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Ratings

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Research Update:

Telenet Group Holding N.V. 'BB-' Ratings Affirmed On Full Takeover By Liberty Global; Outlook Stable

December 20, 2023

Rating Action Overview

- Multinational telecommunications company Liberty Global PLC has acquired all the remaining publicly traded shares of Telenet Group Holding N.V., which leads us to revise Telenet's status within the group to core from strategically important.
- While we note uncertainties around the future debt tolerance at Telenet, we believe Liberty Global's full ownership could lead to a more aggressive financial policy.
- In our opinion, if Liberty Global were to push down the debt used for the take-private transaction to Telenet's balance sheet, this would raise Telenet's adjusted debt to EBITDA to around 5x (from just under 4x at the end of 2023). However, given Telenet's significant upcoming investment requirements, Liberty Global may keep its leverage at a more conservative level over the medium term.
- We therefore affirmed our 'BB-' long-term issuer credit and issue ratings on Telenet and its debt.
- Our rating on Telenet is linked to the rating on its parent, Liberty Global (BB-/Stable/--). The stable outlook on Telenet mirrors the outlook on the parent.

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Rating Action Rationale

We revised our view of Telenet's status within the group to core after Liberty Global increased its stake to 100%. Telenet is a strategic asset for Liberty Global and makes a substantial contribution to the group's total revenue (21%) and EBITDA (26% of adjusted EBITDA). Telenet's strategy is in line with Liberty Global's long-term goal to build leading fixed and mobile converged national telecoms players. Liberty Global invested a substantial amount to take over Telenet, which demonstrates the subsidiary's core strategic importance. We believe Liberty Global will provide extraordinary financial support to Telenet, if required. We align our long-term issuer credit rating on Telenet with our 'BB-' long-term issuer credit rating on Liberty Global.

We expect Liberty Global's ownership will be moderately negative to Telenet's financial policy. Telenet's financial policy around debt leverage could become more aggressive following the takeover. We believe Liberty Global will gradually align Telenet's financial policy with its own debt leverage target of net debt to EBITDAal (after leases) of around 4x-5x, and that Telenet's leverage ratio could gradually increase to the higher end of the target. This is more aggressive than Telenet's former financial policy of net debt to EBITDAal (after leases) of around 3.5x-4.5x. For example, Liberty Global could push down the debt it used to fund the buyout (just under €1 billion) to Telenet, which would likely result in S&P Global Ratings-adjusted debt to EBITDA of about 5x (from around 4x at year-end 2023). That said, Telenet faces significant investment requirements from 2024, with capital expenditure (capex) to sales increasing to about 35% of revenues for its fiber upgrade, resulting in cash burn over the peak investment period. As a result, we think Liberty Global may choose to maintain Telenet's leverage at a more conservative level over the medium term compared with other group credit pools.

The entrance of a fourth telecom operator in Belgium could disrupt Telenet's operating performance in the medium term. Telecoms providers Digi and Citymesh plan to enter the Belgian telecoms market to jointly provide mobile, fixed broadband, and TV services in the next 12 months. The effect of a fourth player entering the market is not clear at this stage, but we think the near-term impact will be fairly limited. We note the risk that potential disruption in Telenet's operating performance from the fourth player at the time of heavy capital investment could deteriorate Telenet's key credit measures. However, its strong cash balance, following the partnership with Fluvius, led to credit measures that have sizable headroom to absorb underperformance. We expect adjusted debt to EBITDA of just under 4x at year-end 2023. Liberty Global's financial policy for Telenet could be more aggressive than in the past. That said, we believe Liberty Global will be cognizant of the operating conditions in Belgium and will adjust its financial policy targets in case Telenet's operating performance is weaker than expected.

S&P Global Ratings-adjusted debt is net of cash as we have more certainty that Telenet's substantial cash reserve will stay on its balance sheet and will not be upstreamed to Liberty Global, especially due to Telenet's heavy capex requirement.

Outlook

The stable outlook indicates that we expect Telenet to remain a core group entity of Liberty Global. We forecast broadly stable adjusted EBITDA as growth in the mobile segment will be offset by a decline in fixed services. That said, we expect adjusted debt to EBITDA to remain between 4x-5x over the next few years.

Downside scenario

We could lower the rating following a downgrade of Liberty Global.

We could lower our stand-alone rating on Telenet if it adopted a more aggressive financial policy, leading to adjusted debt to EBITDA of about 5x or more on a sustained basis. This could also stem from more fierce competition, causing higher churn, or price pressure with unchanged shareholder remuneration.

Upside scenario

The rating on Telenet is capped at the level of the rating on its parent, Liberty Global PLC. We could upgrade Telenet if we raise the rating on Liberty Global. Although unlikely, we could raise the stand alone rating on Telenet if its management tightened its financial policy such that it that targets adjusted debt to EBITDA of below 4x and FOCF to debt--excluding vendor financing--at more than 10% sustainably.

Company Description

Telenet provides cable TV and telecommunications services to residential and business customers within its service area in parts of Belgium. As of Sept. 30, 2023, the company served about 1.7 million video subscribers, about 1.7 million fixed broadband subscribers, and about 957,300 fixed telephony subscribers.

Telenet is also the third-largest mobile network operator in Belgium, serving about 2.9 million mobile customers nationwide as of Sept. 30, 2023. The total consumer fixed segment accounted for 47% of its total revenue for the first nine months of 2023, with the remainder from consumer mobile services (20%) and services for business customers (26%).

