

Distressed Credit Research: Altice France
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Content: Capital Structure, Cash Flow, Q2 2023 Call

Introduction

This note provides an introductory overview of Altice France's capital structure and cash flow. It highlights potentially material issues relating to the RCF and term loan covenants. Please see the group capital structure diagram and cash flow table at the end of this note.

The Altice France Holding S.A. group "Altice France" has €24.2 billion of outstanding debt with significant maturities coming due starting in 2025. The weighted average YTM on the company's secured notes is currently 12.3%, with a spread of 14.3% to 7.3% on the different issues. The unsecured notes are trading at a weighted average YTM of 32.5%.

Altice France's net debt to EBITDA ratio is currently 6.3x. The concern regarding the company is that, at current market interest rates, it won't be able to refinance its debt. Recently results have deteriorated, with EBITDA falling more than 5% on a quarterly basis in Q1 and Q2 2023.

In the company's Q2 conference call on Aug. 8, Altice owner Patrick Drahi emphasized there were sources of value available to the group to reduce debt. Those sources include, in the short term, selling assets such as datacentres. In the longer term, management pointed to its 50.01% stake in telecoms and infrastructure concern XpFibre and undefined equity options from third parties or an equity injection by Patrick Drahi.

The group guided that it expects to reduce leverage by 1x EBITDA over the next 12 months, which translates into a debt reduction of approximately €4 billion, and indicated it would focus on the near-term 2025 (€1.6 billion) and 2026 (€1.3 billion) maturities. The ability to reduce debt by €4 billion would be based on a combination of the value raised from asset sales, and the fact the firm expects to buy the debt at a discount, given current market prices.

The 2025 and 2026 maturities are secured, so they're not as discounted as the unsecured debt. Also, the early maturities are the least discounted. For example, the 2025 notes are trading at around 94. It's not clear to what extent the debt reduction would affect the Altice leverage ratio given there would presumably be a corresponding reduction in EBITDA due to the sale of the datacentres.

There was a marked increase in Altice bond prices across the board from the closing price on Aug. 4 to Aug. 8, when the Q2 results were released. The weighted average price of the unsecured notes increased from 41 to 45, and the secured notes increased from 74 to 76. Since then, the unsecured notes have continued to trade up, hitting 48.5 on Aug 15.

As well as possible sources of value discussed above, the maturity profile of the group's debt and access to its revolving credit facilities are also highly material to its liquidity status. The RCF and Debt maturity sections in this note highlight certain ambiguities in the information that is publicly available, which may be material. The impact of the apparent potential non-compliance with the RCF's financial covenant ratio is also reviewed.

Altice France Holding operates in the French Telecom and Media space, including the SFR, BFM and RMC brands. SFR is the number-two telecom operator in France, providing both fixed line fiber-optic cable and 5G mobile internet networks.

Cash flow

The cash flow table at the end of this note provides an overview of the recent cash flows of the Altice France group.

The most recent LTM Q2 2023 results reported revenue of €11.233 billion and operating cash flow of €1.701 billion (EBITDA of €3.990 billion after CAPEX of €2.289 billion). Free cash flow was €6 million after interest expense of €1.125 billion and other items. There were further significant cash outflows below free cash in the period.

On an LTM basis over the last two years, revenue has been largely stagnant and EBITDA has marginally declined. On a quarterly basis there has been a recent deterioration, with Q2 2023 revenue down by 2.6% and EBITDA down by 5.7%, following a 5.4% decline in Q1 2023.

Capital structure

The group capital structure diagram at the end of this note provides an overview of the Altice France Group capital structure.

The €19.5 billion secured debt (€11.9 billion of notes, €7.5 billion of term loans and a €100 million revolving credit) is issued at the Altice France S.A. level, while the €4.3 billion in unsecured notes are issued at the Altice France Holding S.A. level.

The secured debt (which includes the secured notes, term loans and RC debt) has the collective benefit of the collateral on a pari passu basis and is subject to an intercreditor agreement. The collateral includes pledges over the shares of material operating subsidiaries and their assets. This is according to the description of indebtedness section of the notice to investors dated Sept. 23, 2021.

The credit agreements impose various restrictions, subject to exceptions, on most of the group's operating subsidiaries to raise new debt, distribute cash, create liens over assets and other restrictions ("the restricted subsidiaries"). The exceptions to the restrictions include compliance with certain leverage ratios.

The context strongly suggests that the subsidiaries that are included in the Altice France Holding Restricted Group ("the restricted group") and for which Altice France provides financial results, including ratios, are the same restricted subsidiaries.

