Numericable

BUY Numericable 2019

We commence coverage of the French cable operator Numericable's €12.375% 2019 issue with a STRONG BUY recommendation.

Numericable is the only cable operator in France and its fibre network is one of the most technologically advanced in Europe. The network covers 35% of French households, including 90% of French cities with more than 100,000 inhabitants.

The company mainly provides Triple and Quadruple (Quad) play subscriptions which are packages comprising cable TV, internet, landline telephone services and for Quad play subscriptions also mobile telephone services. Customers may also opt for subscriptions of cable TV or mobile telephone services as a single subscription.

The majority of revenue is generated by the private sector and by small enterprises (82%). The remaining part of the revenue is generated by different arrangements with other telecoms enterprises, for instance agreements on resale of Numericable's products through its White Label business.

Numericable's focus is on making new customers opt for its Triple and Quad play products and moving existing customers to these packages. French consumers increasingly demand these total package solutions and Numericable's packages are superior to those of its competitors in terms of quality and content. This is due to massive investments in an upgrade of the network, which enables it to offer an internet connection with higher speeds while offering a significantly better picture quality in their TV packages.

Based on the above and the already positive signs on the operational side, we expect Numericable to deliver better results and increase its market share in the important Triple play market ahead.

Numericable is a highly geared company but generates ample liquidity to service its debt and it is in the process of a restructuring, which is reflected in this issue.

We consider Numericable a very interesting investment case and expect a return of 14.7% at 12 months' term given expectations of a spread narrowing of almost 150 basis points over the next 12 months from the

Issue	Rec.	Risk	Price	Yield	Bid Spread	Bid Spread Target	Bid Price target	Exp. 12M Return	Rating*
€12.375% 2019	Strong BUY	Very High	108.25	10.3%	1000	850	111.75	14.7%	B

Note: When on Strong Buy, Buy or Hold the offer price/yield/spread is shown. When on Sell the bid price/yield/spread is shown.
*Composite rating. Source: Bloomberg

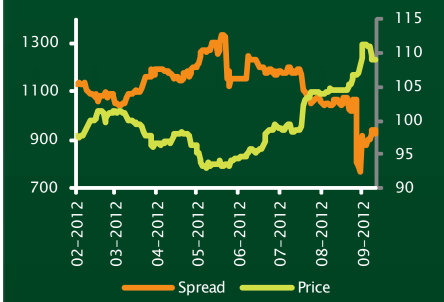
This is a case recommendation. The company will be included in our research universe as long as it holds price potential justifying a BUY recommendation. Basically we shall discontinue our coverage of the company if our recommendation changes to SELL.

Recommendations:

Strong BUY: €12.375% 2019
XS0615235610

€ 000's	2010R	2011R	2012E
Rev.	847,420	865,126	889,799
EBITDA	405,577	425,333	444,473
Adj. Leverage	6.3	5.5	5.1

Price / spread chart



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current approx. 1,000 basis points.

Investment recommendation

Well positioned for utilising future subscriber growth within Triple play

In Europe, consumers generally wish to receive all their media and telecommunications services from one supplier, achieving a beneficial subscription price. This applies particularly to France which, in an international comparison, ranked third in terms of Triple play subscribers in 2011, with 5.7m subscribers. In the same report, which was prepared by Digital TV Research, this figure is estimated to have trebled before 2017, so the market enjoys very high growth.

Numericable's competitors mainly provide their Triple play products through a copper-based DSL network which can only supply 1/8 of the speed that Numericable is able to offer. In a home where multiple devices are connected simultaneously, this may deteriorate the TV signal – particularly the HD picture quality will deteriorate. We think that French consumers will increasingly become aware of the limitations of the competitors' products and to a greater extent select Numericable.

