Tagging Info

Fitch: TDC's GET Deal Cuts Ratings Headroom; Ratings Unaffected

Ratings Endorsement Policy
16 Sep 2014 9:53 AM (EDT)

Fitch Ratings-London-16 September 2014: Fitch Ratings does not intend to take a rating action on TDC A/S's (TDC) 'BBB' ratings following the recently announced acquisition of Norwegian cable operator, GET.

The agency notes the acquisition will take TDC's funds from operations (FFO) net adjusted leverage above the 3.75x downgrade threshold currently established for the business on an underlying basis and that in line with Fitch's approach to M&A, the company will be given a period of between 18 months - two years in order for leverage to be brought back within the downgrade threshold.

With TDC's ratings on a Stable Outlook and with the company's Danish business under a certain amount of pressure, but absent the acquisition, presenting a profile that is not expected to undermine the current ratings, the agency feels the ratings and Outlook remain intact at present.

Fitch's revised base case, which assumes closing of the acquisition in 4Q14, and no change to our existing assumptions for the rest of the business, forecasts FFO net lease adjusted leverage increasing to around 3.9x by FYE15, falling back below 3.75x by FYE16 - i.e. by year two post transaction - and with further deleveraging in year three. The envisaged deleveraging takes into account the better growth profile of the acquired business, conservative and limited assumed synergy benefits, intended hybrid issuance and the announced cut in the company's dividend policy.

The transaction nonetheless highlights management's increased appetite for M&A and willingness to live with a higher leverage profile in order to expand the growth potential and diversification of the group. Management has stated its commitment to an investment grade rating, but also that it is prepared to allow leverage to rise from current levels in order to diversify and improve growth given the underlying pressures seen in its domestic operations.

Fitch notes a delta of around 1.1 times currently exists between the company's (unadjusted) net debt / EBITDA and FFO net leased adjusted metrics, with unadjusted leverage before the transaction standing at around 2.1x (1H14). Fitch would expect the FFO net leased adjusted metric to be run consistently below a 3.75x metric once the initial two-year leverage spike has been cleared, if existing ratings are to be preserved over the medium term.

Fitch acknowledges the improved operating profile management are pursuing through the transaction. The agency recognises the resilience, growth upside and margin benefits of acquiring cable assets, the presence of which in an incumbent business portfolio is unusual. On a pro-forma basis cable revenues are expected by management to improve to 29% (from 22%) of the group total and increase revenues from outside Denmark to 22% (from 15%).

The debt funded nature of the deal however, has removed any headroom that otherwise existed within TDC's ratings. A failure to deliver planned deleveraging or underperformance of management's targets elsewhere within the business, are now far more likely to lead to downgrade pressure.

Contact:

Jonathan Levy
Analyst
+44 20 3530 1701
Fitch Ratings Limited
30 North Colonnade
London E14 5GN

Tajesh Tailor
Director
+44 20 3530 1726

Media Relations: Peter Fitzpatrick, London, Tel: +44 20 3530 1103, Email: peter.fitzpatrick@fitchratings.com.

Additional information is available at www.fitchratings.com.