

Summary:

Telenor ASA

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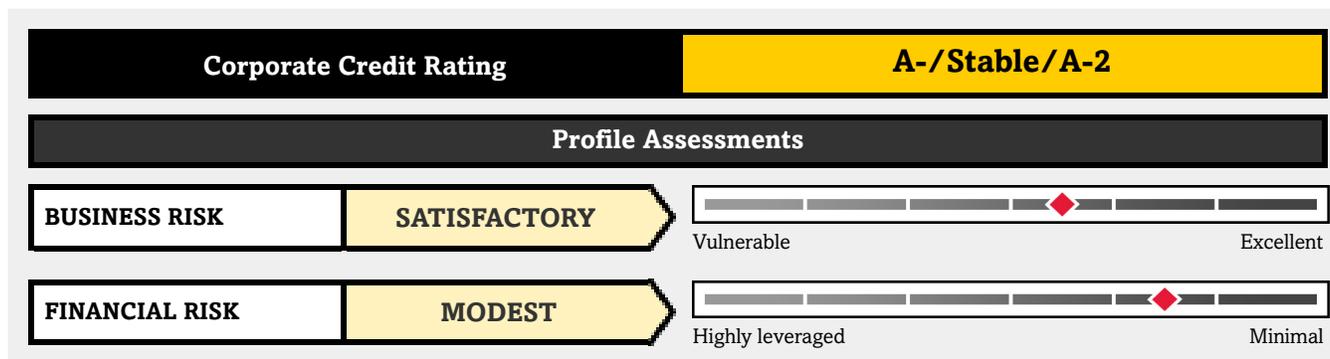
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Summary:

Telenor ASA



Rationale

Business Risk: Satisfactory	Financial Risk: Modest
<ul style="list-style-type: none"> • Strong position in the Norwegian fixed-line, TV, and mobile telecommunications markets. • Broad international diversity and generally leading domestic positions. • Solid economic conditions in the Nordic countries and growth prospects in Asia. • Exposure to country and industry risks. 	<ul style="list-style-type: none"> • Strong capital structure. • Solid free operating cash flow generation. • Currency risk through a portfolio of often partly-owned foreign mobile operations.

Outlook: Stable
<p>The stable outlook reflects our expectation that Telenor will maintain a maximum Standard & Poor's adjusted debt-to-EBITDA ratio of about 2.5x and a ratio of consolidated funds from operations (FFO) to debt above 40%.</p> <p>Upside scenario</p> <p>We could raise the rating by one notch if we revised our assessment of Telenor's business risk profile upward to "strong," according to our criteria. This would likely only follow an adjusted EBITDA margin improved to at least 35% (which we think would occur if the Indian operations were sustainably profitable). In addition, we would expect adjusted debt to EBITDA to remain below or at about 2x, and FFO to debt above or at roughly 45%.</p> <p>Downside scenario</p> <p>A one-notch downgrade appears remote at this stage as it would likely follow large cash outlays (for example for a material acquisition), or the Norwegian government's significant reduction in its stake in Telenor, and our subsequent reassessment of the likelihood of extraordinary government support.</p>

Standard & Poor's Base-Case Scenario

Assumptions	Key Metrics			
<ul style="list-style-type: none"> Continued revenue growth in Asia supported by strong demographics, increasing mobile penetration, and strong GDP growth. Flat-to-modest revenue growth in Europe because of intense competition and regulatory pressure. Gradual improvement in India on market share gains, lower churn, and reduction of operating costs. Annual capital expenditures of about Norwegian krone (NOK) 13 billion-NOK16 billion. Shareholder remuneration, including dividends, share buy-backs, and dividend leakage to minority shareholders in Asian subsidiaries of about NOK15 billion-NOK20 billion per year. 	2012A	2013E	2014E	
	Revenue growth (%)	3.3	2.0-3.5	2.0-3.5
	EBITDA margin (%)*	32.1	32.5-34.0	33.0-34.5
	Debt/EBITDA (x)*	1.7	1.4-1.8	1.4-1.8
*Fully Standard & Poor's-adjusted. A--Actual. E--Estimate.				

Business Risk: Satisfactory

Leading operator in the Norwegian telecoms market and diversified internationally

Telenor holds strong positions in its domestic market. According to the Norwegian Post and Telecommunications Authority (NPTA), Telenor had a 58% share of fixed-line telephony traffic minutes; a 47% share of retail broadband subscribers across all platforms; and a 46% share in TV, including a 52% share in cable TV, on June 30, 2012. In the growing Norwegian mobile operations, Telenor's largest revenue and cash flow contributor, the company has defended its more than 50% market share well in the past three years, thanks to a well-established brand, successful marketing, and extensive networks. Telenor had a 50% market share in mobile telephony and 58% in mobile data on June 30, 2012, according to the NPTA.

Telenor has broad geographic diversity. Aside from Norway, the group has large mobile and, to a lesser extent, fixed operations in Sweden and Denmark. Outside Western Europe, mobile operations benefit from significant long-term revenue growth potential as penetration rates continue to rise. Although exposure to emerging market risk is strong, diversity within the portfolio of developing markets protects Telenor to a degree.

