



**Batelco**

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Ref: CRO/16092019/BHB

**Shaikh Khalifa bin Ebrahim AlKhalifa**  
Chief Executive Officer  
Bahrain Bourse  
Kingdom of Bahrain

16 September 2019

**SUBJECT: STANDARDS & POOR'S AFFIRMS BATELCO'S RATING AS 'B+';  
OUTLOOK STABLE**

Dear Shaikh Khalifa,

The international credit rating agency S&P affirmed Batelco's rating at 'B+'; outlook stable as a result of the May 2020 bond that has reduced the liquidity assessment from strong to adequate. S&P have further commented that a more robust liquidity cushion is expected, once the refinancing has been successfully completed. S&P Global Ratings 'stable outlook on Batelco mirrors that on Bahrain.

The S&P reports have been attached for your perusal.

Yours sincerely,

Manal Al Sarraf

Head of Risk Management and Compliance

## Bahrain Telecommunications Co.

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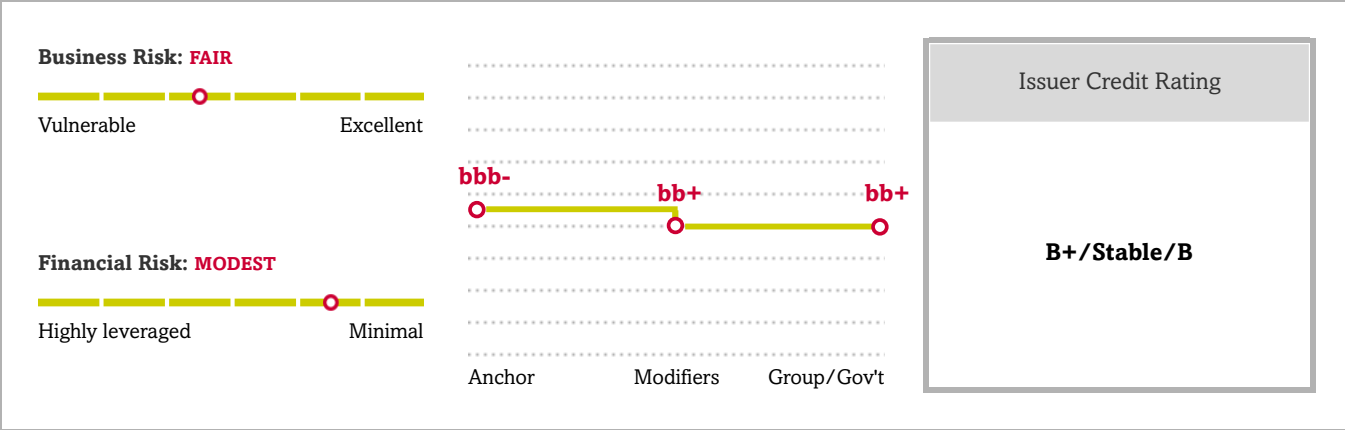
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Related Research