Our Base-Case Scenario

Assumptions

- Revenue increasing by about 7% in 2023, helped largely by acquisition of Eltrona and Caviar. On an organic basis, we expect around 1%-2% growth in 2023 due to growing average revenue per user mainly on the back of price increases. We expect the decline in video and fixed voice revenues to offset growth in broadband and mobile service revenues. In 2024 and 2025, we expect broadly stable revenue as moderate growth in mobile will be offset by decline in fixed services.
- Adjusted EBITDA margins to remain broadly stable at around 43%-45% over next few years..
- Accrued capex--excluding capex for broadcasting rights and spectrum, as defined by Telenet--of about 25%-26% of sales in 2023, increasing to about 35% in 2024 and 2025 as the network company (Wyre) begins to invest in fiber-to-the home. We acknowledge the sizable cash on balance sheet, which would be used to fund the higher capex requirement over the next few years.
- Deferred spectrum liability of about €400 million and vendor financing facility of about €340 million, which we treat as debt.

Based on the above assumptions, we expect:

- Adjusted debt to EBITDA of around 4x-5x over the next few years.
- Funds from operations to debt of around 13%-18% over the next few years.
- High capex resulting in negative free operating cash flow over the next few years.

Environmental, Social, And Governance (ESG)

ESG factors are an overall neutral consideration in our credit rating analysis of Telenet Group. Telenet aims to reach net-zero carbon emissions and increase its use of green electricity to 100% by 2030.

Issue Ratings--Recovery Analysis

Key analytical factors

- Our '3' recovery rating and 'BB-' issue-level rating on Telenet's senior secured bank facilities indicate our expectation for meaningful (50%-70%; rounded estimate: 60%) recovery in the event of a payment default.
- The recovery rating is supported by a comprehensive security package, but constrained by the significant amount of senior secured debt.
- Telenet's debt incurred under vendor-financing arrangements currently does not benefit from any security.
- Likewise, we rate the senior secured notes issued by special-purpose vehicles (comprising €540 million and $1.0 billion notes due March 2028) 'BB-', with a '3' recovery rating.
- The proceeds are on-lent to Telenet Group through pass-through loans, and our issue ratings on the notes are based on our view that the recovery prospects are linked to the recovery prospects of the pass-through loans.
- We consider Telenet's senior secured debt documentation as highly permissive.
- The only maintenance covenant is a 6.0x springing covenant but is tested when the revolving credit facility (RCF) is drawn by more than 40%, and covenant leverage excludes lease- and vendor-financing-related liabilities and allows for certain add-backs to covenant EBITDA.
- Senior secured debt incurrence are capped by 4.5x net leverage tests, respectively.
- Under our hypothetical default scenario, we assume that materially increasing competitive pressure paired with unfavorable regulatory changes would result in declining revenue and lower margins, leading to a default in 2027.
- We value Telenet as a going concern, given its leading market position in cable TV and fixed-line broadband in its service area, the value of its cable and mobile networks, and the high barriers to entry in the industry.

Simulated default assumptions

- Year of default: 2027
- --Minimum capex (% of sales): 6% (about 13% including the operational adjustment, based on our view of minimum capex requirements for cable operators)
- --No cyclicality adjustment, in line with standard assumption for the telecom and cable industry

- --Operational adjustment: 45% (primarily to reflect maintenance capex of the company is higher than 6% of sales)
- EBITDA at emergence: about €579.3 million
- Enterprise value multiple: 6x (the standard multiple for the telecom and cable industry)
- Jurisdiction: Belgium

Simplified waterfall

- Gross enterprise value at default: €3.4 billion
- Net enterprise value after administrative costs (5%): €3.3 billion
- Estimated first-lien senior secured debt claims: €5.3 billion
- Value available for first-lien senior secured claims: €3.3 billion
- --Recovery prospects: 50%-70% (rounded estimate: 60%)
- --Recovery rating: '3'

Note: All debt amounts include six months of prepetition interest. RCFs are assumed drawn at 85% at default.

Ratings Score Snapshot

Issuer Credit Rating	BB-/Stable/--
Business risk:	Satisfactory
Country risk	Low Risk
Industry risk	Intermediate Risk
Competitive position	Satisfactory
Financial risk:	Aggressive
Cash flow/leverage	Aggressive
Anchor	bb
Modifiers:	
Diversification/Portfolio effect	Neutral (No impact)
Capital structure	Neutral (No impact)
Financial policy	Neutral (No impact)
Liquidity	Adequate (No impact)
Management and governance	Satisfactory (No impact)
Comparable rating analysis	Negative (-1 notch)
Stand-alone credit profile:	BB-
Group credit profile	bb-
Entity status within group	Core (no impact)

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016
- Criteria | Corporates | Recovery: Methodology: Jurisdiction Ranking Assessments, Jan. 20, 2016
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Ratings Affirmed	
Telenet Group Holding N.V.	
Telenet International Finance S.a.r.l.	
Telenet Financing USD LLC	
Issuer Credit Rating	BB-/Stable/--
Telenet Financing USD LLC	
Senior Secured	BB-
Recovery Rating	3(60%)
Telenet International Finance S.a.r.l.	
Senior Secured	BB-
Recovery Rating	3(60%)

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings. Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.

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