Further refinancing is on its way, which will ease the pressure on the capital structure

Numericable has a bank facility of EUR 455m expiring in mid-2014. In connection with this issue, the conditions for Numericable's total debt were renegotiated with ensuing restrictions in respect of issue of new debt. Numericable has a window until February when its leverage will be at a level which facilitates new bond issues. We therefore expect the company to soon inform the market that it intends to issue a new bond. This would be positive news for bond investors as the debt burden in this case would effectively be pushed further ahead in time, potentially leading to a positive price reaction.

Lower need for future investments due to early focus on network upgrade

Numericable's competitive edge is its high-tech network that it will take several years and major investments for competitors to catch up on. That is why Numericable does not need to make any major investments in the immediate future; instead, the company has announced that it will apply its cash flow to reduce bank debt. The company expects its leverage to be reduced once at the end of 2014, from its current level.

Still wide potential in White label and Wholesale

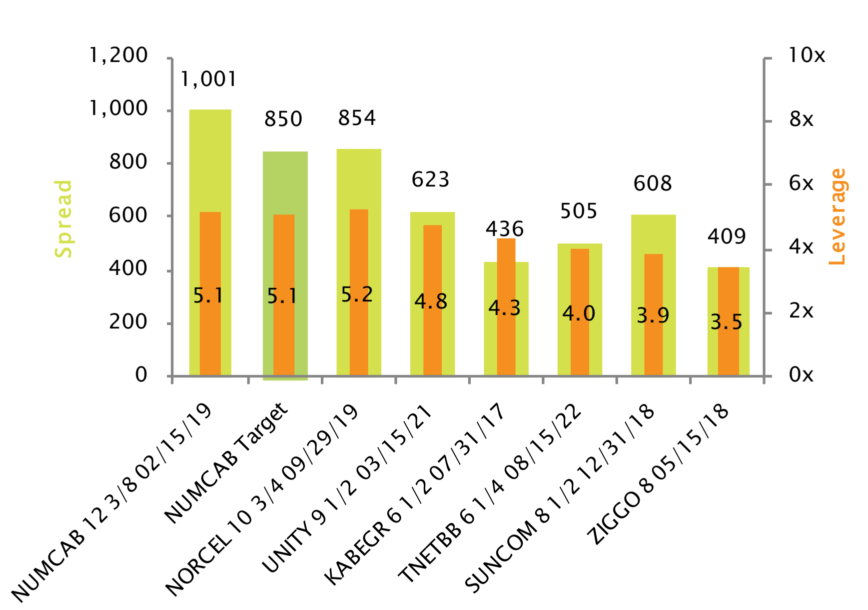
Numericable's White Label business has powered ahead since the launch in 2009 at an average annual growth rate of 81%, while Wholesale grew by 51% in the same period. We expect growth in White Label to continue given the positive trend within Triple play and we see a potential within Wholesale in connection with the mobile operators' network upgrade to 4G.

Compared with other relevant issues, we see a potential for a spread narrowing and positive price development

With respect to Peer Group, a number of European companies are more or less comparable. As appears from the chart below, Numericable has a significantly higher credit premium than other companies with an almost identical leverage. Moreover, it should be borne in mind that Moody's and S&P have a higher recovery rating of Numericable's issue – at 65% and 50%-70%, respectively. In comparison, S&P has a recovery rating of 0-10 for the Norcell issue (ComHem).

Group structure

Relative Value – Peer Group



Source: Bloomberg, Moody's and Jyske Bank.

Based on our expectations that Numericable will manage to reduce the financial leverage within the next year, we generally estimate that Numericable's issue is relatively undervalued compared with Peer Group. We have set a spread target for the company's bond issue of 850 basis points in 1 year's term. Based on the current levels, this corresponds to an attractive expected 12 months' return of almost 15%.

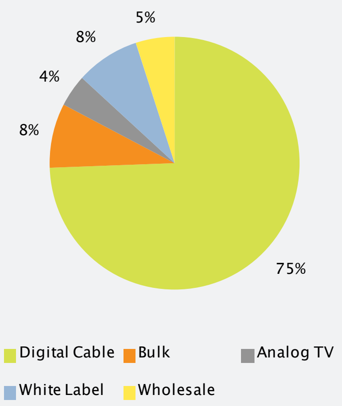
Overview

Company profile

Numericable is the only cable operator in France and one of the most technologically advanced fibre networks in Europe. The network covers 35% of French households, primarily in the most densely built-up areas.

