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Time Warner Inc. Ratings Affirmed And Removed From CreditWatch Positive Following Acquisition By AT&T, Outlook Stable

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U.S.-based AT&T Inc. has completed its acquisition of diversified media company Time Warner Inc. in a transaction valued at around $81 billion.
We now view Time Warner as a highly strategic subsidiary of AT&T so we are equalizing our ratings on Time Warner with our ratings on AT&T.
We are affirming all of our ratings on Time Warner, including our 'BBB/A-2' corporate credit rating, and are removing the ratings from CreditWatch, where we placed them with positive implications on Oct. 24, 2016.
The stable outlook reflects our expectation that while adjusted leverage for AT&T will decline, it will remain above 3.25x over the next couple of years, depending on AT&T's willingness to allocate excess cash flow toward debt repayment. We also expect relatively flat adjusted EBITDA growth for AT&T as secular industry declines and competitive pressures at AT&T offest solid EBITDA growth at Time Warner as well as potential cost synergies over the next couple of years. The stable outlook is also based on our expectation that Time Warner will continue to generate solid free operating cash flow (FOCF), which it will most likely upstream to AT&T.
In addition, based on historical behavior, we believe that AT&T will refinance Time Warner's upcoming debt maturities at the AT&T level such that leverage at Time Warner will remain in the 2.0x-2.5x area over the next two years.

CHICAGO (S&P Global Ratings) June 15, 2018--S&P Global Ratings today affirmed all of its ratings on New York-based diversified media company Time Warner Inc. and removed them from CreditWatch, where we placed them with positive implications on Oct. 24, 2016. Time Warner Inc. became Time Warner LLC as a result of the acquisition. The outlook is stable.

This action equalizes our rating on Time Warner with our rating on AT&T.

The affirmation is based on our expectation that AT&T will not guarantee any of Time Warner's existing debt. It also reflects our view that Time Warner is now a highly strategic subsidiary of AT&T, which does not provide any additional uplift to our stand-alone credit profile on Time Warner.

The stable outlook reflects our expectation that while adjusted leverage for AT&T will decline, it will remain above 3.25x over the next couple of years, depending on AT&T's willingness to allocate excess cash flow toward debt repayment. We also expect relatively flat adjusted EBITDA growth for AT&T as secular industry declines and competitive pressures at AT&T offset solid EBITDA growth at Time Warner as well as potential cost synergies over the next couple of years. We also expect stand-alone Time Warner to maintain leverage in the low-to-mid 2x area over the next two years while increasing its revenue and EBITDA by the low-to mid-single digit percent area.

We believe a downgrade is unlikely over the next couple of years. However, we could lower our ratings on Time Warner if AT&T's leverage increased above 3.75x with no prospects for improvement. We believe any downgrade scenario would occur because of poor management of the newly acquired assets, an acceleration in pay-TV subscriber losses, a deterioration in wireless operations, or another debt-financed acquisition or stock buyback. Additionally, we could lower our rating if Time Warner's stand-alone leverage increased above 3.25x on a sustained basis due to a weaker-than-expected operating performance or because AT&T added debt at Time Warner.

We believe an upgrade is unlikely over the next two years because it would require Time Warner to reduce its stand-alone leverage below 2x on a sustained basis. Because Time Warner's rating is limited by our rating on its parent, AT&T, an upgrade on our rating on Time Warner would also require an upgrade of our AT&T ratings. We could raise our AT&T rating if AT&T reduced leverage comfortably below 3.25x while maintaining a discretionary cash flow (DCF)-to-debt ratio above 5% on a sustained basis. An upgrade would also be contingent on AT&T maintaining a financial policy that kept leverage below 3.25x on a sustained basis while successfully executing on its strategy for Time Warner and improving operating trends in the wireless and pay-TV business segments.

RELATED CRITERIA

Criteria - Corporates - General: Reflecting Subordination Risk In Corporate Issue Ratings (/en_US/web/guest/article/-/view/sourceId/10486915), March 28, 2018
General Criteria: Methodology For Linking Long-Term And Short-Term Ratings (/en_US/web/guest/article/-/view/sourceId/10011703), April 7, 2017
Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers (/en_US/web/guest/article/-/view/sourceId/8956570), Dec. 16, 2014
Criteria - Corporates - Industrials: Key Credit Factors For The Media And Entertainment Industry (/en_US/web/guest/article/-/view/sourceId/8389927), Dec. 24, 2013
General Criteria: Group Rating Methodology (/en_US/web/guest/article/-/view/sourceId/8336067), Nov. 19, 2013
Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments (/en_US/web/guest/article/-/view/sourceId/8330212), Nov. 19, 2013
Criteria - Corporates - General: Corporate Methodology (/en_US/web/guest/article/-/view/sourceId/8314109), Nov. 19, 2013
General Criteria: Country Risk Assessment Methodology And Assumptions (/en_US/web/guest/article/-/view/sourceId/8313032), Nov. 19, 2013
General Criteria: Methodology: Industry Risk (/en_US/web/guest/article/-/view/sourceId/8304862), Nov. 19, 2013
General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers (/en_US/web/guest/article/-/view/sourceId/7629699), Nov. 13, 2012
General Criteria: Use Of CreditWatch And Outlooks (/en_US/web/guest/article/-/view/sourceId/5612636), Sept. 14, 2009

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express our view on rating relevant factors, have specific meanings ascribed
to them in our criteria, and should therefore be read in conjunction with such
criteria. Please see Ratings Criteria at www.standardandpoors.com for further
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