

Recommendations:

HOLD: €8.25% 2016
 HOLD: €6.545% 2016
 BUY: €6.5% 2012
 Strong BUY: €5.875% 2015

Publisher:

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TDC's owners sell shares

We maintain our Strong BUY recommendation for TDC's 2015 bond

TDC's owners have announced that they intend to make a market tender for the existing shares. The owners want to realise part of their investment in TDC – the size of the stake that the owners want to sell is not disclosed. They commit to a lock-up period of 180 days after the transaction.

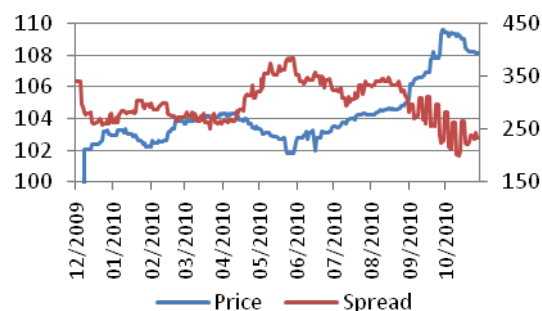
At the same time, TDC announced that it intends to follow a policy for the capital structure and the rating which aims at a ratio between net debt and EBITDA of no more than 2.1x and at maintaining a stable investment-grade rating with the final target of reaching a BBB rating with S&P and a Baa2 rating with Moody's.

Relative to other European telecoms companies with investment-grade ratings, TDC's 2015 issue is still trading with a certain discount which is why we maintain our strong BUY recommendation with a spread target of 175 basis points. At twelve months' term, we therefore expect a return potential of 5.8%.

We expect the 2016 bonds that are issued by the holding company to be redeemed in connection with the sale of the shares. We maintain our HOLD recommendation for these bonds.

Investment case**€ 5.875% 2015**

- We expect the private equity funds behind TDC to sell their stake before the end of 2010.
- This is discounted in the prices of the bonds issued by the holding company, Angel Lux, which is why these bonds are no longer attractive.
- Over time, we expect TDC's credit profile to continue the positive trend, resulting in an investment-grade rating for the company. We therefore find that there is a spread potential of at least 40 basis points.



Issue	€8.25% 2016	€6.545% 2016	€6.5% 2012	€5.875% 2015
Recommendation	HOLD	HOLD	HOLD	Strong BUY
Risk	Low	Medium	Low	Low
Bid / Offer	105.5/106.5	100/100.5	104.5/106	107/109
Yield	2.84%	-0.32%	2.15%	3.89%
Spread	213	541	124	229
Spread target	0	0	75	175
Price target	104.75	100.38	102	109.5
Expected 12 months return	1.3%	0.3%	2.4%	5.8%
Moody's	B1 / *+	B1 / *+	Ba3 / *+	Ba3 / *+
S&P	BB / *	BB / *	BB / *+	BB / *+
B-Code	B01272	B01274	B89251	B05313

See the following pages for further information on the structure and the covenants.

Investment case

- We expect TDC to come out on the other side of the share sale with a financial profile that equals an investment-grade rating. This is not discounted in the current bond prices relative to the peer group.
- TDC has set its own target for the financial leverage to 2.1x (Net debt/EBITDA)
- A more diversified ownership structure will prompt the rating agencies to look more positively at the company.
- TDC has a strong market position in Denmark and a diversified business model which has historically generated a stable cash flow.

TDC's owners sell shares

TDC's owners have announced that they intend to make a market tender for the existing shares. The owners want to realise part of their investment in TDC – the size of the stake that the owners want to sell is not disclosed. They commit to a lock-up period of 180 days after the transaction.

According to an article in the *Financial Times*, the private equity funds want to sell shares in TDC for up to DKK 16bn, corresponding to approx. 30% of the shares in TDC. This corresponds to proceeds of about EUR 2bn (given a share price of 50). The proceeds are expected to be used to redeem bonds issued by the holding company which has bond debt totalling EUR 1.8bn.

Targets high-grade status

At the same time, TDC announced that it intends to follow a policy for the capital structure and the rating which aims at a ratio between net debt and EBITDA of no more than 2.1x and at maintaining a stable investment-grade rating with the final target of reaching a BBB rating with S&P and Baa2 rating with Moody's.

