FitchRatings

Corporates
Telecommunications
Denmark

DKT Holdings ApS

Ratings

Rating Type	Rating	Outlook	Last Rating Action
Long-Term IDR	B+	Stable	Affirmed 3 Mar 2021

Click here for full list of ratings

The ratings of DKT Holdings ApS reflect high leverage and intense competition, which is likely to persist in all business segments. However, Fitch Ratings expects Danish telecoms company TDC A/S to be able to address pressures on revenues with efficient cost-optimisation measures. The ratings are supported by its strong domestic positions in mobile, broadband and TV businesses underpinned by its leadership in infrastructure quality and coverage.

The affirmation reflects our expectation of funds from operations (FFO) net leverage remaining comfortably within the rating's thresholds. We believe that the company retains good flexibility in managing its leverage via capex and dividends.

We also upgraded the rating of senior unsecured notes to 'BB+'/'RR1' from 'BB'/'RR2' following our revised view of the structural and legal characteristics of the debt.

Key Rating Drivers

High Leverage Sustainable: We expect DKT's FFO net leverage to remain stable at around 6.1x in 2021-2023, implying healthy headroom under our rating sensitivities. Leverage in 2019-2021 is under pressure from large investments in fixed and mobile infrastructure, which we expect to notably reduce from 2022.

We expect that with the decline in capex, DKT is likely to resume dividend payments, constraining its deleveraging. However, DKT has a record of prudent approach and we believe it retains flexibility in managing its leverage via dividend cuts and phasing its capex programme.

Capex to Moderate: We expect capex to peak in 2021 and to decline to 20%-25% of sales in 2022-2024 from around 30%-35% in 2019-2021. The peak capex is driven by heavy investments in 5G and fibre network deployment, which we believe would be supportive of maintaining TDC's long-term competitiveness.

With its 5G network upgrade largely completed, the fibre roll-out will be the main component of its expansionary capex programme. TDC retains substantial flexibility in managing the pace of this roll-out. Active partnerships with utility companies secure fibre coverage in areas where TDC does not have its own fibre network.

Intense Competition: The Danish telecoms market is highly competitive, which results in ongoing pressures on TDC's sales. It saw a double-digit yoy decline in its TV segment's revenue in 2020 after a dispute with Discovery was followed by a removal of its channels from TDC's TV offerings. This had a negative impact on its mobile and internet segments where contracts were tied to TV and customers are sensitive to content proposition.

The pressure was most pronounced in 1H20, before easing in 2H20 as revenue improved. We expect the segment to stabilise from 2021, supported by investments in additional content.

5G Capex to Show Results: Accelerated investments in 5G and an early launch of the service nationwide ahead of other operators should give TDC some competitive advantage in mobile, which we expect to start feeding into improved performance in 2021. Visibility on the fibre-rollout impact is limited in the medium term as it depends on the level of competitive intensity and fibre take-up rates. However, we believe strong fibre coverage provides long-term protection in the form of wholesale revenue from third-party operators.

Margins Improvement: Strong implementation of cost-efficiency measures suggests potential further improvement in profitability. TDC reported a 9.5% yoy decline in operating expenses in

Applicable Criteria

Corporate Rating Criteria (December 2020)

Sector Navigators - Addendum to the Corporate Rating Criteria (December 2020)

Corporates Recovery Ratings and Instrument Ratings Criteria (April 2021)

Related Research

Fitch Affirms DKT's IDR at 'B+'; Outlook Stable (March 2021)

Analysts

Wendi Wu
+49 69 768076 157
wendi.wu@fitchratings.com

Slava Bunkov
+7 495 956 9931
slava.bunkov@fitchratings.com

2020, which resulted in a 1.5pp yoy increase in Fitch-defined EBITDA margin for that period. The completion of separation of network and service companies and of 5G roll-out should support margins in 2021 on top of ongoing cost-optimisation initiatives.

However, we expect some increase in content acquisition to reverse declining revenue in TV to limit margin expansion. Overall we expect profitability improvement to offset an expected declining revenue in 2021-2022 to result in largely stable EBITDA.

Senior Unsecured Debt Upgrade: We upgraded the rating of senior unsecured notes at TDC following our revised view that the structural and legal characteristics of the debt are sufficiently robust not to apply a cap at 'RR2' and to treat TDC's senior secured and senior unsecured debt on a pari passu basis.

TDC's operating subsidiaries Nuuday and TDC NET, due to their demerger under Danish law, will be liable on a statutory basis to satisfy existing noteholders' claims if TDC defaults on these notes. Our recovery waterfall suggests 97% recovery for both secured and unsecured instruments. Under Fitch's criteria, senior unsecured debt is typically capped at 'RR2'.

