

Tear Sheet:

# Telenet Group Holding N.V.

August 15, 2024

**We expect leverage will remain elevated, leading to limited headroom in the stand-alone rating.** We believe S&P Global Ratings-adjusted leverage will stay elevated at 4.8x-5.0x in 2024-2026, from 4.8x in 2023 and 4.2x in 2022. Telenet raised a new term loan of €890 million in 2023 and used part of its free operating cash flow (FOCF) to fund a €1.19 billion dividend payment to sole parent Liberty Global. This allowed Liberty Global to pay down an acquisition debt used to purchase the remaining Telenet shares. Our base-case scenario assumes flat to modest growth in earnings, and adjusted debt to remain flat, leading to adjusted debt to EBITDA close to our downside threshold of 5.0x for the next few years. We believe the company's stand-alone rating has limited headroom to absorb weaker-than-expected operating performance or further debt issuances. That said, our rating on Telenet is linked to our rating on Liberty Global PLC (BB-/Stable/--) as long as we continue to view Telenet as a core subsidiary of Liberty Global.

**Higher capital expenditure (capex) will keep FOCF subdued but we don't necessarily view this as a credit risk.** Telenet faces heavy capex needs (at over 30% of sales) from 2024 and for the next few years as Wyre (an on the balance sheet joint venture with Fluvius) starts its fiber upgrades. Consequently, we believe FOCF will stay close to break-even over the next few years. Some capex will be funded by the cash balance of about €1 billion as of June 30, 2024, which will act as a buffer for the relatively weak FOCF over the next few years. We view the recent Memorandum of Understanding between Telenet (Wyre) and Proximus (Fiberklaar) on fiber to the home expansion in Flanders positively (if agreed by regulators), as it could result in higher network utilization, and lower overbuild risk.

**We see Belgium's competitive mobile services market further intensified by a fourth entrant, which is unlikely to have material impact in the short term, but could create headwind in the long term.** We expect Digi will launch its mobile services in Belgium at a competitive price point within the next few months. However, we believe existing players will adjust their pricing by offering discounts on low-cost brands. We assume near-term disruptions will be concentrated on low-cost brands, and earnings loss for Telenet will be muted for at least the next twelve months. Telenet has launched its Base fixed-mobile convergent (FMC) offering throughout Belgium and is well-positioned to compete in the value-for-money segment. Additionally, Digi is entering as mobile-only for now, but the high FMC share makes it difficult to grab a material share of the mobile-only market in Belgium. While there is still a downside risk to our base-case scenario in the longer run, the impact on earnings is not clear. We believe competitive pressure will keep revenue growth at 0%-2% over the next two-to-three years, following broadly stable revenue growth in the first half of 2024.

**An FMC launch in Wallonia solidifies Telenet's presence across Belgium, in-line with its parent group strategy, but will temporarily weigh on margins.** Telenet entered the fixed market of Wallonia through its Base brand's FMC launch in June 2024. This was enabled by a 15-

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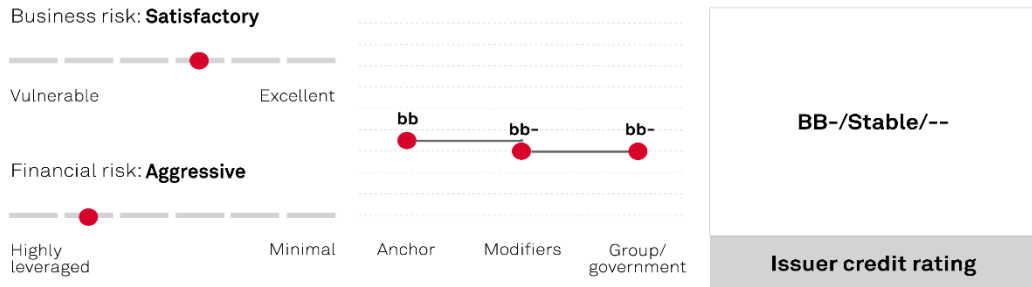
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year agreement with Orange, giving Telenet access to Orange’s cable network in Wallonia. Telenet has a small presence in Wallonia, and a full-service offering is a potential tailwind to earnings growth. Telenet has fixed and mobile presence in Flanders and Brussels, making it a fully converged player throughout Belgium, consistent with Liberty Global’s strategy of building converged national telecom operators. However, marketing efforts for the FMC launch in Wallonia will weigh on the EBITDA margin, which we estimate will drop 90-100 basis points to 43.7% in 2024 and stabilize at 44.5% from 2025, from 44.6% in 2023.

