

TDC A/S

Update

Ratings

Long Term IDR	BBB-
Short Term IDR	F3
Senior unsecured	BBB-
Subordinated	BB

Outlook

Long Term IDR	Stable
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Financial Data

TDC A/S

	Dec 15	Dec 14
Revenue (DKKm)	24,366	23,344
Operating EBITDA margin (%)	40.3	42.0
Funds flow from operations (DKKm)	7,642	6,961
FFO fixed charge coverage (x)	5.03	4.34
FFO adjusted leverage (x)	3.93	5.21
FFO adjusted net leverage (x)	3.86	4.65

Key Rating Drivers

Domestic Weakness: TDC A/S's domestic EBITDA fell by 10.5% year-on-year in 2015. The decline was driven by a combination of competitive pressure in the consumer mobile and business segments, the loss of wholesale mobile virtual network contracts and regulatory pressure on broadband wholesale prices and retail roaming. Fitch expects these pressures will persist into 2016, leading to further significant declines in EBITDA driven by revenue loss, margin contraction and investments for its new strategy to stabilise domestic EBITDA.

Strategic Actions to Take Time: TDC is defending a 95% market share of EBIT in its domestic market which reflects a strong operating position but also the lack of profitability among its competitors. The company's strategy to stabilise EBITDA aims at preserving market value. This is being achieved by accelerating the upgrade of its products and services, increasing the value of its bundled product propositions, leading the market on price increases where possible and simplifying its process and infrastructure to generate cost savings.

Fitch expects TDC's strategy to stabilise EBITDA will take time to take effect. Our forecasts assume that EBITDA will decline until 2017 with a good chance of stabilisation in 2018. The disparity in profitability between TDC and its competitors creates some uncertainty on future competitive moves. However, market prices, particularly in mobile, are already low and limit the scope for TDC's competitors of building scale through further price reductions.

Fixed Line Supportive: 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 helped it generate domestic EBITDA margins of 43% in 2015, including headquarter costs.

The position is likely to be structurally supportive for TDC's medium- to long-term financial profile due to a lack of alternative fixed-line infrastructure. It is reflected in Fitch-calculated FFO-adjusted net leverage downgrade guidance of 4.25x, which is at the higher end of the rating category. Current competitive pressures are more prevalent in the mobile and business segments.

Modest Leverage Reduction Trajectory: TDC's FFO net leverage at the end of 2015 was 3.9x. Fitch expects leverage will increase to around 4.1x between 2016 and 2017. The increase primarily reflects further EBITDA decline and higher interest costs, partially offset by working-capital improvements and net debt reduction through organic cash generation. Announced reductions in capital expenditure and dividends will support a gradual reduction in leverage by about 0.1x to 0.3x per year depending on the speed at which EBITDA stabilisation is achieved.

Rating Sensitivities

Headroom in Current Rating: FFO-adjusted net leverage exceeding 4.25x or mid-single digit pre-dividend FCF margins on a sustained basis as a result of further declines in the domestic business could lead to a downgrade.

An upgrade to 'BBB' would be likely if there was an expectation that FFO-adjusted net leverage would fall below 3.75x on a sustainable basis. An improvement in TDC's domestic operating environment enabling a stabilisation in EBITDA would also be seen as favourable.

Related Research

[Western European Cable Operators Report \(April 2016\)](#)

[2016 Outlook: Western European Telecoms and Cable \(December 2015\)](#)

[Telecommunications: Rating Navigator Companion \(December 2014\)](#)

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Peer Group

Issuer	Country
BBB+	
BT Group plc	United Kingdom
BBB	
Royal KPN N.V.	Netherlands
BBB-	
Telecom Italia SpA	Italy

Issuer Rating History

Date	LT IDR (FC)	Outlook/ Watch
17 Dec 15	BBB-	Stable
17 Mar 15	BBB	Negative
9 Feb 15	BBB	Negative
2 Dec 14	BBB	Stable
10 Mar 14	BBB	Stable
13 Mar 13	BBB	Stable
20 Dec 12	BBB	Stable
17 Sep 12	BBB	Stable
13 Dec 11	BBB	Stable
14 Dec 10	BBB	Stable
3 Dec 10	BB	RWP
23 Sep 10	BB	Positive
26 Nov 09	BB	Positive
20 Jan 09	BB-	Positive
20 Jun 07	BB-	Stable
25 Apr 07	BB-	RWN
8 May 06	BB-	Stable
19 Apr 06	BB-	Stable
12 Apr 06	BB-	Stable
14 Feb 06	NR	
7 Feb 06	BBB+	RWN
7 Oct 05	BBB+	RWN
28 Jun 05	BBB+	Stable

