

Rating Action: Moody's assigns B3 ratings to DKT's proposed senior notes

13 Jun 2018

Madrid, June 13, 2018 -- Moody's Investors Service ("Moody's") has today assigned B3 ratings to the proposed €1.4 billion equivalent senior notes due 2023 to be issued by DKT Finance ApS, a finance vehicle 100% owned by DKT Holdings ApS ("DKT", B1 stable). DKT owns 100% of Danish telecom operator TDC A/S ("TDC" or "the company"). The outlook on the ratings is stable.

All other ratings of DKT and TDC remain unchanged.

The assignment of ratings to the senior notes follows the announcement of TDC's takeover by DKT and is part of the exercise aimed at structuring a permanent capital structure for TDC. The new capital structure comprises of c. €1.0 billion of existing unsecured notes and the €3.9 billion TLB, both at TDC level, €1.4 billion senior notes at the level of DKT Finance ApS, revolving credit facilities totaling €600 million and €2.7 billion of equity.

A full list of affected ratings is provided towards the end of the press release.

RATINGS RATIONALE

The B3 rating assigned to the proposed €1.4 billion equivalent senior notes is two notches below the B1 corporate family rating of DKT, two notches below TDC's B1 senior unsecured bond ratings and three notches below the Ba3 rating assigned to the TLB and RCF issued by TDC. The B3 rating on the senior notes reflects their structural subordination to the €5.4 billion debt at TDC level. The senior notes are guaranteed by DKT on a senior basis and will be secured on a first-ranking basis by the issued shares, intra-group receivables and security interests in all bank accounts of DKT Finance.

The B1 CFR assigned to DKT reflects the combination of the group's strong business profile and expectation of improved operating performance, offset by the impact on the group's credit metrics from the substantial debt incurred to finance the buyout. Moody's expects that the group will continue to be managed with a somewhat aggressive financial profile under its current ownership structure with limited expected deleveraging. On a pro-forma basis, Moody's adjusted debt/EBITDA in 2017 will be approximately 6.1x on a consolidated level, compared to 3.5x pre-transaction.

The B1 CFR also reflects (1) the strength of TDC's operations in Denmark, with strong market shares in mobile, TV, broadband and fixed voice; (2) TDC's highly advanced fixed and mobile network infrastructure; (3) TDC's ownership of the majority of the critical telecom infrastructure in Denmark; (4) Moody's expectation that EBITDA should stabilise in 2018 due to the favorable impact of cost savings across the group; (5) Moody's expectation that cash conversion should improve supported by lower capex; and (6) its good liquidity.

RATIONALE FOR STABLE OUTLOOK

The stable outlook reflects Moody's expectation that TDC's operating performance will gradually improve through a combination of an improving pricing environment in mobile, more focused and agile marketing strategy, efficiency gains and capex optimisation. The outlook also reflects Moody's expectation that DKT will execute its strategy, which will enable the company to stabilise its operating performance in 2018 and deliver growth from 2019 onwards. It also recognises Moody's expectation that the group is likely to be managed towards a leveraged financial profile over time.

WHAT COULD CHANGE THE RATING UP/DOWN

DKT's corporate family rating could be upgraded as a result of improvements in its credit metrics, such as adjusted debt/EBITDA improving to below 5.0x on a sustainable basis, and adjusted retained cash flow/gross debt improving sustainably to a level in the mid-teens, in an improved business environment.

The ratings could be lowered if: (1) the company was to deviate from the execution of its new strategy; (2) the company was to embark on an aggressive expansion/acquisition programme, most likely outside its existing footprint, leading to higher financial, business and execution risk; or (3) its credit metrics were to deteriorate, including adjusted retained cash flow/gross debt falling to below 8% or adjusted gross debt/EBITDA trending

towards 6.0x on an ongoing basis.

LIST OF AFFECTED RATINGS

Assignments:

..Issuer: DKT Finance ApS

...Senior Secured Regular Bond/Debenture (Foreign Currency), Assigned B3

Outlook Actions:

..Issuer: DKT Finance ApS

...Outlook, Assigned Stable

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Telecommunications Service Providers published in January 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

COMPANY PROFILE

DKT Holdings ApS is a holding company of TDC A/S, the principal provider of fixed-line, mobile, broadband data and cable television offerings in Denmark. The company also provides telecom services, including TV, mobile and broadband, to customers in Norway. In 2017, the company generated revenue and EBITDA of DKK20.3 billion and DKK8.2 billion, respectively.

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