New dividend policy

Moreover, TDC announced that "The board of directors currently intends to recommend a dividend of DKK 4.35 per outstanding share (following the Share Buy-back) for the financial year 2011, of which 40%-50% would be redistributed as interim dividend in the third calendar quarter of 2011 and the remainder in the first calendar quarter of 2012. The board of directors intends to adopt a dividend payout policy for subsequent years of 80% to 85% of equity free cash flow in a given year with 40% to 50% of the full year amount to be distributed in the third calendar quarter of the year and the remainder to be distributed following approval of the annual financial statements in the first calendar quarter the year after. No assurance can be given that the above mentioned dividend will be recommended or that the dividend policy will be adopted."

Repaid part of bank debt

Finally, TDC announced that it has repaid approx. DKK 8.2bn of the outstanding debt under TDC's senior loan agreement. TDC used some of the DKK 18.5bn proceeds from the sale of Sunrise earlier this year. This means that TDC's bank debt has been honed down to DKK 17.8bn based on the latest accounting data from Q3. Together with bond issues of DKK 5.4bn, TDC's debt totals DKK 23.2bn (exclusive of the debt in the holding company NTC S.A.)

Low leverage

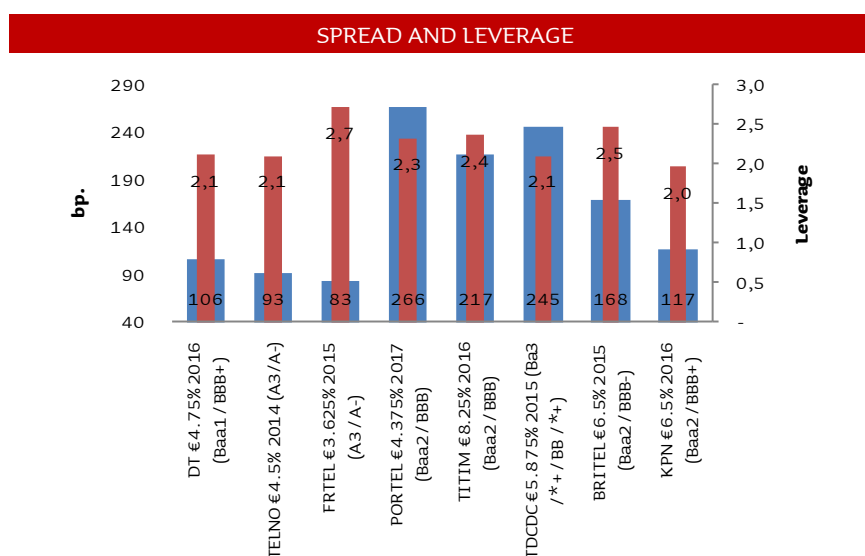
Net debt will fall to about DKK 21.3bn (provided that DKK 9bn is used to buy back shares). With EBITDA LTM of DKK 10.7bn, TDC will have a future financial leverage of 2.0x, which is in line with what TDC has announced.

We assume that the above-mentioned dividend policy must be seen in connection with the company's leverage policy of 2.1x EBITDA.

Recommendation

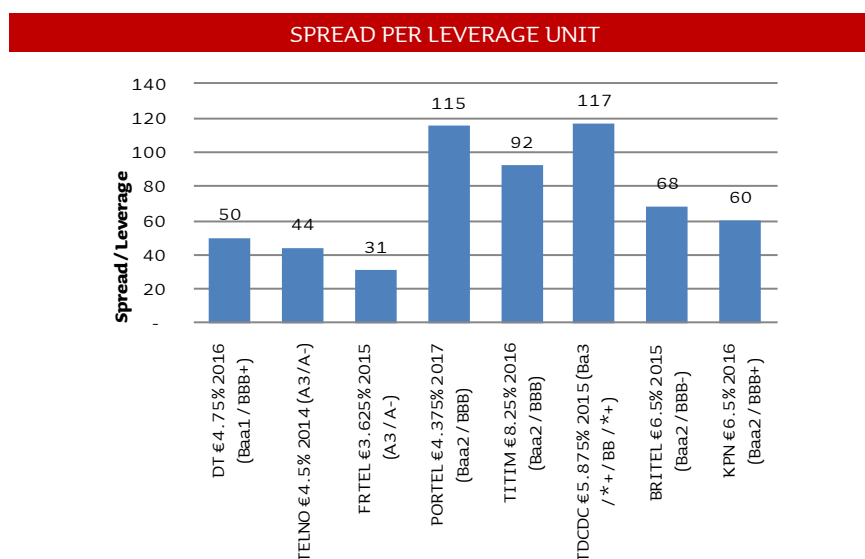
Relative to other European telecoms companies with investment-grade ratings, TDC's 2015 issue is still trading at a certain discount which is why we maintain our BUY recommendation for the bond. The spread target is 175 basis points.

