

Leveraged Finance:

How A Jurisdictional Migration Affected Recoveries For WIND Hellas' Lenders: This May Not Be The End Of The Story

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Standard & Poor's Ratings Services' recovery ratings are opinions of the estimated recovery potential for a debt obligation following default. We analyze the factors that we believe are most likely to cause a default in arriving at an estimate of the value remaining for creditors. An important factor in our analysis is the location of the obligor's insolvency proceedings, as different insolvency regimes may lead to different creditor recoveries.

Under EU law, the obligor's center of main interests, or COMI, is essential to establishing which court has primary jurisdiction over a European debtor's insolvency proceedings. However, the location of the COMI is seldom clear and the ability of an obligor to migrate its COMI to a more advantageous jurisdiction has caused much litigation.

The 2009 default by WIND Hellas Telecommunications S.A. (CCC+/Stable/--) illustrates how a COMI migration to the U.K. could benefit senior creditors at the expense of junior creditors. However, if a company's insolvency proceedings do not alleviate its poor credit fundamentals, there may be more pain to come for creditors that were spared the first time.

WIND Hellas' Subordinated Notes Were Written Off Following Prepackaged Administration

WIND Hellas has had to deal with what we view as an overleveraged capital structure since its leveraged buyout in 2006. This, combined with rising operational challenges over the last two years, led to a progressive deterioration of its credit quality. Companies in the WIND Hellas group issued €1,122 million of senior secured notes, €355 million of senior subordinated notes, and approximately €1,400 million of subordinated notes (including payment-in-kind {PIK} notes).

From the May 2009 rating of 'B-', Standard & Poor's lowered the rating on WIND Hellas to 'CCC' in June 2009 and then to 'CC' in September 2009.

In August 2009, the group's holding company, Hellas II, engaged in a series of operations that resulted in its COMI moving from Luxembourg to the U.K. In November 2009, WIND Hellas defaulted on the €1,400 million subordinated notes and announced its intention to restructure through a scheme of arrangement in the U.K. As a result of a prepackaged administration proceeding in the U.K., existing shareholders injected €116 million of additional equity and maintained their commitment to fully repay lenders of the €1,122 million senior secured notes and the €355 million senior subordinated notes. These notes remain outstanding. However, when the restructured WIND Hellas emerged from insolvency, its €1,400 million subordinated notes were effectively written off. Standard & Poor's had issued a recovery rating of '6' on the subordinated notes (expected recovery of 0%-10%), an opinion borne out by events (see table 1).

Table 1

Standard & Poor's Recovery Expectations Versus Actual Recoveries							
Issuer	Debt type	Debt amount	Default date	S&P recovery expectations	Recovery rating before default	Actual recovery to investors	Assessment method
Hellas Telecommunications (Luxembourg) V	Senior secured	€1,122 mil.	Kept current	50%-70%	3	100%¶	Remains in place post restructuring
Hellas Telecommunications (Luxembourg) III	Senior subordinated	€355 mil.	Kept current	0%-10%	6	100%§	Remains in place post restructuring
Hellas Telecommunications (Luxembourg) II	Subordinated	\$275 mil.	Nov. 16, 2009	0%-10%	6	0%	Write-off through scheme of arrangement
Hellas Telecommunications (Luxembourg) II	Subordinated	€960 mil.	Nov. 16, 2009	0%-10%	6	0%	Write-off through scheme of arrangement
Hellas Telecommunications Finance SARL	Subordinated	€200 mil.*	Nov. 16, 2009	0%-10%	6	0%	Write-off through scheme of arrangement

*€200 million payment-in-kind notes do not include accrued interest. ¶€1,122 million senior secured debt reportedly did not default. It reportedly remains outstanding and our recovery rating was unchanged following the restructuring. §€355 million subordinated debt reportedly did not default. It reportedly remains outstanding and our recovery rating was unchanged following the restructuring.

Our Recovery Ratings On WIND Hellas Reflected The Greek COMI

We arrived at our original recovery ratings of '3' (expected recovery of 50%-70%) on the senior secured notes and '6' (expected recovery of 0%-10%) on the senior subordinated notes on the assumption that WIND Hellas would institute insolvency proceedings in Greece, a jurisdiction we view as relatively unfavorable for creditors in terms of timing, amount ultimately recovered, and overall predictability of result. Following the restructuring, we have maintained the respective recovery ratings, reflecting their numerical coverage under our revised simulated default scenario.