Snapshot Profile: Major Issuer-Specific Rating Factors and Trends

Rating factor	Status ^a	Trend
Operations	Strong	Neutral
Market position	Strong	Neutral
Finances	Average	Deteriorating
Governance	Average	Neutral
Geography	Weak	Neutral

^a Relative to peer group
Source: Fitch

Related Criteria

Corporate Rating Methodology (August 15)

Immediate Peer Group – Comparative Analysis

Sector Characteristics

Operating Risks

Incumbent telecom operators have mature but relatively stable cash flows in their home markets. In most cases this is complemented by a degree of diversification, developed either in adjacent or emerging markets. Domestic market growth is mature, both in fixed and mobile segments, where market saturation and competition make further subscriber growth difficult.

Financial Risks

In fixed line, maturing broadband markets and continued competition from alternative networks and cable TV providers across western Europe are putting pressure on top-line growth. Incumbents have been investing in their networks so that they can offer high-speed broadband and IPTV (internet protocol TV) products.

Mobile revenue is proving more susceptible to the economic downturn than previously expected, though it is improving. Convergence and multimedia services will continue to keep capex and acquisition costs high. Over the longer term, the industry needs to find ways to monetise the strong growth in data traffic to avoid ongoing erosion in revenue and margins, while keeping investment in new technologies high.

Peer Group

2015 (EUR)	BT plc BBB+/Stable	Royal KPN BBB/Stable	TDC BBB-/Stable	Telecom Italia BBB-/Stable
Revenue	24,655	7,008	3,265	19,718
EBITDA margin (%)	35.3	34.5	40.3	35.5
CAPEX/Revenue (%)	14.6	18.6	18.5	27.5
Net Debt / EBITDA	1.4*	2.7	2.9	3.6

FX: 0.134 DKK/EUR, 1.378 GBP/EUR. BT Results LTM Dec 15, *pro-forma for EE acquisition
Source: Fitch

Key Credit Characteristics

Fitch expects revenue to stabilise and potentially grow modestly in mature western European markets. Growth from international assets, combined with cost-containment measures, should help defend margins, although fixed-line performance has undergone a more secular shift. Cash flows remain visible, although investment needs in some markets, including content and spectrum payments, along with shareholder distributions constrain deleveraging for some companies in the peer group.

Overview of Companies

BT Group plc (BBB+/Stable) – is the UK fixed-line incumbent, facing strong broadband and triple-play competition. BT's fibre investment and sports TV strategy help provide service differentiation. The acquisition of EE adds scale and a strong mobile brand, although execution risk remains.

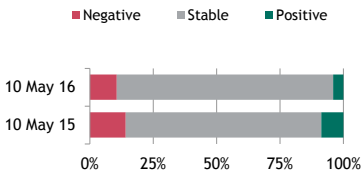
Royal KPN N.V. (BBB/Stable) – is the Dutch incumbent with a leading market position in the Netherlands. The Positive Outlook reflects Fitch's expectation of leverage improvement, following the sale of the company's Belgian mobile subsidiary BASE and improving domestic cash flows.

TDC A/S – is the Danish incumbent, with a strong domestic position in a mature market, despite facing significant competitive pressures in its mobile business. TDC's ownership of both the incumbent infrastructure and the majority of the cable infrastructure in Denmark is a key differentiator, although it faces significant competitive pressures in its mobile business.

Telecom Italia SpA (BBB-/Stable) – is the Italian incumbent, with a strong domestic position. Currency depreciation and deteriorating macroeconomic conditions have put pressure on TI's Brazilian operations and leverage is expected to peak in 2016.

Distribution of Sector Outlooks

Directional Outlooks and Rating Watches



Fitch's expectations are based on the agency's internally produced, conservative rating case forecasts.