As appears from below, TDC is trading at a certain discount to comparable companies. Only Portugal Telecom and Telecom Italia trade at the same level – and even with a higher leverage.



Source: Jyske Bank & Bloomberg

Looking at spread per leverage unit, TDC trades at the highest level relative to comparable credits.



Source: Jyske Bank & Bloomberg

We expect the 2016 bonds that are issued by the holding company to be redeemed in connection with the sale of the shares. We maintain our HOLD recommendation for both the fixed- and floating-rate 2016 bond.

Overview

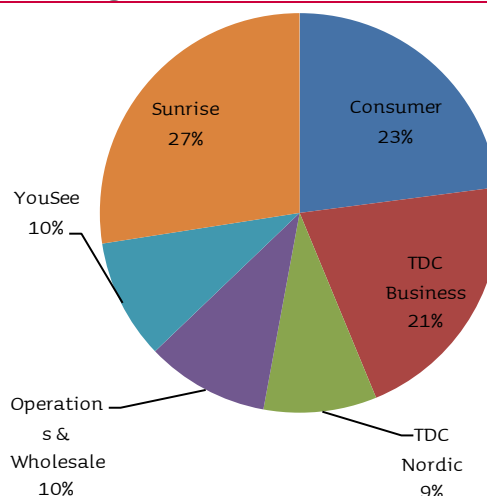
Company profile

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.

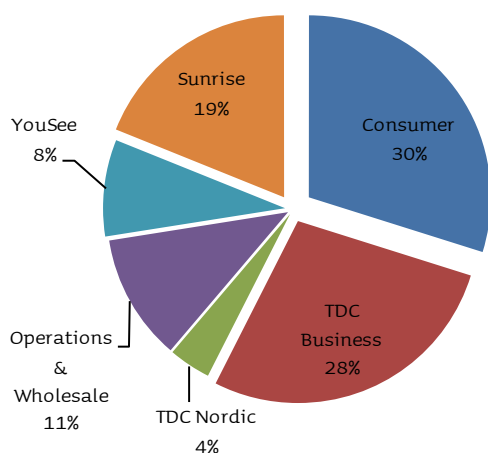
Focus is on the Nordic countries after the divestment of Sunrise (Switzerland)

TDC operates with five business segments: TDC Business, Consumer, YouSee, TDC Nordic and Operations & Wholesale

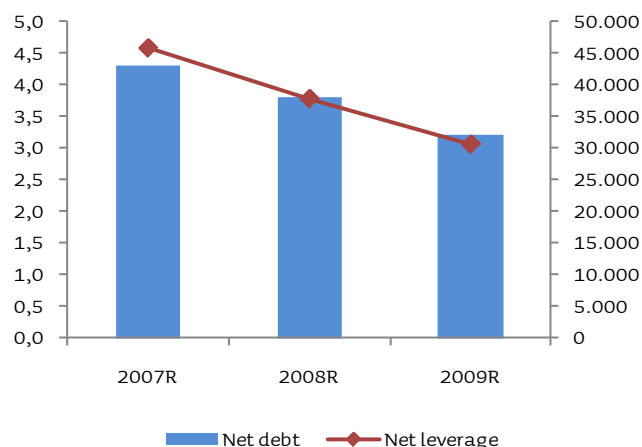
Revenue by segment



Earnings by segment (EBITDA)



Net debt and net leverage



Fundamental valuation

- TDC has a strong market position in Denmark and a diversified business model which has historically generated a stable cash flow.
- The future growth opportunities are assessed to be limited due to the mature Nordic market.
- The company's business model is well-diversified offering fixed-line, mobile, internet and cable TV services.

Price triggers

- Certainty about the future financial strategy.
- 100% return to the stock exchange.

