largely stable in 2019-2021. The company generates stable pre-dividend free cash flow (FCF), most of which will likely be spent on dividends to DKT's shareholders. Excessive dividends distributions are unlikely as they are constrained by a notes covenant of net debt/EBITDA of less than 4.5x, which we project DKT to remain at, corresponding to Fitch-calculated 5.5x FFO adjusted net leverage.

Uptake on HY Offer Unlikely: DKT's subsidiary TDC A/S (TDC) sold its Norwegian business (Get AS and its subsidiaries including the Norwegian B2B business and TDC Norway) for NOK21 billion (around DKK17 billion) on a cash and debt-free basis valuing Get at 12x its 2017 EBITDA. Following the prepayment on TLB DKT Finance ApS is required, under its bond documentation, to make a buyout offer to the holders of its high-yield notes due 2023. The offer should be made at par, out of any proceeds from the sale of Get that are not used to prepay TDC's debt, making any uptake unlikely given that they are currently trading significantly higher.

Reduced Diversification: The disposal has a moderately negative impact on DKT's operating profile as it reduces the company's geographic diversification. The Norwegian business contributed about 16% and 17% to TDC's 2017 revenue and EBITDA, respectively, and demonstrated higher organic growth than its Danish business.

Instrument Ratings Change: We downgraded the senior secured rating at TDC level to 'BB'/'RR1' from 'BB+'/'RR1' as TLB no longer benefits from superior security package of which the shares of Get were a main component along with bank accounts, intra-group receivables and the shares in TDC. The reduction of the total amount of debt improves underlying recoveries for the senior secured and unsecured notes. As a result the senior unsecured notes are upgraded to 'BB-'/'RR4' from 'B+'/'RR4' and are rated in line with DKT's IDR. The rating of the senior secured notes at DKT Finance ApS is upgraded to 'B+'/'RR5', one notch below IDR, from 'B-'/'RR6' reflecting the structural subordination of the instrument to the debt at TDC and a substantial amount of prior-ranking debt totalling above 2x EBITDA.

Fixed-Line Supportive: TDC owns both the incumbent copper network and around half of the cable infrastructure in Denmark. This gives it a stronger domestic fixed-line position than its European peers. We view the position as structurally supportive for the company's long-term credit profile due to the lack of competing fixed-line infrastructure. Combined with its number-one domestic market position, this enables TDC to sustain slightly higher leverage than peers. Competitive pressures are more prevalent in the mobile and B2B segments.

Network Separation Plan: Fitch understands from management that the disposal of the Norwegian assets is part of the shareholders' long-term strategy. The shareholders intend to split the company into two, creating a customer-facing service unit and a wholesale network company. We expect these changes to take a few years. We have not incorporated these long-term changes into our rating and treat such a development as event risk due to a large number of uncertainties including regulation, the terms of network separation and impact on capital structure.

DERIVATION SUMMARY

DKT's ratings reflect the company's leading position within the Danish telecoms market. The company has strong market shares in both the fixed and mobile segments. Ownership of both cable and copper-based local access network infrastructure reduces the company's operating risk relative to that of domestic European incumbent peers, which typically face infrastructure-based competition from cable network operators.

DKT is rated lower than peer incumbents, such as Royal KPN N.V (BBB/Stable), due to notably higher leverage, which puts it more in line with cable operators with similarly high leverage, such as VodafoneZiggo Group B. (B+/Stable), Unitymedia GmbH (B+/RWP), Telenet Group Holding N. (BB-/Stable) and Virgin Media Inc. (BB-/Stable). DKT's incumbent status, leading positions in both the fixed and mobile markets, and unique infrastructure ownership justify higher leverage thresholds than cable peers.

KEY ASSUMPTIONS

Fitch's Key Assumptions within our Rating Case for the Issuer

- Stabilisation of revenue in 2018 and a flat trend thereafter
- Broadly stable EBITDA margin at around 39%-40%% in 2018-2021
- Capex at around 21%-22% of revenue in 2019-2021 (including spectrum)
- Moderate dividends keeping leverage at around 4.5x net debt/EBITDA

RATING SENSITIVITIES

Developments that May, Individually or Collectively, Lead to Positive Rating Action

- Expectation that FFO adjusted net leverage will fall below 5.2x on a sustained basis
- Maintaining strong and stable FCF generation, reflecting a stable competitive and regulatory environment

Developments that May, Individually or Collectively, Lead to Negative Rating Action

- FFO adjusted net leverage above 5.7x on a sustained basis
- Significantly weaker FCF generation due to competitive and regulatory pressures

LIQUIDITY AND DEBT STRUCTURE

Comfortable Liquidity: DKT has comfortable liquidity, which is supported by a EUR500 million revolving credit facility (RCF) at TDC and a EUR100 million RCF at DKT Finance ApS. The maturity profile is comfortable with the first large debt repayment only in 2022. The company's liquidity profile is also supported by strong pre-dividend FCF generation.

Additional information is available on www.fitchratings.com

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Applicable Criteria

Corporate Rating Criteria (pub. 23 Mar 2018) (</site/re/10023785>)

Sector Navigators (pub. 23 Mar 2018) (</site/re/10023790>)

Corporates Notching and Recovery Ratings Criteria (pub. 23 Mar 2018) (</site/re/10024585>)

Country-Specific Treatment of Recovery Ratings Criteria (pub. 16 Apr 2018) (</site/re/10026835>)

Additional Disclosures

Dodd-Frank Rating Information Disclosure Form (</site/dodd-frank-disclosure/10051509>)

Solicitation Status

Endorsement Policy (</site/regulatory>)

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