The company has achieved solid positions in emerging markets, and often high, though potentially volatile, operating cash flows. In Hungary, Telenor has a sound 32% market share and the No. 2 position in a three-player market. In Serbia, it holds a 35% market share and the No. 2 position in a three-player market. In Montenegro, it has 40% and the No. 1 position in a three-player market. In Malaysia's three-player market, Telenor holds a 27% share and the No. 3 position, and in Thailand, Telenor is the No. 2 player with 30% of the market. Telenor also holds the No. 2 position in Pakistan with 24% and is No. 1 in Bangladesh with 42%.

These strengths are partly offset by profitability levels that are somewhat lower than peers', partly because the Indian operations have generated negative EBITDA since the start-up in 2009, but also because of fierce competition, for instance in Sweden and Denmark; significant and varied country risks outside the Nordic region; and regulatory risks, including mandated interconnection and roaming rate cuts.

We believe revenues will increase by about 3% annually on the continued growth we anticipate in Asian markets. We also think the EBITDA margin will improve to about 34% in 2013-2014, based on our expectation that operations in India will reach breakeven in 2013, after a contribution of negative two percentage points in 2012.

Financial Risk: Modest

Modest debt leverage and solid cash flow generation that accommodate increasing shareholder remuneration

Telenor has a strong balance sheet, with adjusted debt to EBITDA at 1.7x on Dec. 31, 2012. Management has indicated its ratio of unadjusted net debt to EBITDA could reach a maximum of 2x, which we think could translate into fully adjusted debt to EBITDA of about 2.5x.

We think leverage will remain at 1.4x-1.8x over the next two years, assuming no major acquisitions. However, we think Telenor has sufficient headroom to accommodate higher extraordinary outlays than we have anticipated in our base case before exceeding its maximum unadjusted net debt to EBITDA of 2x.

The company generates solid and growing free cash flow on the back of stable operations in the Nordic region, growing cash flow in Asia, steady dividends from its 33%-owned associated company VimpelCom (although the current ownership structure could still create tensions with unpredictable results), and declining operating outlays in India as the company targets operating cash flow breakeven by the end of 2013.

We think liquidity will remain adequate under our criteria. Telenor's available liquidity at the parent level will likely adequately cover the company's well-spread debt maturities, dividends, and share repurchases.

These strengths are moderated by increasing shareholder remuneration, a strategy geared toward expansion in emerging markets, and exposure to unpredictable currency effects.

Liquidity: Adequate

We assess Telenor's liquidity as "adequate," according to our criteria, reflecting our anticipation that liquidity sources will cover liquidity uses by at least 1.2x over the next 24 months. We have based our assessment on a groupwide approach.

Principal Liquidity Sources	Principal Liquidity Uses
<ul style="list-style-type: none"> • Surplus cash of NOK7 billion in 2013. As of Dec. 30, 2012, the company's liquid assets totaled NOK9 billion. • Two undrawn committed unsecured revolving credit facilities totaling €2.8 billion (NOK21 billion), of which €0.8 billion is due in 2017 and €2 billion in 2016. • FFO at NOK30 billion-NOK31 billion in 2013 and 2014. 	<ul style="list-style-type: none"> • Debt maturities of NOK9.6 billion in 2013 and NOK4 billion in 2014. • Annual capital expenditures at about 13-14% of sales. • Annual dividends of NOK9.3 billion in 2013, to increase slightly in 2014. We have estimated annual dividends to minority shareholders in partly-owned subsidiaries at NOK3 billion-NOK4 billion. • Annual share buybacks. <p>We note that the market value of Telenor's stake in VimpelCom is sizable and exceeds the group's net debt of NOK33 billion as of Dec. 31, 2012. We do not attribute material business risk benefits to the stake, but we include in our forecast the steady flow of dividends expected from VimpelCom.</p>

Related Criteria And Research

All articles listed below are available on RatingsDirect.

- Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010
- Key Credit Factors: Business And Financial Risks In The Global Telecommunication, Cable, And Satellite Broadcast Industry, Jan. 27, 2009
- 2008 Corporate Criteria: Analytical Methodology, April 15, 2008
- Criteria Methodology: Business Risk/Financial Risk Matrix Expanded, Sept. 18, 2012
- 2008 Corporate Criteria: Ratios And Adjustments, April 15, 2008

Business And Financial Risk Matrix						
Business Risk	Financial Risk					
	Minimal	Modest	Intermediate	Significant	Aggressive	Highly Leveraged
Excellent	AAA/AA+	AA	A	A-	BBB	--
Strong	AA	A	A-	BBB	BB	BB-
Satisfactory	A-	BBB+	BBB	BB+	BB-	B+
Fair	--	BBB-	BB+	BB	BB-	B
Weak	--	--	BB	BB-	B+	B-
Vulnerable	--	--	--	B+	B	B- or below

Note: These rating outcomes are shown for guidance purposes only. The ratings indicated in each cell of the matrix are the midpoints of the likely rating possibilities. There can be small positives and negatives that would lead to an outcome of one notch higher or lower than the typical matrix outcome. Moreover, there will be exceptions that go beyond a one-notch divergence. For example, the matrix does not address the lowest rungs of the credit spectrum (i.e., the 'CCC' category and lower). Other rating outcomes that are more than one notch off the matrix may occur for companies that have liquidity that we judge as "less than adequate" or "weak" under our criteria, or companies with "satisfactory" or better business risk profiles that have extreme debt burdens due to leveraged buyouts or other reasons. For government-related entities (GREs), the indicated rating would apply to the standalone credit profile, before giving any credit for potential government support.

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