There is a degree of ambiguity regarding the capital structure due to lack of access to the actual credit documents and the need to rely on various summaries that may not represent the latest terms, and which are not comprehensive.

Debt incurrence covenants

The Q1 2023 Management's Discussion and Analysis "MD&A" reports that Altice France S.A. and its restricted subsidiaries are subject to a senior debt incurrence covenant of 4 to 1 (adjusted EBITDA to net debt) and a senior secured debt incurrence covenant of 3.25 to 1 (adjusted EBITDA to net senior secured debt).

The Q1 2023 MD&A reports that Altice France Holdings S.A. and its restricted subsidiaries are subject to a senior debt incurrence covenant of 5.25 to 1 (adjusted EBITDA to net debt) and a senior secured debt incurrence covenant of 3.25 to 1 (adjusted EBITDA to net senior secured debt).

The reported ratio of net debt to L2QA adjusted EBITDA at the Altice France S.A. level at Q2 2023 was 5.2x, while the debt at the Altice France S.A. level is all secured. The same net debt ratio at Altice France Holding was 6.3x.

Based on the above, it appears that Altice France is currently restricted under its covenants from raising new debt, assuming it was commercially possible. The above covenants have no impact on existing debt.

Financial covenants

The Q1 2023 MD&A reports that the only debt subject to ongoing financial ratios is the RCF.

The RCF

In the MD&A for Q1 2023 Altice France says that its principal source of liquidity is the operating cash flows of its subsidiaries and, if required, borrowings under its revolving credit facilities.

The summary on Altice France's Q2 2023 presentation slides highlights "€1.4 billion liquidity and no material debt maturity before 2025." The €1.4 billion liquidity is confirmed as including €1.1 billion of undrawn revolvers and €300 million of cash.

At Q2 2023 the RCF had €1.206 billion in total commitments, of which €120 million were drawn.

According to the description of indebtedness section of the notice to investors dated Sept. 23, 2021, the RCF is subject to a net senior secured leverage ratio of 4.5 to 1, which applies to Altice France S.A. and its restricted subsidiaries. The ratio is tested only when more than 40% of total commitments are drawn.

According to the MD&A report for Q3 2021, the RCF is subject to a net leverage ratio of 5.25 to 1, which applies to Altice France S.A. and its restricted subsidiaries. The ratio is tested only when more than 40% of total commitments are drawn. This ratio applies to all debt and not just secured debt, unlike the above ratio.

The Q1 2023 MD&A confirms that availability of borrowings under the RCF is subject to specified leverage ratios but does not say what they are.

The Altice France Holding Restricted Group reports its LTM net debt leverage ratio, and its secured net debt leverage ratio, quarterly. The most recently reported ratios for Q2 2023 were 6.3 and 5.2, respectively. The context suggests the ratio reported by the Restricted Group is the same as the ratio referred to in the notice to investors dated Sept. 23, 2021.

Based on the above it appears that the RCF leverage ratio would be breached if it was tested, and therefore it appears that only 40% of the RCF is available. However, the limited available information means this conclusion is not definitive.

On Jan. 31, 2023 the maturity of the RCF was extended to January 2028. The information made available regarding the extension does not address whether any amendments were made.

Amendments were made to the term loans, which were extended at the same time, and those amendments appear to have tightened lender protection. For example, one of the new covenants requires asset sale proceeds, including the shares of XpFibre, to be applied to deleverage, unless there's compliance with a 3.5x net secured leverage ratio.

This raises the possibility that the RCF could have been amended as part of the agreement to extend in a similarly restrictive manner to the term loans.

Altice France was asked to provide comment on the above points regarding the RCF ratio and if there were any amendments when the RCF was extended but has not done so.

Debt maturity

On Jan. 31, 2023 Altice France amended and extended €5.9 billion of its 2025 and 2026 term loans to August 2028 at the same time as it extended its RCF.

Altice's Q2 2023 presentation slides show its debt profile with the new maturity dates.

According to the lender presentation dated Jan. 19, 2023, the guarantors and security for the new term loans were due to remain the same as the old term loans. Changes were due to be made to covenants, however.

In the "summary of terms" the new covenants were due to include, "Springing maturity to any debt maturing prior to August 2028."

There appears to be no further information disclosed regarding the specific terms of the springing maturity covenant or how it's applied.

Altice France has significant maturities due before August 2028 including euro-equivalent €1.6 billion in 2025, €1.3 billion in 2026 and €5.4 billion in 2027. The 2027 maturities include €2.7 billion of unsecured senior notes which are effectively subordinated to the secured term loans.