They do not represent the forecasts of rated issuers individually or in aggregate. Key Fitch forecast assumptions include:

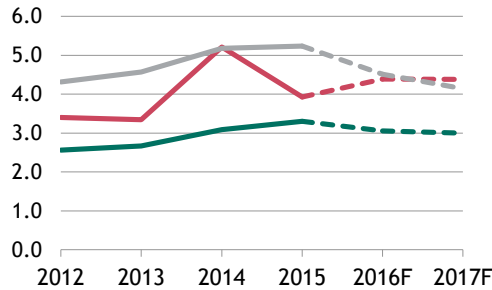
- revenue decline of 5.5% in 2016, broadly stable thereafter;
- EBITDA margin of 36.5% in 2016, improving to 38% over 2017-19;
- capex-to-sales of 20% in 2016, reducing to 19% by 2018;
- no cash dividend payments in 2016, DKK 1.0 per share paid from 2017.

Definitions

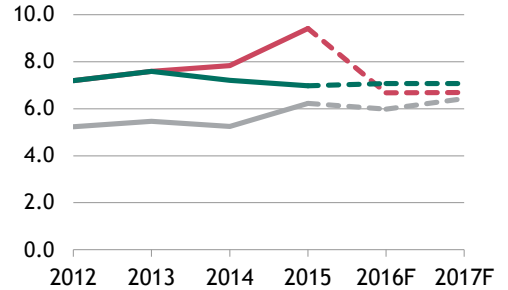
- **Leverage:** Gross debt plus lease adjustment minus equity credit for hybrid instruments plus preferred stock divided by FFO plus gross interest paid minus interest received plus preferred dividends plus rental expense.
- **Interest cover:** FFO plus gross interest paid minus interest received plus preferred dividends divided by gross interest paid plus preferred dividends.
- **FFO profitability:** FFO divided by revenue.
- For further discussion of the interpretation of the tables and graphs in this report see Fitch's "Interpreting the New EMEA and Asia-Pacific Corporates Credit Update Format" Special Report, dated 25 November 2009 and available at www.fitchratings.com.

TDC A/S — Telecommunications Median — Developed BBB- Median
Source: Company data; Fitch

Leverage including Fitch expectations



Interest Cover including Fitch expectations



Debt Maturities and Liquidity at 31 Dec 15

Debt maturities	(DKKm)
2015	202
2016	-
2017	5969
2018	2,985
After 2018	17,888
Cash and equivalents	641
Undrawn committed facilities	5,049

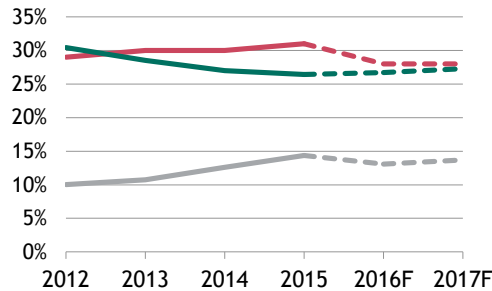
Source: Fitch

Debt Maturities

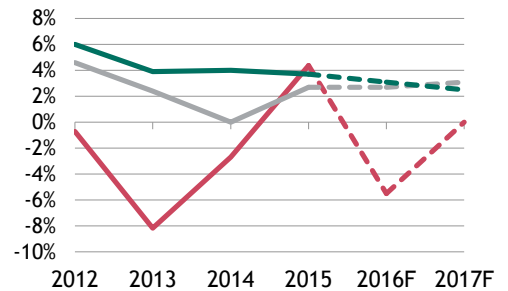
As at FYE15	(DKKm)
Feb 18 fixed 4.375% bond	5,957
Dec 19 floating loan	2,985
Feb 20 floating loan	1,865
Dec 20 floating loan	746
Mar 22 fixed 3.750% bond	3,731
Feb 23 fixed 5.625% bond	5,577
Feb 27 fixed 1.750% bond	5,969
Total	26,842