# Bahrain Telecommunications Co.



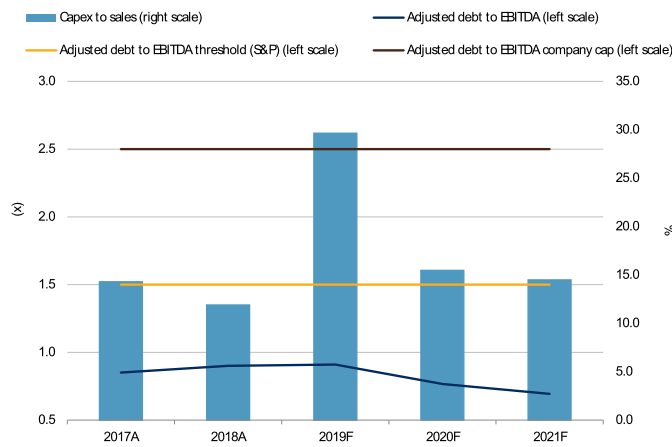
## Credit Highlights

Overview	
Key Strengths	Key Risks
Solid operational performance, benefiting from improving mobile market share in Bahrain coupled with a more favorable regulatory environment, and No. 1 or No. 2 positions in most markets.	Smaller scale compared with global and regional peers, with operations in the highly competitive three-player Bahraini telecom market contributing 40%-45% of company revenues.
Normalization of performance in Bahrain and continued focus on cost efficiencies supporting our expectation of consistent profitability (about 37% EBITDA margin on an S&P Global Ratings-adjusted basis).	Sizable capital expenditure (capex) due to network upgrades, fiber rollouts, and license renewals, plus significant dividends (90%-100% payout ratio), both weigh on discretionary cash flow generation.
Strong balance sheet, despite sizable capital investment (adjusted debt-to-EBITDA expectation below 1.5x), though upcoming debt maturity in 2020 will tighten the liquidity cushion significantly until refinanced.	Increased taxes in international portfolio, most noticeably in Jordan.
	A very strong link to the Bahraini government (B+/Stable), which could expose it to extraordinary negative intervention in times of sovereign stress.

*Despite sizable capex plans and dividends, we expect adjusted leverage (net debt to EBITDA) to remain below 1.5x throughout our forecast period, supported by the company's strong balance sheet and resilient margins.* We expect Bahrain Telecommunications Co.'s (Batelco's) dividend payout will remain 90%-100% of net profit. Also, we anticipate Batelco's capex requirements will peak in 2019 and 2020 before normalizing at around Bahraini dinar (BHD) 60 million per year thereafter, due to mobile network and fiber upgrades in Bahrain, and mobile license renewals and spectrum fees in Bahrain and Jordan. Nevertheless, we view the company's conservative financial policy, resilient EBITDA margin (around 37%) and net cash position will help retain adjusted leverage below 1.5x (at least until 2021).

**Chart 1**

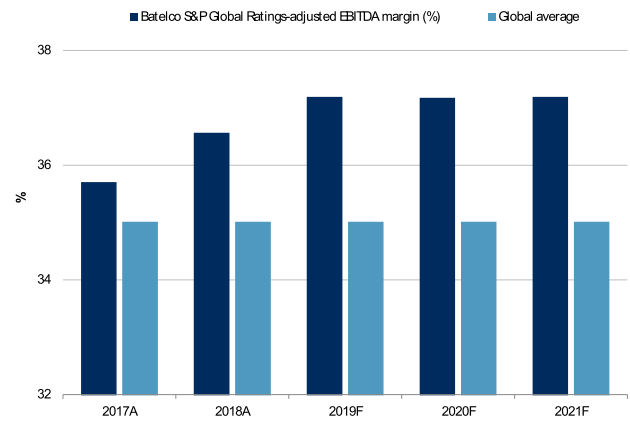
**Leverage Versus Capital Expenditure**



A--Actual. E--Estimate. Capex--Capital expenditure. Source: S&P Global Ratings. Copyright © 2019 by Standard & Poor's Financial Services LLC. All rights reserved.

**Chart 2**

**Profitability Versus Global Average**



A--Actual. E--Estimate. Sources: S&P Global Ratings, Industry Top Trends publication 2019. Copyright © 2019 by Standard & Poor's Financial Services LLC. All rights reserved.

**Outlook: Stable**

S&P Global Ratings' stable outlook on Bahraini 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 (0.9x for 2018), despite increased capex requirements and high dividends, and liquidity sources to uses of at least 1x.

**Downside scenario**

We could lower our rating on Batelco if our liquidity forecast falls below 1x coverage, which could occur if Batelco underperforms our cash generation forecast over the next quarter or increases spending on capex, and does not refinance its May 2020 bond maturity or have a credible financing plan in place by November 2019. A downgrade of Bahrain would also likely lead us to downgrade Batelco, provided our assessment of Batelco's relationship with the government remains unchanged.