Financial Summary

DKT Holdings ApS

(DKKm)	Dec 17	Dec 18	Dec 19	Dec 20F	Dec 21F	Dec 22F
Gross revenue	20,270	11,581	17,044	16,089	15,581	15,382
Operating EBITDA margin (%)	41.0	37.5	34.5	36.0	36.5	37.1
FFO margin (%)	32.4	12.8	24.7	23.8	24.7	23.5
FFO interest coverage (x)	5.8	1.8	2.7	3.3	3.3	2.9
FFO net leverage (x)	3.1	9.9	5.5	5.8	6.1	6.1

F – Forecast
Source: Fitch Ratings, Fitch Solutions

Rating Derivation Relative to Peers

DKT's ratings reflect TDC's leading position within the Danish telecoms market. The company has strong in-market scale and market shares in both the fixed and mobile segments. Ownership of both the cable and copper-based local access network infrastructure partly reduces the company's operating risk profile, even though TDC faces network competition from FTTH fibre deployed by Danish electricity companies in parts of the country. Domestic European incumbent peers typically face infrastructure-based competition from cable network operators.

DKT is rated lower than other peer incumbents, such as Royal KPN N.V. (BBB/Stable), due to notably higher leverage. It is more in line with cable operators with similarly high leverage, such as VodafoneZiggo Group B.V. (B+/Stable), Telenet Group Holding N.V (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.

Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade:

- FFO net leverage sustainably below 5.7x
- Neutral-to-positive free cash flow (FCF) reflecting a stable competitive market position and a normalising capex profile

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade:

- FFO net leverage sustainably above 6.5x

- Increased competitive intensity in the Danish telecoms market, resulting in declining EBITDA margin and weak pre-dividend FCF.

Liquidity and Debt Structure

Reasonable Liquidity: At end-2020, DKT had a consolidated cash balance of DKK459 million. We expect the business to generate negative pre-dividend FCF until 2022 due to high capex.

It has sufficient liquidity provided by a EUR845 million revolving credit facility (RCF) at TDC and a EUR100 million RCF at DKT Finance ApS. Both facilities were undrawn as of end-2020. The latter at DKT Finance ApS will see EUR50 million expire in 2021 and the remainder in 2022. The RCF at TDC expires in 2024. The debt maturity profile is reasonable, with the next debt repayment in 2022.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

Liquidity and Debt Maturity Scenario with No Refinancing

Liquidity Analysis

(DKKm)	2020F	2021F	2022F	2023F
Available liquidity				
Beginning cash balance	1,686	554	-1,332	-5,359
Rating-case FCF after acquisitions and divestitures	-611	-1,986	-392	-155
Other investing and financing cash flow	160	100	100	100
Total available liquidity (A)	**1,235**	**-1,332**	**-1,624**	**-5,414**
Liquidity uses				
Debt maturities	-681	0	-3,735	-14,222
Total liquidity uses (B)	**-681**	**0**	**-3,735**	**-14,222**
Liquidity calculation				
Ending cash balance (A+B)	554	-1,332	-5,359	-19,636
Revolver availability	7,031	6,659	6,659	6,659
Ending liquidity	**7,585**	**5,327**	**1,300**	**-12,977**
Liquidity score (x)	11.9	Not meaningful	1.3	0.1

F – Forecast
Source: Fitch Ratings, Fitch Solutions, DKT Holdings Aps

Scheduled debt maturities (DKKm)	Original 31 December 2020
2021	0
2022	3,735
2023	14,222
2024	0
2025	14,195
Thereafter	0
Total	**32,152**

Source: Fitch Ratings, Fitch Solutions, DKT Holdings Aps

Key Assumptions

Fitch's Key Assumptions Within its Rating Case for the Issuer

- Low single-digit revenue decline in 2021-2022 and growth of less than 1% in 2023-2024
- Fitch-defined EBITDA margin to improve to 37.4% in 2023 from 36.5% in 2021, on the back of an extensive cost-transformation plan
- Capex to peak at 35% of revenue in 2021, which includes deferred cash capex payment from 2020, before falling to around 22%-23% in 2022-2024
- No dividend in 2021 and dividends of around DKK400 million per year in 2022-2023
- Negative working capital change of around 1.0%-1.5% of revenue in 2022-2024

