

Research Update:

DNA PLC Upgraded To 'BBB+' Following Acquisition By Telenor; Off Watch; Outlook Stable

September 9, 2019

Rating Action Overview

- Norwegian telecom operator Telenor ASA acquired a 54% stake in Finnish telecom operator DNA, and launched a public tender offer to acquire DNA's remaining shares.
- As a strategically important subsidiary, we believe DNA could benefit from potential extraordinary support from Telenor, which we view as having stronger credit quality as a larger and more diversified telecom operator.
- Therefore, we are raising our long-term ratings on DNA and its debt to 'BBB+' from 'BBB' and removing them from CreditWatch with positive implications.
- The stable outlook mirrors that on Telenor and reflects our expectation that DNA will deliver modest organic revenue and EBITDA growth, and S&P Global Ratings-adjusted debt to EBITDA comfortably below 2.25x.

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Rating Action Rationale

The rating upgrade follows Norwegian telecom operator Telenor ASA's acquisition of 28.3% and 25.8% stakes respectively in Finda Telecoms Oy and PHP Holding Oy, two of Finnish telecom operator DNA PLC's largest shareholders, for about €1.5 billion (€20.90 per share). As a result, Telenor now controls 54% of DNA's shares. We view DNA as a strategically important subsidiary of Telenor because it is important to Telenor's long-term strategy in the Nordic markets and is unlikely to be sold. We therefore believe DNA could benefit from potential extraordinary support from its parent, which we view as a larger and more diversified telecom operator with superior credit quality.

We note that the transaction triggered a mandatory public tender offer of €20.90 per share for the remaining outstanding shares in DNA that will end late-September 2019. As a result, Telenor's stake in DNA could be significantly higher than 54% once the offer is complete. However, the size of Telenor's final stake in DNA will not affect our rating on DNA. This is because, for us to equalize the rating on DNA with the rating on Telenor, we would have to assess DNA as a core subsidiary. Given DNA does not constitute a significant proportion of the consolidated group, and is unlikely to be fully integrated in Telenor in the near term, we do not consider it as such and cap our rating on

DNA one notch below that on Telenor.

Our base case assumptions and assessment on DNA's stand-alone credit quality has not changed since our report "DNA Plc" published on May 24, 2019 on RatingsDirect.

Outlook

The stable outlook on DNA mirrors that on Telenor and reflects our expectation that DNA will deliver organic revenue growth of about 3% in the next 24 months and an EBITDA margin of at least 35%, while maintaining S&P Global Ratings-adjusted debt to EBITDA below 2.25x and free operating cash flow (FOCF) to debt well above 25%.

Downside scenario

We could take a negative rating action if DNA experienced declining revenue or if its margins started to deteriorate, likely stemming from intensified competition in the Finnish market. We could also take a negative rating action if debt to EBITDA increased and stayed above 2.25x for a sustained period, or FOCF fell toward 20%, for example owing to a more aggressive financial policy or acquisitions. We could also downgrade DNA if we downgrade Telenor.

Upside scenario

We see rating upside as remote, given DNA's limited scale and diversification, and its financial policy. However, we could upgrade DNA if we upgrade Telenor.

Ratings Score Snapshot

Issuer Credit Rating: BBB+/Stable/--

Business risk: Satisfactory

- Country risk: Very low
- Industry risk: Intermediate
- Competitive position: Satisfactory

Financial risk: Modest

- Cash flow/Leverage: Modest

Anchor: bbb+

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)

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- Comparable rating analysis: Negative (-1 notch)

Stand-alone credit profile: bbb

- Entity status within group: Strategically important (+1 notch)

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- 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
- Criteria | Corporates | General: Methodology: The Impact Of Captive Finance Operations On Nonfinancial Corporate Issuers, Dec. 14, 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
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Telenor Downgraded To 'A-/A-2' On Debt-Financed DNA Deal And Weaker-Than-Expected Performance In Asia; Outlook Stable, Sept. 9, 2019
- Full Analysis: DNA PLC, May 24, 2019
- Finnish Telecom Operator DNA PLC Placed On CreditWatch Positive On Acquisition by Telenor, April 11, 2019

Ratings List

Upgraded; Outlook Action

	To	From
DNA PLC		
Issuer Credit Rating	BBB+/Stable/--	BBB/Watch Pos/--

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	To	From
DNA PLC		
Senior Unsecured	BBB+	BBB/Watch Pos

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