CHORUS

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STOCK EXCHANGE ANNOUNCEMENT

3 July 2018

Moody's updated credit opinion

Moody's Investors Services has released the attached updated credit opinion on Chorus. The long term rating remains unchanged at Baa2 (outlook stable).

It also notes that a transition to a regulated utility model could support a higher leverage profile within Chorus' Baa2 credit rating.

ENDS

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MOODY'S
INVESTORS SERVICE

CREDIT OPINION
3 July 2018

Update

Rate this Research

RATINGS

Chorus Limited

Domicile	New Zealand
Long Term Rating	Baa2
Type	LT Issuer Rating - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Chorus Limited

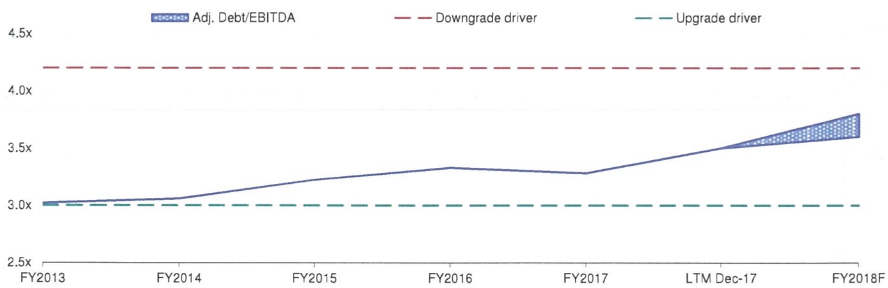
Update

Summary

Chorus Limited's (Chorus, Baa2 stable) credit profile benefits from: (1) its entrenched position in New Zealand's fixed-line access networks and crucial role in the roll-out of the ultra-fast broadband (UFB) network; (2) the support shown by Crown Infrastructure Partners (CIP) through its CIP securities issued to Chorus to partially fund the UFB roll-out, which is nationally important as it is a significant policy for the New Zealand government; and (3) its transition to a regulated utility model post 2020, which will improve the stability of its financial profile.

Chorus' credit profile is constrained by its extensive and protracted capital expenditure program, which results in negative free cash flow through the build-out process. Increasing competition from local fibre companies and mobile operators is also a risk, as is the uncertainty around the regulatory framework that will be implemented, and which assets will be included in its regulated asset base.

Exhibit 1
Leverage is increasing as expected with ongoing capital expenditure



Source: Moody's Investors Service

Credit Strengths

- Entrenched position in New Zealand's fixed-line access networks and crucial role in roll-out of ultra-fast broadband networks
- CIP Securities supportive of Chorus' leveraged capital structure
- Transition to regulated utility model will underpin stability in its financial profile

Credit Challenges

- Large, protracted capital expenditure program
- Awaiting finalization of the regulatory framework that will apply post 2020
- Increasing competition from local fibre companies and mobile operators

Rating Outlook

The stable outlook reflects Moody's view that Chorus' credit metrics will remain within the parameters expected for a Baa2 rating due to the conservative capital management and financial policies demonstrated to date.

Factors that Could Lead to an Upgrade

The rating could be upgraded if there is a sustained improvement in Chorus' financial profile as exhibited by debt/EBITDA dropping below 3.0x times.

Factors that Could Lead to a Downgrade

The rating could be downgraded if debt/EBITDA exceeds 4.2x. The rating could also be downgraded if there are indications of a reduction in CIP's support for Chorus. We see this as a low likelihood.

The transition to a regulated utility model post 2020 should allow the debt/EBITDA tolerance for the rating to be increased, with the level to be set once we have further clarity on the regulatory framework and portion of revenue to be regulated.

