

## Research Update:

# Bahrain Telecommunications Outlook Revised To Stable From Positive In Line With Sovereign; 'B+/B' Ratings Affirmed

April 1, 2020

## Rating Action Overview

- On March 27, 2020, we revised our outlook on Bahrain to stable from positive.
- Our rating on Bahrain caps our long-term rating on Bahrain Telecommunications Co. (Batelco) because of Batelco's very strong link with the government.
- We are consequently revising our outlook on Batelco to stable from positive and affirming our 'B+/B' long- and short-term issuer credit ratings.
- The stable outlook on Batelco mirrors that on Bahrain. It also reflects our view that Batelco is likely to maintain its operating performance and adjusted debt to EBITDA well below 2.0x, despite increased capital expenditure (capex) requirements and high dividends.

## Rating Action Rationale

The outlook revision follows a similar action on Bahrain on March 27, 2020 (see "Bahrain Outlook Revised To Stable From Positive On Low Oil Price Outlook; 'B+/B' Ratings Affirmed," on RatingsDirect). Given Batelco's very strong link with the government, our rating on Bahrain caps our long-term rating on the company. This is because we believe the government can influence Batelco's financial policy and strategy, as well as industry regulation or taxation.

We consider Batelco to be a government-related entity (GRE) due to the sovereign's stake of about 77% in the company. In accordance with our criteria for GREs, our view of a moderately high likelihood of extraordinary government support is based on our assessment of Batelco's:

- Limited importance for the government, given that increased competition in Bahrain's telecom market has resulted in a meaningful market share decline for Batelco. We also believe the telecom regulator is independent from the government, especially compared with those in the majority of other Gulf Cooperation Council countries, where the introduction of competition has not significantly affected incumbent telecom operators. Therefore we believe the Bahraini government might have less incentive to support Batelco; and

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- Very strong link with the government, which owns about 77% of the company. Furthermore, the majority of Batelco's board are members of the government.

Batelco's stand-alone credit profile remains at 'bb+', supported by solid operating performance, resilient margins, and a strong balance sheet. This is balanced by the group's limited scale compared with global and regional peers, and the challenges it faces, including country risk in its international portfolio.

We continue to assess Batelco's liquidity as adequate, based on our understanding that the company's upcoming \$650 million bond maturing in May 2020, of which \$473 million is outstanding and will be refinanced with a syndicated \$450 million term loan with local banks that was signed in March 2020, and the remainder in cash from a total of more than Bahraini dinar (BHD) 200 million (about \$530 million) on the balance sheet as of Dec. 31, 2019. Despite the short period for refinancing the maturing debt, we note the company's good relationships with financial institutions, especially local banks; prudent balance sheet position with adjusted leverage of less than 1x; and a positive growth profile and operating trends.

## **Outlook**

Our stable outlook on integrated telecom operator Batelco mirrors that on Bahrain. It also reflects our view that Batelco is likely to maintain its operating performance and adjusted debt to EBITDA well below 2.0x (0.7x for 2019), despite increased capex requirements and high dividends.

## **Downside scenario**

We could lower our rating on Batelco if we took a similar action on Bahrain, provided we maintain our assessment of Batelco's relationship with the government.

## **Upside scenario**

We could raise our rating on Batelco if the rating on Bahrain was raised, provided we maintain our assessment of Batelco's relationship with the government.

## **Liquidity**

As of Dec. 31, 2019, our assessment of Batelco's liquidity over the next 12 months reflects our expectation of successful refinancing of the upcoming maturity through a combination of cash, bonds, and a five-year syndicated term loan.

## **Principal liquidity sources:**

Consolidated cash and equivalents of about BHD202 million;

Undrawn bank lines of about BHD18.5 million;

Funds from operations that we project will be about BHD150 million over the coming 12 months; and

Proceeds from a term loan of BHD171 million to partly refinance the upcoming debt maturity.

### **Principal liquidity uses:**

- Debt maturities of BHD200 million 2020 and BHD15 million in 2021;
- Annual capex of BHD80 million to BHD90 million for the next 12 months; and
- Annual dividends of about BHD53 million.

We understand that the \$450 million term loan is subject to a maximum net debt (including letters of credits, guarantees, and finance leases) to EBITDA covenant of 3.0x (reported net debt to EBITDA of 1x as of Dec. 31, 2019) and minimum tangible net worth of BHD100 million (reported BHD185 million as of Dec. 31, 2019).

We do not account for share buyback plans announced by the company since they are not a contracted cash outflow, in line with our criteria. We are mindful that cash uses may be significantly higher than stated above if acquisition opportunities arise or there are exceptional dividends, which are not factored into our base case.

### **Ratings Score Snapshot**

Issuer credit rating: B+/Stable/B

Business risk: Fair

- Country risk: High
- Industry risk: Intermediate
- Competitive position: Fair

Financial risk: Modest

- Cash flow/leverage: Modest

Anchor: bbb-

Modifiers

- Diversification/portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Financial policy: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Management and governance: Fair (no impact)
- Comparable rating analysis: Negative (-1 notch)
- Stand-alone credit profile: bb+

Related government rating: B+

Likelihood of government support: Moderately high

## Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | Industrials: Key Credit Factors For The Telecommunications And Cable Industry, June 22, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

## Related Research

- Bahrain Outlook Revised To Stable From Positive On Low Oil Price Outlook; 'B+/B' Ratings Affirmed, March 27, 2020
- Full Analysis: Bahrain Telecommunications Co., Sept. 12, 2019

## Ratings List

### Ratings Affirmed; Outlook Action

	To	From
<b>Bahrain Telecommunications Co.</b>		
Issuer Credit Rating	B+/Stable/B	B+/Positive/B
<b>Ratings Affirmed</b>		
<b>Batelco International Finance No. 1 Ltd.</b>		
Senior Unsecured	B+	

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