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Danish Telecom Operator TDC's Proposed Senior Secured Term Loan Rated 'BB-'

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FRANKFURT (S&P Global Ratings) May 18, 2018--S&P Global Ratings today assigned its 'BB-' issue rating to the €3.9 billion senior secured term loan to be issued by Danish telecom operator TDC A/S (B+/Stable/B). The recovery rating is '2', reflecting our expectation of about 70% recovery in the event of payment default. The total amount will likely be split into a euro tranche and a U.S. dollar tranche, the relative sizing of which will be determined during syndication. Our 'B+' issue ratings and '3' recovery ratings on TDC's existing senior unsecured notes are unchanged.

KEY ANALYTICAL FACTORS

- The issue rating on the proposed senior secured term loan is 'BB-', with a recovery rating of '2'. Recovery prospects reflect the secured nature of the loan, but are constrained by the weak security package and overall debt quantum at TDC.
- The term loan's security package consists of pledges over shares held in TDC by its direct parent, DK Telekommunikation ApS, share pledges over TDC's Norwegian subsidiary Get, and bank accounts and intra-group receivables of all three entities.
- In our view, however, the senior secured nature of the term loan and the pledge of shares in TDC offer creditors almost no advantage over unsecured noteholders with respect to their ability to extract value from operating assets at TDC. This is because the senior secured term loan and the unsecured notes will not be part of the same intercreditor agreement. Therefore, we assume that term loan lenders will not be able to enforce a priority claim over unsecured creditors in a default scenario. At the

same time, we estimate that the residual value for equity holders at TDC will be zero and the share pledges over TDC will not produce additional recovery value. In contrast, we assume that the share pledge over Get, an almost debt-free asset that unsecured noteholders hold no claims against, will result in additional recovery for term loan lenders. We assume that TDC will retain ownership of Get and therefore include this asset as part of the group in our hypothetical default scenario.

- Consequently, for purposes of our recovery modelling, we treat the senior secured term loan and the €1 billion unsecured notes that we expect will remain outstanding, as having the same ranking with respect to TDC's assets, which encompass the group's Danish operations. However, we treat the senior secured term loan as having a priority claim to Get's assets. In our recovery, we therefore attribute a certain percentage of our consolidated enterprise value at default to Get, and allocate this value exclusively to secured term loan lenders. We nevertheless assume equal ranking for the remaining value from TDC excluding Get.
- We view the documentation of the proposed €3.9 billion term loan as issuer-friendly. The only maintenance covenant is a 7.3x springing net leverage covenant on the €500 million revolving facilities, which applies if the revolving credit facility included in these facilities is at least 40% drawn. Debt incurrence is subject to a general basket of €675 million over the life of the facility, and is permitted with unlimited amounts if net leverage in TDC's consolidation perimeter is below 4.25x. Distributions are subject to a 4.25x net leverage test and a general basket totaling €565 million over the life of the facilities.
- 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 in new debt to be issued at DKT Finance ApS, but are constrained by the unsecured nature of the debt, the overall debt quantum at TDC, and the junior nature of the claim to the value of Get relative to the senior secured term loan.
- 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 Aps, the ultimate parent of the group including TDC, 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.

SIMPLIFIED 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 cyclicality 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: Danish krone (DKK) 4.9 billion (about €665 million)
- Enterprise value multiple: 6.0x
- Jurisdiction: Denmark

SIMPLIFIED WATERFALL

- Gross enterprise value (EV) at default: DKK29.6 billion
- Net EV after administrative costs (5%): DKK28.2 billion (about €3.8 billion)
- Priority claims: nil
- Estimated senior secured debt claims at TDC: DKK33.2 billion (about €4.5 billion) [1][2]
- Value available for secured claims: DKK24.0 billion (about €3.2 billion)
- Recovery prospects: 70%-90% (rounded estimate 70%)
- Recovery rating: 2
- Estimated senior unsecured debt claims at TDC: DKK7.6 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. [2] Revolving facilities assumed to be 85% drawn at default.

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
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- Criteria - Insurance - General: Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

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

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