## Ratings Score Snapshot



## Recent Research

- Telenet Group Holding N.V. 'BB-' Ratings Affirmed On Full Takeover By Liberty Global; Outlook Stable, Dec. 20, 2023

## Company Description

Telenet provides cable TV and telecommunication services to residential and business customers within its service area in parts of Belgium. As of June 30, 2024, the company served about 1.6 million video subscribers, about 1.7 million fixed broadband subscribers, and about 892,300 fixed telephony subscribers.

Telenet is also the third-largest mobile network operator in Belgium, serving about 2.9 million mobile customers nationwide as of June 30, 2024. The total consumer fixed segment accounted for 44% of its total revenue for the first six months of 2024, with the remainder from consumer mobile services (20%) and services for business customers (36%).

Telenet is 100% owned by Liberty Global PLC (BB-/Stable/--).

## Outlook

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

## Downside scenario

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

## Key Metrics

Telenet Group Holding N.V.--Forecast summary

Period ending	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025	Dec-31-2026
(Mil. EUR)	2022a	2023a	2024e	2025f	2026f
Revenue	2,665	2,855	2,867	2,893	2,928
EBITDA	1,286	1,283	1,254	1,287	1,303
Funds from operations (FFO)	978	817	854	887	905
Cash flow from operations (CFO)	1,093	1,008	950	979	994
Capital expenditure (capex)	521	655	942	951	962
Free operating cash flow (FOCF)	572	353	7	28	32
Dividends	149	1,299	107	128	132
Discretionary cash flow (DCF)	400	(947)	(100)	(100)	(100)
Debt (reported)	5,667	6,322	6,302	6,282	6,262
Plus: Lease liabilities debt	988	631	627	623	616
Plus: Pension and other postretirement debt	2	3	3	3	3
Less: Accessible cash and liquid Investments	(1,064)	(823)	(658)	(494)	(327)
Plus/(less): Other	(178)	30	(70)	(70)	(70)
Debt	5,415	6,164	6,204	6,344	6,484
<b>Adjusted ratios</b>					
Debt/EBITDA (x)	4.2	4.8	4.9	4.9	5.0
FFO/debt (%)	18.1	13.3	13.8	14.0	14.0
EBITDA interest coverage (x)	4.8	3.4	3.2	3.4	3.5
CFO/debt (%)	20.2	16.4	15.3	15.4	15.3
FOCF/debt (%)	10.6	5.7	0.1	0.4	0.5
DCF/debt (%)	7.4	(15.4)	(1.6)	(1.6)	(1.5)

## Telenet Group Holding N.V.

Annual revenue growth (%)	2.7	7.1	0.4	0.9	1.2
EBITDA margin (%)	48.3	44.9	43.7	44.5	44.5

