

Recommendation:

€ 8.25% 2016: HOLD
 € Floater 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 sells Sunrise – expect an IPO

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. Angel Lux Common S.a.r.l. owns 88.2% of the TDC 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	107.50	2.51%	201 bp	B01272
€-Floater 2016 ²	101.00	-7.08%	-795 bp	B01274
€ 6.5% 2012	107.00	1.93%	120 bp	B89251
€ 5.875% 2015	107.25	4.29%	263 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

TDC just announced that it sold its Swiss subsidiary, Sunrise, to the investment company CVC Capital Partners for CHF 3.3bn free of debt. This corresponds to DKK 16.5bn.

The agreement is, however, conditional upon approval by the Swiss tele and antitrust authorities. If the agreement is approved, TDC expects to finalise the transaction in Q4 2010. TDC states that the sale will generate a profit after tax of DKK 650m.

In our view, it is not a risk that the sale of Sunrise will be blocked by the authorities again. The reason for this is that CVC Capital Partners does not already have a telecoms company in Switzerland like France Telecom had with Orange.

TDC changes its expectations for the period ahead so that TDC's sales (exclusive of Sunrise)

will land at the same level as in 2009 and that EBITDA growth will be 2% compared to 2009.

At the current level, the operating company TDC has a financial gearing of 2.4x while the holding company Angel Lux has a financial gearing of 3.1x. If the proceeds are used to reduce debt, the gearing at TDC level will fall to 1.5x while the gearing at Angel Lux level will fall to 2.4x. This means a much stronger credit profile for the period ahead.

The last hurdle before an IPO has thus been eliminated. In our view, the market is currently mature for IPOs so an IPO may take place before the turn of the year. If this happens, bonds issued by Angel Lux will, in our view, be redeemed as soon as possible thereafter.

Recommendation

The upside is very limited for bonds issued by Angel Lux but given the price difference between the bid/offer prices investors should hold on to the bonds. We expect that there is a high likelihood that the bonds will be redeemed at the next call option – i.e. on 01/05-2011 at 104.125 for the 8.25% 2016 issue. The floater can be called at 30 days' notice at par.

With respect to bonds issued by TDC, we still see an upside in TDC's 2015 issue since this is a more long-term case where the credit profile over time will resemble high grade. The 2012 bond is maintained at HOLD.

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

	LTM Q2 2010	Q2 2009	Q1 2010	Q2 2010
Income Statement (in DKK million unless otherwise stated)				
Sales	36,336	8,940	9,062	9,174
EBITDA	13,457	3,233	3,345	3,350
EBIT	7,057	1,881	1,594	1,663
Net financing costs	1,594	366	412	398
Profit for the period	2,308	992	256	657
Balance sheet				
Short-term debt	3,374	213	3,591	3,374
Long-term debt	30,000	32,048	30,623	30,000
Total debt	33,374	32,261	34,214	33,374
Cash	411	1,654	545	411
Net debt	32,963	30,607	33,669	32,963
Property, plant and equipment	20,313	20,776	20,164	20,313
Intangible assets	50,339	24,249	49,586	50,339
Equity	29,055	10,873	27,384	29,055
Total assets	87,222	69,170	85,467	87,222
Equity ratio	33%	16%	32%	33%
Cash Flow Statement				
Cash flow from operations (CFO)	8,596	2,581	1,363	2,006
CAPEX	-3,873	-1,227	-1,020	-952
Free cash flow (FCF)	4,723	1,354	343	1,054
Purchase/sale of companies	-633	-359	-253	-27
Free cash flow (FCF) after M&A	4,090	995	90	1,027
Financial ratios				
EBITDA margin	37%	36%	37%	37%
EBIT margin	19%	21%	18%	18%
Net margin	6%	11%	3%	7%
Total debt/EBITDA	2.5x	10x	10.2x	10x
Net debt/EBITDA	2.4x	9.5x	10.1x	9.8x
EBITDA/net interest expenses	8.4x	8.8x	8.1x	8.4x
CFO/total debt	26%	8%	4%	6%
CFO/net interest expenses	5.4x	7.1x	3.3x	5x
FCF/total debt	14%	4%	1%	3%

Source: TDC and Jyske Bank

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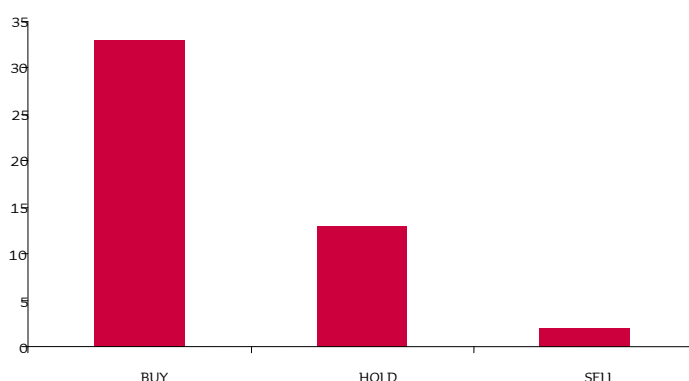
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Jyske Bank's corporate bond recommendations – current breakdown

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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