Source: Fitch

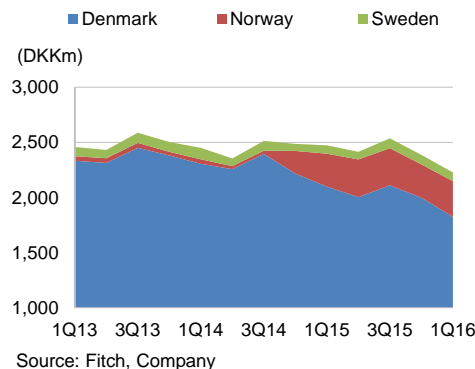
FFO Profitability including Fitch expectations



Revenue Growth including Fitch expectations

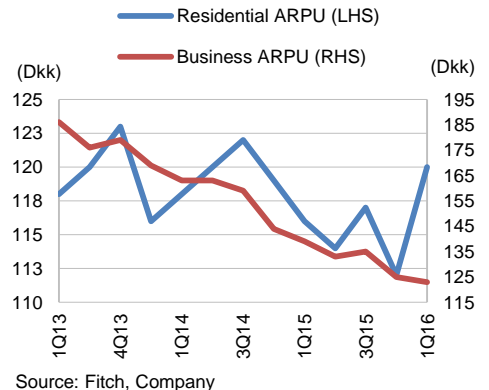


EBITDA by Region



Source: Fitch, Company

Danish Mobile ARPU



Source: Fitch, Company

TDC A/S

FINANCIAL SUMMARY

	31 Dec 2015	31 Dec 2014	31 Dec 2013	31 Dec 2012
	DKKkm	DKKkm	DKKkm	DKKkm
	Year End	Year End	Year End	Year End
Profitability				
Revenue	24,366	23,344	23,986	26,116
Revenue Growth (%)	4.38	(2.68)	(8.16)	(0.72)
Operating EBIT	4,498	5,076	5,047	5,258
Operating EBITDA	9,809	9,804	9,979	10,320
Operating EBITDA Margin (%)	40.26	42.00	41.60	39.52
FFO Return on Adjusted Capital (%)	17.37	13.86	18.01	18.06
Free Cash Flow Margin (%)	7.04	1.37	2.02	1.70
Coverages (x)				
FFO Gross Interest Coverage	9.41	7.84	7.59	7.20
Operating EBITDA/Gross Interest Expense	10.83	9.79	9.26	8.71
FFO Fixed Charge Coverage (inc. Rents)	5.03	4.34	4.57	4.21
FCF Debt-Service Coverage	2.37	0.06	1.29	1.20
Cash Flow from Operations/Capital Expenditures	1.74	1.85	1.95	2.12
Debt Leverage of Cash Flow (x)				
Total Debt with Equity Credit/Operating EBITDA	3.00	3.87	2.31	2.32
Total Debt Less Unrestricted Cash/Operating EBITDA	2.94	3.36	2.17	2.12
Debt Leverage Including Rentals (x)				
Annual hire lease rent costs for long-term assets (reported and/or estimate)	984	1,050	915	1,099
Gross Lease Adjusted Debt/Operating EBITDAR	3.46	4.27	2.79	2.87
Gross Lease Adjusted Debt /FFO+Int+Rentals	3.93	5.21	3.34	3.40
FFO Adjusted Net Leverage	3.86	4.65	3.18	3.19
FCF/Lease Adjusted Debt (%)	4.60	0.69	1.59	1.36
Debt Leverage Including Leases and Pension Adjustment (x)				
Pension and Lease Adjusted Debt /EBITDAR + Pension Cost	3.46	4.27	2.75	2.83
Balance Sheet Summary				
Readily Available Cash	641	5,053	1,439	2,028
Restricted/Not Readily Available Cash	n.a.	n.a.	n.a.	n.a.
Short-Term Debt	202	20,058	136	170
Long-Term Senior Debt	26,470	17,919	22,957	23,774
Subordinated debt	5,552	n.a.	n.a.	n.a.
Equity Credit	2,776	n.a.	n.a.	n.a.
Total Debt with Equity Credit	29,448	37,977	23,093	23,944
Off-Balance-Sheet Debt	7,872	8,400	7,320	8,792
Lease-Adjusted Debt	37,320	46,377	30,413	32,736
Fitch- identified Pension Deficit	n.a.	n.a.	n.a.	n.a.
Pension Adjusted Debt	37,320	46,377	30,413	32,736
Cash Flow Summary				
Operating EBITDA	9,809	9,804	9,979	10,320
Gross Cash Interest Expense	(906)	(1,001)	(1,078)	(1,185)
Cash Tax	(800)	(1,214)	(1,508)	(1,555)
Associate Dividends	1	1	2	765
Other Items before FFO (incl. interest receivable)	(461)	(629)	(242)	(832)
Funds from Operations	7,643	6,961	7,153	7,513
Change in Working Capital	178	172	57	130
Cash Flow from Operations	7,821	7,133	7,210	7,643
Total Non-Operating/Non-Recurring Cash Flow	n.a.	n.a.	n.a.	n.a.
Capital Expenditures	(4,502)	(3,853)	(3,690)	(3,606)
Dividends Paid	(1,603)	(2,961)	(3,036)	(3,592)
Free Cash Flow	1,716	319	484	445
Net (Acquisitions)/Divestitures	(153)	(12,676)	(241)	(113)
Net Equity Proceeds/(Buyback)	n.a.	n.a.	0	(750)
Other Cash Flow Items	(222)	1,084	188	(1,314)
Total Change in Net Debt	1,341	(11,273)	431	(1,732)
Working Capital				
Accounts Receivable Days	n.a.	n.a.	34	64
Inventory Days	73	78	(46)	(85)
Accounts Payable Days	1,659	1,686	1,258	811

