DKT Holdings ApS

Rating Type	Rating	Outlook	Last Rating Action
Long-Term IDR	B+	Stable	Downgrade 5 July 2019

Click here for full list of ratings

Financial Summary

(DKKm)	Dec 2016	Dec 2017	Dec 2018[a]	Dec 2019F	Dec 2020F	Dec 2021F
Gross Revenue	21,031	20,270	17,356	17,038	16,934	16,993
Operating EBITDAR Margin (%)	44.3	44.9	42.1	39.7	40.6	41.0
FFO Margin (%)	30.9	32.4	20.1	24.5	23.9	24.2
FFO Fixed-Charge Coverage (x)	4.3	4.0	2.1	2.7	2.7	2.7
FFO Adjusted Net Leverage (x)	3.7	3.6	5.6	5.8	6.2	6.3

[a] Pro-forma
Source: Fitch Ratings, Fitch Solutions

Fitch Ratings' downgrade of DKT Holdings ApS (DKT), the owner of Danish telecoms company TDC A/S (TDC), reflects our view that the strategy to increase network investment and to separate TDC into two operating subsidiaries will increase capex and operating expenses. We expect this will increase DKT's leverage to a level sustainably higher than our downgrade threshold for a 'BB-' rating.

Our base case envisages funds from operations (FFO) adjusted net leverage to stabilise at 6.2x-6.3x in 2020-2022. This high leverage, taken into consideration with the strong operating profile of an incumbent telecoms operator, is more consistent with a 'B+' rating.

Key Rating Drivers

Higher Capex and Leverage: We forecast DKT's Fitch-defined FFO lease-adjusted net leverage to rise to 5.8x by end-2019 and to remain at around 6.2x-6.3x in 2020-2022. DKT plans to invest more in its FTTH and 5G networks, and develop its TV platform. We expect higher capex to continue in the next four years. The demerger of TDC into two operating subsidiaries (a NetCo operating fixed and mobile networks and an OpCo focusing on delivering customer experience) should also contribute to higher operational expenses and capex in 2019-2020. However, we believe DKT can manage its leverage through flexible dividends and the phasing of its capex programme.

Fibre Network Investment: DKT's strategy to increase fibre network investment and FTTH coverage, in Fitch's view, should help to address growing demand for high-speed broadband connectivity and place DKT in a better competitive position than its infrastructure competitors. We believe DKT is likely to focus its FTTH investments initially in areas where it has a fixed broadband market share, but where there is little alternative fibre deployment.

In Denmark, FTTH network has been predominantly deployed and is owned by local utility companies. These utilities have passed 1.2 million homes with fibre, which covers half of the country's households. Where fibre connections are not available, consumers rely on upgraded cable networks or TDC's copper-based network for their broadband service.

Competitive Market: The mature Danish telecom market remains competitive with limited subscriber growth potential. DKT's 1Q19 results show some signs of stabilisation. Its business segment has delivered for the first time revenue growth of 0.9% yoy, reversing high single-digit declines in past years. The consumer segment's revenue dipped by 0.2%. Based on DKT's solid market position as the incumbent operator in Denmark, we expect overall revenue to increase from 2021.

NetCo, OpCo Legal Separation: The legal separation of OpCo and NetCo has now been completed with these two business units transferred to 100%-owned TDC subsidiaries, Nuuday A/S and TDC NetCo A/S respectively. This demerger has yet to be fully executed as certain headquarters functions, and the primary part of TDC's external debt financing, still remain at TDC.

We do not expect a full operational separation to be completed before 2021-2022. However, changes to the security and guarantee package for the senior secured debt issued by TDC have now been made, in line with terms outlined during TDC's term loan B (TLB) euro tranche repricing in November 2018.

Instrument Ratings Change: We have updated our ratings on DKT's instrument ratings, as we now have further clarity on the impact of TDC's planned network separation, with the legal separation being the first step.

TDC's Senior Secured Upgraded: Recovery prospects for the debt issued by TDC remain good, even though we expect EBITDA to be lower in 2019 than in 2018. With the legal separation complete, the TLB (senior secured facilities issued by TDC) now has significant security advantages over TDC's senior unsecured notes. This includes the share pledge over TDC and its two new subsidiaries, TDC NetCo A/S and Nuuday A/S, as well as guarantees from the two new subsidiaries and TDC's immediate parent, DK Telekommunikation ApS. Therefore we upgraded TDC's senior secured instrument rating to 'BB+'/'RR1'/100% in July.

TDC's Senior Unsecured Upgraded: Recovery prospects for TDC's senior unsecured noteholders are also good. While these noteholders do not benefit from any guarantee or security package, TDC's two new subsidiaries, due to the demerger, under Danish law will be liable on a statutory basis to satisfy existing noteholders' claims if TDC defaults on these notes. These notes mature in 2022 and 2023, before the TLB is due in 2025. We therefore upgraded TDC's senior unsecured instrument rating to 'BB'/'RR2'/90% in July.

DKT Holdco Rating Downgraded: The debt issued by DKT Finance ApS, a holding company that ultimately owns TDC, is structurally subordinated to the debt issued by TDC. The underlying recovery of the instrument remains weak given a substantial amount of prior-ranking debt totalling over 2x EBITDA. Hence we downgraded the rating of the notes by DKT to 'B-'/'RR6'/10%, following DKT's IDR downgrade.