**Upside scenario**

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

**Our Base-Case Scenario**

Assumptions	Key Metrics			
<ul style="list-style-type: none"> <li>Overall topline growth of 2%-3% for 2019-2020 (compared with 7% in 2018), mainly due to growth in Bahrain, Jordan, and the Maldives.</li> <li>Growth of 3%-5% in Bahrain in 2019-2020, supported by the company's efforts to grow its market share and average revenue per user (ARPU) levels in the mobile and broadband segments. More specifically, we expect mobile revenues to benefit from ARPU growth in prepaid due to successful pricing and product packaging enhancements (such as shifting from volume-driven packages), in addition to pre-to-postpaid substitution resulting in higher postpaid subscribers.</li> <li>We expect the company's major capex plans in mobile network expansion and 5G rollout to fuel broadband growth, and its upselling strategy to further increase ARPU growth, in addition to continued fiber rollout in fixed broadband.</li> <li>Stable EBITDA margin (about 37% on an S&amp;P Global Ratings-adjusted basis), supported by cost containment initiatives in Bahrain and Jordan, but partially offset by increasing competition.</li> <li>Capex of BHD120 million-BHD130 million in 2019 (compared to BHD48 million in 2018) due to network and spectrum investments in Bahrain and solar investment in Jordan. We expect capex will peak in 2019 before declining to less than BHD70 million in 2020.</li> <li>Annual dividends of about BHD55 million, translating into a payout ratio of about 90%.</li> <li>Proceeds of BHD31.6 million from the 90% stake sale in Qualitynet, which was completed in May 2019.</li> </ul>				
		<b>2018A</b>	<b>2019E</b>	<b>2020E</b>
	Revenue growth (%)	7.0	2-3	1-2
	EBITDA margin* (%)	36.6	37-38	37-38
	Capital expenditure (mil. BHD)	48.3	120-130	60-70
	DCF* (mil. BHD)	12.4	Negative	10-20
	Debt to EBITDA* (x)	0.9	0.8-1.0	0.8-1.0
	FFO to debt* (%)	96.3	90-100	110-120
	FOCF to debt* (%)	48.6	10-15	50-60
		<p>*S&amp;P Global Ratings-adjusted. FFO--Funds from operations. FOCF--Free operating cash flow. DCF--Discretionary cash flow. A--Actual. E--Estimate.</p>		

### Base-case projections

**EBITDA margin remaining around 37%, slightly above 2018 levels.** This is mainly fueled by topline growth, in addition to ongoing cost-optimization efforts and a focus on digitization translating into realized efficiencies. In Bahrain, we expect profitability to decline to a reported 40% in 2019 (from about 43% in 2018), largely due to the costs associated with the separation of the infrastructure and retail entities. In Jordan, we expect a 2%-3% decline in topline for 2020-2021 to reflect the new mobile termination rates (MTR), but we also anticipate a normalized reported EBITDA margin at the 30% level. In the Maldives, we expect consistent topline growth of 3%-5% and stable reported margins

of about 50%-52%, supported by growth in subscriber acquisitions, and data and TV.

**Capex to sales peaking in 2019 before tapering off to 15% by 2021.** We expect the ratio of capex to sales to reach 30% in 2019, before declining gradually to 15% by 2021. This view reflects the higher network investments in Bahrain due to 5G rollouts and digitization of the network, fiber rollout in Bahrain, and spectrum and license renewals in Bahrain and Jordan. We understand that a portion of this capex is discretionary, and could be delayed if there is pressure on liquidity or budget.

