

Bulletin:

Telenet's Partnership With Fluvius Should Have Limited Effect On Credit Metrics

July 20, 2022

LONDON (S&P Global Ratings) July 20, 2022--S&P Global Ratings said today that Telenet Group Holding N.V.'s (Telenet's) announced partnership with Fluvius will not materially affect its credit metrics and we therefore continue to see sufficient headroom within our 'BB-' rating.

Telenet will maintain its target leverage of 4x while fully consolidating the newly incorporated network company (netco). The partnership will also reduce Telenet's lease liability for its previous agreement with Fluvius in Flanders (€0.5 billion on a consolidated basis). Overall, this means that we expect Telenet's adjusted leverage to remain comfortably below our rating downside trigger of 5x.

We expect free cash flow to reduce significantly to about €150 million-€250 million in 2023 and 2024, from nearly €400 million in 2022, on the back of the netco's expected investment of up to €2 billion--most of which will be spent over the next eight years.

Nevertheless, this reduction in free cash flow will be almost entirely offset by Telenet's announced reset of its dividend floor to €1 per share. We forecast that discretionary cash flows will remain positive and minimal, and we view positively that the increase in cash outflows will be used to upgrade the network to fiber-to-the-home, rather than expensed to shareholders.

We see limited impact on Telenet's business risk as it will continue to own the majority of its expanded network. At the same time, we think this cooperation and the expected upgrade of the network should enhance Telenet's competitive advantage over the long term and could create further revenue opportunities on a wholesale basis.

This report does not constitute a rating action.

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