

**Rating Action: Moody's downgrades DKT's CFR to B2 from B1; outlook stable**

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07 Aug 2019

Madrid, August 07, 2019 -- Moody's Investors Service, ("Moody's") has today downgraded to B2 from B1 the corporate family rating (CFR) and to B2-PD from B1-PD the probability of default rating (PDR) of DKT Holdings ApS ("DKT"), the indirect parent of Danish telecom operator TDC A/S ("TDC" or "the company"). Moody's has also downgraded to B1 from Ba3 the rating on TDC's senior unsecured notes as well as the ratings on the senior secured Term Loan B3 and revolving credit facility (RCF) raised by TDC, and downgraded to (P)B1 from (P)Ba3 the senior unsecured MTN programme rating. Concurrently, Moody's has downgraded to Caa1 from B3 the rating on the senior secured notes issued by DKT Finance ApS (a subsidiary of DKT and indirect parent company of TDC). The outlook remains stable.

"The downgrade reflects our view that TDC will operate with sustained high leverage as a consequence of weaker than expected operating performance, the costs incurred to execute the reorganization of the group, and a larger amount of IFRS16 leases relative to our previous lease adjustment. In addition, the need to increase capex to support the company's competitive position as well as payments for spectrum in auctions will lead to negative free cash flow generation over the next two to three years. As a result, we expect the company's adjusted leverage to remain high, in excess of the thresholds for the previous B1 rating," says Carlos Winzer, a Moody's Senior Vice President and lead analyst for DKT. Moody's estimates that the company's Moody's-adjusted Debt/EBITDA will remain close to 6x in 2019 and around 6.4x in 2020 and 2021.

A full list of affected ratings can be found at the end of this press release.

**RATINGS RATIONALE**

Moody's expects TDC's EBITDA and revenue growth to remain weak in 2019 and improve gradually through 2021, when operating performance will stabilise on the back of upselling and price increases across key segments, leading to higher ARPUs, and continued focus on opex reduction. The Danish market is characterized by being a very competitive market in which prices have been under pressure for some time and despite some improvement in 2019, TDC will continue to suffer in both the consumer and business segments.

Free cash flow will also be under pressure as the company will step-up capex investments in 2019-2020 to accelerate the deployment of fiber to enhance the company's competitive position and in preparation for 5G across Denmark. This strategic move reflects management's decision to make use of the financial flexibility created following the sale of GET in late 2018, to boost investments and support TDC's positioning in the very competitive Danish telecom market.

With slower revenue growth, increased capital spending and the impact from the newly implemented lease accounting standard (IFRS 16), TDC's credit metrics have weakened and are no longer commensurate with a B1 rating. Moody's expects TDC's adjusted leverage to raise to around 6x in 2019 and increase further in 2020 and 2021 to around 6.4x. In addition, there could be some additional pressure on leverage depending on the result of the spectrum auction expected in 2020. Moody's also expects that the group will continue to be managed with a somewhat aggressive financial profile under its current ownership structure.

The B2 CFR rating continues to reflect the strength of TDC's market position in Denmark, as evidenced by strong market shares in the fixed, broadband and mobile segments. Competition in the Danish mobile market remains intense but TDC has managed to sustain price increases while maintaining relatively stable churn levels and defending its market share. TDC has strong fixed and mobile network platforms owing to high capex levels in recent years, however it needs to further invest to keep its technological advantage in a very competitive market. Also, TDC is the owner of the majority of the critical telecom infrastructure in Denmark, including cable assets, a differentiating factor compared to other European telecom peers.

The rating also takes into account the following environmental, social and governance (ESG) considerations. From a corporate governance perspective, Moody's notes that DKT's new shareholders have implemented a more aggressive strategy with regards to leverage appetite, while pursuing the reorganization of the company, which includes an innovative separation of the infrastructure and the service provision. The downgrade also reflects uncertainties around the future business profile of the company after the completion of the legal

separation between the company's NetCo and the service operating subsidiary, nuuday.

DKT's liquidity position is adequate and supported by a cash balance of DKK2,351 million as of 31st March 2019 and by two undrawn revolving credit facilities of €100 million (issued at DKT Finance) and €500 million (issued at TDC), respectively. Absent any new financing, Moody's anticipates that TDC will have to make use of its undrawn bank facilities to cover its cash needs over the next 12 months, as the large capex plan and potential cash outflows for spectrum will lead to negative free cash flow generation. The first bond maturity will be in 2022.

DKT's B2 CFR 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 most of the critical telecom infrastructure in Denmark; and (4) its adequate liquidity supported by undrawn credit facilities.

However, the B2 CFR also reflects (1) the aggressive financial policy of its new owners, as demonstrated by DKT's sustained high leverage; (2) the expectation that free cash flow will remain constrained; (3) TDC's relatively small size and revenue concentration in Denmark, following the divestment of GET in Norway; (4) intense competition in the Danish mobile market, which may limit its ability to increase ARPU; and (5) continued pressures in the business segment.

#### RATIONALE FOR STABLE OUTLOOK

The stable outlook reflects Moody's expectation that TDC's operating performance will gradually improve after 2019, as performance over the current year will be impacted by the financial effects of the network separation. It also takes into account Moody's expectation that the group's leverage is likely to remain stable at around 6.0x-6.5x.

#### WHAT COULD CHANGE THE RATING UP/DOWN

DKT's ratings could be upgraded if the company demonstrates a sustainable improvement in operating performance that leads to stronger credit metrics, such as adjusted debt/ EBITDA remaining well below 6x on a sustainable basis, and positive free cash flow generation.

DKT's ratings could be lowered if its operating performance weakens beyond current expectations or the company executes debt-financed acquisitions or shareholder remuneration policies that weaken credit metrics, including adjusted gross debt/EBITDA sustainably above 6.5x. The rating could also be downgraded if there is a material deterioration in the company's liquidity profile.

#### LIST OF AFFECTED RATINGS

..Issuer: DKT Finance ApS

Downgrades:

....BACKED Senior Secured Regular Bond/Debenture, Downgraded to Caa1 from B3

Outlook Actions:

....Outlook, Remains Stable

..Issuer: DKT Holdings ApS

Downgrades:

.... LT Corporate Family Rating, Downgraded to B2 from B1

.... Probability of Default Rating, Downgraded to B2-PD from B1-PD

Outlook Actions:

....Outlook, Remains Stable

..Issuer: TDC A/S

Downgrades:

...Senior Unsecured Medium-Term Note Program, Downgraded to (P)B1 from (P)Ba3

...Senior Secured Bank Credit Facility, Downgraded to B1 from Ba3

...Senior Unsecured Regular Bond/Debenture, Downgraded to B1 from Ba3

Outlook Actions:

...Outlook, Remains 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](http://www.moodys.com) for a copy of this methodology.

## COMPANY PROFILE

TDC A/S is the principal provider of fixed-line, mobile, broadband data and cable television services in Denmark. In 2018, the company generated revenue and EBITDA of DKK17.4 billion and DKK6.7 billion, respectively.

In May 2018, TDC was acquired by DKT, a company controlled by a consortium of Danish pension funds (PFA, PKA, ATP) and Macquarie Infrastructure and Real Assets.

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