Financial Data

DKT Holdings ApS

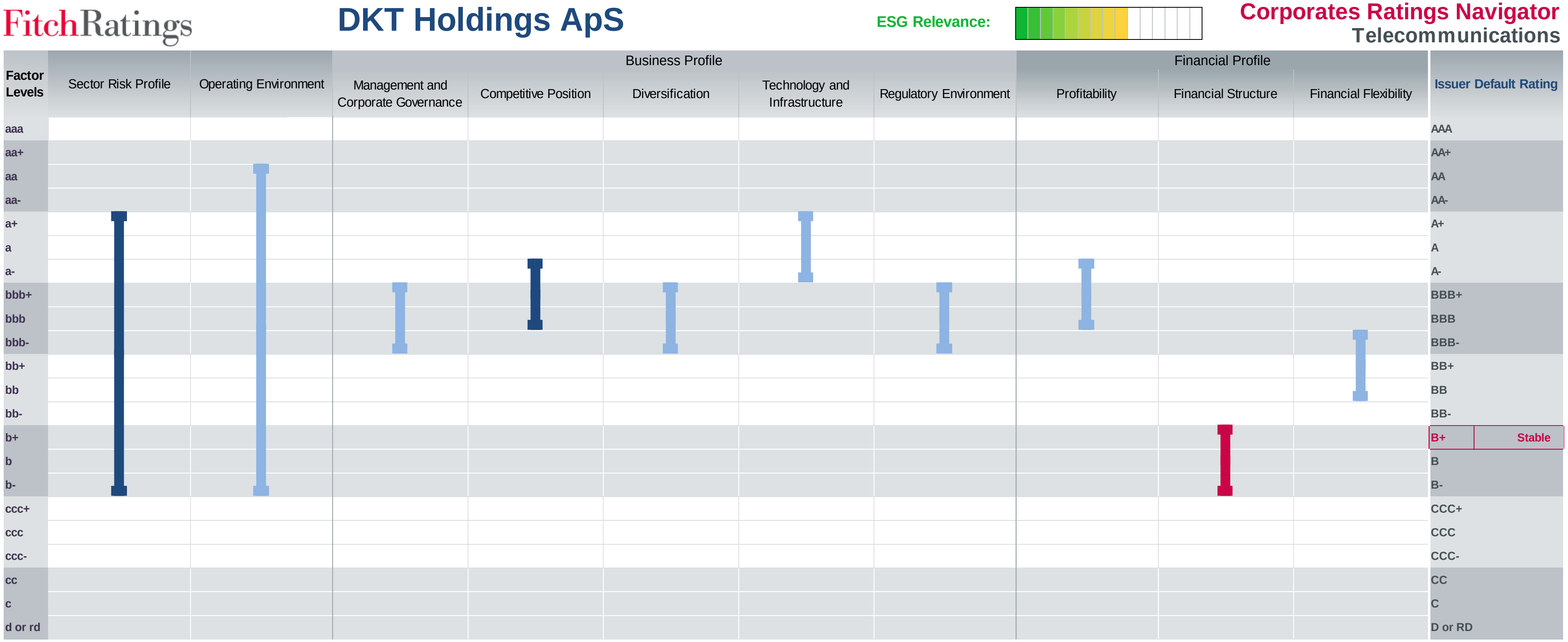
(DKKm)	Historical			Forecast		
	Dec 17	Dec 18	Dec 19	Dec 20	Dec 21	Dec 22
Summary income statement						
Gross revenue	20,270	11,581	17,044	16,089	15,581	15,382
Revenue growth (%)	-3.6	-42.9	47.2	-5.6	-3.2	-1.3
Operating EBITDA (before income from associates)	8,308	4,342	5,886	5,788	5,692	5,707
Operating EBITDA margin (%)	41.0	37.5	34.5	36.0	36.5	37.1
Operating EBITDAR	9,106	4,751	6,512	6,420	6,324	6,339
Operating EBITDAR margin (%)	44.9	41.0	38.2	39.9	40.6	41.2
Operating EBIT	3,148	413	-562	-167	-385	323
Operating EBIT margin (%)	15.5	3.6	-3.3	-1.0	-2.5	2.1
Gross interest expense	-656	-2,916	-3,154	-1,646	-1,655	-1,880
Pretax income (including associate income/loss)	2,015	-3,714	-3,553	-1,813	-2,040	-1,557
Summary balance sheet						
Readily available cash and equivalents	1,970	2,381	1,686	459	174	182
Total debt with equity credit	24,844	32,542	32,834	32,058	33,658	33,958
Total adjusted debt with equity credit	31,228	35,814	37,842	37,114	38,714	39,014
Net debt	22,874	30,161	31,148	31,599	33,484	33,776
Summary cash flow statement						
Operating EBITDA	8,308	4,342	5,886	5,788	5,692	5,707
Cash interest paid	-1,279	-1,740	-2,087	-1,646	-1,655	-1,880
Cash tax	-556	-286	-363	-468	-350	-365
Dividends received less dividends paid to minorities (inflow/(out)flow)	1	-66	0	0	0	0
Other items before FFO	-335	-930	151	157	157	157
Funds flow from operations	6,564	1,483	4,212	3,831	3,844	3,619
FFO margin (%)	32.4	12.8	24.7	23.8	24.7	23.5
Change in working capital	455	1,188	-138	293	-303	-143
Cash flow from operations (fitch defined)	7,019	2,671	4,074	4,124	3,541	3,476
Total non-operating/non-recurring cash flow	0	464	-3			
Capital expenditure	-4,491	-2,548	-5,021			
Capital intensity (capex/revenue) (%)	22.2	22.0	29.5			
Common dividends	-802	0	0			
Free cash flow	1,726	587	-950			
Net acquisitions and divestitures	294	-36,609	-110			
Other investing and financing cash flow items	7	6,251	4	160	100	100
Net debt proceeds	-1,947	26,272	361	-776	1,600	300
Net equity proceeds	0	4,113	0	0	0	0
Total change in cash	80	614	-695	-1,227	-286	8
Leverage ratios						
Total net debt with equity credit/operating EBITDA (x)	2.8	7.1	5.3	5.5	5.9	5.9
Total adjusted debt/operating EBITDAR (x)	3.4	7.6	5.8	5.8	6.1	6.2
Total adjusted net debt/operating EBITDAR (x)	3.2	7.1	5.6	5.7	6.1	6.1
Total debt with equity credit/operating EBITDA (x)	3.0	7.6	5.6	5.5	5.9	6.0
FFO adjusted leverage (x)	3.8	10.3	6.0	6.1	6.3	6.4
FFO adjusted net leverage (x)	3.6	9.6	5.7	6.0	6.3	6.3
FFO leverage (x)	3.3	10.6	5.8	5.9	6.1	6.2
FFO net leverage (x)	3.1	9.9	5.5	5.8	6.1	6.1
Calculations for forecast publication						
Capex, dividends, acquisitions and other items before FCF	-4,999	-38,693	-5,134	-4,735	-5,527	-3,868
Free cash flow after acquisitions and divestitures	2,020	-36,022	-1,060	-611	-1,986	-392
Free cash flow margin (after net acquisitions) (%)	10.0	-311.0	-6.2	-3.8	-12.7	-2.5
Coverage ratios						
FFO interest coverage (x)	5.8	1.8	2.7	3.3	3.3	2.9
FFO fixed-charge coverage (x)	4.0	1.6	2.3	2.7	2.7	2.4
Operating EBITDAR/interest paid + rents (x)	4.4	2.2	2.4	2.8	2.8	2.5
Operating EBITDA/interest paid (x)	6.5	2.5	2.8	3.5	3.4	3.0
Additional metrics						
CFO-capex/total debt with equity credit (%)	10.2	0.4	-2.9	-1.9	-5.9	0.0
CFO-capex/total net debt with equity credit (%)	11.1	0.4	-3.0	-1.9	-5.9	0.0

