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# Altice NV faces high debt problems amid competitive market

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Altice NV, a multinational telecommunications company, and the owner of the second largest telecom company in France, saw its stock price plunge in November after posting losses for the tenth consecutive quarter. The RMI-CRI 1-year Probability of Default (PD) for the company increased to a record high of 84.6bps on Nov 30, 2017 from 12.37bps on Oct 31, 2017 (See Figure 1), in tandem with a 59% plunge in market capitalization during the same period. The firm's poor stock performance results from investors' concerns on Altice's high leverage amid a competitive market in France.

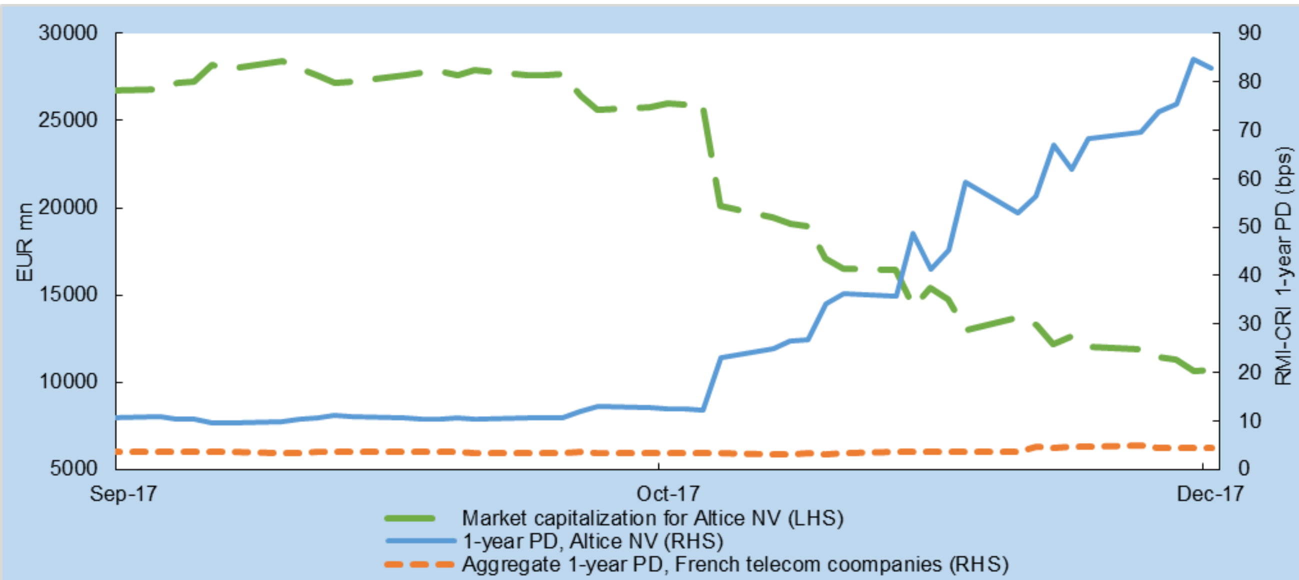


Figure 1: Market capitalization for Altice NV, RMI-CRI 1-year PD for Altice NV and RMI-CRI 1-year Aggregate PD for 11 telecom companies in France. *Source: Bloomberg, RMI-CRI*

Altice's ambitious acquisition spree to enter new markets has led to a number of debt-fueled deals in the past few years that lifted its total net debt to about EUR 50.4bn by Q3 2017, making it the most indebted company in the European telecom space. As a result, the high interest expenses have been a burden to Altice and contributed to the negative bottom line results despite the company generating positive operating income for the past few quarters (See Table 1). Due to the high leverage, the RMI-CRI 1-year PD for Altice has been consistently above the Aggregate 1-year PD, a median of the PDs for 11 telecom firms in France, indicating a weaker credit outlook for the telecom giant (See Figure1).

