



RATING ACTION COMMENTARY

Fitch Places DKT's IDR on Watch Negative; Instruments on Watch Evolving

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Fitch Ratings - Frankfurt am Main - 02 Feb 2022: Fitch Ratings has placed DKT Holdings ApS's (DKT), the owner of Danish telecoms company TDC Holding A/S (TDC), Long-Term Issuer Default Rating (IDR) of 'B+' on Rating Watch Negative (RWN). All instrument ratings have been placed on Rating Watch Evolving (RWE).

The rating action follows the signing of new EUR3.3 billion committed bank facilities by TDC's network subsidiary, TDC NET, and the ring-fencing of the subsidiary from the rest of the group. We believe that stronger ring-fencing around the main operating subsidiary may constrain the upstreaming of cash to the parent DKT and result in the deconsolidation of the entity from the group. The proceeds from the new bank debt will be used to refinance TDC's senior secured debt and repay EUR500 million EMTN due in March 2022.

The remaining GBP425 million EMTN due in 2023 will continue to benefit from the statutory demerger liability under the Danish Companies Act, which allows us to rate the instrument on a par with the existing senior secured debt at TDC. We place DKT's instruments' ratings on RWE as they may not necessarily be disadvantaged by the new funding structure.

We expect to resolve the rating watch once we have more clarity on the group's capital structure and plans on the amount and type of debt at financing vehicle DKT Finance ApS and services subsidiary Nuuday.

KEY RATING DRIVERS

IDR Construction Change: A strong ring-fencing around operating subsidiaries may lead to a change in the rating approach from a consolidated group to a holding company as the parent now has reduced control over cash being up-streamed from subsidiaries in such group structures. DKT's IDR of 'B+' is based on our analysis of the group on a consolidated basis with no constraints on cash upstreaming from its operating subsidiaries TDC NET and Nuuday.

With the new ring-fenced debt at TDC NET in place, DKT will only have access to cash flows from Nuuday and rely on dividend payments from TDC NET within the limitations of the ringfence. The rating approach to DKT will depend on whether the parent will have constraints in accessing cash flows from Nuuday if the subsidiary raises new debt.

Low Recoveries for DKT Finance Debt: We expect the recovery prospects of the senior notes at DKT Finance to remain limited versus other debt instruments' but this will be subject to the amount of debt at its level. The rating of the notes will depend on the final composition and type of debt at TDC's operating subsidiaries as well as on the availability of credit facilities at DKT Finance to support its liquidity. At this stage we do not have a visibility on the targeted final capital structure of the group.

Total Debt Unchanged: We expect the total debt amount at TDC to remain largely the same, as most of the new debt will be used to refinance existing debt. We do not rule out further changes to the group's capital structure, including standalone financing at Nuuday. TDC has secured a new RCF at Nuuday to support its liquidity.

DERIVATION SUMMARY

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 higher leverage. It is more in line with cable operators with similarly high leverage, such as VodafoneZiggo Group B.V. (B+/Stable) and Telenet Group Holding N.V. (BB-/Stable). DKT's incumbent status, leading positions in both the fixed-line 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

- Largely flat revenue in 2022-2024
- Fitch-defined EBITDA margin at around 36%-37% in 2022-2024
- Capex around 24%-26% of revenue in 2022-2024, including spectrum

RATING SENSITIVITIES

The resolution of rating watch for instruments' ratings will depend on the final group structure and the amount and type of debt at its subsidiaries Nuuday, TDC NET and DKT Finance.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Positive rating action on the IDR is unlikely given the RWN

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Debt ring-fencing at the operating subsidiaries will likely lead to a change in the rating construction and may result in the downgrade of the IDR if the amount of debt at DKT Finance remains high and no liquidity facilities are put in place

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Non-Financial Corporate issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

LIQUIDITY AND DEBT STRUCTURE

Sufficient Liquidity: We expect DKT to maintain healthy liquidity, supported by RCFs at its operating subsidiaries.

ISSUER PROFILE

DKT is a holding company for TDC, which is the incumbent telecom operator of Denmark. TDC offers unbundled products covering mobile, broadband, TV and telephony. In 2019 the company separated TDC group into network company (TDC NET) and services company (Nuuday) with the goal to attract other telecom operators onto its infrastructure while maintaining a competitive leadership in digital services.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

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

RATING ACTIONS

ENTITY / DEBT ⚡	RATING ⚡			RECOVERY ⚡	PRIOR ⚡
TDC Holding A/S					
senior secured	LT	BB+	Rating Watch On	RR1	BB+
senior unsecured	LT	BB+	Rating Watch On	RR1	BB+
DKT Holdings ApS	LT IDR				B+ Rating Outlook Stable
	B+ Rating Watch Negative				
	Rating Watch On				

DKT Finance ApS

senior secured

LT

B-

Rating Watch On

RR6

B-

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APPLICABLE CRITERIA

[Corporates Recovery Ratings and Instrument Ratings Criteria \(pub. 09 Apr 2021\) \(including rating assumption sensitivity\)](#)

[Corporate Rating Criteria \(pub. 15 Oct 2021\) \(including rating assumption sensitivity\)](#)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v7.9.0 (1)

ADDITIONAL DISCLOSURES

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DKT Holdings ApS	EU Issued, UK Endorsed
TDC Holding A/S	EU Issued, UK Endorsed

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