Source: Fitch Ratings, Fitch Solutions

How to Interpret the Forecast Presented

The forecast presented is based on Fitch Ratings' internally produced, conservative rating case forecast. It does not represent the forecast of the rated issuer. The forecast set out above is only one component used by Fitch Ratings to assign a rating or determine a rating outlook, and the information in the forecast reflects material but not exhaustive elements of Fitch Ratings' rating assumptions for the issuer's financial performance. As such, it cannot be used to establish a rating, and it should not be relied on for that purpose. Fitch Ratings' forecasts are constructed using a proprietary internal forecasting tool, which employs Fitch Ratings' own assumptions on operating and financial performance that may not reflect the assumptions that you would make. Fitch Ratings' own definitions of financial terms such as EBITDA, debt or free cash flow may differ from your own such definitions. Fitch Ratings may be granted access, from time to time, to confidential information on certain elements of the issuer's forward planning. Certain elements of such information may be omitted from this forecast, even where they are included in Fitch Ratings' own internal deliberations, where Fitch Ratings, at its sole discretion, considers the data may be potentially sensitive in a commercial, legal or regulatory context. The forecast (as with the entirety of this report) is produced strictly subject to the disclaimers set out at the end of this report. Fitch Ratings may update the forecast in future reports but assumes no responsibility to do so. Original financial statement data for historical periods is processed by Fitch Solutions on behalf of Fitch Ratings. Key financial adjustments and all financial forecasts credited to Fitch Ratings are generated by rating agency staff.

