



Fitch Revises Cableuropa's Outlook to Positive; Affirms at 'B' Ratings

24 Jan 2012 5:48 AM (EST) Fitch Ratings-London-24 January 2012: Fitch Ratings has revised the Outlook on Cableuropa S.A.'s (Cableuropa) Long-term Issuer Default Rating (IDR) to Positive from Stable and affirmed the Long term IDR and Short-term IDR at 'B', respectively. All instrument ratings are also affirmed and listed at the end of this release.

"The revision of Cableuropa's Outlook to Positive acknowledges the steady progress the company is making in improving its financial metrics, its resilient operational performance in the face of a difficult economy, and its proactive approach to managing debt maturities," said Stuart Reid, a Senior Director in Fitch's European TMT team. "Financial metrics are strong for the existing rating and would justify a higher rating in a more benign communications market. The Spanish economy, and in particular private consumption, is likely to remain weak over at least the next 18 months. The revision of the Outlook is a cautious response to the good progress but recognises that market challenges remain."

Cableuropa's ratings take into account the company's revenue and cash flow resilience despite the economy and a contracting telecoms market, with Spain's overall telecoms revenues down 4.8% yoy in Q311. The company is reporting good service bundle metrics across the subscriber base, which itself remains stable, while the business is achieving ARPU growth despite the economy and austerity measures. The completed upgrade of 100% of its network to DOCSIS 3.0, a digital compression technology that enables very high speed broadband, provides the company with a technology advantage and is improving important in the battle for broadband customers - customers who invariably take more than one bundled service.

While the company's performance indicates an ability to buck the wider market (9M11 revenues ahead 0.1% and 3Q11 up 2.5%), Fitch believe revenues and operating metrics could come under renewed pressure in 2012, with Fitch's sovereign group modelling very weak private consumption over the next two years. Telecoms spending, particularly discretionary spending in areas such as fixed to mobile calling and non-subscription based pay TV consumption, have proven more susceptible to the economy than previously expected. Nonetheless Cableuropa's own experience in areas such as fixed voice (revenues down 0.6% yoy in 3Q11 verses a market down by 8.6%, according to Spanish regulator, CMT) and broadband (Cableuropa up 12.3%; against a flat market), point to a good competitive position.

However, Telefonica ('BBB+/'Stable), the main casualty of market declines, is likely to step up competitive action, while Spain is proving to be an increasingly hard-fought multi-play market given the presence of quad-play operators such as Vodafone ('A-'/'Stable), and France Telecom's ('A-'/'Stable) Orange, and triple-play altnet, Jazztel. Although not considered Cableuropa's key revenue driver, the pay TV market is likely to intensify. Prisa, owners of Sogecable, the country's DTH satellite platform, has recently reached agreement with its banks over a new financing package, which should allow it to refocus on operational quality, while the overall market is experiencing a degree of fragmentation.

Cableuropa's leverage (net debt EBITDA) of 4.6x and free cash flow margin approaching double digits are potentially already in line with a 'B+' rating. Resilience and visibility of cash flows, even in the event of renewed austerity driven top-line pressure suggest these metrics will be sustained. Concerns over the economy and the risk of renewed pressure on the consumer - the company's primary source of revenues constrain an upgrade at present. Net FFO leverage below 5.0x (correlating to around 4.5x net debt EBITDA) and FCF margin sustained at current levels in 2012 should justify an upgrade in the rating. Progress in addressing the 2013 bank refinancing will also be a key consideration. Financial metrics trending wider than current levels, and an absence of a successful bank refinancing are likely to be negative for the rating or Outlook.

Refinancing risk is being managed and the company is approaching its 2013 debt refinancing in a better operational position than when it last refinanced in 2010. The company's funding sources have been diversified - with EUR1.0bn of senior secured bonds having been raised since the bank amendment in 2010. The company has also successfully refinanced its 2014 subordinated notes, extending their maturity until 2019. This ensures a level of junior debt remains in the capital structure with a sufficiently long maturity, to allow any potential bank refinancing to go ahead unencumbered by the maturity of its junior debt. Recent documentation changes relating to the balance between bank and bond investor voting rights, should help both further issuance in the secured bond market as well as bank refinancing.

The following instrument's have had their ratings affirmed:

Cableuropa senior secured bank: 'BB-'/'RR2'
Nara Cable Funding senior secured bonds: 'BB-'/'RR2'
ONO Finance II plc unsecured notes: 'CCC'/'RR6'

Contact:

Primary Analyst
Stuart Reid
Senior Director
+44 (0) 20 3530 1085
Fitch Ratings Limited

30 North Colonnade
London E14 5GN

Secondary Analyst
Richard Petit
Associate Director
+44 (0) 20 3530 1385

Committee Chairperson
Mike Dunning
Managing Director
+ 44 (0) 20 3530 1178

Media Relations: Peter Fitzpatrick, London, Tel: +44 20 3530 1103, Email: peter.fitzpatrick@fitchratings.com.

Additional information is available at www.fitchratings.com. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings. Applicable criteria, 'Corporate Rating Methodology', dated 12 August 2011; 'Rating Global Telecoms Companies', dated 16 September 2010; 'Cashflow Measures in Corporate Analysis', dated 12 October 2005; and 'Recovery Ratings and Notching Criteria for Non-Financial Corporate Issuers', dated 12 May 2011, are available on www.fitchratings.com.

Applicable Criteria and Related Research:

Corporate Rating Methodology
Rating Global Telecoms Companies - Sector Credit Factors
Cash Flow Measures in Corporate Analysis
Recovery Ratings and Notching Criteria for Non-Financial Corporate Issuers

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