Key Indicators

Exhibit 2
Chorus Limited

US Millions	Jun-13	Jun-14	Jun-15	Jun-16	Jun-17	LTM Dec-17	Jun-18F
Revenue	869	879	782	674	741	718	680 to 690
FFO Margin %	48%	45%	45%	44%	46%	48%	41% to 43%
(EBITDA - CAPEX) / Interest Expen	-0.1x	-0.2x	0.1x	0.2x	0.1x	-0.4x	-0.8x to -1x
FCF / Debt	-17%	-6%	-9%	-8%	-7%	-14%	-9% to -11%
Debt / EBITDA	3.0x	3.1x	3.2x	3.3x	3.3x	3.5x	3.6x to 3.8x

All figures and ratios are calculated using Moody's estimates and standard adjustments. Moody's Forecasts (F) are Moody's opinion and do not represent the views of the issuer. Periods are Financial Year-End unless indicated. LTM = Last Twelve Months.
Source: Moody's Investors Service

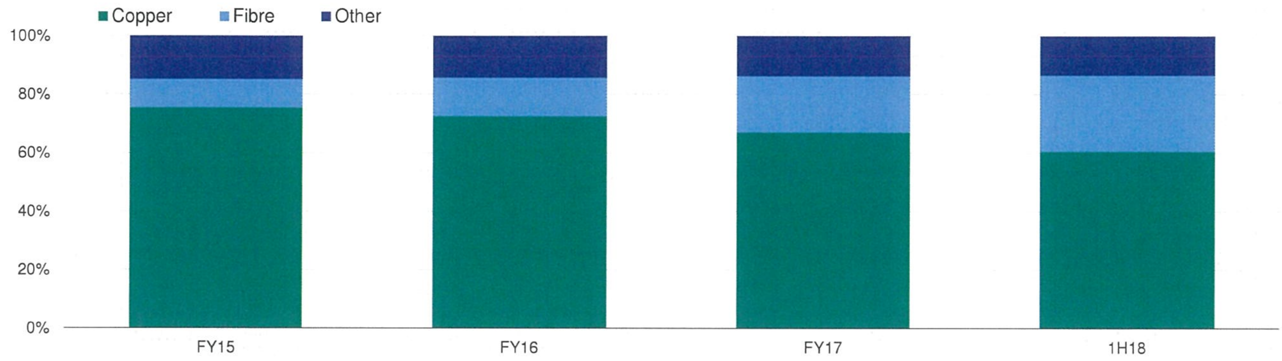
Profile

Chorus Limited ("Chorus") is a New Zealand Stock Exchange-listed telecommunications utility group. It owns copper and fibre optic fixed-line telecommunications networks in New Zealand, together with exchanges, roadside cabinets, and associated infrastructure. It is a wholesaler of access to these networks.

Chorus is building a fibre-to-the-premises network in New Zealand, aiming for completion by December 2019 for UFB1, and 2022 for UFB2. It was appointed by the government's Crown Infrastructure Partners to deliver the majority of its ultra-fast broadband ("UFB") commitment.

Exhibit 3

Revenue by segment



Source: Company reports

Detailed Credit Considerations

Entrenched position in New Zealand's fixed-line access networks and a crucial role in the roll-out of the ultra-fast broadband network

Chorus' rating reflects its entrenched position in New Zealand's fixed-line copper and fibre markets; and its strategic importance in the UFB initiative having won mandates for around 75% of the total UFB footprint.

In January 2017, Chorus reached an agreement with CIP to expand the UFB rollout, labeled as UFB2, to a further 9% of the population. In September 2017, UFB2+ was announced, adding a further 2% of the population. This will be completed by FY2022 .

We see the ongoing increases to Chorus' mandate as indicative of the strong and symbiotic relationship between Chorus and the New Zealand Government.

CIP securities supportive of chorus' leveraged capital structure

The government, via CIP issued CIP securities, will contribute up to NZD929 million to Chorus to finance the roll-out of the UFB1, split on a 50% debt : 50% equity basis, with the debt portion further split into senior and subordinated tranches. The structure of this funding is such that there is no interest payable at any time on the debt and no dividend payments before 2025 on the equity.