Ratings Navigator



Bar Chart Legend:			
Vertical Bars = Range of Rating Factor		Bar Arrows = Rating Factor Outlook	
Bar Colours = Relative Importance		⇧	Positive
■ (red)	Higher Importance	⇩	Negative
■ (dark blue)	Average Importance	⇳	Evolving
■ (light blue)	Lower Importance	□	Stable

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DKT Holdings ApS

Corporates Ratings Navigator
Telecommunications

Operating Environment

aa+	Economic Environment	aa	Very strong combination of countries where economic value is created and where assets are located.
aa	Financial Access	aa	Very strong combination of issuer specific funding characteristics and of the strength of the relevant local financial market.
	Systemic Governance	aa	Systemic governance (eg rule of law, corruption; government effectiveness) of the issuer's country of incorporation consistent with 'aa'.
b-			
ccc+			

Management and Corporate Governance

a-	Management Strategy	a	Coherent strategy and good track record in implementation.
bbb+	Governance Structure	bbb	Good CG track record but effectiveness/independence of board less obvious. No evidence of abuse of power even with ownership concentration.
bbb	Group Structure	bbb	Some group complexity leading to somewhat less transparent accounting statements. No significant related-party transactions.
bbb-	Financial Transparency	bbb	Good quality reporting without significant failing. Consistent with the average of listed companies in major exchanges.
bb+			

Competitive Position

a	Market Position	a	Very strong and sustainable market share in primary markets (> 30%).
a-	Competition	bbb	Primary markets characterized by medium competitive intensity and/or moderate barriers to entry.
bbb+	Scale - EBITDAR	bbb	>$1 billion
bbb			
bbb-			

Diversification

a-	Service Platform Diversification	a	Operates several service platforms in primary markets.
bbb+	Geographic Diversification	bb	Limited geographic diversification.
bbb			
bbb-			
bb+			

Technology and Infrastructure

aa-	Ownership of Network	a	Owns almost all of its infrastructure.
a+	Network and Service Quality	a	Market leading network in terms of coverage and technology deployment, with good quality of service.
a			
a-			
bbb+			

Regulatory Environment

a-	Regulatory Risk	bbb	Moderate.
bbb+			
bbb			
bbb-			
bb+			

Profitability

a	Volatility of Cash Flow	bbb	Volatility and visibility of cash flow in line with industry average.
a-	EBITDAR Margin	a	35%
bbb+	FFO Margin	bbb	24%
bbb			
bbb-			

Financial Structure

bb-	FFO Leverage	b	5.7x
b+	FFO Net Leverage	b	5.5x
b	(CFO-Capex)/Total Debt With Equity Credit	ccc	Flat to Negative
b-	Total Debt With Equity Credit/Op. EBITDA	b	5.5x
ccc+			

Financial Flexibility

bbb	Financial Discipline	bb	Financial policies in place but flexibility in applying them could lead to temporarily exceeding downgrade guidelines.
bbb-	Liquidity	bbb	One year liquidity ratio above 1.25x. Well-spread maturity schedule of debt but funding may be less diversified.
bb+	FFO Interest Coverage	b	3.0x
bb	FX Exposure	bbb	Some FX exposure on profitability and/or debt/cash flow match. Efficient hedging in place.
bb-			

How to Read This Page: The left column shows the three-notch band assessment for the overall Factor, illustrated by a bar. The right column breaks down the Factor into Sub-Factors, with a description appropriate for each Sub-Factor and its corresponding category.

Credit-Relevant ESG Derivation

DKT Holdings ApS has 8 ESG potential rating drivers

- Energy and fuel use in networks and data centers
- Networks exposed to extreme weather events (e.g. hurricanes)
- Data security; service disruptions
- Impact of labor negotiations and employee (dis)satisfaction
- Governance is minimally relevant to the rating and is not currently a driver.

			Overall ESG
key driver	0	issues	5
driver	0	issues	4
potential driver	8	issues	3
not a rating driver	1	issues	2
	5	issues	1

For further details on Credit-Relevant ESG scoring, see page 3.