Investment case

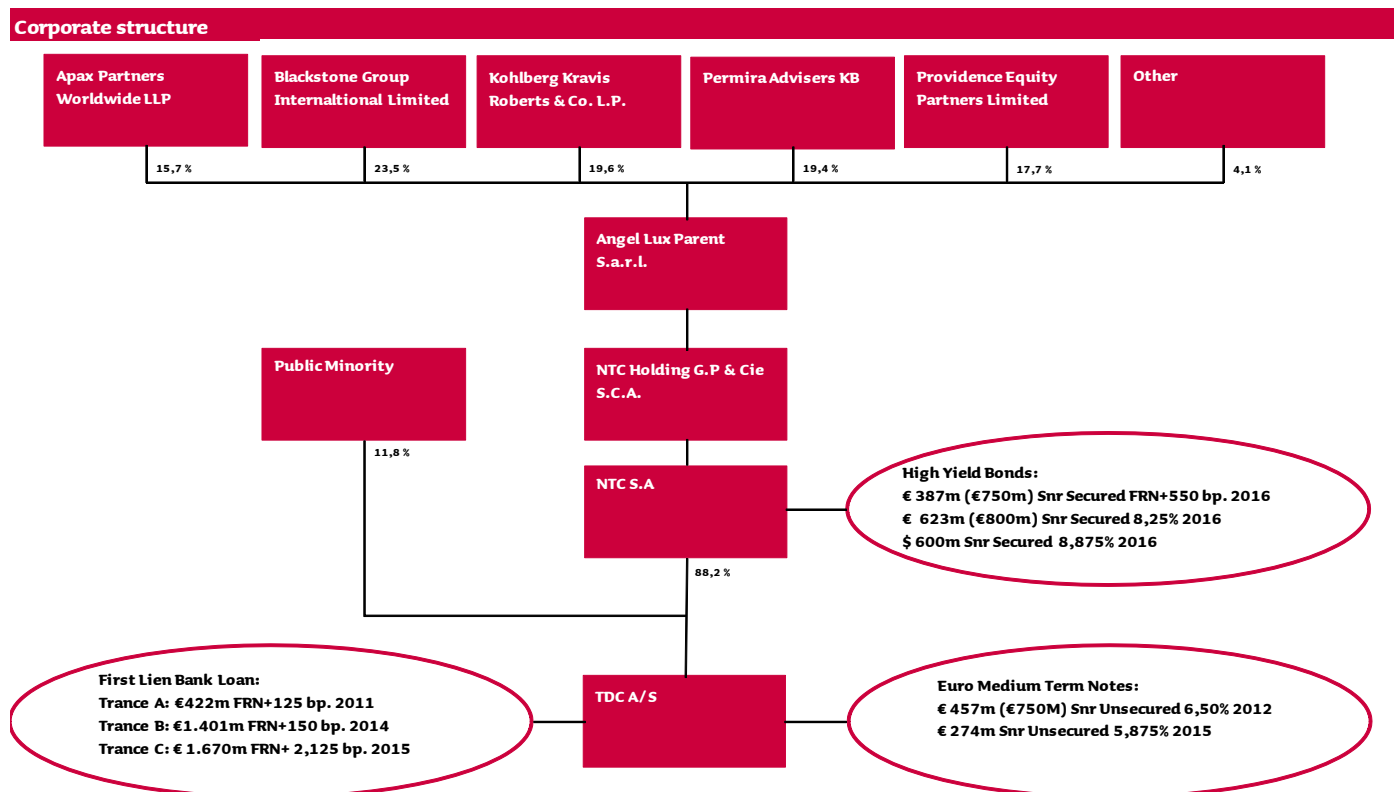
- We expect the private equity funds behind TDC to sell their stake before the end of 2010.
- This is discounted in the prices of the bonds issued by the holding company, Angel Lux, which is why these bonds are no longer attractive.
- Over time, we expect TDC's credit profile to continue the positive trend, resulting in an investment-grade rating for the company. We therefore find that there is a spread potential of at least 40 basis points.

Risk factors

- Price regulation from the authorities – may cause a fall in revenue. (MTR + International roaming prices)
- Focus only on the Nordic market, which is highly competitive.
- Organic growth is limited due to a mature market.
- Continued decline in revenue from the fixed-line segment which is not offset by a rise in other segments.

Capital structure (DKK mio.)	Q3-10	Net leverage	Debt maturity profile Q3-10
First Lien Bank Loans	26,023	2.4x	
Second Lien Bank Loans	-	2.4x	
Other debt	353	2.4x	
Senior Secured Bond	5,445	2.9x	
Senior unsub.	-	2.9x	
Subordinated	-	2.9x	
Junior sub.	-	2.9x	
Total debt	31,821		
Liquidity	594		
Net debt	31,227		
Liquidity (DKK mio.)	Q3-10		
Liquidity	594		
Undrawn Committed Revolver	5,215		
Undrawn Uncommitted Revolver	0		
Total liquidity	5,809		
Short-term debt	2,121		

Source: Jyske Bank & TDC.