The company mainly provides cable TV as single subscription and package solutions that combine cable TV, internet, landline and mobile telephone services targeting the private sector and small enterprises, and it has also different arrangements with other telecoms companies.

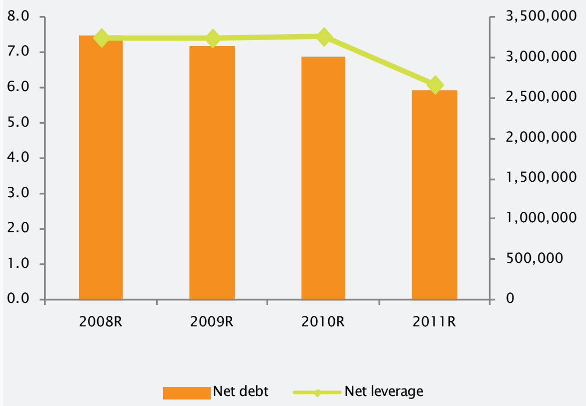
Revenue by segment



Earnings by segment (EBITDA)

N.A.

Net debt and net leverage



Fundamental valuation

- Due to its network, Numericable can deliver a quality product that would require comprehensive investments and a longer time horizon for the rivals to match.
- The company is challenged with respect to its debt profile, among others maturity of considerable debt in 2014.
- Moreover, the company has a high leverage which limits its financial flexibility.
- Revenue growth is driven by the company's White Label and Wholesale, while its own brand has been on the decline.
- The bond has a coupon of 12.375%, which we find attractive relative to the overall risk.

Investment case

- Given its strong product, we assess that Numericable will be a more important player in the future Triple play market.
- We believe that Numericable will utilise the favourable market conditions to refinance part of its bank debt via a new issue.
- Numericable has an opportunity to limit its investment ahead and allocate its funds to a reduction of the leverage.
- Continued large growth potential in its White Label and Wholesale and we expect the development of its own brand to turn.
- On the basis of comparable companies' issues, we see potential of a spread narrowing and positive price development.

Price triggers

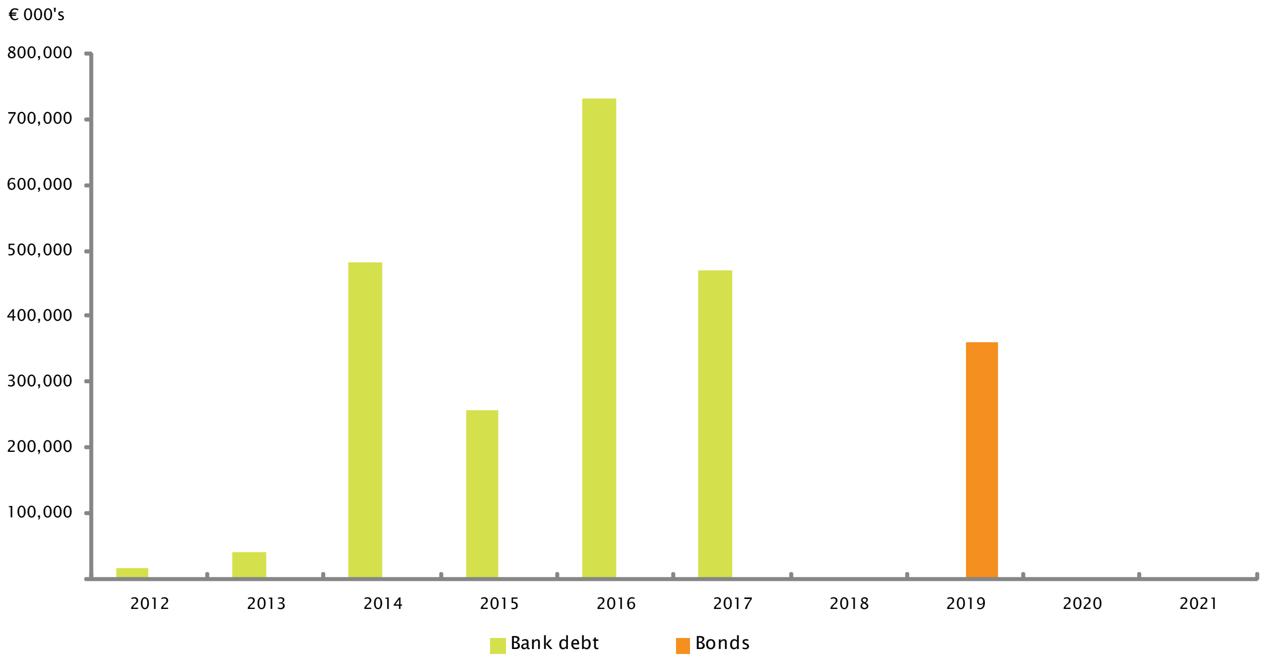
- Successful refinancing of the part of the bank debt maturing in 2014.
- If the company shows positive operational momentum and succeeds in increasing its market share.