Impact from IFRS 16 Adoption not Factored In: Our leverage metrics do not factor in the transition to IFRS16 accounting standards. We continue to treat operating lease payments as part of operating costs and capitalise them for our total adjusted debt calculation.

Rating Derivation Relative to Peers

DKT's ratings reflect the company's leading position within the Danish telecoms market. The company has strong in-market scale and market shares that span both fixed and mobile segments. Ownership of both cable and copper-based local access network infrastructure partly reduces the company's operating risk profile, even though TDC faces network competition from FTTH fibres deployed by Danish electricity companies in parts of the country. Domestic European incumbent peers typically face infrastructure-based competition from cable network operators.

DKT is rated lower than other peer incumbents, such as Royal KPN N.V (BBB/Stable), due to notably higher leverage. This puts it more in line with cable operators with similarly high leverage, such as VodafoneZiggo Group B.V. (B+/Stable), Unitymedia GmbH (BBB/Stable), 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.

Navigator Peer Comparison

Issuer		Business profile						Financial profile		
Name	IDR/Outlook	Operating Environment	Management and Corporate Governance	Competitive Position	Diversification	Technology and Infrastructure	Regulatory Environment	Profitability	Financial Structure	Financial Flexibility
DKT Holdings ApS	B+/Sta	aa	bbb	bbb+	bbb	a	bbb	bbb+	b	bb+
Royal KPN N.V.	BBB/Sta	aa	a-	bbb+	bbb	a	bbb	bbb+	bbb	a-
Deutsche Telekom, AG	BBB+/Sta	aa	a-	a-	a	a	bbb	bbb+	bbb-	bbb+
Telenet Group Holding N.V	BB-/Sta	aa	bbb+	bbb+	bb+	a	bbb-	bbb+	b+	bbb
VodafoneZiggo Group B.V.	B+/Sta	aa	bbb	bbb+	bbb-	a	bbb+	bbb+	b	bbb
Virgin Media Inc.	BB-/Sta	aa	bbb+	bbb+	bb+	a	bbb+	bbb+	b+	bbb

Source: Fitch Ratings — Importance: Higher / Moderate / Lower

Issuer		Business profile						Financial profile		
Name	IDR/Outlook	Operating Environment	Management and Corporate Governance	Competitive Position	Diversification	Technology and Infrastructure	Regulatory Environment	Profitability	Financial Structure	Financial Flexibility
DKT Holdings ApS	B+/Sta	11.0	5.0	6.0	5.0	8.0	5.0	6.0	-1.0	3.0
Royal KPN N.V.	BBB/Sta	6.0	2.0	1.0	0.0	3.0	0.0	1.0	0.0	2.0
Deutsche Telekom, AG	BBB+/Sta	5.0	1.0	1.0	2.0	2.0	-1.0	0.0	-2.0	0.0
Telenet Group Holding N.V	BB-/Sta	10.0	5.0	5.0	2.0	7.0	3.0	5.0	-1.0	4.0
VodafoneZiggo Group B.V.	B+/Sta	11.0	5.0	6.0	4.0	8.0	6.0	6.0	-1.0	5.0
Virgin Media Inc.	BB-/Sta	10.0	5.0	5.0	2.0	7.0	5.0	5.0	-1.0	4.0

Source: Fitch Ratings — Worse positioned than IDR / In line with IDR / Better positioned than IDR

Rating Sensitivities

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

- Expectation that FFO adjusted net leverage will fall below 5.7x on a sustained basis
- Neutral-to-positive FCF generation reflecting a stable competitive market position and a capex profile normalising at lower levels than in 2019

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

- FFO-adjusted net leverage above 6.5x on a sustained basis
- Increased competitive intensity in the Danish telecoms market, resulting in declining EBITDA margin and weak pre-dividend free cash flow (FCF) generation.

Liquidity and Debt Structure

Satisfactory Liquidity: At end-2018, DKT had a consolidated cash balance of DKK2.4 billion. We expect the business to see negative FCF of over DKK1 billion in both 2019 and 2020 due to higher capex and dividend payments. It has sufficient liquidity provided by the EUR500 million RCF at TDC and the EUR100 million RCF at DKT Finance ApS. Both facilities are undrawn and expire in 2025. The debt maturity profile is comfortable with the first large debt repayment in 2022.

Liquidity and Debt Maturity Scenario with No Refinancing

DKT Holdings ApS – Liquidity Analysis

Available Liquidity (DKKm)	2019F	2020F	2021F	2022F
Beginning Cash Balance	2,381	514	-1,228	-2,215
Rating Case FCF after Acquisitions and Divestitures	-1,856	-1,734	-980	-826
Total Available Liquidity (A)	**525**	**-1,220**	**-2,208**	**-3,041**
Liquidity Uses				
Debt Maturities	-11	-8	-8	-3,738
Total Liquidity Uses (B)	**-11**	**-8**	**-8**	**-3,738**
Liquidity Calculation				
Ending Cash Balance (A+B)	514	-1,228	-2,215	-6,779
Revolver Availability	4,470	4,470	4,470	4,470
Ending Liquidity	**4,984**	**3,242**	**2,255**	**-2,309**
Liquidity Score	**454.1**	**433.3**	**301.6**	**0.4**

