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Corporates

Telecommunications
Europe
Special Report

European Telecoms - Liquidity Update

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Related Research

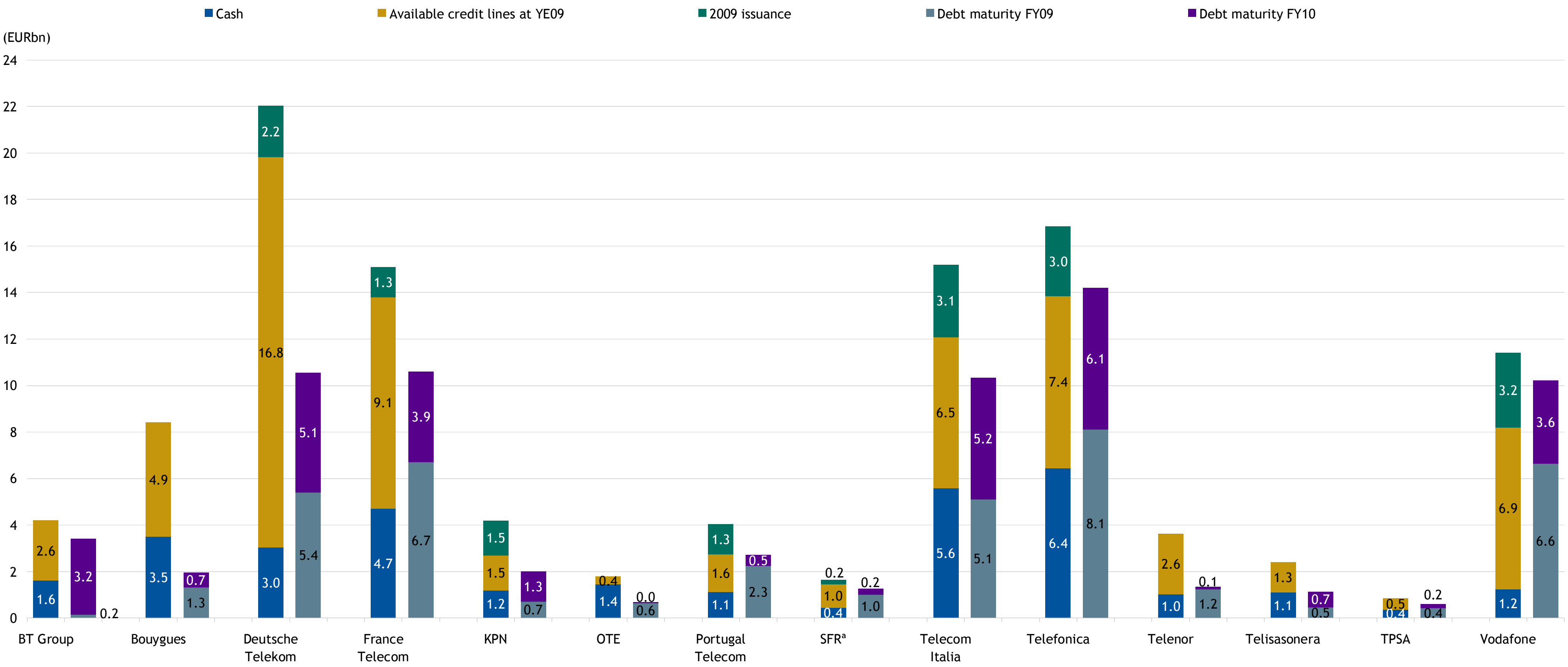
- *European Telecoms - Liquidity Update (October 2008)*
- *European Telecoms: Credit Outlook 2009 (December 2008)*

Executive Summary

- This report is a follow-up to Fitch Ratings' previous special report, *"European Telecoms - Liquidity Update"*, dated 14 October 2008. In that earlier report Fitch noted that European telecom companies in most cases retained good levels of liquidity and that accessing the capital markets would not be required for the next 18 months if market conditions were to remain adverse.
- Despite continued broader market liquidity shortages, access to debt capital markets has remained healthy for the more highly rated telecom issuers, albeit at higher pricing spreads. All of the new bond issues completed since the end of 2008 and during Q109 generated successful demand and have seen a tightening in pricing guidance. While absolute spreads over government treasuries still appear high relative to this time last year, overall interest rates have significantly declined — helping to mitigate the all-in cost to the issuers.
- Demand in 2009 for telecoms paper was demonstrated by Vodafone Group Plc's ('A–'/Stable/'F2') move into the bond market in January 2009 with a EUR1.25bn seven-year issue, followed by a EUR250m three-year issue in April 2009; Deutsche Telekom AG's ('BBB+'/Stable/'F2') EUR2bn eight-year issue in January 2009, and subsequent EUR1bn of sterling-and Swiss franc-denominated tranches in April 2009; Telefonica SA's ('A–'/Stable/'F2') EUR3bn aggregate seven- and five-year issues in February and April 2009; Telecom Italia SpA's ('BBB'/Stable) combined EUR2bn of new issues during Q109; and Royal KPN N.V.'s ('BBB+'/Stable) EUR1.5bn five- and 10-year issues in February 2009.
- A review of the most recent liquidity position of Fitch's European telecoms portfolio (shown in Appendix I) demonstrates that the liquidity profiles for the majority of Fitch's portfolio improved over the six months to April 2009. Many telecoms have been keen to take advantage of the open window securing early refinancing flexibility even though financing costs have escalated. In addition the refinancing risk for some of the issuers exhibiting higher liquidity pressures has moderated, as Portugal Telecom ('BBB'/Stable) has recently refinanced EUR1bn of maturities while Société Française de Radiotéléphone's ('A–'/Stable) high near-term maturities are linked to inter-company debt and are expected to be met using strong internal cash flows.
- Most European telecoms continue to maintain adequate undrawn committed lines in place along with healthy cash balances, which should help meet near-term debt maturities if market conditions deteriorate. Furthermore, telecom operators have reacted by reducing their capex budgets, cutting dividend and share buyback payments and entering into infrastructure-sharing agreements in an effort to preserve cash.
- Fitch believes that a combination of reasonable levels of balance sheet leverage and perceived defensive sector qualities should ensure better access to capital markets for telecom issuers, during the remainder of 2009. It is also worth mentioning that the pricing of the credit default swap contracts for telecom operators has notably tightened from its peak in December 2008, outperforming other sectors. However, while Fitch remains cautiously optimistic especially within the telecom sector it is still difficult to assert that the capital markets have re-opened for the long term on a sustainable basis; therefore the agency will look to telcos to proactively address near-term maturities.