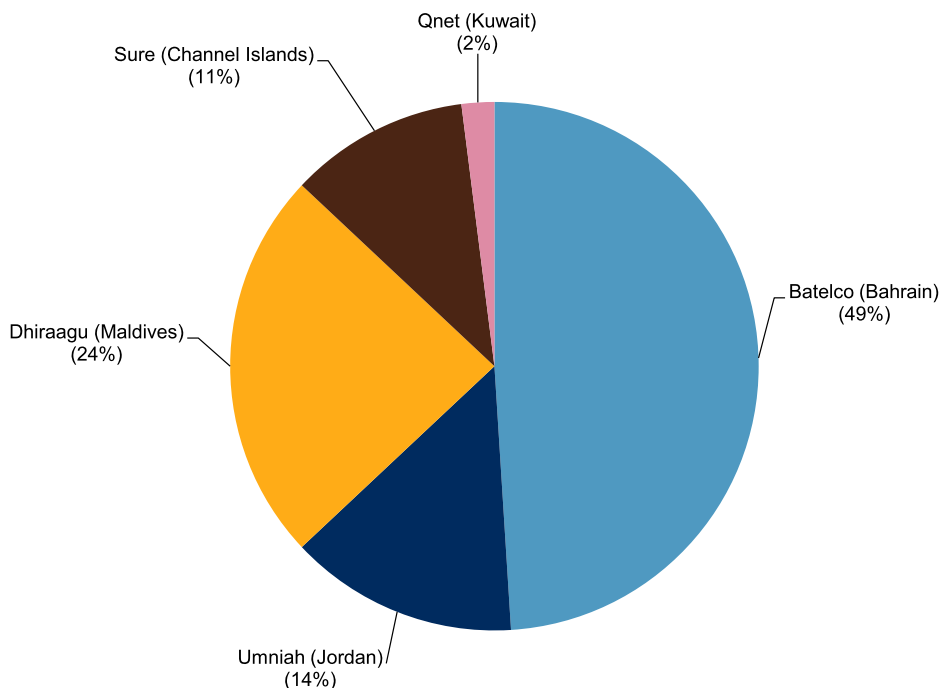
## Company Description

Batelco is a Bahrain-based integrated telecom operator providing mobile, fixed telephony, and broadband services across Bahrain, Jordan, the Maldives, some British islands (including Guernsey, Jersey, and the Isle of Man), and Yemen (through its 27% shareholding). In May 2019, Batelco announced the completion of the sale of its 90% stake in Kuwait-based Qualitynet to VIVA Kuwait, a subsidiary of Saudi Telecom Co. Batelco's revenues reached BHD405.9 million (\$1.08 billion) in fiscal year ended 31 Dec., 2018, with a total subscriber base of 8.4 million.

The Bahraini government, through three Bahraini-related entities, owns a 77% stake in the group, with the remaining 23% floated on the Bahrain Stock Exchange.

### Chart 3

#### Segmental Breakdown By EBITDA--Fiscal 2018



Source: Company reports.

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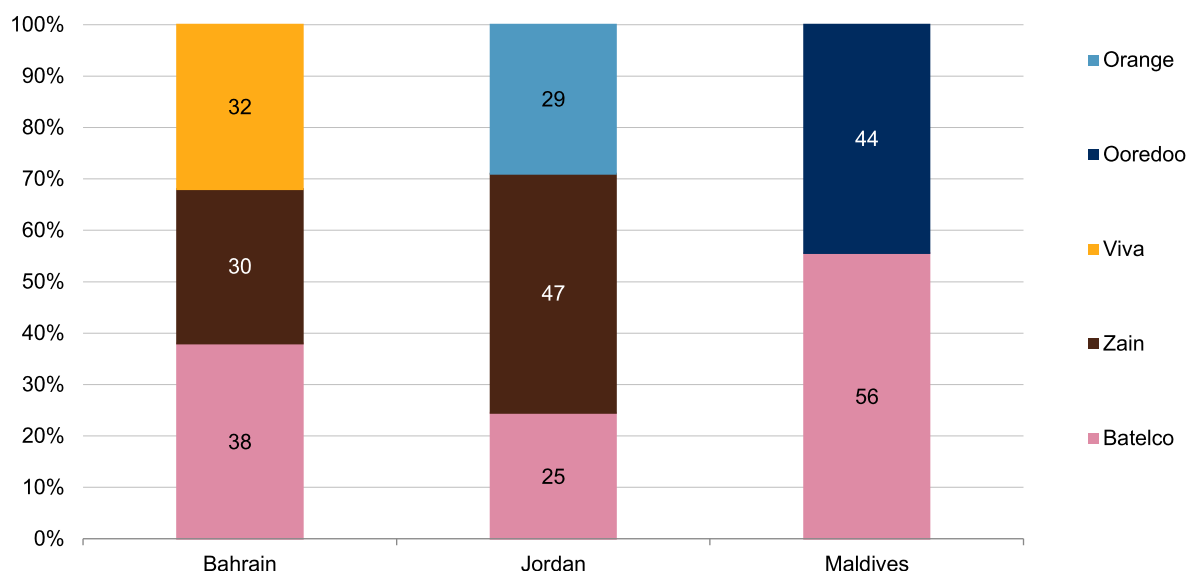
## Business Risk: Fair