TDC A/S — Forecast Financial Information

(DKKm)	Historical			Fitch forecast		
	31 Dec 13	31 Dec 14	31 Dec 15	31 Dec 16	31 Dec 17	31 Dec 18
Summary income statement						
Gross revenue	23,986	23,344	24,366	23,020	23,017	22,993
Revenue growth (%)	-8.2	-2.7	4.4	-5.5	0.0	-0.1
Operating EBITDA	9,979	9,804	9,809	8,643	8,653	8,740
Operating EBITDA margin (%)	41.6	42.0	40.3	37.5	37.6	38.0
Operating EBITDAR	10,894	10,854	10,793	9,586	9,597	9,683
Operating EBITDAR margin (%)	45.4	46.5	44.3	41.6	41.7	42.1
Operating EBIT	5,047	5,076	4,498	3,250	3,451	3,693
Operating EBIT margin (%)	21.0	21.7	18.5	14.1	15.0	16.1
Gross interest expense	-1,066	-1,033	-991	-1,121	-1,121	-1,102
Pretax income	3,432	2,793	-1,725	2,156	2,355	2,617
Summary balance sheet						
Readily available cash	1,439	5,053	641	2,442	3,494	3,764
Total debt with equity credit	23,093	37,977	29,448	29,448	29,448	28,479
Total adjusted debt with equity credit	30,413	46,377	37,320	36,999	36,998	36,021
Net debt	21,654	32,924	28,807	27,006	25,954	24,715
Summary cash flow statement						
Operating EBITDA	9,979	9,804	9,809	8,643	8,653	8,740
Cash interest	-1,078	-1,001	-906	-1,121	-1,121	-1,102
Implied interest cost (%)	4.7	3.3	2.7	3.8	3.8	3.8
Cash tax	-1,508	-1,214	-800	-731	-777	-831
Associate dividends less distributions to NCI	2	1	1	0	0	0
Other items before FFO	-242	-629	-462	-400	-355	-355
Funds flow from operations	7,153	6,961	7,642	6,390	6,400	6,453
FFO margin (%)	29.8	29.8	31.4	27.8	27.8	28.1
Change in working capital	57	172	178	100	-25	-25
Cash flow from operations (Fitch defined)	7,210	7,133	7,820	6,490	6,375	6,428
Total non-operating/non-recurring cash flow						
Capital expenditure	-3,690	-3,853	-4,502			
Capital intensity (capex/revenue) (%)	15.4	16.5	18.5			
Common dividends	-3,036	-2,961	-1,603			
Net acquisitions & divestitures	-241	-12,676	-103			
Capex, dividends, acquisitions & oth. items before FCF	-6,967	-19,490	-6,208	-4,689	-5,323	-5,189
Free cash flow after acquisitions & divestitures	243	-12,357	1,612	1,801	1,052	1,239
Free cash flow margin (after net acquisitions) margin (%)	1.0	-52.9	6.6	7.8	4.6	5.4
Other investing and financing cash flow items	-475	73	12	0	0	0
Net debt proceeds	-1,020	14,887	-5,753	0	0	-969
Net equity proceeds				0	0	0
Total change in cash	-589	3,614	-4,412	1,801	1,052	270
Coverage ratios (x)						
FFO interest coverage	7.6	7.8	9.4	6.7	6.7	6.8
FFO fixed charge coverage	4.6	4.3	5.0	4.1	4.1	4.1
Operating EBITDAR/gross interest expense + rents	5.5	5.2	5.5	4.6	4.6	4.7
Operating EBITDA/gross interest expense	9.3	9.8	10.8	7.7	7.7	7.9
	7.6	7.8	9.4	6.7	6.7	6.8
Leverage ratios (x)						
Total adjusted debt/operating EBITDAR	2.8	4.3	3.5	3.9	3.9	3.7
Total adjusted net debt/operating EBITDAR	2.7	3.8	3.4	3.6	3.5	3.3
Total debt with equity credit/operating EBITDA	2.3	3.9	3.0	3.4	3.4	3.3
FFO adjusted leverage	3.3	5.2	3.9	4.4	4.4	4.3
FFO adjusted net leverage	3.2	4.6	3.9	4.1	4.0	3.8