Comments:

Issues**€8.25% 2016**

ISIN	XS0252438899
Issuer	ANGEL LUX COMMON SA
Amt. outstanding	622.637 m
Priority	Senior secured
Rating (S&P/Moody's)	BB /*/B1 /*+
Next Call	On and after 01/05-2011@104,125 ; 01/05-2012@102,75 ; 01/05-2013@101,375 ; 01/05-2014@100 (Full or part)
Make Whole	Until May 1, 2011 Bund Rate + 50 bp
Equity Claw	40% at any time prior to May 1, 2009 @ 108,25
Change of Control	Yes @ 101
Negative Pledge	Yes
Limit of Indebtedness	Yes
Restricted Payments	Yes
Restrictions on Sales of Assets	Yes

€6.545% 2016

ISIN	XS0252440010
Issuer	ANGEL LUX COMMON SA
Amt. outstanding	387.39 m
Priority	Senior secured
Rating (S&P/Moody's)	BB /*/B1 /*+
Next Call	30 days notice@100,00 (Full or part)
Make Whole	Until May 1, 2007 Bund Rate + 50 bp
Equity Claw	No
Change of Control	Yes @ 101
Negative Pledge	Yes
Limit of Indebtedness	Yes
Restricted Payments	Yes
Restrictions on Sales of Assets	Yes

€6.5% 2012

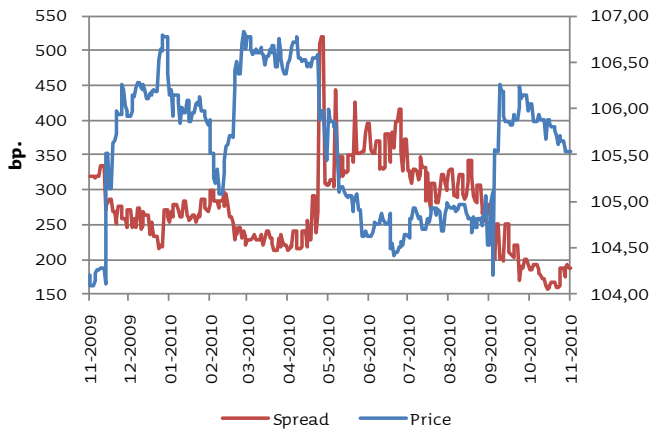
ISIN	XS0146556385
Issuer	TDCA/S
Amt. outstanding	457.379 m
Priority	Senior unsecured
Rating (S&P/Moody's)	BB /*+/Ba3 /*+
Next Call	No Call
Make Whole	No
Equity Claw	No
Change of Control	No
Negative Pledge	Yes
Limit of Indebtedness	No
Restricted Payments	No
Restrictions on Sales of Assets	No

€5.875% 2015

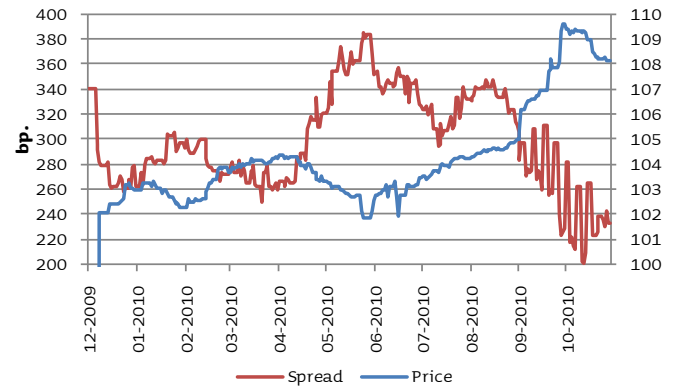
ISIN	XS0473999984
Issuer	TDCA/S
Amt. outstanding	273.547 m
Priority	Senior unsecured
Rating (S&P/Moody's)	BB /*+/Ba3 /*+
Next Call	No Call
Make Whole	No
Equity Claw	No
Change of Control	No
Negative Pledge	Yes
Limit of Indebtedness	No
Restricted Payments	No
Restrictions on Sales of Assets	No