| | Q4 2016 | Q1 2017 | Q2 2017 | Q3 2017 |
|---|---|---|---|---|
| **Net Debt/EBIT (X)** | 36.76 | 33.15 | 57.08 | 66.80 |
| **Net Income (EUR mn)** | -339.2 | -45.1 | -425.1 | -319.4 |
| **Operating Income (EUR mn)** | 511.5 | 686.6 | 440.4 | 466.3 |
| **Interest Expense (EUR mn)** | 616.9 | 903.8 | 903.7 | 874.9 |

Table 1: Financial Data for Altice NV. *Source: Bloomberg*

The rapid fall in Altice's market capitalization follows weaker than expected third-quarter results at its largest segment, SFR in France, and concerns about current debt level. On Nov 2, Altice lost nearly 16% of its France customer base during Q3, contributing to the first quarterly revenue drop in 2017. The lower sales underscored the challenges in the fiercely competitive telecom market in France. Competition has intensified since the start of the year, when telecom rivals began to cut subscription fees. Iliad SA in particular, gained 27,000 broadband users in Q3 through aggressive promotions to lure subscribers. Contrary to Iliad's low price strategy, Altice's premium pricing plans with a strong focus on customer service failed to retain customers. During the earnings call, management announced 2017 earnings will likely fall towards the 'low end' of its forecasts.

To ease investors' concern, Altice promised to deleverage its balance sheet by disposing of non-core assets, including its mobile masts in Europe. The group also replaced its CEO Michel Combes and brought back the company's founder Patrick Drahi as president. However, all these efforts did not stop the prevailing concern that Altice's indebtness would still be twice the average of its peer group, even if net debt fell by EUR 10bn. On Nov 23, S&P cut its outlook for Altice to negative, warning that the company's financial situation may not improve through 2018.

With no large principal payments due till 2022 and EUR 1.85bn cash in hand as of September this year, Altice has not felt the urge to refinance. However, the firm's refinancing costs may rise if central banks raise interest rates next year.

## Credit News

### Mortgage servicer Walter Investment Management files for bankruptcy

**Dec 2.** Walter Investment Management Corp., which has more than 4,000 workers, has filed for bankruptcy protection with a plan to reduce its debt by USD 806mn and transfer most of its ownership to bondholders. It is said that laden debt from several acquisitions and a liquidity crunch due to the pressure from lenders have contributed to the company's financial problems. The company's balance-sheet-restructuring proposal would cut its debt to less than USD 1.4bn from USD 2.2bn. A group of senior bondholders will receive preferred shares convertible into 73% of newly issued common stock plus USD 250mn in new bonds. Meanwhile, lenders will extend the maturity date on their loans to June 2022 from December 2020, but in exchange, Walter will pay down about USD 275mn by February 2018. (WSJ)

### Shareholder in Brazil's Oi requests Aurelius be barred from debt restructuring

**Dec 2.** Societe Mondiale, an entity affiliated with Brazilian investor Nelson Tanure, and a shareholder in Brazilian telecoms company Oi SA, filed a complaint with the nation's telecoms regulator on December 1 2017, seeking to limit the actions of Aurelius Capital Management LP, a key bondholder of Oi. Oi, which filed for bankruptcy protection a year and a half ago, is riven by divisions between creditors, the board, and management. Aurelius is spearheading a group of creditors known as the International Bondholders Committee, and those bondholders have been working for several weeks with Oi's management to implement a restructuring accord that would take the carrier out of bankruptcy protection. However, the board of the company—over which Tanure holds sway—has held firm against bondholder proposals, and has promoted a plan that would be more favorable to equity holders. In fact, in the complaint, Societe Mondiale stated that under the restructuring proposal pushed by bondholders, Aurelius would become a co-controller of Oi, and this would break Brazilian anti-trust rules, due to Aurelius' indirect stake in competing telecoms operator Nextel Communications Inc. (Reuters)