# Financial Summary

## Telenet Group Holding N.V.--Financial Summary

Period ending	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023
Reporting period	2018a	2019a	2020a	2021a	2022a	2023a
Display currency (mil.)	EUR	EUR	EUR	EUR	EUR	EUR
Revenues	2,535	2,584	2,575	2,596	2,665	2,855
EBITDA	1,287	1,280	1,278	1,279	1,286	1,283
Funds from operations (FFO)	981	876	960	1,014	978	817
Interest expense	250	267	207	188	267	383
Cash interest paid	202	245	208	169	221	380
Operating cash flow (OCF)	1,107	1,088	1,044	1,030	1,093	1,008
Capital expenditure	404	412	472	479	521	655
Free operating cash flow (FOCF)	704	676	572	551	572	353
Discretionary cash flow (DCF)	(124)	513	245	232	400	(947)
Cash and short-term investments	88	101	82	140	1,064	823
Gross available cash	88	101	82	140	1,064	823
Debt	5,893	5,777	5,594	5,599	5,415	6,164
Common equity	(1,626)	(1,487)	(1,454)	(1,363)	(505)	(545)
<b>Adjusted ratios</b>						
EBITDA margin (%)	50.8	49.5	49.6	49.3	48.3	44.9
Return on capital (%)	15.5	16.0	15.0	14.3	13.6	10.2
EBITDA interest coverage (x)	5.1	4.8	6.2	6.8	4.8	3.4
FFO cash interest coverage (x)	5.9	4.6	5.6	7.0	5.4	3.2
Debt/EBITDA (x)	4.6	4.5	4.4	4.4	4.2	4.8
FFO/debt (%)	16.7	15.2	17.2	18.1	18.1	13.3
OCF/debt (%)	18.8	18.8	18.7	18.4	20.2	16.4
FOCF/debt (%)	11.9	11.7	10.2	9.8	10.6	5.7
DCF/debt (%)	(2.1)	8.9	4.4	4.1	7.4	(15.4)

# Peer Comparison

## Telenet Group Holding N.V.--Peer Comparisons

	Telenet Group Holding N.V.	Sunrise HoldCo IV B.V.	DIGI Communications N.V.	Cyfrowy Polsat S.A.
Foreign currency issuer credit rating	BB-/Stable/--	BB-/Stable/--	BB-/Negative/--	BB/Stable/--

**Telenet Group Holding N.V.--Peer Comparisons**

Local currency issuer credit rating	BB-/Stable/--	BB-/Stable/--	BB-/Negative/--	BB/Stable/--
Period	Annual	Annual	Annual	Annual
Period ending	2023-12-31	2023-12-31	2022-12-31	2023-12-31
Mil.	EUR	EUR	EUR	EUR
Revenue	2,855	3,172	1,493	3,136
EBITDA	1,283	1,119	472	702
Funds from operations (FFO)	817	689	419	319
Interest	383	434	51	291
Cash interest paid	380	434	47	304
Operating cash flow (OCF)	1,008	936	387	263
Capital expenditure	655	472	490	350
Free operating cash flow (FOCF)	353	464	(103)	(86)
Discretionary cash flow (DCF)	(947)	464	(114)	(86)
Cash and short-term investments	823	6	261	761
Gross available cash	823	6	261	761
Debt	6,164	7,092	1,250	2,871
Equity	(545)	4,024	616	3,752
EBITDA margin (%)	44.9	35.3	31.6	22.4
Return on capital (%)	10.2	(0.0)	8.0	4.5
EBITDA interest coverage (x)	3.4	2.6	9.3	2.4
FFO cash interest coverage (x)	3.2	2.6	9.8	2.1
Debt/EBITDA (x)	4.8	6.3	2.6	4.1
FFO/debt (%)	13.3	9.7	33.5	11.1
OCF/debt (%)	16.4	13.2	31.0	9.2
FOCF/debt (%)	5.7	6.5	(8.3)	(3.0)
DCF/debt (%)	(15.4)	6.5	(9.1)	(3.0)

## Environmental, Social, And Governance

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

**Rating Component Scores**

<b>Foreign currency issuer credit rating</b>	<b>BB-/Stable/--</b>
<b>Local currency issuer credit rating</b>	<b>BB-/Stable/--</b>
<b>Business risk</b>	<b>Satisfactory</b>
Country risk	Low
Industry risk	Intermediate
Competitive position	Satisfactory
<b>Financial risk</b>	<b>Aggressive</b>
Cash flow/leverage	Aggressive
<b>Anchor</b>	<b>bb</b>
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Neutral (no impact)
Comparable rating analysis	Negative (-1 notch)
<b>Stand-alone credit profile</b>	<b>bb-</b>

## Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology, April 4, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- 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
- Criteria | Corporates | Industrials: Key Credit Factors For The Telecommunications And Cable Industry, June 22, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

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