STANDARD
& POOR'S
RATINGS SERVICES

RatingsDirect®

Summary:

# Swisscom AG

**Primary Credit Analyst:**
Xavier Buffon, Paris (33) 1-4420-6675; xavier_buffon@standardandpoors.com

**Secondary Contact:**
Matthias J Raab, CFA, Frankfurt (49) 69-33-999-122; matthias_raab@standardandpoors.com

## Table Of Contents

Rationale

Outlook

Related Criteria And Research

# Summary:
# Swisscom AG

| **Credit Rating:** | A/Stable/-- |
| --- | --- |

## Rationale

The ratings on telecommunications operator Swisscom AG reflect Standard & Poor's Ratings Services' assessment of the group's "strong" business risk profile and "intermediate" financial risk profile.

The group's business risk profile is primarily underpinned by its very solid domestic position as the leading integrated provider of telecommunications services in Switzerland, as well as high margins and stable free operating cash flow (FOCF) generation. However, the position and operating performance of Italian subsidiary Fastweb are relatively weak, and Swisscom's growth prospects are limited in its highly penetrated home market.

Our assessment of the group's financial risk profile is a rating constraint. Although Swisscom's financial policy is conservative, its shareholder distribution policy is somewhat inflexible in our view. Plus since 2010, the pension deficit has been putting increasingly more weight on our adjusted credit metrics for the company.

We factor into the long-term rating on Swisscom one notch of uplift from our 'a-' assessment of its stand-alone credit profile (SACP), according to our criteria for government-related entities. This factors in our view of a "moderate" likelihood of timely and sufficient extraordinary support from the Swiss government (Swiss Confederation, unsolicited AAA/Stable/A-1+) in case of financial distress.

### S&P base-case operating scenario

In our base-case assessment, we anticipate that Swisscom's revenue will contract in 2012 and 2013 at an annual low single-digit rate. We believe that prices will continue to erode in the Swiss market, and will likely slip further at Fastweb because of the depressed Italian economy and competitive pricing. Increased commoditization of voice products and the proliferation of flat-rate bundled services will likely accentuate price pressures. However, the increased take-up of TV products in the fixed-line business and soaring mobile data traffic should provide some relief.

We anticipate that overall EBITDA will decline at an annual low single-digit rate in 2012 and 2013. Although we see some slight margin erosion, we think that Swisscom will continue to leverage its strong domestic position and scale so that it can maintain its industry-leading domestic EBITDA margin close to the middle of the 40%-50% range, even factoring in dilution from the less profitable Fastweb business.

Our base case does not factor in the potential effects of euro fluctuations against the Swiss franc, which are difficult to predict. But we note that further depreciation of the euro against Swiss franc could reduce overall revenues and EBITDA. In the first half 2012, an improved EBITDA margin cushioned the negative currency impact.

### S&P base-case cash flow and capital-structure scenario

We believe that Swisscom will generate robust free cash flow at close to 15% of revenue excluding outlays for spectrum. That said, we think fixed outlays will be large at close to 20% of revenues. That's because of the group's strategic focus on maintaining the superiority of its network to cater to quality-sensitive customers and tackle increasing mobile data traffic. In addition, free cash flow will take a one-time hit from the Swiss franc (CHF) 360 million cost of buying spectrum this year.

Our adjusted debt-to-EBITDA ratio for Swisscom in 2012 and 2013 will likely stand at or close to the 2.5x maximum guideline we consider adequate for the rating. This compares with 2.4x at year-end 2011, itself somewhat higher than in 2010, depressed by a large pension deficit charge under International Financial Reporting Standards (IFRS) on the back of lower discounting rates.

Overall, we anticipate that Swisscom will generate only modest discretionary cash flow in 2012 because of one-off spending to acquire spectrum, which will then rebound in 2013. This should enable Swisscom to wind down absolute debt this year, and to a greater extent after that, and reconstitute some headroom within its rating category.

### Liquidity

We assess Swisscom's liquidity as "strong" under our criteria. We believe the group will more than cover its needs for the coming years, even in the event of a sharp, unexpected decline in EBITDA. We anticipate liquidity sources will exceed funding needs by more than 1.5x in the next 12 months and by more than 1.0x in the next 24 months.

In addition, we think management has and will keep a strong track record of proactive refinancing.

We estimate Swisscom's liquidity sources over the next 12 months from June 30, 2012, at about CHF6 billion. These mainly include:

- Consistent and robust funds from operations (FFO) of CHF3.5 billion-4 billion;
- CHF2 billion of undrawn committed facilities; and
- Approximately CHF200 million in surplus cash and short- term investments.

We estimate Swisscom's liquidity needs over the same period to be at close to CHF4 billion, including:

- More than CHF2.2 billion of capital expenditures;
- Annual cash dividends of CHF1.1 billion; and
- More than CHF600 million of debt maturities.

## Outlook

The stable outlook reflects our view that Swisscom will continue to successfully defend its core domestic market positions, maintain solid operating margins, and generate robust FOCF. We also anticipate that the group will maintain adjusted debt to EBITDA not higher than 2.5x and an adjusted ratio of FFO to debt in the 35%-40% range. In addition, we believe that the Swiss government will retain its majority ownership of Swisscom over the next few years.

We could consider lowering the ratings if Swisscom's credit metrics deteriorated more than we currently expect this year and with no convincing prospects for improvement thereafter. This could happen if operating measures or

domestic competitive positions were to weaken materially, or, which seems less likely, if management were to adopt a more aggressive financial policy.

Rating upside seems remote at this stage. It would depend on Swisscom's net debt-to-EBITDA ratio improving to about 2x on a Standard & Poor's-adjusted basis, which would likely require a very conservative financial policy to compensate for the large pension-related adjustments to our debt figures.

## Related Criteria And Research

- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011
- Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010
- Criteria Methodology: Business Risk/Financial Risk Matrix Expanded, May 27, 2009

**Additional Contact:**
Industrial Ratings Europe; CorporateFinanceEurope@standardandpoors.com

Copyright © 2012 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

McGRAW-HILL