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## Research Update:

# Italy-Based SEAT Upgraded To 'CCC' On Completion Of Financial Restructuring; Placed On CreditWatch Positive

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## Research Update:

# Italy-Based SEAT Upgraded To 'CCC' On Completion Of Financial Restructuring; Placed On CreditWatch Positive

## Overview

- Italy-based classified directories publisher SEAT PagineGialle SpA (SEAT) has completed a financial restructuring following the equitization of €1,304 million of subordinated debt, the conversion of €65 million of subordinated debt into senior secured bonds, and the refinancing of its existing senior secured credit facilities.
- We are therefore raising our long-term corporate credit rating on SEAT to 'CCC' from 'D' (Default), and placing it on CreditWatch positive.
- We are also raising our issue rating on SEAT's senior secured notes to 'CCC+' from 'D', and placing it on CreditWatch positive.
- The CreditWatch placement on the corporate credit rating reflects the potential for an upgrade of up to two notches following our review of key elements of the restructuring. These include the new debt documentation, the group's financial policy and operating strategy, and its earnings and cash flow prospects.

## Rating Action

On Sept. 12, 2012, Standard & Poor's Ratings Services raised its long-term corporate credit rating on Italy-based classified directory publisher SEAT PagineGialle SpA (SEAT) to 'CCC' from 'D' (Default).

At the same time, we raised our issue rating on SEAT's €750 million senior secured notes to 'CCC+' from 'D'. The recovery rating on these notes is '2', indicating our expectation of substantial (70%-90%) recovery prospects in the event of a payment default.

In addition, we withdrew our 'D' issue and '2' recovery ratings on SEAT's senior secured credit facilities, including the term loan A, term loan B, and revolving credit facility (RCF).

Finally, we withdrew our 'D' issue and '5' recovery ratings on the €1.3 billion subordinated callable bonds issued by SEAT's affiliate Lighthouse International Co. S.A.

## **Rationale**

The upgrade reflects our understanding that SEAT has completed its financial restructuring under which the group has refinanced its existing senior secured credit facilities with €686 million of new senior secured credit facilities (including a new €90 million RCF). Following a merger into SEAT of Lighthouse International, SEAT has also undertaken a debt-to-equity swap on about €1.24 billion of the €1.3 billion subordinated bonds and accrued interest of approximately €69 million, in exchange for 88% of the group's voting shares. The remainder of the subordinated bonds has been converted into €65 million of new senior secured bonds (on the same terms and conditions as the existing €750 million senior secured bonds).

We could raise the corporate credit rating by up to two notches following our forthcoming review of information on SEAT's future earnings and cash flow generation capacity, and covenant structure. We will review the new debt documentation comprehensively and assess the group's financial policy, operating strategy, earnings, and cash flow prospects. We will also assess the effect these factors have on our assessment of the group's liquidity and financial and business risk profiles.

SEAT, like most of its peers, is facing a continued structural decline in the print directories sector as small and midsize business advertising expands across a greater number of online marketing channels. The recent financial restructuring has materially reduced SEAT's leverage and the cost of debt. However, the long-term viability of the group's new capital structure will mainly depend on its ability to turn its business round by stabilizing revenues and profitability.

## **Liquidity**

Before the restructuring, we assessed SEAT's liquidity profile as "weak" under our criteria. This primarily reflected management's decision to delay any payments due (both debt amortization and interest) until it had put new financing agreements in place. We will reassess SEAT's liquidity profile by the time of the CreditWatch resolution.

## **Recovery analysis**

The issue rating on SEAT's €750 million senior secured notes is 'CCC+'. The recovery rating on these notes is '2', indicating our expectation of substantial (70%-90%) recovery prospects in the event of a payment default.

We plan to review the issue and recovery ratings on the senior secured notes, as well as rate the new €686 million senior secured credit facilities and €65 million of additional senior secured bonds, by the time of the CreditWatch resolution. By this time, we will revise our path to hypothetical default and stressed valuation assumptions.

Following our review, we could equalize the issue ratings on the existing and new debt with the corporate credit rating on SEAT. SEAT's center of main interest is Italy, which we consider provides relatively weak protection for creditors. For the issue ratings to be one notch higher than the corporate credit rating in this jurisdiction, we require numerical coverage of more than 90%. However, we understand that in the new capital structure, all the outstanding debt instruments (approximately €1.5 billion) rank pari passu, with no subordinated debt cushion. This could lower numerical coverage and lead to a possible equalization of the issue ratings with the corporate credit rating on SEAT.

## CreditWatch

We aim to resolve the CreditWatch within the next month, on completion of our review of the key elements of SEAT's restructuring, such as the new debt documentation, the group's financial policy and operating strategy, and its earnings and cash flow prospects. We will also review the effect of these factors on our assessment of SEAT's business and financial risk profiles. We believe this review could lead to a possible upgrade of up to two notches.

## Related Criteria And Research

All articles listed below are available on RatingsDirect on the Global Credit Portal, unless otherwise stated.

- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011
- Criteria Guidelines For Recovery Ratings On Global Industrial Issuers' Speculative-Grade Debt, Aug. 10, 2009
- Criteria Methodology: Business Risk/Financial Risk Matrix Expanded, May 27, 2009
- 2008 Corporate Criteria: Analytical Methodology, April 15, 2008
- 2008 Corporate Criteria: Ratios And Adjustments, April 15, 2008

## Ratings List

Upgraded; CreditWatch/Outlook Action

	To	From
SEAT PagineGialle SpA Corporate Credit Rating	CCC/Watch Pos/--	D/--/--
SEAT PagineGialle SpA Senior Secured Debt Recovery Rating	CCC+/Watch Pos 2	D 2
Ratings Withdrawn	To	From
SEAT PagineGialle SpA		

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Senior Secured Debt	NR	D
Recovery Rating	NR	2
Lighthouse International Co. S.A.		
Subordinated Debt*	NR	D
Recovery Rating	NR	5

\*Guaranteed by SEAT PagineGialle SpA.

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