

Research Update:

# Norway-Based Telecom Operator Telenor 'A/A-1' Ratings Placed On CreditWatch Neg On Debt-Financed Acquisition Plans

April 10, 2019

## Rating Action Overview

- Telecommunications operator Telenor ASA plans to acquire a 54% stake in Finnish telecom operator DNA for €1.5 billion and finance the transaction with debt.
- We consider that the acquisition will be slightly positive for Telenor, somewhat increasing the share of EBITDA generated by more stable markets and strengthening its position in the Nordic region.
- That said, given the debt financing and the company's ongoing share buybacks, we foresee Telenor's S&P Global Ratings-adjusted debt to EBITDA significantly increasing to 2.2x-2.3x over 2019-2020, from around 1.5x-1.7x in recent years.
- We are therefore placing our 'A/A-1' long- and short-term issuer credit ratings on Telenor, and our related issue ratings on CreditWatch with negative implications.
- The CreditWatch placement reflects that we expect to downgrade Telenor by one notch once the transaction is completed.

### PRIMARY CREDIT ANALYST

**Xavier Buffon**  
Paris  
(33) 1-4420-6675  
xavier.buffon  
@spglobal.com

### SECONDARY CONTACT

**Thierry Guermann**  
Stockholm  
(46) 8-440-5905  
thierry.guermann  
@spglobal.com

### ADDITIONAL CONTACT

**Industrial Ratings Europe**  
Corporate\_Admin\_London  
@spglobal.com

## Rating Action Rationale

The CreditWatch placement follows Telenor's announcement that it plans to acquire a controlling 54% stake in Finnish telecom operator DNA for €1.5 billion, which the company plans to finance with debt. Completion of the transaction will trigger a mandatory public tender offer of €20.90 per share for the remaining outstanding shares in DNA. We understand the proposed transaction, which we expect will close in the third quarter of 2019, is subject to customary regulatory approvals.

The transaction, combined with ongoing share buybacks, would likely result in S&P Global Ratings-adjusted debt to EBITDA increasing to 2.2x in 2019 on a pro rata basis from about 1.7x in 2018, with DNA consolidated on a 54% basis in our figures, and we would expect leverage to further increase thereafter due to likely share buybacks. Overall, we think this would correspond

to reported leverage of about 1.3x-1.4x in 2019. As this would be still short of the company's 1.5x-2.0x leverage target, in our view, it is likely that the company would seek to further re-leverage thereafter. Furthermore, if the subsequent mandatory public tender offer to acquire DNA's remaining shares was fully successful, we expect the S&P Global Ratings-adjusted leverage would likely shoot toward 2.5x, and the company's reported leverage toward 1.6x-1.7x.

We view the transaction as slightly positive for our assessment of Telenor's business risk. We consider that it would offset the loss in diversity that followed Telenor's sale of its central European operations in 2017. On a 100% basis, DNA would increase Telenor's consolidated revenue by about 8% and EBITDA by about 6%. The DNA acquisition would broaden Telenor's geographic reach and strengthen its position in the Nordic region, complementing its operations in Norway, Sweden, and Denmark with DNA's fixed and mobile operations in Finland. In addition, it would somewhat increase the share of EBITDA generated by more stable markets (from less than to more than 40%), and thereby slightly dilute the contribution from more volatile markets in Asia.

## **CreditWatch**

We intend to resolve the CreditWatch when the transaction closes. At this stage, we think a one-notch downgrade is the most likely outcome, should we continue to anticipate that adjusted leverage will increase significantly more than 2x on a prolonged basis.

If the transaction does not go through, we would affirm the ratings.

## **Ratings Score Snapshot**

Issuer Credit Rating: A/Watch Neg/A-1

Business risk: Strong

- Country risk: Intermediate
- Industry risk: Intermediate
- Competitive position: Strong

Financial risk: Modest

- Cash flow/Leverage: Modest

Anchor: a

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: a-

- Related government rating: AAA

- Likelihood of government support: Moderate (+1 notch from SACP)

## Related Criteria

- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria - Corporates - General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | Industrials: Key Credit Factors For The Telecommunications And Cable Industry, June 22, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

## Ratings List

### CreditWatch Action

	To	From
<b>Telenor ASA</b>		
Issuer Credit Rating	A/Watch Neg/A-1	A/Stable/A-1
Senior Unsecured	A/Watch Neg	A
Commercial Paper	A-1/Watch Neg	A-1
<b>Telenor East Holding II AS</b>		
Senior Unsecured	A/Watch Neg	A

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