Methodology For Calculating Recovery Ratings On WIND Hellas

In our recovery analysis, we had valued WIND Hellas as a going concern. Given the relatively favorable market structure in Greece (which has only three mobile providers), and WIND Hellas' good market position, established network assets, and valuable customer base, we believed that a default would most likely result from excessive indebtedness following operational underperformance. We assumed that pricing and operating difficulties for WIND Hellas' fixed-line asset, Tellas, and weaker customer usage, combined with significant cuts in mobile termination rates in the core mobile business as the market matures, would lead to falling revenues and profits. At the assumed point of default, we projected that WIND Hellas' EBITDA would have declined to about €310 million. We estimated its stressed enterprise value at the point of default to be approximately €1.7 billion by considering valuations derived from both a multiple of default EBITDA and a net present value of expected future cash flows. This turned out to be broadly correct (see table 2).

Table 2

Standard & Poor's Recovery Assumptions And Actual Restructuring Outcome		
	Recovery assumptions	Actual restructuring (November 2009)
Year of default	2010	2009
EBITDA in year of default	€310 mil.	~€320 mil.*
Stressed enterprise value	€1.7 bil.	€1.727 mil. plus new equity contribution†
Implied multiple (x)	5.6	5.8§

*Standard & Poor's projection. †New equity contribution was €116 million. §Including the new equity contribution.

Despite higher numerical coverage than the 50%-70% for a '3' recovery rating, recovery prospects for WIND Hellas' €1,122 million senior secured notes reflected our assumption of the insolvency being administered in Greece (see table 3). With regard to the €355 million senior subordinated notes, numerical coverage was 0%-10%, although the small size of this tranche in relation to the senior secured notes and the stressed valuation could support better recovery. The €1,400 million subordinated notes and WIND Hellas' PIK notes had a recovery rating of '6'.

Table 3

Standard & Poor's Waterfall Assumptions	
Stressed enterprise value	€1,700 mil.
Priority debt (mainly enforcement costs)	€173 mil.
Super-priority debt (RCF; including prepetition interest)	€259 mil.
Net enterprise value	€1,268 mil.
Secured debt (including prepetition interest)	€1,280 mil.
Numerical coverage of secured debt	99%
Remaining net enterprise value	Nil
Senior subordinated debt (including prepetition interest)	€370 mil.
Numerical coverage of senior subordinated debt	0%
Subordinated debt (excluding PIK notes; including prepetition interest)	€1,199 mil.
Numerical coverage of subordinated debt	0%
Numerical coverage of PIK notes	0%

RCF--Revolving credit facility. PIK--Payment-in kind.

Despite Emerging From Insolvency, WIND Hellas Remains Highly Leveraged With Weak Liquidity In A Tough Environment

Following WIND Hellas' restructuring, we assigned it a 'CCC+' corporate credit rating reflecting our view of its high leverage and constrained operating prospects. Given these factors, as well as its weak liquidity and difficult operating environment with exposure to the depressed Greek economy, our revised hypothetical default scenario assumes a payment default by WIND Hellas in 2011, where we project a further steep decline in EBITDA to about €240 million.

At that point we estimate a stressed enterprise value of about €1.26 billion for WIND Hellas. As a result, we estimate that numerical coverage for the senior secured notes is now only slightly above the 70% threshold (while

numerical coverage for the subordinated notes remains 0%-10%). Although the holding company moved its COMI to the U.K. in the restructuring process, our current recovery ratings still reflect the location of the assets and business in Greece, where WIND Hellas is domiciled and operates. We therefore believe that the upside potential on the senior debt resulting from different COMI assumptions is limited. As a result, we are maintaining our existing recovery ratings of '3' on WIND Hellas' outstanding senior secured notes and '6' on its senior subordinated notes.

Restructurings At WIND Hellas May Not Be Over Yet

While the COMI migration to the U.K. and the prepackaged administration proceeding likely enabled WIND Hellas to speed up and reduce the cost of its insolvency procedures, it remains to be seen whether these techniques will secure its long-term viability. The €1,122 million senior secured notes and the €355 million senior subordinated notes mature in 2012-2013. Given WIND Hellas' highly leveraged capital structure and significant operating challenges, in our view the possibility of another medium-term debt restructuring cannot be ruled out. Moreover, failure to address operational issues could result in further value degradation and even lower ultimate recovery prospects.

Related Criteria And Research

- Criteria Guidelines For Recovery Ratings On Global Industrials Issuers' Speculative-Grade Debt, Aug. 10, 2009
- COMIs In EU Insolvency Proceedings And Their Bearing On Standard & Poor's Recovery Ratings, July 8, 2008

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