FitchRatings

DKT Holdings ApS

Corporates Ratings Navigator
Telecommunications

Credit-Relevant ESG Derivation

DKT Holdings ApS has 8 ESG potential rating drivers

- DKT Holdings ApS has exposure to energy productivity risk but this has very low impact on the rating.
- DKT Holdings ApS has exposure to extreme weather events but this has very low impact on the rating.
- DKT Holdings ApS has exposure to customer accountability risk but this has very low impact on the rating.
- DKT Holdings ApS has exposure to labor relations & practices risk but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

			Overall ESG Scale
key driver	0	issues	5
driver	0	issues	4
potential driver	8	issues	3
not a rating driver	1	issues	2
not a rating driver	5	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference
GHG Emissions & Air Quality	1	n.a.	n.a.
Energy Management	3	Energy and fuel use in networks and data centers	Profitability
Water & Wastewater Management	1	n.a.	n.a.
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.
Exposure to Environmental Impacts	3	Networks exposed to extreme weather events (e.g. hurricanes)	Profitability

E Scale: 5, 4, 3, 2, 1

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference
Human Rights, Community Relations, Access & Affordability	1	n.a.	n.a.
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Data security; service disruptions	Competitive Position; Profitability
Labor Relations & Practices	3	Impact of labor negotiations and employee (dis)satisfaction	Competitive Position; Profitability
Employee Wellbeing	1	n.a.	n.a.
Exposure to Social Impacts	2	Social attitudes toward network infrastructure	Diversification; Technology and Infrastructure; Profitability

S Scale: 5, 4, 3, 2, 1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference
Management Strategy	3	Strategy development and implementation	Management and Corporate Governance
Governance Structure	3	Board independence and effectiveness; ownership concentration	Management and Corporate Governance
Group Structure	3	Complexity, transparency and related-party transactions	Management and Corporate Governance
Financial Transparency	3	Quality and timing of financial disclosure	Management and Corporate Governance

G Scale: 5, 4, 3, 2, 1

How to Read This Page
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies the some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

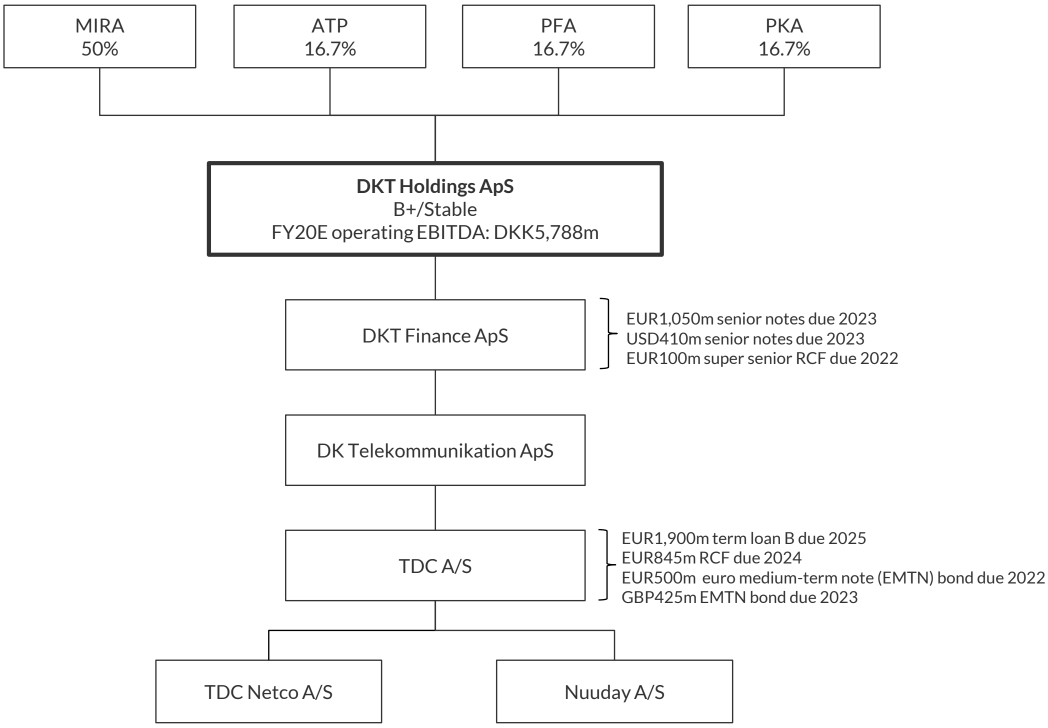
Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Priniciples for Responsible Investing (PRI) and the Sustainability Accounting Standards Board(SASB).