### Venezuelan 'hunger bonds' sink into default, adding to Goldman's headache

**Nov 30.** Earlier this year, Goldman Sachs Asset Management paid USD 865mn for bonds issued by PDVSA, Venezuela's state oil company. The asset manager sold chunks of their bond but was still listed as the largest holder of the PDVSA 2022 security at the end of the third quarter. The issuer of these bonds, Petroleos de Venezuela (PDVSA), failed to raise money to investors before a 30-day grace period expired and the bonds have been declared in default. Venezuela is seeking to restructure its debt with creditors but it is unclear if Goldman Sachs will get a chance to see any returns on their investments. The bonds were bought at an equivalent 31 cents on the dollar and prices have declined to 26 cents on the dollar, according to prices compiled by Bloomberg on December 4. (Bloomberg)

### Creditors file bankruptcy plea against two China Huishan subsidiaries

**Nov 28.** China Huishan Dairy Holdings, burdened by at least RMB 38bn at the end of July this year, announced on November 28 that its creditors had filed a plea in a local court for bankruptcy restructuring against two of its wholly-owned subsidiaries, Huishan Dairy China Co Ltd and Liaoning Huishan Dairy Group

Shenyang Co Ltd. In response to its creditors' latest action, Huishan was taking legal advice on the banks' bankruptcy restructuring plea, and would take steps to preserve the assets of the company. (Reuters)

**RCom debt restructuring clouded by CDB insolvency**

**Nov 28.** China Development Bank's (CDB) filed insolvency proceedings against Indian telecom player Reliance Communications' (RCom) on November 24 due to a large amount of overdue principal and interest. RCom's planned debt restructuring could be complicated by China Development Bank's (CDB) insolvency action. With net debt of INR 443bn at the end of March 2017, RCom is the most leveraged among listed phone carriers in India. CDB said in a statement that it has sent notice of insolvency proceeding to RCom, but RCom said that it has not received notice yet. It is unknown when NCLT will hear the CDB plea. Shares in RCom dropped 3.8%, with more than 62% plunge this year. (Reuters)

**NCIX files for bankruptcy after closing all retail stores** (TechSpot)

**Jewelry chain Charming Charlie preparing to file for bankruptcy** (Reuters)

**Cumulus Media files for bankruptcy** (WSJ)

**Regulatory Updates**

**German insurer Munich Re joins backlash on new accounting rules**

**Dec 4.** German insurer Munich Re is the latest insurer to call for a delay to the implementation of IFRS 17, a set of new accounting rules that is set to come into force in 2021. According to Jörg Schneider, Munich Re's chief financial officer, changing accounting systems would be very expensive, and a delay to IFRS 17 would be appropriate. Investors are also concerned that the burdens associated with implementing the new rules under existing stretched timetables could outweigh the benefits. IFRS 17 has taken 20 years to develop, and was designed to replace the existing standard, IFRS 4, which allows for much more variation between countries. The new rules could make insurers' results more volatile, and will affect life insurers more than property and casualty insurers, as profits from some long-term contracts will have to be recognized over the life of the contract rather than upfront. (FT)

**Corporate winners and losers in the US tax bill**

**Dec 4.** The US is in the midst of finalizing a tax bill to reduce the corporate tax rate to 20% from the current 35%, a move that could improve the bottom lines of many firms from banks to retailers. Lawmakers initially intended to tax bank payments to offshore subsidiaries, but the tax bill was amended to exclude payments related to derivatives, which is a big source of income for financial institutions. Multinational companies that have accumulated their profits in tax havens would pay a reduced tax rate on repatriated earnings. Technology companies, which have approximately USD 3.1tn in overseas earnings, could bring those earnings home at rates of 7.5% to 14.5% – well below the present 35 tax rate. The US Senate also introduced provisions to encourage firms to invest more in US businesses and pursue opportunities in domestic markets. Retail sales could improve as personal tax deductions give individuals more disposable incomes potentially leading to greater retail spending. (Bloomberg)

**ICO regulation inconsistent as cryptocurrency bubble fears grow** (FT)

**Big US banks in last-ditch push on regulatory relief bill** (Channel NewsAsia)

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