Risk factors

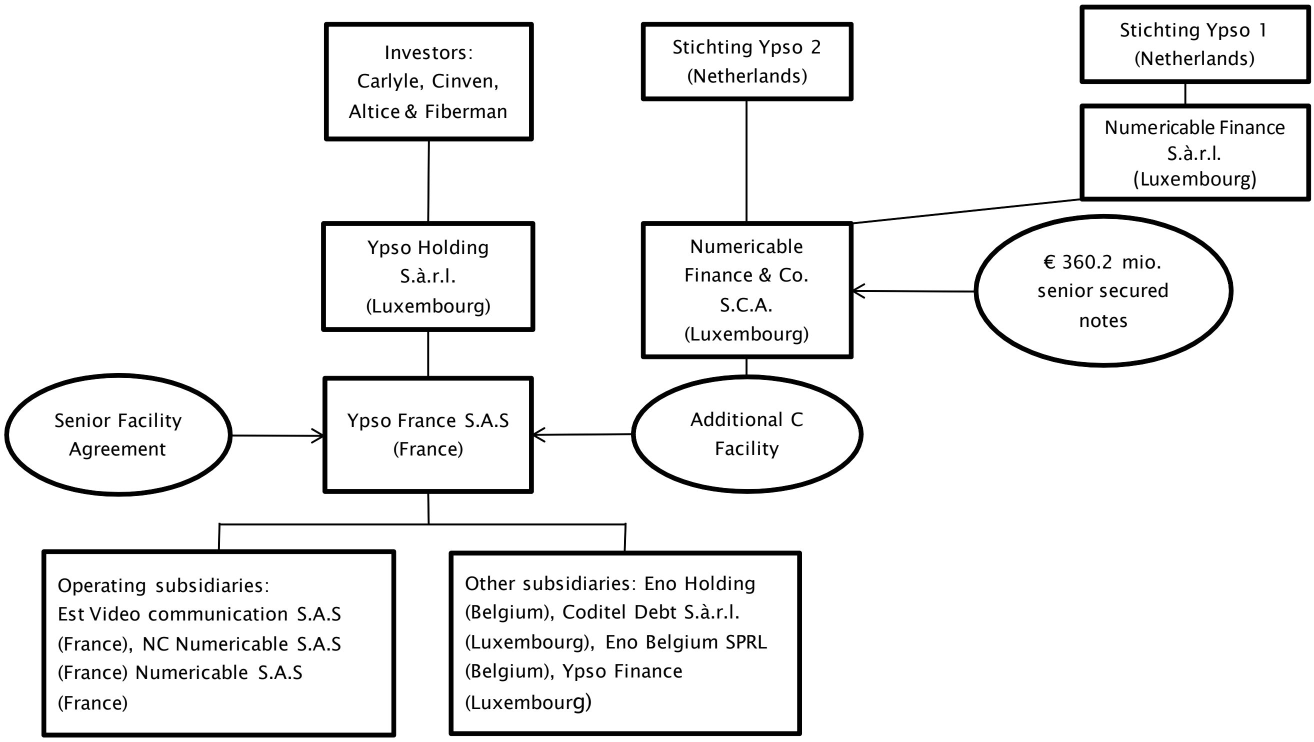
- The bank debt is related to demands for the leverage level and in a historical perspective, the company has been close to this limit.
- Refinancing of the bank debt may take place on conditions that are unfavourable for Numericable.