Batelco's business risk profile assessment primarily reflects our view of the company's solid operating performance and resilient margins, but balanced by the group's limited scale compared to global and regional peers, and its exposure to challenges in its international portfolio.

We note Batelco's improving mobile market share in Bahrain (37%), and leading No. 1 and No. 2 position across its international portfolio. The main constraints on Batelco's business risk profile assessment are the company's fairly small scale on a global basis, given that the majority of its operational markets have relatively small populations; the evolving competitive landscape in Bahrain; increased taxes in the international portfolio (namely in Jordan); and its exposure to country risk.

**Chart 4**

**Mobile Subscriber Market Share By Country For Key Operations (2018)**



Source: Company reports.

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## Peer comparison

**Table 1**

### Bahrain Telecommunications Co.--Peer Comparison

**Industry Sector: Diversified Telecom**

	Bahrain Telecommunications Co.	Saudi Telecom Co.	Emirates Telecommunications Group Company PJSC	Ooredoo Q.P.S.C.	Turk Telekom
Rating as of May 30, 2019	B+/Stable/B	A-/Stable/A-2	AA-/Stable/A-1+	A-/Stable/A-2	BB-/Stable/B



Table 1

Bahrain Telecommunications Co.--Peer Comparison (cont.)					
Industry Sector: Diversified Telecom					
	Bahrain Telecommunications Co.	Saudi Telecom Co.	Emirates Telecommunications Group Company PJSC	Ooredoo Q.P.S.C.	Turk Telekom
--Fiscal year ended Dec. 31, 2018--					
(Mil. \$)					
Revenues	1,076.5	13,851.6	14,262.7	8,219.6	3,858.5
EBITDA	393.5	5,464.1	6,241.4	3,474.6	1,553.0
FFO	340.9	5,206.8	5,477.7	2,728.6	1,311.6
Interest expense	39.7	118.0	324.1	646.2	232.6
Cash interest paid	36.4	73.1	318.8	610.1	222.6
Cash flow from operations	300.3	5,330.8	5,234.0	2,446.9	1,327.4
Capital expenditures	128.1	2,600.9	2,283.6	1,647.1	767.7
Free operating cash flow	172.2	2,729.9	2,950.4	799.9	559.6
Discretionary cash flow	32.9	582.8	641.6	323.9	559.6
Cash and short-term investments	378.7	4,755.3	7,721.4	4,804.7	736.2
Debt	354.1	0.0	1,341.6	8,212.6	3,572.9
Equity	1,339.2	17,769.6	15,585.2	7,739.3	1,407.6
<b>Adjusted ratios</b>					
EBITDA margin (%)	36.6	39.4	43.8	42.3	40.2
Return on capital (%)	11.7	20.1	25.6	8.1	19.9
EBITDA interest coverage (x)	9.9	46.3	19.3	5.4	6.7
FFO cash interest coverage (x)	10.4	72.2	18.2	5.5	6.9
Debt/EBITDA (x)	0.9	0.0	0.2	2.4	2.3
FFO/debt (%)	96.3	N.M.	408.3	33.2	36.7
Cash flow from operations/debt (%)	84.8	N.M.	390.1	29.8	37.2
Free operating cash flow/debt (%)	48.6	N.M.	219.9	9.7	15.7
Discretionary cash flow/debt (%)	9.3	N.M.	47.8	3.9	15.7

FFO--Funds from operations.