How to interpret the forecast presented

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Source: Fitch

Reconciliation of Key Financial Metrics for TDC

		31 Dec 15 (DKKm)	31 Dec 14 (DKKm)
Current	As reported	200	20,051
Non-current	As reported	27,398	18,630
Effect of derivatives on debt	Fitch adjustment	-926	-704
Interest bearing loans and borrowings		26,672	37,970
Subordinated debt		5,552	
Other debt	As reported		7
Less: Equity credit		-2,776	
Total debt with equity credit		29,448	37,977
Lease expense ^a	(c) Estimated	984	1,050
Lease multiple		8	8
Total off-balance sheet debt (8 x long-term leases)	Calculated	7,872	8,400
Total lease-adjusted debt		37,320	46,377
Cash and cash equivalents	As reported	-363	-4,746
Investments			
Less: restricted cash			
Other interest bearing receivables	Fitch adjustment	-278	-307
Cash and equivalents (unrestricted)		-641	-5,053
Net debt	(e) Calculated	28,807	32,924
Net lease-adjusted debt	(a)	36,679	41,324
Operating activities in continuing operations	Calculated	7,819	7,131
Dividends received from JVs & associates	As reported	1	1
Total cash flow from operating activities (CFO)	Calculated	7,820	7,132
Less positive change in working capital	As reported	(178)	(172)
Funds from operations	Calculated	7,642	6,961
Investment in property, plant and equipment		-3,417	-2,957
Investment in intangible assets		-1,085	-896
Total CAPEX	(h)	-4,502	-3,853
EBITDA	(f) As reported	9,809	9,804
Interest received	As reported	115	690
Interest paid	As reported	-1,001	-906
Net interest paid	As reported	-886	-115
Cash interest	Calculated	-906	-1,001
Cash tax received (paid)	As reported	-800	-1,214
Dividends received from joint ventures and associates	As reported	1	1
Other items before FFO	Balancing	-627	-629
Funds from operations	(b) As above	7,642	6,961
Change in working capital	As reported	172	172
Cash from operations	(g) As above	7,133	7,133
Net interest received	(i) Reported	27	115
Interest received		690	690
Interest paid		-1,576	-1,576
Gross interest	(d)	-879	-886
FFO adjusted net debt (a/b + c - d)		3.86	4.65
Net lease-adjusted debt/(FFO + net interest paid + LT leases)			
Net debt with equity credit /EBITDA (e)/(f)		2.94	3.36
Net debt/CFO - CAPEX ((e)/(g) + (h))		8.68	10.04
Fixed charge cover (b + d + c)/(d + 'i + c)		5.03	4.34
(FFO + net interest paid + LT leases)/(gross interest paid + LT leases)			

^a Blue = Fitch Estimates

Source: Fitch

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