

FITCH AFFIRMS TDC AT 'BBB'; OUTLOOK STABLE

Fitch Ratings-London-10 March 2014: Fitch Ratings has affirmed TDC A/S's (TDC) Long-term Issuer Default Rating (IDR) at 'BBB'. The Outlook is Stable. A full list of rating actions is at the end of this release.

TDC's credit profile is underpinned by its strong domestic position, particularly in the fixed line business. Despite the company suffering from difficult competitive and regulatory drags, its ability to reduce costs has allowed it to limit the decline in EBITDA over the past few years. While these competitive and regulatory drags should ease, Fitch anticipates that the pace of efficiency gains will also slow.

KEY DRIVERS

Strong Fixed-Line Market Position

Uniquely, TDC owns both the Danish incumbent copper network and the majority of the cable infrastructure in the country. This gives the company an exceptionally strong fixed line position compared with all other European incumbents and helps the company generate best-in-class EBITDA margins. Excluding the Nordic business, the company's FY13 EBITDA margin was 46.1%. In recent years, TDC's strong fixed line market share has been partly eroded by the aggressive fibre rollout and competitive moves of utility operators. The future strategy of these utility providers remains uncertain. Reflecting the company's strong operating profile, Fitch has increased the funds from operations (FFO) adjusted net leverage downgrade guidance to 3.75x from 3.5x.

Comfortable Headroom

TDC's EBITDA fell to DKK10.15bn in 2013, from DKK10.3bn in 2012 and DKK10.5bn in 2011. Most other European incumbents suffered more severe declines within the same timeframe. The company's guidance is for a further decline of EBITDA in 2014 but for it to remain above DKK9.8bn. Such a decline would be compatible with the 'BBB rating', which is also supported by the company's leverage policy limit of 2.2x net debt/EBITDA. For TDC's rating to be upgraded, the company must demonstrate that its strong qualitative factors translate into improved financial performance, in addition to maintaining FFO adjusted net leverage below 3.0x.

Cost Savings Almost Offsetting Revenue Pressure

Despite TDC suffering from difficult competitive and regulatory drags, the company's ability to reduce costs has allowed it to limit the decline in EBITDA over the past few years. TDC's cost base flexibility is amongst the strongest in its peer group, although Fitch expects the pace of these cost reductions might diminish over the coming few years.

Increased Fixed-to-Mobile Substitution

As TDC's flat rate mobile telephony packages have proliferated, the company has seen an increase in fixed-to-mobile substitution, with low-ARPU landline subscribers choosing to drop their landline voice product in favour of mobile only. Landline telephony contributed 17% of the company's gross profit in 2013, so a further acceleration in this trend is likely to put additional pressure on group EBITDA.

RATING SENSITIVITIES

Negative: Future developments that could lead to negative rating action include:

- A negative rating action could occur if FFO adjusted net leverage exceeds 3.75x over a sustained period of time.
- A marked deterioration in TDC's operating environment or adverse regulatory decisions.

Positive: Future developments that could lead to positive rating action include:

- FFO adjusted net leverage below 3.0x, together with evidence of an improved operational and financial performance.

The rating actions are as follows:

Long-term IDR: affirmed at 'BBB' with a Stable Outlook

Senior unsecured notes: affirmed at 'BBB'

Short-term IDR: affirmed at 'F3'

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Additional information is available at www.fitchratings.com. For regulatory purposes in various jurisdictions, the supervisory analyst named above is deemed to be the primary analyst for this issuer; the principal analyst is deemed to be the secondary.

Applicable criteria, 'Corporate Rating Methodology', dated 5 August 2013 is available at www.fitchratings.com.

Applicable Criteria and Related Research:

Corporate Rating Methodology: Including Short-Term Ratings and Parent and Subsidiary Linkage
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=715139

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