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

Simplified Group Structure Diagram



Note: Financial year to end-December.
Source: Fitch Ratings, Fitch Solutions, DKT Holdings Aps, as of March 2021

Peer Financial Summary

Company	IDR	Financial statement date	Gross revenue (EURm)	Operating EBITDA margin (%)	FFO margin (%)	FFO interest coverage (x)	FFO net leverage (x)
DKT Holdings ApS	B+						
	B+	2019	2,283	34.5	24.7	2.7	5.5
	BB-	2018	1,553	37.5	12.8	1.8	9.9
		2017	2,730	41.0	32.4	5.8	3.1
Royal KPN N.V.	BBB						
	BBB	2019	5,701	38.6	32.9	7.2	2.4
	BBB	2018	5,639	38.8	33.7	6.0	2.6
	BBB	2017	6,498	35.5	30.1	5.7	2.6
Telenet Group Holding N.V	BB-						
	BB-	2019	2,584	48.0	32.8	4.6	4.7
	BB-	2018	2,535	49.5	39.2	6.1	4.9
	BB-	2017	2,528	45.3	31.6	4.8	4.9
Virgin Media Inc.	BB-						
	BB-	2019	5,888	43.2	29.6	3.2	5.2
	BB-	2018	5,821	44.5	32.5	3.6	5.1
	BB-	2017	5,666	45.2	33.2	3.7	5.4
VodafoneZiggo Group B.V.	B+						
	B+	2019	3,937	45.2	34.0	3.6	5.8
	B+	2018	3,895	44.2	33.4	3.7	5.9
	BB-	2017	4,019	42.7	33.7	4.1	5.7
Deutsche Telekom AG	BBB+						
	BBB+	2019	79,996	28.2	25.3	7.1	2.6
	BBB+	2018	75,070	28.6	25.5	6.3	2.6
	BBB+	2017	74,159	28.0	24.1	5.4	2.5

Source: Fitch Ratings, Fitch Solutions

Fitch Adjusted Financials

Reconciliation of Key Financial Metrics for DKT Holdings ApS

(DKKm)			**31 Dec 19**
SFA loan (nominal value), (EUR)	(as reported)		14,195
RCF drawn	(as reported)		681
EMTN (nominal value), (EUR/GBP)	(as reported)		7,485
Finance leases	(as reported)		-
Effect of derivatives on debt	(as reported)		-101
Interest bearing payables	(as reported)		2
Interest-bearing loans and borrowings at OpCo			**22,262**
Debt at HoldCo (EUR,USD)	(as reported)		10,572
Total debt with equity credit			**32,834**
Total off-balance sheet debt (8 x long-term leases)		(f x 8)	5,008
Total lease-adjusted debt			**37,842**
Cash and cash equivalents at TDC	(as reported)		
Cash and cash equivalents at DKT Holdings	(as reported)		
Cash and cash equivalents at DKT Finance	(as reported)		
Cash and cash equivalents (unrestricted)			1,686
Net debt with equity credit		(a)	**31,148**
Net lease-adjusted debt		(b)	**36,156**
Revenue	(as reported)		**17,044**
EBITDA	(as reported)		**6,512**
Less: interest on lease liabilities	(as reported)		-244
Less: right-of-use lease depreciaition	(as reported)		-382
Oveall IFRS 16 impact			-626
EBITDA - Fitch-adjusted	(Calculated)		**5,886**
Margin			34.5%
Net cash provided by operating activities	(as reported)		**4,456**
Dividends paid to minorities			-
Add back: special items	(Fitch adjustment)		-
Less: right-of-use lease depreciaition	(as reported)		-382
Cash flow from operations (Fitch)			**4,074**
EBITDA - Fitch-adjusted	(As above)		5,886
Gross interest paid	(as reported)	(c)	-2,331
Add back: interest on lease liabilities			244
Interest received	(as reported)		625
Net interest received (paid) - Lease interest adjusted		(d)	-1,462
Cash tax received (paid)	(as reported)		-363
Net dividends received from associates, investments, less minority dividends paid	(as reported)		-
Other items before FFO	(Calculated)		151
FFO	(Calculated)	(e)	**4,212**
Changes in working capital	(as reported)		-138
Cash flow from operations (Fitch)			**4,074**
Interest on lease liabilities	(as reported)		244
Right-of-use lease depreciaition	(as reported)		382
Long-term (LT) leases	(Fitch assumption)	(f)	626
As % of revenue			3.7%
Capex			-5,021
As % of revenue			-29.5%
FFO gross interest coverage (x)			
(FFO + net interest paid) / gross interest paid		(e-d) / (-c)	**2.7**
FFO fixed-charge coverage (x)			**2.3**
(FFO + net interest paid + LT leases) / (gross interest paid + LT leases)		(e-d+f) / (-c+f)	
Net debt with equity credit / EBITDA (x)			**5.3**
FFO adjusted net leverage (x)			**5.7**
Net lease-adjusted debt / (FFO + net interest paid + LT leases)		b / (e-d+f)	
FFO net leverage (x)			**5.5**
Net debt / (FFO + net interest paid)		a / (e-d)	

