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Research Update:

Cyfrowy Polsat And Subsidiary Metelem 'BB' Ratings Placed On CreditWatch Positive On Possible Debt Refinancing

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Overview

- Cyfrowy Polsat S.A. plans to fully refinance its debt with a Polish zloty (PLN) 13 billion bank loan and Polish bonds to reduce currency risk, lower the cost of debt, and remove distribution restrictions from Metelem Holding Company Ltd., which Cyfrowy Polsat acquired in May 2014.
- Metelem is now successfully integrated into Cyfrowy Polsat, and we consider it a core subsidiary of the group.
- We are therefore placing the 'BB' ratings on Cyfrowy Polsat and on Metelem on CreditWatch positive.
- We will resolve the CreditWatch when the group finalizes the refinancing, which we expect will occur in the next three months.

Rating Action

On April 30, 2015, Standard & Poor's Ratings Services placed on CreditWatch with positive implications its 'BB' long-term corporate credit rating on Polish media group Cyfrowy Polsat S.A. and its 'BB' long-term corporate credit rating on Poland-based wireless telecommunications company Metelem Holding Company Ltd. (Metelem).

We also placed on CreditWatch positive our 'BB' issue rating on Cyfrowy Polsat's Polish zloty (PLN) 2.5 billion term loan and PLN500 million senior secured revolving credit facility (RCF), as well as our 'B+' issue rating on the €542.5 million and US\$500 million high yield bonds issued by Eileme 2, Metelem's financing vehicle.

At the same time, we are withdrawing our 'BB' issue rating on the €350 senior secured notes issued by Cyfrowy Polsat Finance AB, because the notes were repaid.

Rationale

Our decision to place the ratings on Cyfrowy Polsat on CreditWatch positive reflects our expectations that the contemplated refinancing of the group's existing debt would provide Cyfrowy Polsat with several benefits, including:

- Access to Metelem's cash flows (removing the restrictions imposed by the existing debt documentation);
- Reduction and/or removal of currency risk, because the PLN13 billion bank

- loan or domestic bonds will replace the group's existing debt partly denominated in euros and U.S. dollars; and
- Lower cost of debt, likely to strengthen Cyfrowy Polsat's credit metrics.

The CreditWatch positive placement of the ratings on Metelem reflects our assessment of Metelem as a "core" subsidiary of its parent, Cyfrowy Polsat, which acquired the telecoms company in May 2014. In our view, the planned refinancing of Metelem's debt by Cyfrowy Polsat further reaffirms our view of Metelem as a "core" group entity. As per our criteria for rating groups, we equalize the corporate credit rating on a "core" subsidiary with the group credit profile of the parent. Additionally, because the new debt will be issued by Cyfrowy Polsat, jointly with Polkomtel, the operating subsidiary of Metelem, we anticipate that Metelem's capital structure, on a stand-alone basis, will improve after the contemplated refinancing.

In our opinion, Cyfrowy Polsat's "satisfactory" business risk profile remains supported by the group's diversity and scale, which materially increased after the Metelem acquisition, as a result of combining Poland's largest direct-to-home pay-TV, free-to-air broadcaster, and mobile telecoms operators. Operations in these two segments contributed roughly one-third and two-thirds, respectively, to the group's Standard & Poor's-adjusted EBITDA pro forma the acquisition, which amounted to about PLN4.1 billion in 2014.

We note that the group benefits from Poland's largest, and Europe's fourth-largest, satellite platform and the biggest long-term evolution (LTE or 4G) network coverage of 90% of Poland's population. After consolidating Metelem's operations, the Cyfrowy Polsat group becomes the leader in the pay-TV market, the contract segment of the mobile market, and the TV market in Poland. Furthermore, the group implements a multiplay strategy, which we anticipate will be successful in rural areas, where there is limited availability of cable and fixed broadband, supporting above-average profitability, with an adjusted EBITDA margin (pro forma the acquisition) of 42.6% in 2014.

That said, our assessment of Cyfrowy Polsat's business risk profile remains constrained by the concentration of the group's operations in a single country, Poland, and by pronounced competition, notably in the mobile market, which, in our view, would result in continued price pressure.

