

Recommendation:

€ 8.25% 2016: BUY
 € Float. 2016: HOLD
 € 6.5% 2012: HOLD
 € 5.875% 2015: BUY

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.

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TDC abandons Sunrise merger

Company Description

TDC A/S is a provider of telecommunications solutions within fixed-line and mobile telecoms services, data communications, system integration, website hosting, internet access and cable TV solutions. TDC operates in several European countries, primarily in Denmark and Switzerland. NTCH (Nordic Telephone Company Administration) owns 88.2% of TDC's share capital. The remaining shares are held by private and institutional investors.

Bond ratings

€ 8.25% 2016 and € Floater 2016:
 Moody's/S&P: B1 (Stable)/BB- (Positive)
 € 6.5% 2012 and € 5.875% 2015:
 Moody's/S&P: Ba3 (Stable)/BB- (Positive)

	Issues			
	Offer	Y-t-w	Spread	Bond ID
€ 8.25% 2016 ¹	104.00	7.05%	518 bp	B01272
€ Floater 2016 ²	99.50	6.31%	582 bp	B01274
€ 6.5% 2012	105.75	3.26%	276 bp	B89251
€ 5.875% 2015	103.25	5.18	344 bp	B05313

- 1) Callable as from 1/5-2011@104.13 | 1/5-2012@102.75 | 1/5-2013@101.375 | 1/5-2014@100, and the minimum trading lot is EUR 50,000
 2) Callable as from 1/5 2009@100 and the minimum trading lot is EUR 50.000

Recent Developments

Yesterday, TDC announced that it abandons the merger between Orange Schweiz and Sunrise after the Swiss anti-trust authorities barred the merger on 22 April. Consequently, the parties have withdrawn their appeal. If TDC and France Telecom had insisted on their appeal, it would have postponed the divestment of TDC by another 9-12 months.

Since 22 April, TDC and France have looked into the possibility of implementing the merger so that it lives up to the requirements of the Swiss authorities. This turned out not to be possible. Moreover, TDC announced that now it will focus on the continued development of Sunrise.

There are 3 possible outcomes given the development and the current market situation:

1. Sunrise remains part of TDC and the owners sell their TDC shares.
2. Sunrise remains part of TDC and the owners place the sale of TDC on hold given the latest turbulence in the market.
3. The owners look into the possibility of selling Sunrise to a third party and then they sell TDC. This will postpone the sale of TDC further.

We find the first scenario to be most likely since the merger between Orange France and Sunrise could have resulted in many synergy effects, which could justify the price of EUR 1.5bn + 25% ownership of the new company. A sale to a third party would therefore not bring in the same price.

Therefore it makes sense to keep Sunrise as part of TDC, which is supported by TDC's statements that it will expand and invest in Sunrise to maintain the recent positive development in Switzerland.

Moreover, the positive development of Sunrise may support a divestment of TDC since in the period ahead the company is not exclusively dependent on the development in the Nordic business unit.

If TDC is divested, we expect the proceeds to be used to redeem the bonds issued by Angel Lux (the former NTCA/NTCH).

Recommendation

Given the latest development, we believe that a divestment of TDC has moved closer. If TDC had proceeded with the appeal, the sales process of TDC could have been postponed by another 9-12 months.

The fixed-rate 2016 bond is currently trading at 104.00 (offer) and is callable as of 01 May 2011 at 104.125 or via a make-whole (government-bond yield +50 bp.). The bond is most likely to be called at 104.125. Based on our expectations of a divestment of TDC and redemption on 1 May 2011, the bond offers a yield of 8.05%. Therefore, we change our recommendation from Hold to BUY.

TDC A/S

Corporate Bonds • Sector: Telecoms • Rating: Ba2/BB • 4 June 2010

The floating-rate 2016 bond is callable at 100 at 30 days' notice. This is currently trading at 99.50 (offer), so compared to TDC 8.25% 2016 the potential is limited. We therefore maintain our HOLD recommendation.

Moreover, we maintain our BUY recommendation for TDC €5.875% 2015.