Source: Fitch Ratings, Fitch Solutions, DKT

Scheduled Debt Maturities	Original
Statement Date	**31 December 2018**
2019	11
2020	8
2021	8
2022	3,738
2023	14,044
Thereafter	14,733
Total	**32,542**

Source: Fitch Ratings, Fitch Solutions, DKT

Key Assumptions

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

- Slightly declining revenue in 2019 and 2020, before stabilising and growing in the following two years
- EBITDA margin of 36%-37% in 2019-2020, reflecting investment in FTTH rollout as well as TV content costs. Improvement starts from 2021
- Capex (excluding spectrum) of around 26% of revenue in 2019-2020 before declining in 2021-2022
- Dividends of around DKK800 million a year
- Capex and dividend policy to keep leverage high but at stable levels after 2020

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 DKK5 billion reflects Fitch's view of a sustainable, post-reorganisation EBITDA level on which we base the valuation of the company
- Our going-concern EBITDA estimate is 20% below our 2019 forecast EBITDA, which takes into account the operational expenses related to the demerger in 2019
- An enterprise value (EV) multiple of 6x is used to calculate a post-reorganisation valuation and reflects a distressed multiple. The multiple reflects TDC's incumbent position in Denmark and is also in line with that used for large European cable operators like VodafoneZiggo and Unitymedia, which also have solid market positions and own significant network assets
- We estimate the total amount of debt for claims at EUR4.9 billion (DKK36.4 billion), which includes debt instruments at the OpCo and HoldCo levels, as well as full drawings on available credit facilities, comprising the EUR500 million facilities at TDC and a EUR100 million revolving credit facility (RCF) at DKT

Financial Data

	Historical			Forecast		
(DKKm)	Dec 2016	Dec 2017	Dec 2018[a]	Dec 2019F	Dec 2020F	Dec 2021F
Summary Income Statement						
Gross Revenue	21,031	20,270	17,356	17,038	16,934	16,993
Revenue Growth (%)	-4.1	-3.6	-14.4	-1.8	-0.6	0.3
Operating EBITDA (Before Income from Associates)	8,488	8,308	6,691	6,156	6,268	6,350
Operating EBITDA Margin (%)	40.4	41.0	38.6	36.1	37.0	37.4
Operating EBITDAR	9,325	9,106	7,304	6,769	6,881	6,963
Operating EBITDAR Margin (%)	44.3	44.9	42.1	39.7	40.6	41.0
Operating EBIT	3,548	3,148	2,603	2,578	2,542	2,441
Operating EBIT Margin (%)	16.9	15.5	15.0	15.1	15.0	14.4
Gross Interest Expense	-782	-656	-1,092	-1,689	-1,708	-1,741
Pretax Income (Including Associate Income/Loss)	2,491	2,015	385	1,052	997	863
Summary Balance Sheet						
Readily Available Cash and Equivalents	1,946	1,970	2,381	514	13	5
Total Debt with Equity Credit	26,855	24,844	32,542	32,531	33,764	34,736
Total Adjusted Debt with Equity Credit	33,551	31,228	37,446	37,435	38,668	39,640
Net Debt	24,909	22,874	30,161	32,017	33,751	34,731
Summary Cash Flow Statement						
Operating EBITDA	8,488	8,308	6,691	6,156	6,268	6,350
Cash Interest Paid	-1,126	-1,279	-2,311	-1,689	-1,708	-1,741
Cash Tax	-608	-556	-502	-151	-378	-362
Dividends Received Less Dividends Paid to Minorities (Inflow/(Out)flow)	10	1	0	0	0	0
Other Items Before FFO	-290	-335	-555	-300	-300	-300
Funds Flow from Operations	6,491	6,564	3,486	4,179	4,045	4,109
FFO Margin (%)	30.9	32.4	20.1	24.5	23.9	24.2
Change in Working Capital	151	455	471	-448	-276	-143
Cash Flow from Operations (Fitch Defined)	6,642	7,019	3,957	3,731	3,769	3,966
Total Non-Operating/Non-Recurring Cash Flow	430	0	788			
Capital Expenditure	-4,454	-4,491	-3,646			
Capital Intensity (Capex/Revenue) (%)	21.2	22.2	21.0			
Common Dividends	0	-802	0			
Free Cash Flow	2,618	1,726	1,.099			
Net Acquisitions and Divestitures	-145	294	17,117			
Other Investing and Financing Cash Flow Items	1,836	7	-42,200	0	0	0
Net Debt Proceeds	-2,992	-1,947	4,476	-11	1,233	973
Net Equity Proceeds	7	0	20,122	0	0	0
Total Change in Cash	1,324	80	614	-1,867	-501	-8
Calculations for Forecast Publication						
Capex, Dividends, Acquisitions and Other Items Before FCF	-4,169	-4,999	14,259	-5,587	-5,502	-4,947
Free Cash Flow After Acquisitions and Divestitures	2,473	2,020	18,216	-1,856	-1,734	-980
Free Cash Flow Margin (After Net Acquisitions) (%)	11.8	10.0	105.0	-10.9	-10.2	-5.8