Source: Fitch Ratings, Fitch Solutions, DKT Holdings ApS

Recovery Worksheet

Key Recovery Rating Assumptions

- The recovery analysis assumes that the company would be considered a going concern in bankruptcy and that it would be reorganised rather than liquidated.
- A 10% administrative claim.
- Our going-concern EBITDA estimate of DKK5 billion reflects our view of a sustainable, post-reorganisation EBITDA level upon which we base the valuation of the company.
- Our going-concern EBITDA estimate is 14% below the Fitch-defined 2020 EBITDA.
- An enterprise value (EV) multiple of 6x is used to calculate a post-reorganisation valuation and reflects a distressed multiple. The multiple reflects TDC's incumbent position in Denmark and is also in line with that used for large European cable operators, which also have solid market position and own significant network assets.
- We estimate the total amount of debt claims at DKK39.1 billion, which includes debt instruments at the opco and holdco levels, as well as full drawings on available credit facilities, comprising EUR845 million facilities at TDC and a EUR100 million RCF at DKT Finance ApS.

Recovery Analysis

Issuer Name	DKT Holdings ApS
Issuer Default Rating	B+
Sector	Telecommunications
Statement Date	30 September 2020
Currency	DKK
Scale	Millions

Going Concern Enterprise Value	
Going Concern EBITDA	5,000
EBITDA Multiple (x)	6.0
Additional Value from Affiliates, Minority Interest, Other	-
Going Concern Enterprise Value	**30,000**

Liquidation Value (LV)	**Book Value**	**Advance Rate (%)**	**Available to Creditors**
Cash	459	0	-
Accounts Receivable	2,096	75	1,572
Inventory	200	50	100
Net Property, Plant and Equipment	15,964	50	7,982
LV of Off Balance Sheet Assets	-	100	-
Additional Value from Affiliates, Minority Interest, Other	-	100	-
Total Liquidation Value			**9,654**

Enterprise Value for Claims Distribution	
Greater of Going Concern Enterprise or Liquidation Value	30,000
Less Administrative Claims	0
Total Enterprise Value	**27,000**

Distribution of Value

Priority	**Amount**	**Concession Allocation**	**Value Recovered**	**Recovery (%)**	**Recovery Rating**	**Notching**	**Rating**
Senior Secured TDC	27,873	0	27000	97	RR1	+3	BB+
Super Senior DKT [a]	744	0	0				
Senior Secured DKT	10,490	0	0	0	RR6	-2	B-

[a] Instrument not rated by Fitch

Source: Fitch Ratings, Fitch Solutions, DKT Holdings ApS

B+/B/B-/CCC Table

Considerations	B+	B	B-	Trend	Fitch's view
Business model	Robust	Sustainable	Intact	◀▶	TDC is the telecoms incumbent in the highly competitive Danish market. TDC's leading market position supports its resilient performance in a saturated market.
Strategy/ execution risk	Limited	Moderate	Meaningful	◀▶	The strategy to separate TDC into a netco and a client-facing opco does not materially affect the operating profile and involves no change to the capital structure. We expect the separation to be completed in 2021 and believe execution risk is limited, given the progress so far.
Cash flow	Consistently Positive	Neutral to positive	Volatile	◀▶	The company's pre-dividend FCF margin is undermined by the enlarged capex needs for fibre roll-out, while its EBITDA margin has improved with the partial completion the netco separation.
Leverage profile	Clear deleveraging path	Deleveraging capacity	High but sustainable	◀▶	The company has higher leverage compared to Western European peers given its ownership structure and fibre roll-out investment. We expect deleveraging to accelerate following a peak in capex in 2020-2021.
Governance and financial policy	Committed	Some commitment to deleveraging	Aggressive	◀▶	The management has advised that it is willing to adjust capex and dividends to maintain the leverage within the 'B+' rating level. This is supported by its prudent approach to capex and no dividend payments in 2020.
Refinancing risk	Limited	Manageable	High	◀▶	Refinancing risk is acceptable given reasonably spread-out maturities and the company's strong record of accessing capital markets.
Liquidity	Comfortable	Satisfactory	Limited	◀▶	TDC had DKK0.5 billion of cash at end-2020 and no debt maturities before March 2022. Additional liquidity is provided by the EUR0.95 billion (DKK7 billion) undrawn RCFs.
Conclusion	B+				

Source: Fitch Ratings

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.