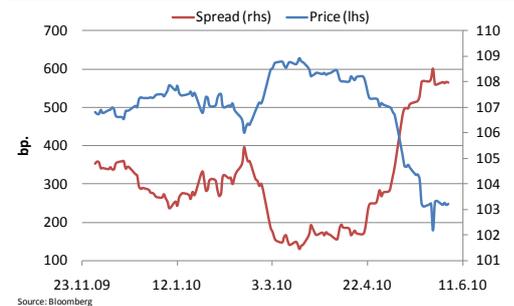
Strengths/Opportunities

- Leading market position in the fixed and mobile telecommunications markets in Denmark
- Tight cost management in Denmark, including retirement programmes
- Generates a strong cash flow
- An IPO in 2010 may mean an early redemption of the Angel Lux bonds

Weaknesses/Threats

- Keen price competition in Denmark within mobile telecommunications, cable TV and internet services. Intensive competition within 3G services is expected in future
- Limited possibility of organic growth

TDC €8.25% 2016



	2009	LTM Q1 2009	LTM Q1 2010	Q1 2010
Income Statement				
<i>(in DKK million unless otherwise stated)</i>				
Sales	35,939	37,296	36,102	9,062
EBITDA	13,046	13,073	13,340	3,345
EBIT	6,727	7,332	7,275	1,594
Net financing costs	1,475	2,043	1,562	412
Profit for the period	2,747	1,864	2,643	256
balance				
Short-term debt	3,787	600	3,591	3,591
Long-term debt	30,611	36,708	30,623	30,623
Total debt	34,398	37,308	34,214	34,214
Cash	763	2,688	545	545
Net debt	33,635	34,620	33,669	33,669
Property, plant and equipment	19,998	22,261	20,164	20,164
Intangible assets	49,550	52,693	49,586	49,586
Equity	27,078	31,755	27,384	27,384
Total assets	86,423	94,489	85,467	85,467
Equity ratio	31%	34%	32%	32%
Cash Flow Statement				
Cash flow from operations (CFO)	10,619	8,368	9,171	1,363
CAPEX	-4,866	-5,290	-4,148	-1,020
Free cash flow (FCF)	5,753	3,078	5,023	343
Purchase/sale of companies	-1,083	4,958	-965	-253
Free cash flow (FCF) after M&A	4,670	8,036	4,058	90
Financial ratios				
EBITDA margin	36%	35%	37%	37%
EBIT margin	19%	20%	20%	18%
Net margin	8%	5%	7%	3%
Total debt/EBITDA	2.6x	2.9x	2.6x	10.2x
Net debt/EBITDA	2.6x	2.6x	2.5x	10.1x
EBITDA/net interest expenses	8.8x	6.4x	8.5x	8.1x
CFO/total debt	31%	22%	27%	4%
CFO/net interest expenses	7.2x	4.1x	5.9x	3.3x
FCF/total debt	17%	8%	15%	1%

Source: TDC and Jyske Bank

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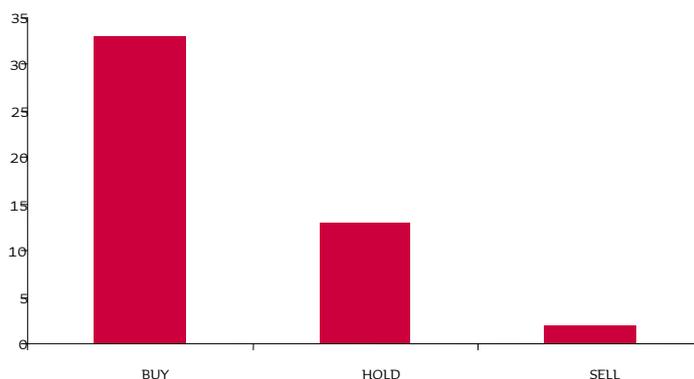
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Jyske Bank's corporate bond recommendations – current breakdown

Breakdown of recommendations, corporate bonds (number)



Source: Jyske Bank

Financial models

Jyske Bank uses mainly Credit Edge from Moody's.

Risk

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Update of the research report

The planned update of the report will be prepared immediately upon the release of the company's financial statements.

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

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