Capitalization Q2 2012 (in thousands)						
	Coupon	Maturity	Facility Size	Outstanding Amount	Avaliable Amount	Net. Leverage
Cash				4,000 €		
Term loans A1 og Capex 1	E+162.5 bp	15-06-2013	54,100 €	54,100 €	0 €	
Term loans A2 og Capex 2	E+387.5 bp	06-06-2015	86,400 €	86,400 €	0 €	
Term loan B1	E+225.0 bp	15-06-2014	446,900 €	446,900 €	0 €	
Term loan B2	E+450.0 bp	06-06-2016	731,000 €	731,000 €	0 €	
Term loan C1	E+300.0 bp	31-12-2015	203,900 €	203,900 €	0 €	
Term loan C2	E+525.0 bp	31-12-2017	469,100 €	469,100 €	0 €	
RCF			65,000 €	0 €	65,000 €	
Total Bank Debt			0 €	1,991,400 €		
Senior secured bond	12.375%	01-02-2019	360 €	360,200 €		
Total senior secured debt				2,351,600 €		
Net senior secured debt				2,347,600 €		5.48x
other debt*				56,993 €		
Total secured debt				2,408,593 €		
Net secured debt				2,404,593 €		5.61x
Shareholder loans				174,583 €		
Perpetual subordinated notes				34,027 €		
Total debt				2,617,203 €		
Net debt				2,613,203 €		6.1x
LTM EBITDA adj.	428,600 €					

Debt maturity profile



Corporate structure



Comments:

ISIN	XS0615235610
Bond	€ 12.375% 2019
Issuer	Numericable Finance & Co. S.C.A.
Rating (S&P/Moody's)	Bb + Stable /Ba3 Negative
Equity Clawback	Prior to February 15, 2015 at 112.375. Up to 35 %
Call	On more occasions the issuer may redeem all or part of notes. On or after 15.02.2016 at 106.188 ; 15.02.2017 at 103.094 ; 15.02.2018 at 100
Make Whole	Before 15.02.2016 +50 bp.
Redemption for Changes in Taxes	Yes
Change of control	Yes. If the current owners of Ypso France and Numericable Finance & Co. no longer are the majority shareholder in either company, then the bondholders can redeem their bonds at 101.
Restricted Payments	The issuer and Ypso France may not pay dividends or repay junior debt as long as the leverage of the company is above 3,5x.
Limit of Indebtedness	Ypso France and its subsidiaries may not issue addtional debt og preffered stock before february 2013, unless the leverage falls below 5,25x, and after this date only if the leverage is blew 4,25x.
Restrictions on Sales of Assets	Sale of assets is only permitted at the market price of these assets, and if 75 % is paid in cash. The proceeds from such a sale shall be used to either redeem bonds at 100, payback debt or the purchase of similiar assets
Security	Security is granted over all material assets of Ypso France and its subsidiaries, with the exception of the network assets.
Voting Rights	The lending banks under the SFA will have the majority of voting rights, unless the at some point in the future the bondholders constitute 66,67 % of the total senior secured debt.
Intercreditor agreement	There is an agreement between the Numericable Finance & Co. and the existing lenders under the SFA, which places the bonds pari passu with the bank facilitites.