UFB2 is expected to be equity funded for the first 65% of the NZD189 million commitment, and thereafter debt funding will be used. For the UFB2+ rollout, the CIP funding will all be through equity up to NZD109 million which is expected to cover around 75% of the communal rollout cost. The UFB2 and UFB2+ equity securities will only attract a dividend from June 2030, at which time the debt starts to fall due. The percentage of equity that attracts a dividend, or debt that becomes due in 2030 is just 18.46%. It then steps up every three years until June 2036 when the full equity outstanding will be paying a dividend and the debt has been fully repaid.

We view this pre-committed long-term funding as evidence of the intended support by the New Zealand Government for the rollout, which in turn is supportive of Chorus' credit profile.

While regulatory uncertainty remains, the transition to a regulated utility model is credit positive

The New Zealand Commerce Commission is currently drafting a new telecommunications regulatory framework, with the amendment bill expected to pass in calendar 2018. Under the new framework, a utility-style building block methodology is expected to apply for fibre networks from 2020. Copper networks will remain regulated where fibre is not available, and deregulated where fibre is available.

Regulatory uncertainty remains at this stage as the Commerce Commission has yet to determine the applicable Regulated Asset Base and WACC. That determination will have a direct impact on the regulatory revenue cap relating to Chorus' fibre business.

Once the new framework is implemented, we expect that Chorus will display an utility-like revenue profile, with the majority of the company's revenue subject to regulation. This predictability and stability in revenue will support the company's credit profile, potentially enabling the company operate at higher leverage levels at its Baa2 rating. Any changes to the debt/EBITDA threshold will be set once we have further clarity on the regulatory framework and portion of revenue to be regulated.

Large, protracted capital expenditure program

Chorus has a substantial capital expenditure program, including the cost of maintaining the existing copper and fibre networks, building the UFB networks and connecting end users to fibre.

The CIP funding is on a fixed price per premise basis, paid after a premise is passed, and relates only to "communal capex". This is the cost of bringing fibre to the street where a premise is located.

Chorus bears the cost of connecting each actual premises which is then recovered over time via the access charges paid by retail service providers, and not via upfront payments.

We expect that planned capital expenditure for Chorus will exceed cash flow from operations for coming years, but this situation will be offset, to an extent, by the CIP funding received.

Increasing competition from local fibre companies and mobile operators

Chorus faces increasing competition from local fibre companies (LFC's) and expects its overall copper line connections to continue to decline. Mobile network operators are also offering wireless broadband as an alternative to fixed line, but the ongoing impact of this is likely to be limited given the higher cost of mobile data paired with the rise of video streaming which supports higher demand for data.

Liquidity Analysis

We regard Chorus' liquidity profile as adequate, given its cash flow generation and no debt maturities until April 2020 when the GBP260 million EMTN matures.

As at 31 December 2017 the committed syndicated bank facilities totaled NZD350 million, with NZD280 million being undrawn.

We expect Chorus to generate NZD450-500 million of operating cash flow over the next 12 months, together with available undrawn committed facilities of NZD280 million, cash balances of NZD40 million, and access to funding from CIP.

This should be more than adequate to cover the company's capital expenditure requirements over the coming 12 months of around NZD800 million.

Chorus' net debt/EBITDA financial covenant level included in its committed syndicated bank facilities is 4.75x.

Rating Methodology and Scorecard Factors

The principal methodology used in assigning Chorus' rating was the Communications Infrastructure Industry Methodology published in September 2017. The company's overall credit profile maps to the Ba1 rating when assessed in accordance with the methodology, which is two notches lower than its assigned rating of Baa2. The higher assigned rating recognizes the company's entrenched market position in New Zealand and the benefits provided by the CIP Securities.

