FITCH PLACES TDC ON RATING WATCH NEGATIVE

Fitch Ratings-London-15 February 2018: Fitch Ratings has placed TDC A/S's Long-Term Issuer Default Rating (IDR) and senior unsecured ratings of 'BBB-' on Rating Watch Negative (RWN). This follows an announcement by a consortium led by Macquarie Infrastructure and Real Assets that they intend to launch a voluntary public takeover of the entire share capital of TDC. A full list of ratings actions is at the end of this commentary.

The RWN reflects current limited visibility on the consortium's funding strategy and a potential increase in leverage for the overall group if the transaction is funded with a significant debt component. TDC has limited leverage headroom at its current 'BBB-' rating with an additional debt capacity of around DKK2 billion to DKK2.5 billion (assuming the loss of equity credit for its existing hybrid bonds). Any increase in debt above this level would lead to at least a one-notch downgrade, depending on the exact funding structure and the new operational strategy that might follow.

KEY RATING DRIVERS

Takeover Offer by Consortium: DK Telekommunication ApS, a company controlled by a consortium comprising Macquarie Infrastructure and Real Assets and Danish pension funds (PFA, PKA, and ATP), announced a voluntary public takeover of TDC. The takeover was recommended to shareholders by the Board of Directors of TDC. The transaction values TDC's equity at DKK40.3 billion, or an enterprise value (EV) multiple of 8x EBITDA. The consortium has confirmed that the transaction will be funded by debt and equity, although the exact funding mix and structure is yet to be disclosed.

Merger with MTG Off: The offer by DK Telekommunications ApS is subject to TDC's planned merger with MTG's Nordic Entertainment and Studio businesses not proceeding. As the board of directors of TDC view the acquisition offer as highly attractive and securing immediate value, they intend to withdraw their recommendation to TDC shareholders to vote in favour of the merger.

Potential Increase in Leverage: The consortium has indicated that they do not expect debt to increase at the TDC level. However, it is likely that the funding structure for the acquisition may include a significant proportion of new debt at the parent level. Combined with the potential loss of 50% equity credit for TDC's EUR750million hybrid securities (for economic reasons due to an increase in the instrument's coupon following a change of control event), the group's combined leverage may increase to a level that would be more consistent with a sub-investment grade credit profile. The lack of visibility on the eventual capital structure and potential increase leverage is reflected in the RWN.

Strong Position, Managing Decline: TDC benefits from the ownership of both copper and cable local loop infrastructure and low competition for infrastructure-based local access in its domestic market. This enables the company to sustain higher leverage headroom for its 'BBB-' rating than other European incumbent operators. TDC has been managing decline in its EBITDA as a result of increased competition in mobile and pressures in the B2B segment. The company's strategy to reduce cost and improve implementation should help stabilise EBITDA.

Limited Leverage Headroom TDC's funds from operations (FFO) adjusted net leverage at end-2017 was 3.6x, versus our downgrade sensitivity of 4.2x. This provides additional debt capacity of DKK2 billion to DKK2.5, billion assuming no equity credit for TDC's hybrid securities. If the funding mix for the acquisition comprises 50% equity and 50% debt, Fitch expects

FFO adjusted net leverage for 2018 to increase to 4.5x-5.0x. This is likely to result in up to two notches of downgrade, depending on the operational strategy.

DERIVATION SUMMARY

The ratings of TDC reflect its leading position within the Danish telecoms market. The company has strong in-market scale and share that spans both fixed and mobile segments. Ownership of both cable and copper-based local access network infrastructure reduces the company's operating risk profile relative to domestic European incumbent peers, which typically have infrastructure-based competition from alternative cable operators.

TDC is rated lower than its Dutch market-focused peer Royal KPN N.V (BBB/Stable) due to its higher leverage, lower financial flexibility and early stage of its current cost-reduction strategy for 2015-2018. Higher-rated peers such as Orange S.A. (BBB+/Stable), Deutsche Telekom AG (BBB+/Stable) and Telefonica SA (BBB/Stable) have similar strong domestic profiles but also benefit from greater geographic diversification and lower leverage.

KEY ASSUMPTIONS

Fitch's Key Assumptions within Our Rating Case for TDC on a standalone basis:
-Stabilising revenue from 2018 onwards with modest growth by 2021;
-Broadly stable EBITDA margin at around 40% over the next three years;
-Capex at 21% to 22% of revenue;
-Dividend to increase by around 9% in 2019 owing to higher dividend per share for 2018 guided by management, followed by around 5% growth annually; and
-The potential impact of the transaction (e.g. M&A, further indebtedness) is not currently reflected in Fitch's forecasts.

RATING SENSITIVITIES

The following sensitivities reflect TDC's credit profile as it currently stands, pre-takeover.

Developments that May, Individually or Collectively, Lead to Positive Rating Action
-Expectation that FFO-adjusted net leverage will fall below 3.7x on a sustained basis.
-An improvement in TDC's domestic operating environment enabling a sustained stabilisation in domestic EBITDA

Developments that May, Individually or Collectively, Lead to Negative Rating Action
-FFO-adjusted net leverage above 4.2x on a sustained basis.
-Further declines in the Danish business leading to free cash flow margins in mid-to-low single digits.

The RWN would be resolved upon visibility of DK Telekommunication ApS's funding structure for the acquisition of TDC. An increase in leverage of the combined group above the threshold of a 'BBB-' rating could lead to a multiple- notch downgrade. Fitch would affirm the IDR at 'BBB-' if the acquisition does not proceed.

LIQUIDITY

Adequate Liquidity: TDC's liquidity is adequate with cash and cash equivalents of DKK1.97 billion as of December 2017, access to a EUR700 million committed undrawn revolving credit facility, and an established track record of accessing debt markets. This is complemented by a diversified debt maturity profile.

FULL LIST OF RATING ACTIONS

TDC A/S
- Long-Term 'BBB-' IDR placed on Rating Watch Negative
- Short-Term 'F3' IDR placed on Rating Watch Negative
- Senior unsecured 'BBB-' rating placed on Rating Watch Negative
- Subordinated 'BB' hybrid securities rating placed on Rating Watch Negative

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Additional information is available on 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 Criteria (pub. 07 Aug 2017)
https://www.fitchratings.com/site/re/901296
Exposure Draft: Corporate Rating Criteria (pub. 14 Dec 2017)
https://www.fitchratings.com/site/re/907387