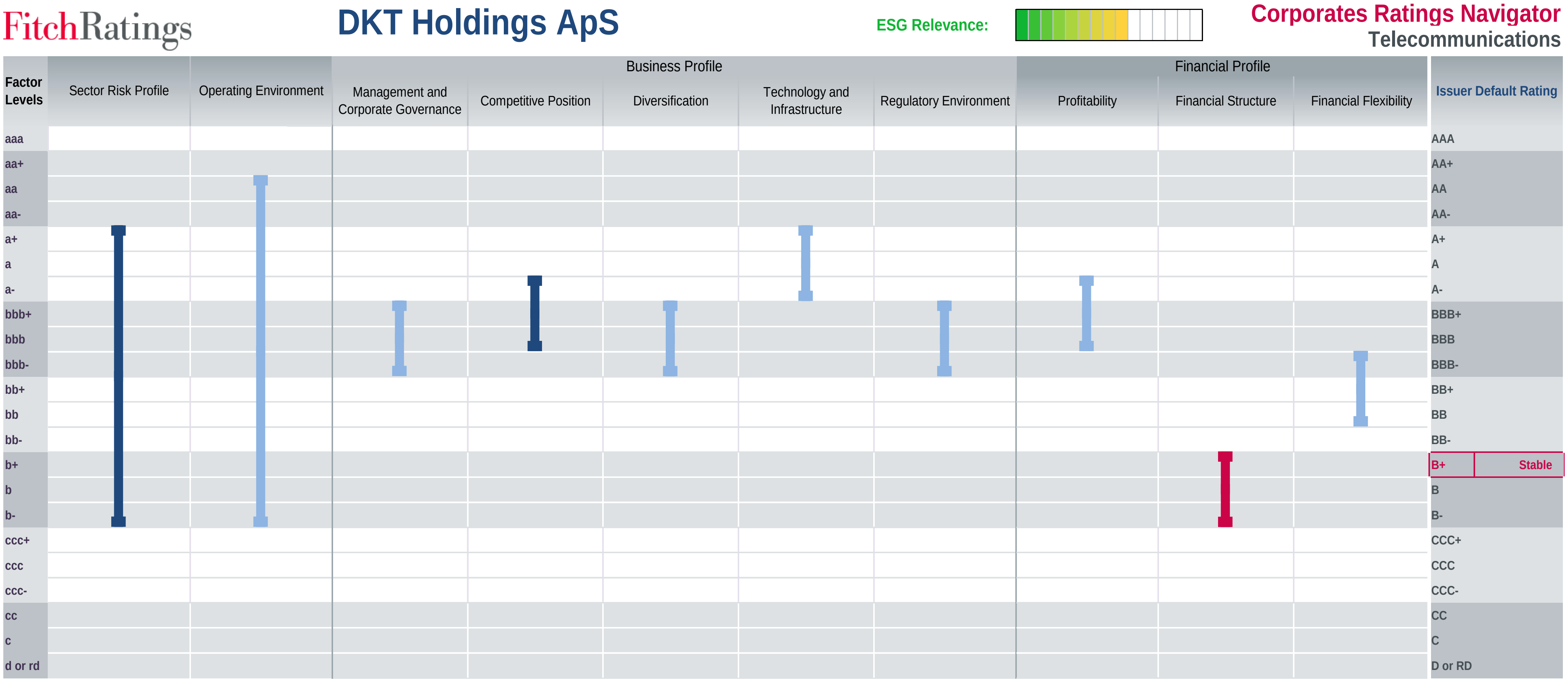
Coverage Ratios						
FFO Interest Coverage (x)	6.8	5.8	2.4	3.4	3.3	3.3
FFO Fixed-Charge Coverage (x)	4.3	4.0	2.1	2.7	2.7	2.7
Operating EBITDAR/Interest Paid + Rents (x)	4.8	4.4	2.5	2.9	3.0	3.0
Operating EBITDA/Interest Paid (x)	7.5	6.5	2.9	3.6	3.7	3.6
Leverage Ratios						
Total Adjusted Debt/Operating EBITDAR (x)	3.6	3.4	5.1	5.5	5.6	5.7
Total Adjusted Net Debt/Operating EBITDAR (x)	3.4	3.2	4.8	5.5	5.6	5.7
Total Debt with Equity Credit/Operating EBITDA (x)	3.2	3.0	4.9	5.3	5.4	5.5
FFO Adjusted Leverage (x)	4.0	3.8	6.0	5.9	6.2	6.3
FFO Adjusted Net Leverage (x)	3.7	3.6	5.6	5.8	6.2	6.3

