

### Research Update:

## Polish Television Holding Assigned 'B-' Rating On Refinancing; Outlook Stable; Note Issue Rated 'B-'

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## Research Update:

# Polish Television Holding Assigned 'B-' Rating On Refinancing; Outlook Stable; Note Issue Rated 'B-'

## Overview

- Netherlands-based finance holding company Polish Television Holding B.V. (PTH) has launched a €260 million note issue to refinance its existing credit facility.
- We are assigning our 'B-' long-term corporate credit rating to PTH.
- We are also assigning our 'B-' issue rating to PTH's €260 million senior secured notes.
- The stable outlook reflects our view that PTH's liquidity will remain adequate over the next two years.

## Rating Action

On Nov. 12, 2010, Standard & Poor's Ratings Services assigned its 'B-' long-term corporate credit rating to Netherlands-based finance holding company Polish Television Holding B.V. (PTH). The outlook is stable.

At the same time, we assigned our 'B-' issue rating to the €260 million senior secured notes, due 2017, to be issued by PTH. We understand the notes will be used to refinance the company's existing €240 million senior secured facility and cover €10 million of transaction costs.

## Rationale

The rating on PTH mainly reflects our view of its credit exposure to its 51.7% owned subsidiary TVN S.A. (B+/Stable/--), the leading TV broadcaster in Poland and a company we consider to be highly leveraged. In our view, PTH's credit quality suffers from a lack of asset diversification and the absence of its own operations. The rating also takes into account the expected volatility of dividends from TVN, which represent PTH's main source of income to service its debt, as well as its limited capacity, in our view, to source additional debt or equity funding if needed.

We believe PTH's adequate liquidity profile and TVN's improving operations should support the ratings over the next few years. We expect the evolution of liquidity and financial flexibility at TVN and PTH to be the main rating driver.

PTH is a fully-owned finance subsidiary of International Trading and Investments Holding S.A. Luxembourg (ITI; not rated) and holds the bulk of

ITI's assets and debt. PTH owns approximately 52% of TVN, and ITI owns an additional 5%. We view the latter as a potential source of financial flexibility because ITI would still retain majority control of TVN, via PTH, if it decided to dispose of its 5% stake in TVN. The sale of this stake, however, would be contingent on market conditions and the liquidity of the TVN shares. Based on TVN's current market capitalization, we estimate the loan-to-value ratio to be a reasonable 30%. However, this is almost completely offset by the lack of diversification of PTH's asset portfolio, in our view.

ITI's other assets consist mainly of 86% ownership of Multikino, a cinema operator in Poland that has approximately €40 million of debt with no recourse to PTH or TVN. We do not see significant embedded value from these assets, which confirms our view that PTH's main source of financial flexibility is its TVN shares--in particular, those in excess of the 50% ownership threshold.

The collateral for the €260 million notes will be PTH's 51.7% stake in TVN and €40 million of 10.75% TVN notes that PTH received from TVN as part of the consideration paid for TVN's acquisition of "n", a Polish pay-TV operator, from ITI. We understand that the €40 million TVN notes can be sold to cover any shortfall in interest payments during the term of the financing. The security package excludes the 5% stake in TVN and €48 million of 10.75% TVN shares that ITI holds directly.

PTH's primary source of income will be dividends paid by TVN and the interest paid on the €40 million TVN notes. The current structure also includes an initial €12 million of cash that will be held in an escrow account and used to fund interest payments, if needed, and a moderate amount of operating expenses. We anticipate a higher risk of a shortfall in dividends in the early years of the financing. However, we currently regard PTH's liquidity as adequate, supported by the €12 million escrow account and the €40 million 10.75% TVN notes.

## **Liquidity**

We view PTH's liquidity as adequate for the time being, although we see some risks beyond 2012. The company primarily relies on dividends from TVN and on the interest income from the €40 million TVN notes. We anticipate that in 2011 TVN's dividend pay-out is likely to remain at the low end of the 30%-50% range allowed under TVN's bond documentation. This is because TVN would likely need to fund n's capital expenditure until the pay-TV platform starts producing positive cash flows. However, we view the €12 million escrow account and the €40 million TVN notes as supportive of PTH's liquidity and sufficient to cover a potential shortfall in dividend payments over the next two years.

Furthermore, if TVN's liquidity or cash flow generation should come under pressure, with negative implications for PTH's dividend income and liquidity profile, we anticipate that ITI would support its subsidiary through the sale of the remaining €48 million TVN notes or possibly the 5% stake in TVN that is not included in the security package.

## Recovery analysis

The €260 million notes are rated 'B-', the same level as the corporate credit rating. The issue rating reflects the senior secured status of the notes and the absence of debt with a higher priority.

## Outlook

The stable outlook primarily reflects our view that PTH's liquidity will remain adequate over the next two years. We anticipate that the company's subsidiary TVN will remain cash-generative and continue to upstream dividends. We expect TVN's dividend pay-outs to remain at the low end of the 30%-50% range in 2011, given n's funding needs, and increase thereafter. The outlook also takes into account the likely use of the escrowed cash and the TVN notes collateral in the first few years after the €260 million notes are issued.

A deterioration of TVN's operating performance and cash flow generation, resulting in a reduction in dividends to PTH, would likely trigger a negative rating action on PTH. Generally, we would expect a negative rating action on TVN to have direct negative consequences for our ratings on PTH.

We consider a positive rating action unlikely over the next 12 months, given our view of PTH's limited financial flexibility.

## Related Criteria And Research

- Key Credit Factors: Methodology And Assumptions On Risks In The Advertising Industry, Aug. 18, 2009
- Criteria Methodology: Business Risk/Financial Risk Matrix Expanded, May 27, 2009
- Principles Of Corporate And Government Ratings, June 26, 2007
- Corporate Criteria: Notching for Structural Subordination, March 28, 2001

## Ratings List

New Rating; CreditWatch/Outlook Action

Polish Television Holding B.V.

Corporate Credit Rating

B-/Stable/--

Senior Secured Debt

B-

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