

## **FITCH AFFIRMS TDC AT 'BBB'/NEGATIVE; ASSIGNS HYBRID SECURITIES FINAL 'BB+'**

Fitch Ratings-London-17 March 2015: Fitch Ratings has affirmed Denmark-based telecoms group TDC A/S's (TDC) Long-term Issuer Default Rating (IDR) at 'BBB' and assigned a final rating of 'BB+' to its EUR750m callable subordinated capital securities (hybrids). The Outlook on the IDR is Negative. A full list of rating actions is at the end of this release.

TDC's rating is underpinned by the group's strong operating profile, which is based primarily on its operations in Denmark. The Negative Outlook reflects a potentially slower pace of deleveraging than originally anticipated following the company's acquisition of Norwegian cable operator GET in 4Q14, which removed any headroom in the rating. Stronger than anticipated competitive and regulatory pressures impacting the domestic business over the next two to three years are likely to weigh on EBITDA and the rate at which TDC can reduce leverage. Fitch now expects funds from operations (FFO) adjusted net leverage to fall below 3.75x (a key leverage threshold for the 'BBB' rating) a year later in 2017.

The final rating for the hybrids follows the successful completion of the transaction and receipt of final documentation. The rating is two notches lower than TDC's IDR and carries 50% equity credit, in line with Fitch's rating methodology for hybrid securities.

### **KEY RATING DRIVERS**

#### **Strong Domestic Position**

TDC owns both the Danish incumbent copper network and the majority of the cable infrastructure in the country. This gives the company a strong fixed line position compared with all other European incumbents and helps the company to generate best-in-class domestic EBITDA margins of 46% in 2014 including headquarter costs. This is reflected in Fitch-calculated FFO-adjusted net leverage downgrade guidance of 3.75x, which is at the higher end of the rating category.

#### **Increasing Competition and Regulation**

Competition and regulation are expected to have a significant negative impact on TDC's domestic business over the next three years. The main points of pressure are likely to be driven by a loss of mobile virtual network operator (MVNO) contacts, continued losses in fixed line telephony and competitive pressure in the B2B segment. Regulatory pressure on broadband wholesale prices and retail roaming is expected to amount to a gross profit loss of DKK100m-DKK150m by 2015 or approximately 0.5% of 2014 group revenues. Cable TV regulation could add to this from 2016.

#### **GET Acquisition**

In September 2014, TDC announced the acquisition of the Norwegian cable operator GET for EUR1.69bn. The acquisition was funded through a combination of debt, hybrids and a reduction in dividend payments. The transaction aims to improve TDC's growth profile, increase diversification and gain greater exposure to cable. TDC also aims to generate revenue and cost synergies of EUR22m per annum by 2017.

#### **Managing a Leverage Spike**

The partially debt-funded nature of the GET transaction removed any headroom TDC had within its 'BBB' rating. The acquisition increased leverage; lifting the group's FFO adjusted net debt to 4.7x in YE2014 (assuming the consolidation of GET from Nov 2014) from 3.4x in September 2014. Fitch expects TDC's leverage will decline to 3.7x by 2017 and further thereafter. We expect deleveraging to be achieved with a combination of operating cash flow, reduced dividends and recently issued

hybrids. Given the limited headroom within TDC's ratings, the execution of both the company's operational and financial strategy is key to meeting its deleveraging trajectory.

## KEY ASSUMPTIONS

Fitch's key assumptions within our ratings case include:

- An improvement in the rate of revenue decline within TDC Denmark from 4% YoY in 2014 to 1% by 2016.
- A contraction of approximately 1.5 percentage points in EBITDA margin in 2015 reflecting the loss of MVNO contracts, regulatory and competitive pressure in Denmark.
- Capex of DKK4.3bn in 2015 excluding spectrum costs and gradually reducing capital intensity from 18% to 17% over three years.
- FFO adjusted net leverage declining from 4.1x in 2015 to 3.7x in 2017.
- A reduction in dividends in line with the company's new dividend policy of approximately 60% of equity free cash flow.
- We do not assume any improvement in operating performance as a result of potential market consolidation.

## RATING SENSITIVITIES

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

- Failure to meet Fitch's expectations that FFO adjusted net leverage is on course to reduce to below 3.75x by 2017 could lead to a downgrade.
- A marked deterioration in TDC's operating environment and/or unfavourable regulatory decisions.

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

- FFO-adjusted net leverage sustainably below 3.0x, together with evidence of improved operational and financial performance could lead to an upgrade to 'BBB+'.
- The Outlook could be revised to Stable upon expectations that FFO-adjusted net leverage will fall to below 3.75x on a sustainable basis combined with stabilising EBITDA trends and no further deterioration in competitive and regulatory environments.

The rating actions are as follows:

Long-term IDR: affirmed at 'BBB'; Negative Outlook

Senior unsecured notes: affirmed at 'BBB'

Short-term IDR affirmed at 'F3'

Subordinated hybrid securities: assigned final rating of 'BB+'

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Additional information is available at [www.fitchratings.com](http://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 28 May 2014 are available at [www.fitchratings.com](http://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=749393](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=749393)

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