The lack of detail in the application of the springing covenant and the existence of earlier maturities raises the possibility that material debt may come due earlier than expected. Altice was asked to comment on the springing covenant but has not done so.

Altice France Holding Restricted Group Results

Revolving Credit Facilities

	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021
Pro-Forma Drawn	120	0	138	325	465	190	0	381
Pro-Forma Undrawn	1086	1206	1068	881	741	1016	1206	825
Total Commitments	1206	1206	1206	1206	1206	1206	1206	1206

LTM Cash Flow

	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021
% Change	-0.7%	0.1%	-0.1%	0.8%	1.1%	0.3%	0.0%	
Revenue	11,233	11,307	11,300	11,314	11,223	11,101	11,070	11,067
% Change	-1.5%	-1.2%	0.0%	0.1%	0.0%	-0.8%	-2.3%	
EBITDA	3,990	4,052	4,101	4,100	4,096	4,094	4,127	4,226
CAPEX	(2,289)	(2,331)	(2,365)	(2,448)	(2,456)	(2,385)	(2,343)	(2,481)
Operating Cash Flow	1,701	1,721	1,736	1,652	1,640	1,709	1,784	1,745
Hivory OpFCF	0	0	0	20	64	94	118	98
Interest	(1,125)	(1,091)	(1,043)	(990)	(1,025)	(946)	(1,077)	(1,010)
Taxes	(133)	(105)	(100)	(67)	(74)	(64)	(74)	(92)
Changes in WC & Other	(437)	(418)	(352)	(436)	(330)	(298)	(423)	(137)
Free Cash Flow	6	107	241	179	275	495	328	604
Spectrum	(144)							
Restructuring, IRU & M&A	(273)							
Altice TV	(70)							
Other Financing & Other	(80)							
Change in net debt	(561)							

Quarterly Cash Flow

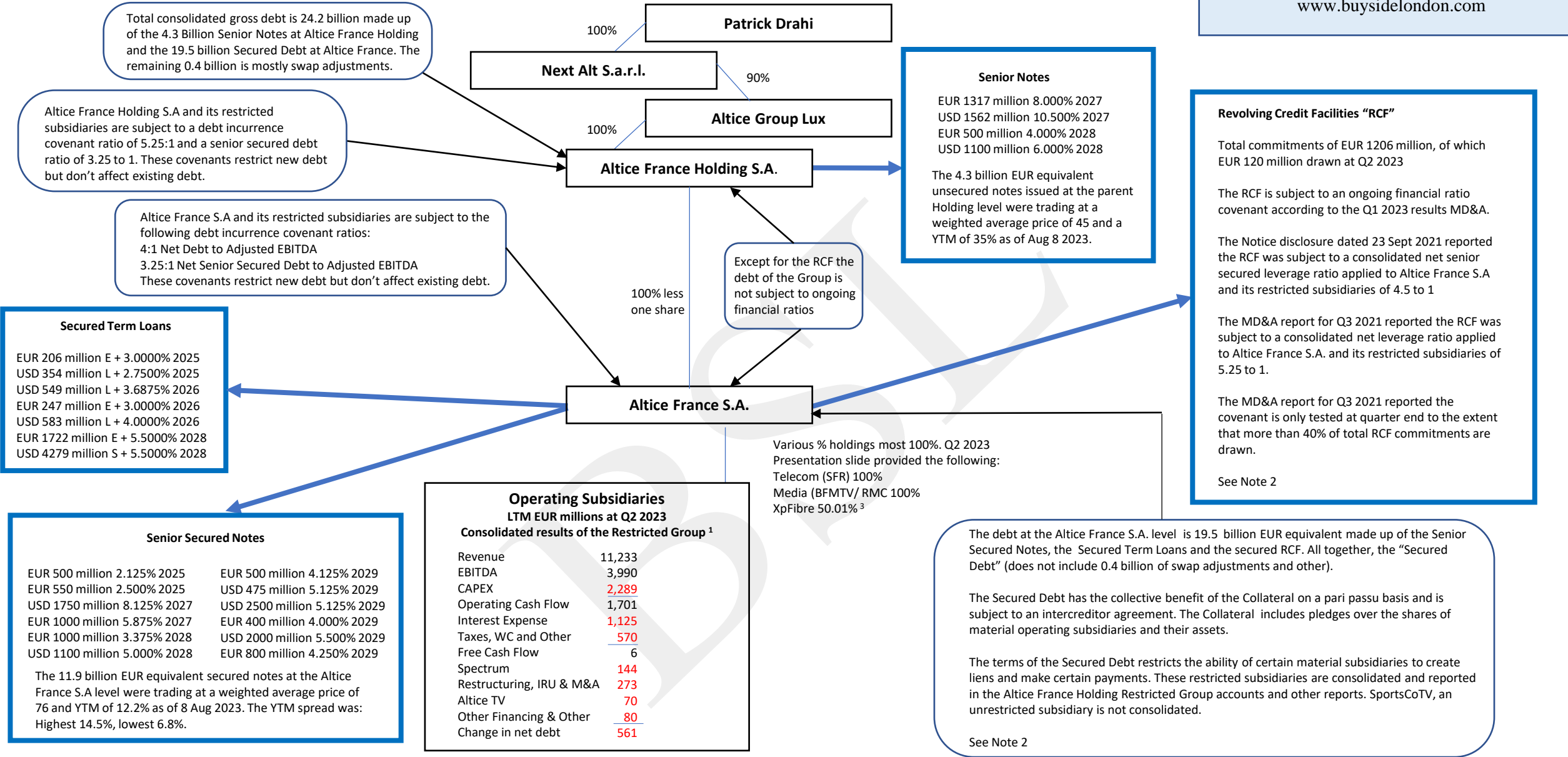
	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021	Q4 2020
% Change	-2.60%	0.26%	-0.48%	3.36%	4.48%	1.15%	0.10%				
Revenue	2,769	2,740	2,926	2,798	2,843	2,733	2,940	2,707	2,721	2,702	2,937
% Change	-5.7%	-5.4%	0.1%	0.4%	0.2%	-3.5%	-8.6%				
EBITDA	1,022	857	1,057	1,054	1,084	906	1,056	1,050	1,082	939	1,155
Accrued CAPEX	(552)	(589)	(592)	(556)	(594)	(623)	(675)	(564)	(523)	(581)	(813)
Operating Cash Flow	470	268	465	498	490	283	381	486	559	358	342
Hivory OpFCF	0	0	0	0	0	0	20	44	30	24	0
Interest	(351)	(245)	(314)	(215)	(317)	(197)	(261)	(250)	(238)	(328)	(194)
Taxes	(50)	(10)	(42)	(31)	(22)	(5)	(9)	(38)	(12)	(15)	(27)
Changes in WC & Other	(93)	(247)	78	(175)	(74)	(181)	(6)	(69)	(42)	(306)	280
Free Cash Flow	(24)	(234)	187	77	77	(100)	125	173	297	(267)	401
Spectrum	0	0	(144)	0							
Restructuring, IRU & M&A	(103)	(30)	(21)	(119)							
Altice TV	0	(70)	0	0							
Other Financing & Other	(145)	(108)	42	131							
Change in net debt	(272)	(442)	64	89							