Batelco enjoys solid profitability (EBITDA margin of around 37%) with strong balance sheet position (adjusted net debt to EBITDA at about 1.0x).

Compared with Turkish peers, Batelco has lower revenue growth and is much smaller in scale, but has a stronger balance sheet.

Compared with GCC peers, we see Ooredoo as the closest peer in terms of the stand-alone rating position. We view

Ooredoo as stronger, given its larger scale and slightly higher profitability, which is mainly a reflection of the more-favorable competitive landscape in Qatar (a duopoly, compared with Bahrain's three-player market). Nevertheless, we note that Batelco enjoys a stronger balance sheet (leverage below 1.0x versus Ooredoo's 2.4x-2.6x ratio), which gives it a better financial standing to withstand the high capex needs and sizable dividends both operators face.

## Financial Risk: Modest

Batelco's financial risk profile is supported by the company's strong balance sheet, with adjusted debt to EBITDA at less than 1.0x, despite sizable investments in networks, with capex set to reach close to 30% of sales in 2019, and high dividends (90%-100% of earnings). We expect Batelco will maintain generous dividend distributions of BHD50 million to BHD55 million. We also forecast negative discretionary cash flow generation, breaking even in 2020 mainly due to high capex.

### Financial summary

Table 2

Bahrain Telecommunications Co.--Financial Summary					
<b>Industry Sector: Diversified Telecom</b>					
	--Fiscal year ended Dec. 31--				
	2018	2017	2016	2015	2014
<b>(Mil. BHD)</b>					
Revenues	405.9	379.4	367.1	372.4	389.7
EBITDA	148.3	135.4	137.1	137.0	149.3
FFO	128.5	117.8	119.0	118.7	138.6
Interest expense	15.0	13.1	13.3	10.0	10.9
Cash interest paid	13.7	11.9	12.1	10.3	10.7
Cash flow from operations	113.2	93.2	130.3	125.5	132.9
Capital expenditures	48.3	54.2	72.6	93.9	35.6
Free operating cash flow	64.9	39.0	57.8	31.5	97.3
Discretionary cash flow	12.4	(15.9)	6.2	(18.7)	55.3
Cash and short-term investments	142.8	158.7	172.4	160.0	150.2
Gross available cash	155.6	158.7	172.4	160.0	150.2
Debt	133.5	115.3	119.6	125.6	84.0
Equity	504.9	502.5	537.0	573.1	579.1
<b>Adjusted ratios</b>					
EBITDA margin (%)	36.6	35.7	37.4	36.8	38.3
Return on capital (%)	11.7	10.8	10.4	10.5	13.2
EBITDA interest coverage (x)	9.9	10.3	10.3	13.7	13.8
FFO cash interest coverage (x)	10.4	10.9	10.8	12.6	13.9
Debt/EBITDA (x)	0.9	0.9	0.9	0.9	0.6
FFO/debt (%)	96.3	102.1	99.5	94.5	165.0
Cash flow from operations/debt (%)	84.8	80.8	109.0	99.9	158.3

**Table 2****Bahrain Telecommunications Co.--Financial Summary (cont.)**

	--Fiscal year ended Dec. 31--				
	2018	2017	2016	2015	2014
Free operating cash flow/debt (%)	48.6	33.8	48.3	25.1	115.9
Discretionary cash flow/debt (%)	9.3	(13.8)	5.2	(14.9)	65.8

FFO--Funds from operations. BHD--Bahraini dinar.

**Liquidity: Strong**

We assess Batelco's liquidity as adequate owing to the company's upcoming bond maturity (May 2020), which reduces our ratio of liquidity sources to uses to well below 1.5x. Upon successful refinancing, we expect a return to the more robust liquidity cushion the company has maintained in the past.

The 12-month sources-to-uses ratio starting July 1, 2019 (without bond refinancing, which is only planned for January 2020) is 1.2x. In our view, this is the minimum required for adequate liquidity, and this is achieved by Batelco through two mitigating factors: we assume about 15% of Batelco's Bahraini dinar (BHD) 86 million capex is discretionary and can be reduced; and we expect that the company can scale back its April 2020 dividend if needed to support liquidity.

