

Fitch Ratings

Fitch Downgrades Cableuropa to 'B'; Assigns Negative Outlook

06 Mar 2009

Fitch Ratings-London/Barcelona-06 March 2009: Fitch Ratings has today downgraded Spain-based Cableuropa S.A.'s (Cableuropa) Long-term Issuer Default rating (IDR) to 'B', from 'B+' and assigned a Negative Outlook. At the same time the agency has downgraded Cableuropa's senior secured bank facility to 'BB-' from 'BB' and its high-yield bonds (issued by ONO Finance Plc and ONO Finance II) to 'CCC' from 'B-' (B minus). The Short-term IDR of 'B' is affirmed. Cableuropa is the principal cable operator in Spain, providing broadband, telephony and multi-channel TV to approximately 1.9 million customers. In the nine months to September 2009 the company generated sales of EUR1.2bn and EBITDA of EUR528m (reflecting a margin of 43.8%).

Today's rating action takes into account the refinancing risk associated with its EUR3.5bn senior bank facility, which Fitch considers will need to be agreed (or at least have some easing in the 2010 and 2011 repayment profile) by early-to-mid 2010 to avoid liquidity concerns later in that year. While the company's cable operations in Spain are proving resilient in the face of deteriorating economic conditions, growth prospects and the associated potential to de-lever, are in Fitch's view now likely to be limited through 2010. The business has also yet to be fully tested, given that economic conditions in Spain are likely to remain difficult for a protracted period.

Continued cost restructuring and the negative working capital flows associated with capex cuts are likely to constrain free cash flow through 2009, albeit that Fitch recognises the cash generating potential of a business with 1.9 million subscribers and good track record of growing the number of services taken per customer. This ability has enabled Cableuropa to sustain some of the strongest average revenue per user (ARPU) and revenue generating unit per customer (RGU / customer) metrics across the European cable sector. With the company no longer able to rely on revenue growth driven by network build, it will be imperative for Cableuropa to sustain these metrics and importantly to manage the rate of customer churn, which has crept up in recent quarters as the downturn has taken hold.

Fitch notes that (based on results to Sept 08) it expects the company to meet its published targets for 2008 (when it announces full year earnings next week) and that without the scale and immediacy of refinancing concerns, ratings might not have come under the pressure they have. These concerns, as well as the potential downside risk to the 2009 outlook, suggest credit risk is better reflected by current ratings levels.

The Negative Outlook reflects the company's refinancing concerns. Clear visibility that the company can refinance or at a minimum reschedule its repayment schedule through 2012 (combined with on-budget performance), would be needed in order for ratings to stabilise at the current level. Fitch notes that Cableuropa's bank group is relatively smaller than some other cable companies such as Virgin Media, which has successfully renegotiated its bank facilities (post the collapse of Lehman Brothers). This feature should in Fitch's view help the refinancing process. Clarity around this issue would be expected by 4Q09 / 1Q10 if further negative action is to be avoided, as is a leverage (net debt / annualised EBITDA) metric that remains below 6.0x throughout 2009 and performs with a degree of headroom within the reducing metric prescribed by the bank covenant (which ratchets down to 5.95x by 4Q09). Progress in developing a materially positive FCF profile (not expected before 2010) could potentially lead to a more positive view of the IDR.

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