[a] Pro-forma
Source: Fitch Ratings, Fitch Solutions

How to Interpret the Forecast Presented

The forecast presented is based on Fitch Ratings' internally produced, conservative rating case forecast. It does not represent the forecast of the rated issuer. The forecast set out above is only one component used by Fitch Ratings to assign a rating or determine a rating outlook, and the information in the forecast reflects material but not exhaustive elements of Fitch Ratings' rating assumptions for the issuer's financial performance. As such, it cannot be used to establish a rating, and it should not be relied on for that purpose. Fitch Ratings' forecasts are constructed using a proprietary internal forecasting tool, which employs Fitch Ratings' own assumptions on operating and financial performance that may not reflect the assumptions that you would make. Fitch Ratings' own definitions of financial terms such as EBITDA, debt or free cash flow may differ from your own such definitions. Fitch Ratings may be granted access, from time to time, to confidential information on certain elements of the issuer's forward planning. Certain elements of such information may be omitted from this forecast, even where they are included in Fitch Ratings' own internal deliberations, where Fitch Ratings, at its sole discretion, considers the data may be potentially sensitive in a commercial, legal or regulatory context. The forecast (as with the entirety of this report) is produced strictly subject to the disclaimers set out at the end of this report. Fitch Ratings may update the forecast in future reports but assumes no responsibility to do so. Original financial statement data for historical periods is processed by Fitch Solutions on behalf of Fitch Ratings. Key financial adjustments and all financial forecasts credited to Fitch Ratings are generated by rating agency staff.

Ratings Navigator



FitchRatings

DKT Holdings ApS

Corporates Ratings Navigator
Telecommunications

Operating Environment

aa+	Economic Environment	aa	Very strong combination of countries where economic value is created and where assets are located.
aa	Financial Access	aa	Very strong combination of issuer specific funding characteristics and of the strength of the relevant local financial market.
	Systemic Governance	aa	Systemic governance (eg rule of law, corruption; government effectiveness) of the issuer's country of incorporation consistent with 'aa'.
b-			
ccc+			

Management and Corporate Governance

a-	Management Strategy	a	Coherent strategy and good track record in implementation.
bbb+	Governance Structure	bbb	Good CG track record but effectiveness/independence of board less obvious. No evidence of abuse of power even with ownership concentration.
bbb	Group Structure	bbb	Some group complexity leading to somewhat less transparent accounting statements. No significant related-party transactions.
bbb-	Financial Transparency	bbb	Good quality reporting without significant failing. Consistent with the average of listed companies in major exchanges.
bb+			

Competitive Position

a	Market Position	a	Very strong and sustainable market share in primary markets (> 30%).
a-	Competition	bbb	Primary markets characterized by medium competitive intensity and/or moderate barriers to entry.
bbb+	Scale - EBITDAR	bbb	>$1 billion
bbb			
bbb-			

Diversification

a-	Service Platform Diversification	a	Operates several service platforms in primary markets.
bbb+	Geographic Diversification	bb	Limited geographic diversification.
bbb			
bbb-			
bb+			

Technology and Infrastructure

aa-	Ownership of Network	a	Owns almost all of its infrastructure.
a+	Network and Service Quality	a	Market leading network in terms of coverage and technology deployment, with good quality of service.
a			
a-			
bbb+			

Regulatory Environment

a-	Regulatory Risk	bbb	Moderate.
bbb+			
bbb			
bbb-			
bb+			

Profitability

a	Volatility of Cash Flow	bbb	Volatility and visibility of cash flow in line with industry average.
a-	EBITDAR Margin	a	35%
bbb+	FFO Margin	bbb	24%
bbb			
bbb-			

Financial Structure

bb-	Lease Adjusted FFO Gross Leverage	b	5.8x
b+	Lease Adjusted FFO Net Leverage	b	5.5x
b	Net Debt/(CFO - Capex)	b	Not meaningful.
b-	Total Adjusted Debt/Operating EBITDAR	b	5.5x
ccc+			

Financial Flexibility

bbb	Financial Discipline	bb	Financial policies in place but flexibility in applying them could lead to temporarily exceeding downgrade guidelines.
bbb-	Liquidity	bbb	One year liquidity ratio above 1.25x. Well-spread maturity schedule of debt but funding may be less diversified.
bb+	FFO Fixed Charge Cover	bb	3.0x
bb	FX Exposure	bbb	Some FX exposure on profitability and/or debt/cash flow match. Efficient hedging in place.
bb-			

How to Read This Page: The left column shows the three-notch band assessment for the overall Factor, illustrated by a bar. The right column breaks down the Factor into Sub-Factors, with a description appropriate for each Sub-Factor and its corresponding category.

Credit-Relevant ESG Derivation

DKT Holdings ApS has 8 ESG potential rating drivers

- Energy and fuel use in networks and data centers
- Networks exposed to extreme weather events (e.g. hurricanes)
- Data security; service disruptions
- Impact of labor negotiations and employee (dis)satisfaction
- Governance is minimally relevant to the rating and is not currently a driver.

			Overall ESG
key driver	0	issues	5
driver	0	issues	4
potential driver	8	issues	3
not a rating driver	1	issues	2
	5	issues	1

For further details on Credit-Relevant ESG scoring, see page 3.

