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Research Update:

Danish Telecom Operator TDC A/S Downgraded To 'B+/B' On Completion Of Leveraged Buyout; Outlook Stable

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Overview

- On May 4, 2018, a consortium comprising Macquarie Infrastructure and Real Assets (MIRA) and the Danish pension funds PFA, PKA, and ATP completed the leveraged buyout of a 91% stake in Danish incumbent telecom operator TDC A/S.
- Following completion, DKT Holding ApS has become the parent of the group, which exhibits a highly leveraged capital structure with adjusted debt to EBITDA of 7.5x-8.0x (5.5x-6.0x excluding shareholder loans).
- We view TDC A/S as a core subsidiary of DKT Holdings.
- We are therefore lowering our ratings on TDC to 'B+/B' from 'BBB-/A-3' and removing them from CreditWatch negative.
- The stable outlook on TDC AS mirrors the stable outlook on the ultimate parent, DKT Holdings.

Rating Action

On May 9, 2018, S&P Global Ratings lowered its long- and short-term issuer credit ratings on Danish telecommunications network operator TDC A/S to 'B+/B' from 'BBB-/A-3'. The outlook on TDC is stable.

At the same time, we lowered our long-term issue credit rating on TDC's senior unsecured debt to 'B+' from 'BBB-'. We assigned our '3' recovery rating, reflecting our expectation of recovery of about 55% in the event of a payment default.

We removed all the ratings, except the hybrid debt, from CreditWatch where we placed them with negative implications on Feb. 13, 2018 (see "Danish Telecom Operator TDC 'BBB-/A-3' Ratings Put On CreditWatch Negative On Possible Takeover," published on RatingsDirect).

We kept our 'BB' issue ratings on TDC's hybrid debt on CreditWatch with negative implications.

Rationale

The downgrade reflects our assessment that TDC is a core subsidiary of its ultimate parent DKT Holdings ApS (B+/Stable/--), given that it essentially encompasses the group's entire operations. We therefore equalize our rating on TDC with that on DKT Holdings.

For a full description of our rating rationale for DKT Holdings, please see "DKT Holdings ApS Rated 'B+' On Completion Of Leveraged Buyout Of Danish Telecom Operator TDC; Outlook Stable," published May 9, 2018.

Outlook

The stable outlook on TDC mirrors the stable outlook on the ultimate parent, DKT Holdings. We expect the outlook on TDC to move in line with the outlook on DKT Holdings.

Issue Ratings--Recovery Analysis

Key analytical factors

- The issue rating on the senior unsecured notes is 'B+', with a recovery rating of '3'. Recovery prospects reflect that the notes are structurally closer to the group's operating assets than the €1.4 billion new debt to be issued at DKT Finance ApS, but are constrained by the unsecured nature of the debt and the overall debt quantum at TDC.
- In our simulated default scenario, we assume that tough competition from other telecom operators in the broadband and mobile segments, paired with loss of TV customers to over-the-top services, would result in substantial pressure on EBITDA. Together with continued high capex, this would lead to a hypothetical payment default in 2022.
- We value DKT Holdings as a going-concern because of its incumbent network operator position with ownership of the leading mobile, fixed broadband and cable TV networks in Denmark, and its established market position across all subsegments of telecom services.
- In our simplified waterfall below, we make certain assumptions about the amount of senior unsecured notes at TDC that will remain outstanding and the proposed €3.9 billion new term loan to be issued by TDC.

Simulated default assumptions

- Year of default: 2022
- Minimum capex (share of sales): 6% (9%-10% including the operational adjustment, based on our view of minimum capex requirements for cable and telecom operators).
- No cyclicity adjustment, in line with our standard assumption for the

telecom and cable industry.

- Operational adjustment: +15% (to reflect minimum capex higher than 6% of sales).
- EBITDA at emergence: DKK5.0 billion (about €670 million)
- Enterprise value multiple: 6.0x
- Jurisdiction: Denmark

Simplified waterfall

- Gross enterprise value (EV) at default: DKK29.8 billion
- Net EV after administrative costs (5%): DKK28.3 billion (about €3.8 billion)
- Priority claims: DKK0.0 billion
- Estimated senior unsecured debt claims at TDC: DKK7.5 billion (about €1.0 billion) [1]
- Value available for unsecured claims: DKK4.2 billion (about €560 million)
- Recovery prospects: 50%-70% (rounded estimate 55%)
- Recovery rating: 3

[1] All debt amounts include six months of prepetition interest.

Related Criteria

- General Criteria: Methodology And Assumptions: Assigning Equity Content To Hybrid Capital Instruments Issued By Corporate Entities And Other Issuers Not Subject To Prudential Regulation, Jan. 16, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- Criteria - Corporates - General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016
- Criteria - Corporates - Recovery: Methodology: Jurisdiction Ranking Assessments, Jan. 20, 2016
- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria - Corporates - Industrials: Key Credit Factors For The Telecommunications And Cable Industry, June 22, 2014
- Criteria - Corporates - General: The Treatment Of Non-Common Equity Financing In Nonfinancial Corporate Entities, April 29, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And

Adjustments, Nov. 19, 2013

- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Criteria Clarification On Hybrid Capital Step-Ups, Call Options, And Replacement Provisions, Oct. 22, 2012
- Criteria - Financial Institutions - General: Methodology: Hybrid Capital Issue Features: Update On Dividend Stoppers, Look-Backs, And Pushers, Feb. 10, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Insurance - General: Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

Related Research

- DKT Holdings ApS Rated 'B+' On Completion Of Leveraged Buyout Of Danish Telecom Operator TDC; Outlook Stable, May 9, 2018

Ratings List

Downgraded; CreditWatch/Outlook Action; New Recovery Rating

	To	From
TDC A/S		
Issuer Credit Rating	B+/Stable/B	BBB-/Watch Neg/A-3
Senior Unsecured	B+	BBB-/Watch Neg
Recovery Rating	3(55%)	NR

CreditWatch Maintained

TDC A/S	
Junior Subordinated	BB/Watch Neg

NR--Not rated.

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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further

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