Exhibit 4

Rating Factors

Chorus Limited

Communications Infrastructure Industry Grid [1]	Current LTM 12/31/2017		Moody's 12-18 Month Forward View As of 6/21/2018 [2]	
Factor 1 : Scale (10%)	**Measure**	**Score**	**Measure**	**Score**
a) Revenue (USD Billion)	$0.7	B	$0.7	B
Factor 2 : Business Profile (25%)				
a) Business Model	A	A	A	A
b) Competitive Environment and Business Conditions	A	A	A	A
Factor 3 : Profitability & Efficiency (20%)				
a) FFO Margin	47.9%	Ba	40% - 42%	Ba
Factor 4 : Leverage & Coverage (30%)				
a) (EBITDA - CAPEX) / Interest Expense	-0.4x	Ca	-0.4x - 0.7x	Ca
b) FCF / Debt	-14.0%	Ca	-3% - 6%	B
c) Debt / EBITDA	3.5x	Ba	3.8x - 4x	Ba
Factor 5 : Financial Policy (15%)				
a) Financial Policy	A	A	A	A
Rating:				
a) Indicated Outcome from Scorecard		Ba1		Ba1
b) Actual Rating Assigned				Baa2

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Investors Service, Moody's Financial Metrics

Ratings

Exhibit 5

Category	Moody's Rating
CHORUS LIMITED	
Outlook	Stable
Issuer Rating	Baa2
Senior Unsecured -Dom Curr	Baa2

Source: Moody's Investors Service

Appendix

Exhibit 6

Peer Comparison

Chorus Limited

	Chorus Limited Baa2 Stable			Ceska telekomunikacni infras Baa2 Stable			VECTOR Limited Baa1 Stable		
(in US millions)	FYE Jun-16	FYE Jun-17	LTM Dec-17	FYE Dec-15	FYE Dec-16	FYE Dec-17	FYE Jun-16	FYE Jun-17	LTM Dec-17
Revenue	$674	$741	$718	$777	$834	$901	$765	$874	$908
EBITDA	$406	$477	$470	$366	$371	$375	$359	$396	$391
Total Debt	$1,442	$1,607	$1,661	$1,332	$1,135	$1,167	$1,624	$1,607	$1,604
Cash & Cash Equivalents	$73	$124	$28	$26	$13	$38	$229	$11	$13
FFO Margin %	44.1%	45.7%	47.9%	41.0%	37.8%	35.7%	28.0%	24.8%	23.9%
(EBITDA - CapEx) / Interest Expe	0.2x	0.1x	-0.4x	14.1x	9.0x	9.9x	1.1x	1.4x	1.3x
FCF / Debt	-7.6%	-7.4%	-14.0%	11.8%	0.0%	11.9%	-8.6%	-11.0%	-10.6%
RCF / Debt	21.2%	19.6%	18.9%	23.6%	13.0%	29.1%	7.1%	6.5%	6.4%
DEBT / EBITDA	3.3x	3.3x	3.5x	3.7x	3.2x	2.8x	4.2x	4.0x	4.1x

All figures are calculated using Moody's estimates and standard adjustments.
Source: Moody's Financial Metrics

Exhibit 7

Moody's-Adjusted Debt Breakdown

Chorus Limited

(in US Millions)	FYE Jun-13	FYE Jun-14	FYE Jun-15	FYE Jun-16	FYE Jun-17	LTM Ending Dec-17
As Reported Debt	1,406	1,545	1,213	1,194	1,295	1,416
Operating Leases	17	20	17	25	39	38
Non-Standard Adjustments	152	208	111	223	274	207
Moody's-Adjusted Debt	1,575	1,774	1,340	1,442	1,607	1,661

All figures are calculated using Moody's estimates and standard adjustments.
Source: Moody's Financial Metrics

Exhibit 8

Moody's-Adjusted EBITDA Breakdown

Chorus Limited

(in US Millions)	FYE Jun-13	FYE Jun-14	FYE Jun-15	FYE Jun-16	FYE Jun-17	LTM Ending Dec-17
As Reported EBITDA	551	546	474	402	472	465
Operating Leases	4	4	4	5	5	5
Moody's-Adjusted EBITDA	555	550	478	406	477	470

All figures are calculated using Moody's estimates and standard adjustments.
Source: Moody's Financial Metrics

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CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

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