FitchRatings

DKT Holdings ApS

Corporates Ratings Navigator
Telecommunications

Credit-Relevant ESG Derivation

DKT Holdings ApS has 8 ESG potential rating drivers

- DKT Holdings ApS has exposure to energy productivity risk but this has very low impact on the rating.
- DKT Holdings ApS has exposure to extreme weather events but this has very low impact on the rating.
- DKT Holdings ApS has exposure to customer accountability risk but this has very low impact on the rating.
- DKT Holdings ApS has exposure to labor relations & practices risk but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

			Overall ESG Scale
key driver	0	issues	5
driver	0	issues	4
potential driver	8	issues	3
not a rating driver	1	issues	2
	5	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	3	Energy and fuel use in networks and data centers	Profitability	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	3	Networks exposed to extreme weather events (e.g. hurricanes)	Profitability	1

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	1	n.a.	n.a.	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Data security; service disruptions	Competitive Position; Profitability	4
Labor Relations & Practices	3	Impact of labor negotiations and employee (dis)satisfaction	Competitive Position; Profitability	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	2	Social attitudes toward network infrastructure	Diversification; Technology and Infrastructure; Profitability	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Strategy development and implementation	Management and Corporate Governance	5
Governance Structure	3	Board independence and effectiveness; ownership concentration	Management and Corporate Governance	4
Group Structure	3	Complexity, transparency and related-party transactions	Management and Corporate Governance	3
Financial Transparency	3	Quality and timing of financial disclosure	Management and Corporate Governance	2
				1

How to Read This Page
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The left-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies the [number of] general ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

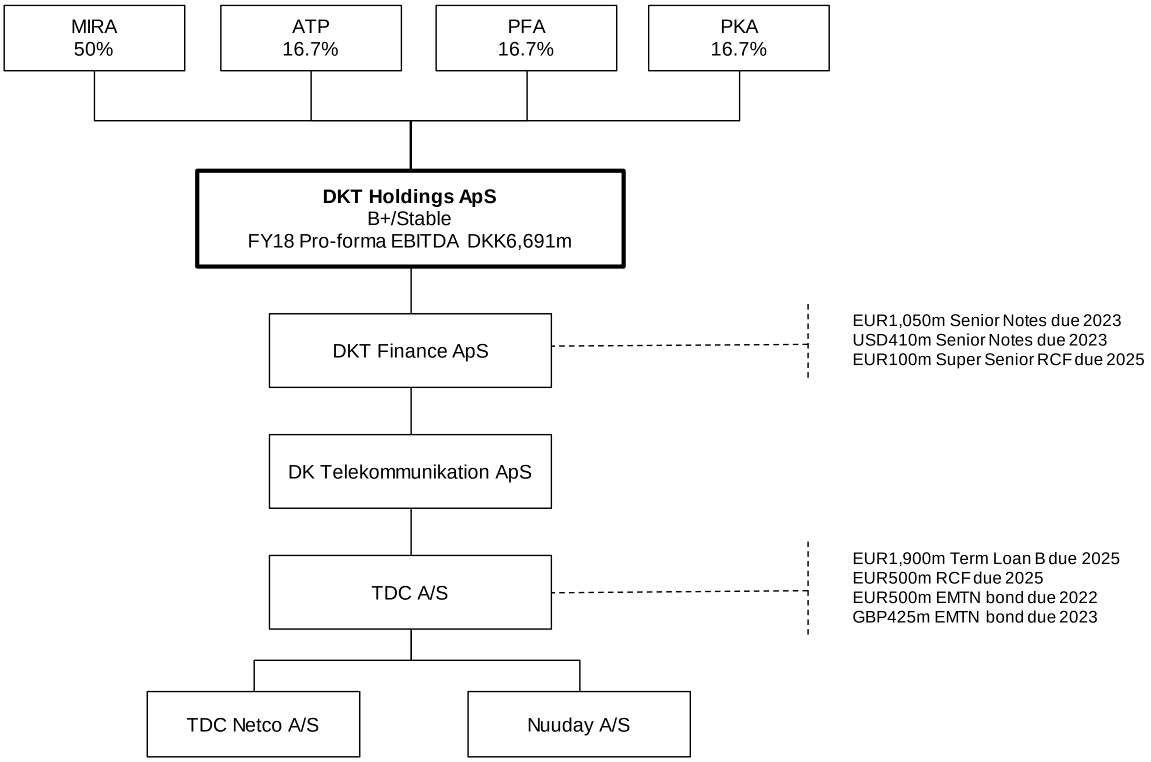
Classification of ESG issues has been developed from Fitch's sector and sub-sector ratings criteria and the General Issues and the Sector-Specific Issues have been informed with SASB's Materiality Map.