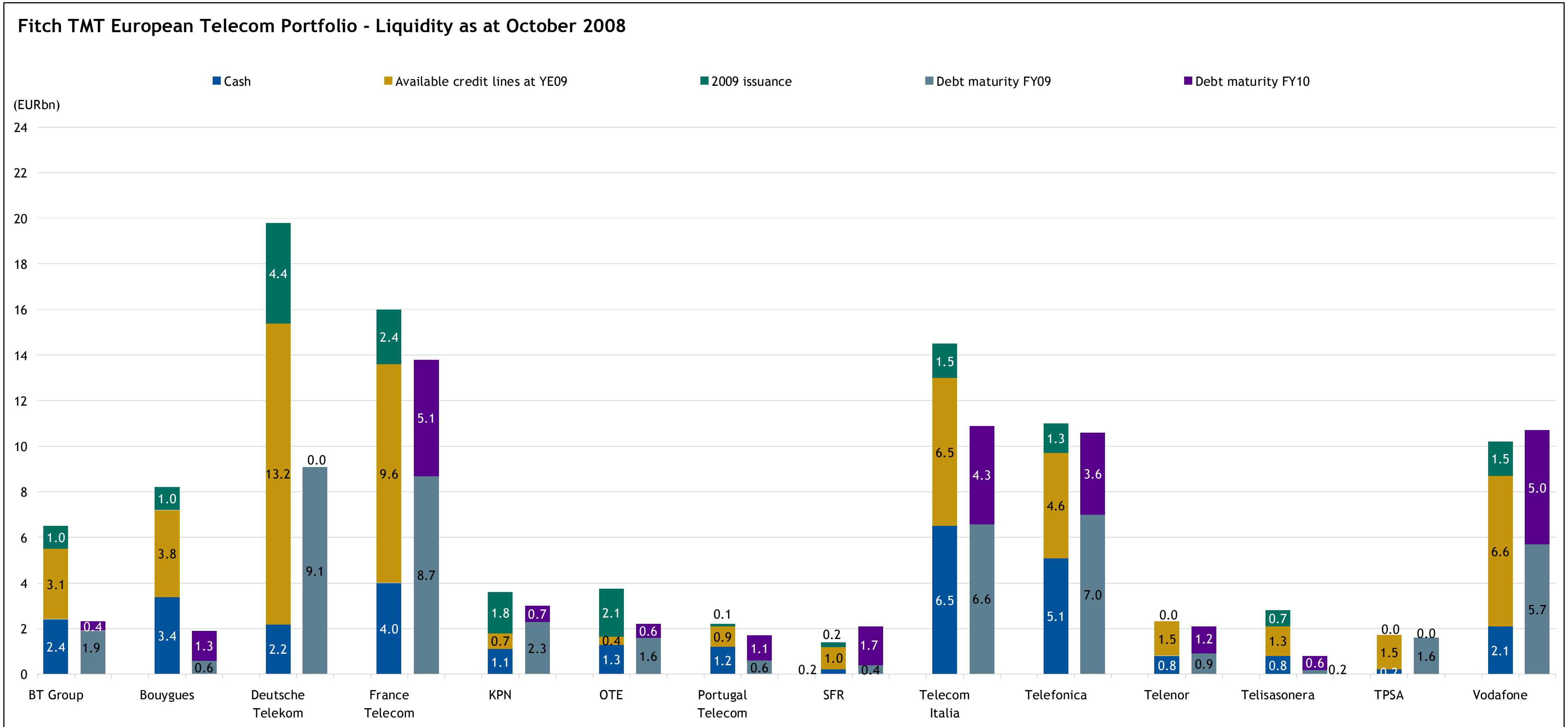
Appendix 1

Fitch TMT European Telecom Portfolio - Liquidity as at April 2009



[a] Excludes maturities under the EUR3bn intercompany loan granted by Vivendi
Source: Fitch

Appendix 2



Source: Fitch