Income statement (€ 000's)	2009R	2010R	2011R	2012E	2013E
Revenue	856,809	847,420	865,126	889,799	929,804
EBITDA	423,868	405,577	425,333	444,473	464,474
EBIT	195,096	179,661	219,806	233,463	248,786
Net finance costs	137,859	150,587	155,933	153,205	172,915
Net income	64,972	56,840	178,680	66,131	62,499

Balance Sheet (€ 000's)	2009R	2010R	2011R	2012E	2013E
Short term debt	142,613	201,992	163,149	83,821	83,821
Long term debt	3,030,850	2,839,744	2,463,738	2,468,109	2,462,764
Total debt	3,173,463	3,041,736	2,626,887	2,551,930	2,546,585
Liquidity	32,278	18,613	34,524	22,752	92,130
Net debt	3,141,185	3,023,123	2,592,363	2,529,178	2,454,456
Tangible assets	1,168,774	1,082,072	1,082,105	1,106,095	1,090,406
Intangible assets	1,514,773	1,548,702	1,289,203	1,273,402	1,273,402
Equity	-771,595	-714,963	-536,547	-470,472	-407,974
Share of equity	-24.7%	-24.4%	-19.8%	-17.3%	-14.7%
Total assets	3,124,538	2,930,358	2,712,719	2,713,253	2,769,342

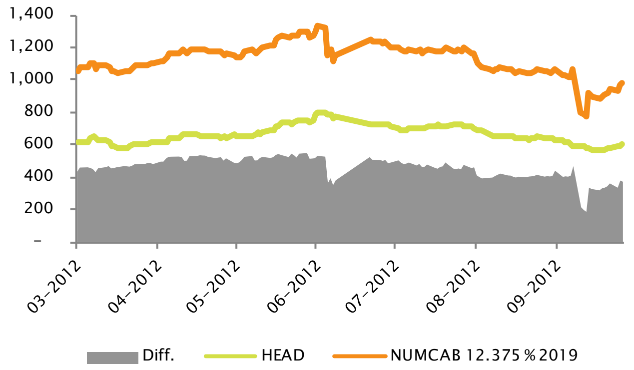
Cash Flow (€ 000's)	2009R	2010R	2011R	2012E	2013E
Funds From Operations (FFO)	480,607	408,082	430,954	425,123	445,879
Cash flow from operations (CFO)	473,195	414,627	435,551	433,878	443,741
CAPEX	-189,714	-189,957	-185,507	219,199	200,000
Free cash flow before interests expenses (FC	662,909	604,584	621,058	214,679	243,741
Net finance costs	189,719	138,085	123,236	147,672	167,382
Free cash flow after net finance costs	473,190	466,499	497,822	67,007	76,359
Redemption/amortization of debt	0	0	0	0	25,497

Credit metrics	2009R	2010R	2011R	2012E	2013E
EBITDA margin	49.5%	47.9%	49.2%	50.0%	50.0%
Adjusted EBITDA margin	50.7%	50.0%	50.4%	51.1%	51.1%
EBIT margin	22.8%	21.2%	25.4%	26.2%	26.8%
Adjusted EBIT margin	23.2%	22.5%	25.8%	26.6%	27.1%
EBITDA/Financial expenses	2.2	2.1	2.5	3.0	2.8
Adjusted EBITDA/Financial expenses	2.3	2.2	2.5	3.1	2.8
CFO/Financial expenses	2.5	2.2	2.5	2.9	2.7
Adjusted CFO/Financial expenses	2.5	2.2	2.6	3.0	2.7
FCF/Financial expenses	1.5	1.2	1.5	1.5	1.5
Total debt/EBITDA	7.5	7.5	6.2	5.7	5.5
Net debt/EBITDA	7.4	7.5	6.1	5.7	5.3
Adjusted net debt/EBITDA	6.7	6.3	5.5	5.1	4.8
CFO/Total debt	14.9%	13.6%	16.6%	17.0%	17.4%
Adjusted CFO/Total debt	15.0%	13.7%	16.7%	17.1%	17.6%
FCF/Total debt	8.9%	7.4%	9.5%	8.4%	9.6%
Net debt/Equity	-4.1	-4.2	-4.8	-5.4	-6.0
CFO/Revenue	55.2%	48.9%	50.3%	48.8%	47.7%
FCF/Revenue	33.1%	26.5%	28.9%	24.1%	26.2%
Capex/Revenue	-22.1%	-22.4%	-21.4%	24.6%	21.5%