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

Simplified Group Structure Diagram



Source: Fitch Ratings, Fitch Solutions, DKT, as of July 2019

Peer Financial Summary

Company	IDR	Financial Statement Date	Gross Revenue (EURm)	Operating EBITDA Margin (%)	FFO Margin (%)	FFO Fixed-Charge Coverage (x)	FFO Adjusted Net Leverage (x)
DKT Holdings ApS	B+						
	BB-	2018[a]	2,327	38.6	20.1	2.1	5.6
		2017	2,737	41.0	32.4	4.0	3.6
		2016	2,825	40.4	30.9	4.3	3.7
Royal KPN N.V.	BBB						
	BBB	2018	5,639	38.8	33.7	4.4	3.0
	BBB	2017	6,498	35.5	30.1	4.4	2.9
	BBB	2016	6,806	35.7	29.1	3.8	3.0
Deutsche Telekom AG	BBB+						
	BBB+	2018	75,070	28.1	25.5	3.6	3.4
	BBB+	2017	74,159	27.8	24.1	3.3	3.3
	BBB+	2016	71,856	25.3	22.2	3.2	3.6
Telenet Group Holding N.V	BB-						
	BB-	2017	2,528	45.3	31.6	4.1	5.0
	BB-	2016	2,429	43.7	30.0	3.4	5.0
	BB-	2015	1,822	49.1	33.5	3.7	4.4
VodafoneZiggo Group B.V.	B+						
	B+	2018	3,895	44.2	33.4	3.5	5.9
	BB-	2017	4,019	42.7	33.7	3.9	5.8
	BB-	2016	2,447	54.2	39.8	3.7	7.6
Virgin Media Inc.	BB-						
	BB-	2018	5,820	44.5	32.5	3.5	5.1
	BB-	2017	5,663	45.2	33.2	3.6	5.5
	BB-	2016	5,876	45.1	33.2	3.5	5.1
Unitymedia GmbH	BBB						
	B+	2018	2,477	65.5	52.4	3.9	5.2
	B+	2017	2,382	63.7	48.0	3.1	5.0
	B+	2016	2,277	63.2	46.1	3.1	5.3

[a] Pro-forma
Source: Fitch Ratings, Fitch Solutions

Reconciliation of Key Financial Metrics

Reconciliation of Key Financial Metrics for DKT Holdings

(DKK Millions)			31/12/2018 Pro-forma
SFA loan (nominal value)	(as reported)		14,185
EMTN (nominal value)	(as reported)		7,262
Finance leases	(as reported)		72
Other long-term loans	(as reported)		311
Effect of derivatives on debt	(as reported)		200
Interest bearing payables	(as reported)		2
Interest bearing loans and borrowings at OpCo			**22,032**
Debt at HoldCo	(as reported)		10,510
Total debt with equity credit			**32,542**
Total off-balance sheet debt (8 x long-term leases)		(f x 8)	4,904
Total lease-adjusted debt			**37,446**
Cash and cash equivalents at TDC	(as reported)		2,244
Cash and cash equivalents at DKT Holdings	(as reported)		2
Cash and cash equivalents at DKT Finance	(as reported)		135
Cash and cash equivalents (unrestricted)			2,381
Net debt with equity credit		(a)	**30,161**
Net lease-adjusted debt		(b)	**35,065**
Revenue	(as reported)		**17,356**
EBITDA	(as reported)		**6,691**
Margin			38.6%
Net cash provided by operating activities	(Fitch adjustment)		**3,513**
Dividends paid to minorities			-
Add back: Special items	(Fitch adjustment)		444
Cash flow from operations (Fitch)			**3,957**
EBITDA	(As above)		6,691
Gross interest paid	(as reported)	(c)	-2,311
Interest received	(as reported)		163
Net interest received (paid)		(d)	-2,148
Cash tax received (paid)	(as reported)		-502
Net dividends received from associates, investments, less minority dividends paids	(as reported)		-
Other items before FFO	(Calculated)		-555
Funds from operations (FFO)	(Calculated)	(e)	**3,486**
Changes in working capital	(as reported)		471
Cash flow from operations (Fitch)			**3,957**
Long-term (LT) leases	(as reported)	(f)	613
As % of revenue			3.5%
FFO gross interest coverage (x)			
(FFO + net interest paid) / gross interest paid		(e-d) / (-c)	**2.4**
FFO fixed charge cover (x)			**2.1**
(FFO + net interest paid + LT leases) / (gross interest paid + LT leases)		(e-d+f) / (-c+f)	
Net debt with equity credit / EBITDA (x)			**4.5**
FFO adjusted net leverage (x)			**5.6**
Net lease-adjusted debt / (FFO + net interest paid + LT leases)		b / (e-d+f)	

Source: Fitch

Source: Fitch Ratings, Fitch Solutions, DKT

Fitch Adjustment Reconciliation

	Reported Values 31 Dec 18	Sum of Fitch Adjustments	Fair Value and Other Debt Adjustments	CORP - Lease Treatment	Other Adjustment	Adjusted Values
Income Statement Summary						
Revenue	17,356	0				17,356
Operating EBITDAR	6,691	613		613		7,304
Operating EBITDAR after Associates and Minorities	6,691	613		613		7,304
Operating Lease Expense	0	613		613		613
Operating EBITDA	6,691	0				6,691
Operating EBITDA after Associates and Minorities	6,691	0				6,691
Operating EBIT	2,603	0				2,603
Debt & Cash Summary						
Total Debt With Equity Credit	49,237	-16,695	-444		-16,251	32,542
Total Adjusted Debt With Equity Credit	49,237	-11,791	-444	4,904	-16,251	37,446
Lease-Equivalent Debt	0	4,904		4,904		4,904
Other Off-Balance Sheet Debt	0	0				0
Readily Available Cash & Equivalents	2,381	0				2,381
Not Readily Available Cash & Equivalents	0	0				0
Cash-Flow Summary						
Preferred Dividends (Paid)	0	0				0
Interest Received	163	0				163
Interest (Paid)	-2,311	0				-2,311
Funds From Operations [FFO]	3,042	444			444	3,486
Change in Working Capital [Fitch-Defined]	471	0				471
Cash Flow from Operations [CFO]	3,513	444			444	3,957
Non-Operating/Non-Recurring Cash Flow	788	0				788
Capital (Expenditures)	-3,646	0				-3,646
Common Dividends (Paid)	0	0				0
Free Cash Flow [FCF]	655	444			444	1,099
Gross Leverage						
Total Adjusted Debt / Op. EBITDAR* [x]	7.4					5.1
FFO Adjusted Leverage [x]	9.5					6.0
Total Debt With Equity Credit / Op. EBITDA* [x]	7.4					4.9
Net Leverage						
Total Adjusted Net Debt / Op. EBITDAR* [x]	7.0					4.8
FFO Adjusted Net Leverage [x]	9.0					5.6
Total Net Debt / (CFO - Capex) [x]	-352.3					97.0
Coverage						
Op. EBITDAR / (Interest Paid + Lease Expense)* [x]	2.9					2.5
Op. EBITDA / Interest Paid* [x]	2.9					2.9
FFO Fixed Charge Coverage [x]	2.2					2.1
FFO Interest Coverage [x]	2.2					2.4

