

TDC A/S (/gws/en/esp/issr/82096151)



Correction: Fitch Downgrades TDC's Senior Unsecured Debt to 'B+'/'RR4'; off Rating Watch

Fitch Ratings-Moscow/London-24 May 2018: This commentary replaces the version published on 23 May 2018 to clarify that the senior unsecured debt rating, currently and prior to downgrade, is both final and not expected as previously stated.

Fitch Ratings has downgraded TDC A/S's (TDC) senior unsecured debt to 'B+' from 'BB-', and removed it from Rating Watch Evolving. The downgrade follows an update on the expected capital structure of the company, including an increase in the amount of the revolving credit facility (RCF) at TDC to EUR500 million from EUR300 million and the removal of a EUR200 million capex facility.

KEY RATING DRIVERS

Lower Recoveries on Facilities Change: TDC announced a change in the expected combination of credit facilities, which increases the total amount of senior secured debt for claims in our recovery analysis to EUR4.4 billion (term loan B of EUR3.9 billion and EUR500 million of RCF) from EUR4.25 billion (term loan B of EUR3.9 billion, EUR300 million of RCF and 50% of EUR200 million capex facility).

Previously, we only included 50% of the capex facility in the secured debt amount while RCFs are treated as 100% drawn in our recovery analysis. The recovery rate for the senior unsecured debt is therefore reduced to 'RR4'/41% from 'RR3'/51%, which implies no notching relative to TDC's Long-Term Issuer Default Rating (IDR) of 'B+'.

The recovery rate and the rating of EUR3.9 billion term loan B is not affected by this change and remains 'BB+(EXP)'/RR1'.

Subordination Risk: TDC has asked the holders of EUR500 million notes due 2022 and GBP425 million notes due 2023 to waive their change of control put option rights. If they waive their put option rights, we expect these notes will become subordinated to the new senior secured debt. This would reduce the recovery prospects of the 2022 and 2023 bonds if TDC goes into financial distress. In our

analysis, we assume that these bondholders will not exercise their put option as currently the bonds are trading at a significant premium to the put price.

HoldCo/OpCo Debt Assessed Jointly: Following a change in ownership of TDC, the new owners plan to refinance the acquisition debt initially raised by its parent DKT Holdings ApS (DKT; B+(EXP)/Stable) and its intermediate holding companies (collectively known as HoldCo), as well as existing debt at TDC, the operating entity (OpCo). We expect total OpCo debt to amount to EUR4.9 billion, including the EUR3.9 billion senior secured term loan B.

We intend to analyse any HoldCo debt together with debt at TDC as we see both the OpCo and HoldCo tied together from a credit perspective. We do not expect to see significant barriers to cash flow being up-streamed from the OpCo to the HoldCo. Any HoldCo debt would be structurally subordinated to both senior secured and unsecured debt at the OpCo.

The abovementioned change in the credit facilities composition does not impact TDC's or DKT's Long-Term IDRs.

Fitch recently downgraded TDC's Long-Term IDR to 'B+' and assigned DKT a Long-Term IDR of 'B+(EXP)' (see Fitch Downgrades TDC to 'B+'; Assigns DKT 'B+(EXP)', published on 7 May for more information).

DERIVATION SUMMARY

TDC's ratings reflect the company's 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 face infrastructure-based competition from cable network operators.

TDC is rated lower than other peer incumbents such as Royal KPN N.V (BBB/Stable) due to notably higher leverage, which puts it more in line with cable operators with similarly high leverage such as VodafoneZiggo Group B.V. (B+/Stable), Unitymedia GmbH (B+/RWP), Telenet Group Holding N.V. (BB-/Stable) and Virgin Media Inc. (BB-/Stable). TDC's incumbent status, leading positions in both fixed and mobile markets, and unique infrastructure ownership justify higher leverage thresholds than cable peers.

KEY ASSUMPTIONS

Fitch's Key Assumptions within our Rating Case for the Issuer

- Stabilisation of revenue in 2018 and a flat trend thereafter
- Broadly stable EBITDA margin at around 40%-41% in 2018-2021
- Capex at around 17% of revenue in 2018-2021 (including spectrum)
- Conservative dividend policy to support initial deleveraging
- No M&A

KEY RECOVERY RATING ASSUMPTIONS

- The recovery analysis assumes that the company would be considered a going concern in bankruptcy and that it would be reorganised rather than liquidated
- A 10% administrative claim
- Our going-concern EBITDA estimate of DKK6.6 billion reflects Fitch's view of a sustainable, post-reorganisation EBITDA level upon which we base the valuation of the company
- Our going-concern EBITDA estimate is 20% below LTM 2017 EBITDA, assuming likely operating challenges at the time of distress
- An enterprise value (EV) multiple of 6x is used to calculate a post-reorganisation valuation and reflects a conservative mid-cycle multiple
- We estimate the total amount of debt for claims at EUR6.8 billion, which includes debt instruments at OpCo and HoldCo level as well as drawings on available credit facilities
- We incorporate EUR4.4 billion of prior-ranking debt (term loan B of EUR3.9 billion and EUR500 million of RCF) and EUR1 billion of remaining senior unsecured debt at OpCo. Fitch calculates the recovery prospects for the senior unsecured debt at 'RR4'/41%, which implies no instrument rating notching from TDC's Long-Term IDR of 'B+'. Senior unsecured notes at OpCo level have priority over instruments at HoldCo due to structural subordination.

RATING SENSITIVITIES

Developments that may, Individually or Collectively, Lead to Positive Rating Action

- Expectation that funds from operations(FFO)-adjusted net leverage will fall below 5.7x on a sustained basis
- Strong and stable free cash flow (FCF) generation, reflecting a stable competitive and regulatory environment

Developments that may, Individually or Collectively, Lead to Negative Rating Action

- FFO-adjusted net leverage above 6.5x on a sustained basis
- Further declines in the Danish business putting FCF margins under pressure into mid- to low-single digits

LIQUIDITY

Comfortable Liquidity: We expect the OpCo and HoldCo to have comfortable liquidity positions upon refinancing, which will be supported by EUR600 million of credit facilities. This comprises EUR500 million of RCF at OpCo, and a EUR100 million RCF at HoldCo. The company's liquidity profile is also supported by strong pre-dividend FCF generation.

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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. 23 Mar 2018)

(<https://www.fitchratings.com/site/re/10023785>)

Corporates Notching and Recovery Ratings Criteria (pub. 23 Mar 2018)

(<https://www.fitchratings.com/site/re/10024585>)

Country-Specific Treatment of Recovery Ratings Criteria (pub. 16 Apr 2018)

(<https://www.fitchratings.com/site/re/10026835>)

Sector Navigators (pub. 23 Mar 2018)

(<https://www.fitchratings.com/site/re/10023790>)

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