Charts

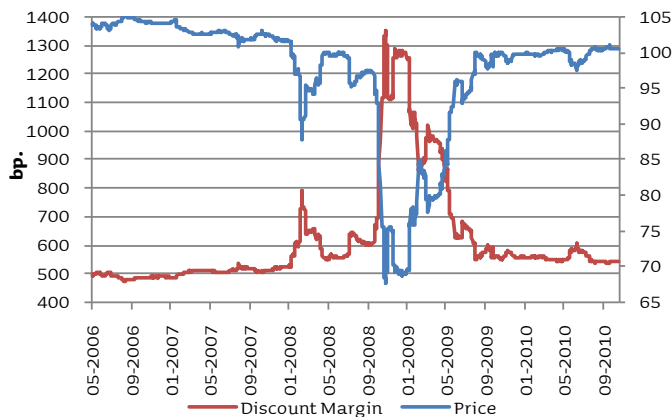
Price/spread - €6.50% - 2016



Price/spread - €5.875% - 2015



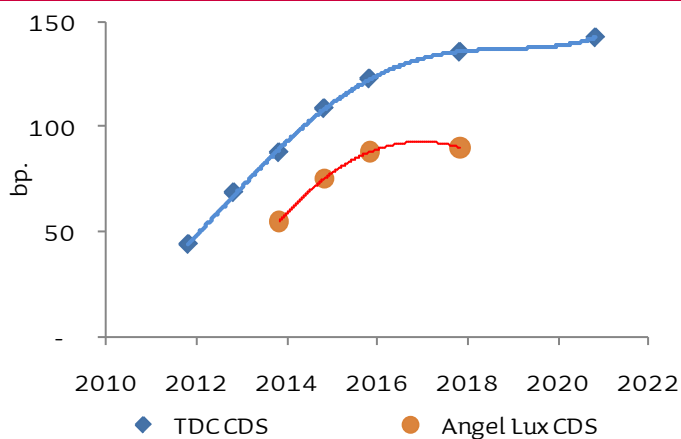
Price/spread - € Floater - 2016



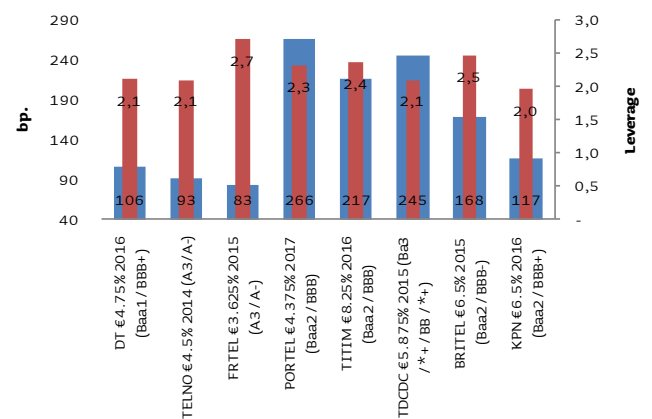
Price/spread - €8.25% - 2016



CDS



Relative valuation



Source: Jyske Bank and Bloomberg

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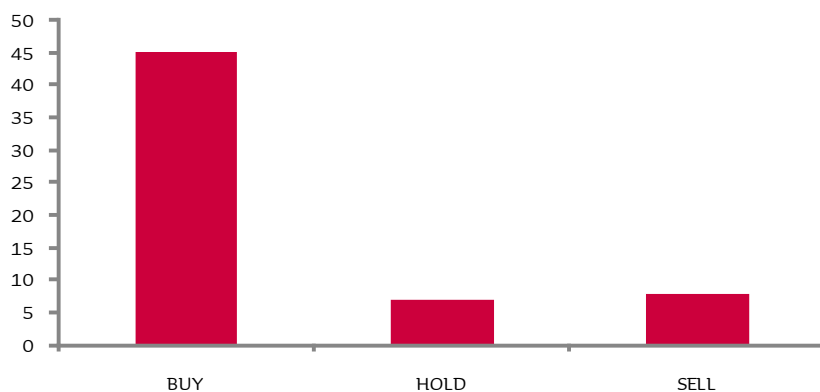
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Jyske Bank's corporate bond recommendations – current breakdown

Breakdown of recommendations, corporate bonds (number)



Source: Jyske Bank

Financial models

Jyske Bank 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, the solvency, etc. 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 Low, Medium or High and is relative to the rating category of the corporate bond (a distinction is made between High Yield and Investment Grade). 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.

Recommendation concepts

Our recommendations are based on market developments and an assessment of the expected return within the next twelve months.

A 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.