*EBITDA/R after Dividends to Associates and Minorities

Source: Fitch Ratings, Fitch Solutions, DKT

Recovery Worksheet

Recovery Analysis

Issuer	**DKT Holdings Aps**		
Currency	**DKK (million)**	**Issuer Default Rating**	**B+**
Statement Date	**31/03/2019**		

Going Concern Enterprise Value		
Going concern EBITDA		5000
EBITDA multiple (x)		6.0
Additional Value from Affiliates, Minority Interest, Other		0
Going concern enterprise value		**30000**

Enterprise Value for Claims Distribution		
Greater of going concern enterprise or liquidation value		30000
Less Administrative Claims	10%	3000
Total Enterprise Value		**27000**

Liquidation Value	**Book Value**	**Advance Rate**	**Available to Creditors**
Cash	2580	0%	0
A/R	1995	75%	1496
Inventory	249	50%	125
Net PPE	14539	50%	7270
LV of Off-Balance Sheet	0	100%	0
Additional Value from Affiliates, Minority Interest, Other	0	100%	0
Total Liquidation Value			**8890**

Distribution of Value

Priority	**Amount**	**Concession Allocation**	**Value Recovered**	**Recovery**	**Recovery Rating**	**Notching**	**Rating**
Senior Secured TDC	17910	0	17910	100%	RR1	3	BB+
Senior Unsecured TDC	7262	0	7262	90%[a]	RR2[a]	2	BB
Super Senior DKT[b]	745	0	745				
Senior Secured DKT	10510	0	1083	10%	RR6	-2	B-

[a] Capped at 'RR2/90%' for unsecured debt

[b] Instrument is not rated by Fitch

Source: Fitch Ratings

B+/B/B-/CCC Table

Considerations	B+	B	B-	CCC+	CCC	CCC-	CC	Trend	Fitch's View
Business Model	Robust	Sustainable	Intact	Re-deemable	Com-promised	Disrupted	Ir-redeemable	◀▶	TDC is the telco incumbent in the highly competitive Danish market. TDC's leading market position supports its resilient performance despite amid saturated market.
Strategy/ Execution Risk	Limited	Moderate	Meaningful	Challenging yet achievable	Uncertain	Highly speculative	Not credible	◀▶	The new strategy to separate TDC into a Netco and a client facing OpCo does not affect the operating profile materially and involves no capital structure change. We expect the separation to take two-three years and consider the execution risk to be limited.
Cash Flow	Consistently positive	Neutral to positive	Volatile	Mostly negative	Constantly negative	Accelerating cash outflow	Irreversible outflow	◀▶	Pre-dividend FCF margin is undermined by the enlarged capex needs for fibre rollout, while FFO margin remains resilient at around 25% throughout the rating horizon.
Leverage Profile	Clear de-leveraging path	Deleveraging capacity	High but sustainable	Significant outlier	Unsustainable	Disproportionate and increasing	Un-recoverable	◀▶	Leverage is significantly higher than its Western European peer group given its ownership structure and new fibre rollout investment. Very minimal deleveraging is forecasted.
Governance and Financial Policy	Committed	Some commitment to deleveraging	Aggressive	Ineffective	Un-committed	Hostile	Inevitable balance sheet restructur-ing	◀▶	Despite larger capex and reorganization costs drive to higher leverage, the management says it is willing to adjust Capex and dividends to maintain the leverage within the B+ rating level.
Refinancing Risk	Limited	Manage-able	High	Off market options	Excessive	Unavailable	Imminent	◀▶	Refinancing risk is acceptable given long dated maturities and reasonably spread-out maturities.
Liquidity	Comfort-able	Satisfactory	Limited	Minimal headroom	Poor/partly funded	Unfunded	De facto insolvent	◀▶	TDC has a cash position of over DKK2bn at end-2018 and no debt maturities before March 2022. Additional liquidity is provided by EUR600m undrawn RCF, which we expect TDC to draw during 2020-2022 to cover some capex needs.
CONCLUSION	**B+**								

Source: Fitch Ratings

Related Research & Criteria

Corporate Rating Criteria (February 2019)
Corporates Notching and Recovery Ratings Criteria (March 2018)

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