Cyfrowy Polsat's "significant" financial risk profile, as our criteria define the terms, continues to reflect our view that the group had sizable debt of PLN13.9 billion at year-end 2014 (Standard & Poor's adjusted), which translates into adjusted debt to EBITDA of 3.4x.

As most of the debt is currently located at Metelem (total adjusted debt was PLN11.2 billion, translating into adjusted debt to EBITDA of 3.9x, at year-end 2014), we continue to assess Metelem's financial risk profile as "aggressive," primarily reflecting its still meaningful debt burden and high interest on its unsecured debt.

Under our base-case scenario for the Cyfrowy Polsat group (excluding the contemplated refinancing), we assume:

- GDP growth in Poland of 3.0% in 2015 and 3.3% in 2016;
- About PLN3.2 billion revenues from Cyfrowy Polsat's retail and TV broadcasting segments;
- A 1%-2% revenue decline for Polkomtel in 2015-2016; and
- Cost synergies supporting Cyfrowy Polsat's adjusted EBITDA margin at approximately 43% in 2015-2016.

Based on these assumptions, we arrive at the following credit measures:

- Adjusted free operating cash flow to debt of about 12%-13% in 2015, up from 7.2% in 2014, and greater than 15% in 2016.
- An adjusted debt-to-EBITDA ratio of about 3.2x in 2015, down from about 3.4x in 2014, and improving to 2.8x in 2016.

We currently view negatively the high currency risk and distribution restrictions in Metelem's debt documentation. Consequently, we continue to apply a one-notch negative adjustment to the 'bb+' anchor for Cyfrowy Polsat to account for our comparable rating analysis.

CreditWatch

We intend to resolve the CreditWatch placements on Cyfrowy Polsat and Metelem when the entities finalize the refinancing, which we expect them to do over the next three months.

We could raise all the ratings by one notch if dividend restrictions at the Metelem level are eliminated and we observe less currency risk.

Ratings Score Snapshot

Cyfrowy Polsat S.A.

Corporate Credit Rating: BB/Watch Pos/--

Business risk: Satisfactory

- Country risk: Moderately High
- Industry risk: Intermediate
- Competitive position: Satisfactory

Financial risk: Significant

- Cash flow/Leverage: Significant

Anchor: bb+

Modifiers

- Diversification/portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Financial policy: Neutral (no impact)
- Management and governance: satisfactory (no impact)
- Comparable rating analysis: Negative (-1 notch)

Metelem Holding Company Ltd.

Corporate Credit Rating: BB/Watch Pos/--

Business risk: Satisfactory

- Country risk: Moderately High
- Industry risk: Intermediate
- Competitive position: Satisfactory

Financial risk: Aggressive

- Cash flow/Leverage: Aggressive

Anchor: bb

Modifiers

- Diversification/portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Financial policy: Neutral (no impact)
- Management and governance: Satisfactory (no impact)
- Comparable rating analysis: Neutral (no impact)

Stand-alone credit profile: bb

- Group credit profile: bb
- Entity status within group: Core (equal to group credit profile)

Related Criteria And Research

- Key Credit Factors For The Telecommunications And Cable Industry, June 22, 2014
- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Corporate Methodology, Nov. 19, 2013
- Group Rating Methodology, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Methodology: Business Risk/Financial Risk Matrix Expanded, Sept. 18, 2012
- Use Of CreditWatch And Outlooks, Sept. 14, 2009

- 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

Ratings List

Ratings Affirmed; CreditWatch Action

	To	From
Cyfrowy Polsat S.A. Corporate Credit Rating	BB/Watch Pos/--	BB/Stable/--
Cyfrowy Polsat S.A. Senior Secured	BB/Watch Pos	BB
Metelem Holding Company Ltd. Eileme 2 AB Eileme 1 AB Corporate Credit Rating	BB/Watch Pos/--	BB/Stable/--
Eileme 2 AB Senior Unsecured	B+/Watch Pos	B+

Ratings Withdrawn

	To	From
Cyfrowy Polsat Finance AB Senior Secured	NR	BB

NR--Not rated.

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