Leverage Ratio

	Q2 2023	Q1 2023	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021	Q4 2020
Restricted Group Gross Debt	24,158	24,121	23,666	23,617	23,582	23,195	23,065	23,399	22,776	22,641	22,393
Cash	297	480	301	356	249	1	52	422	365	436	542
Restricted Group Total Net Debt	23,861	23,641	23,365	23,261	23,333	23,194	23,013	22,977	22,411	22,205	21,851
Restricted Group Secured Net Debt	19,670	19,450	19,183	19,080	19,135	18,900	18,721	18,059	18,059	17,919	17,569
L2QA EBITDA Pro-Forma	3,759	3,829	4,223	4,288	4,026	3,993	4,281	4,332	4,042	4,090	4,478
Restricted Group Total Net Debt leverage L2QA	6.3	6.2	5.5	5.4	5.8	5.8	5.4	5.3	5.5	5.4	4.9
Restricted Group Secured Net leverage L2QA	5.2	5.1	4.5	4.4	4.8	4.7	4.4	0.0	4.5	4.4	3.9

Source: Altice France Holding Restricted Group quarterly results presentation slides

Altice France Holding S.A. Restricted Group¹ Capital Structure at Q2 2023



Note 1: Altice France Holding S.A. and Altice France S.A and its consolidated entities excluding SportsCoTV are together the "Altice France Holding Restricted Group" or "Restricted Group". All operations are in the subsidiaries.

Note 2: The information is partially based on certain summaries of the credit terms and reporting structure some of which may not be up to date. Original up to date credit documentation not available. Due to the limitation of the information available, the description cannot definitively be said to be accurate, complete or up to date.

Note 3: Altice France's interest in XpFibre is consolidated using the Equity Method. The Notice disclosure dated 23 Sept 2021 included XpFibre Holding under the definition of "Unrestricted Subsidiary"