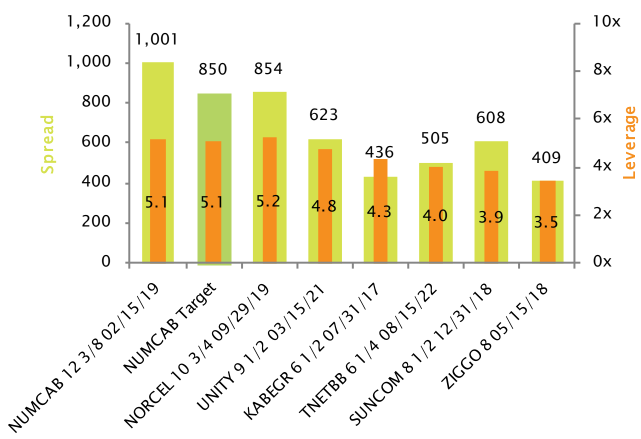
Charts

Price/spread development - €12.375 % -2019

NUMCAB 12.875 % 2019 vs. HEAD



Relative value



Source: Jyske Bank and Bloomberg

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Jyske Bank's corporate bond recommendations – current breakdown

Breakdown of recommendations, corporate bonds (number)

Source: Jyske Bank

Financial models

Jyske Bank models the expected development of the analysed company's income statement and balance sheet. A number of key figures for the company is calculated on the basis of these models, and the key figures are compared with those of comparable companies and the company's past performance. From this we infer the spread at which the bonds will trade for the period ahead. The recommendation and the price target are moreover adjusted for the expected news flow and the market sentiment based on knowledge of the industry and company-specific circumstances. Jyske Bank's recommendations take into account the expected development in the corporate-bond market, the various sectors and company-specific circumstances.

Risk

Investment in this corporate bond is associated with risk. The risk can be measured directly via the spread at which the bond trades relative to a 'risk free' investment with the same maturity. The spread reflects the probability of default, the recovery rate, and the liquidity of the corporate bond. Movements in the credit market, the sector and/or news flows, etc. regarding the company may affect the price of the bond. See the front page of the research report for our view of the risk associated with the corporate bond. The risk on the corporate bond is stated as Very Low, Low, Medium, High or Very High and is relative to the high-yield market for corporate bonds. The risk factors stated and/or calculations of sensitivities in the research report are not to be considered all-encompassing.

If the corporate bond is denominated in a currency other than the investor's base currency, the investor accepts an FX risk.

Update of the research report

The planned update of the report will be prepared immediately upon the release of the company's financial statements. In addition, there may be prepared research reports on special themes specifically for the company or research reports where the company is part of the special theme. These research reports are published on an ad-hoc basis.

See the front page for the initial date of publication of the report.

The prices stated are the latest prices quoted by Jyske Bank before the publication of the research report, unless otherwise stated.

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Our recommendations are based on market developments and an assessment of the expected return within the next twelve months. A BUY recommendation or a Strong BUY recommendation is based on expectations that investment in the bond will generate a return above that of the general corporate-bond market. On the other hand, a SELL recommendation implies that we expect investment in the bond to generate a return below that of the general corporate-bond market.

Since our recommendations are relative and risk-adjusted, it is possible to compare our recommendations across sectors and risk categories. In addition, the potential is stated in absolute terms via our return target.

The future and historical returns estimated in the research report are stated as returns before costs since returns after costs depend on a number of factors relating to individual customer relations, custodian charges, volume of trade as well as market-, currency- and product-specific factors. It is not certain that the bond will yield the stated expected future return/s. The stated expected future returns exclusively express our best assessment.