We understand that the company intends to launch refinancing of its bonds in early 2020. In our view, refinancing to such a tight deadline could expose it to capital market conditions over a narrow window. Nevertheless, we view such risk as manageable. This is because Batelco benefits from sizable cash balances (about BHD200 million at July 1, 2019), which can fully cover the May maturities; good bank relationships, especially with local banks; a prudent balance sheet position with leverage of less than 1x; and a positive growth profile and operating trends. However, we will likely reassess our view in November 2019, when the bond maturity falls to six months. If a credible refinancing plan is not in place, and the company continues to invest in its current capex plans, we could lower our assessment to less than adequate if the cushion falls below 1.2x, though additional tightening or any increase in refinancing risk could further affect our view of liquidity.

Our 12-month liquidity view as of July 1, 2019 assuming no refinancing, is as follows:

**Principal liquidity sources**

- Consolidated cash and equivalents of about BHD202 million;
- Undrawn bank lines of about BHD9 million; and
- Funds from operations that we project will be about BHD136 million over the coming 12 months.

**Principal liquidity uses**

- Debt maturities in 2019 and 2020 of about BHD198 million;
- Annual capex of about BHD73 million for the 12-month period, with an implied haircut of 15% (discretionary capex spending); and

- Annual dividends of about BHD16.6 million.

The company is not subject to any financial covenants.

We do not account for share buyback plans announced by the company as it is 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.

## Other Credit Considerations

We factor into the rating our negative view of Batelco compared with its rated peers, based on direct and indirect risks posed by Bahrain's weak fiscal profile, and the company's significant headroom under its financial policy.

## Government Influence

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 the Bahraini telecoms market has resulted in a meaningful market share decline for Batelco. It also reflects our view that the Bahraini telecoms regulator is independent from the government, especially compared with the majority of other Gulf Cooperation Council countries, where the introduction of competition has not significantly affected incumbent telecoms operators. Therefore we believe that the Bahrain government might have less incentive to support Batelco; and
- Very strong link with the government, since the government owns about 77% of the company. Furthermore, the majority of Batelco's board comprises members of the government.

Given Batelco's very strong link with the government, our rating on Bahrain caps the company's long-term rating because we believe the government can influence Batelco's financial policy and strategy, as well as industry regulation or taxation.

## Issue Ratings - Subordination Risk Analysis

### Capital structure

Batelco's capital structure primarily comprises a bond of \$473 million (BHD177 million). This represents around 80% of gross debt, which is raised at parent level.

### Analytical conclusions

Since 80% of gross debt is at parent level and Batelco has a strong balance sheet, this should help it offset subordination risks. Consequently, we rate the bond in line with the issuer credit rating.

## Reconciliation

**Table 3**

### Reconciliation Of Bahrain Telecommunications Co. Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. BHD)

--Fiscal year ended Dec. 31, 2018--

#### Bahrain Telecommunications Co. reported amounts

	Debt	Shareholders' equity	EBITDA	Operating income	Interest expense	S&P Global Ratings' adjusted EBITDA	Cash flow from operations
Reported	236.8	465.2	142.8	72.7	13.2	148.3	114.0
<b>S&amp;P Global Ratings' adjustments</b>							
Cash taxes paid	--	--	--	--	--	(6.1)	--
Cash taxes paid - Other	--	--	--	--	--	--	--
Cash interest paid	--	--	--	--	--	(11.9)	--
Operating leases	34.5	--	5.5	1.8	1.8	(1.8)	3.7
Postretirement benefit obligations/deferred compensation	--	--	(0.0)	(0.0)	--	--	--
Accessible cash and liquid investments	(140.0)	--	--	--	--	--	--
Nonoperating income (expense)	--	--	--	(1.0)	--	--	--
Reclassification of interest and dividend cash flows	--	--	--	--	--	--	(4.5)
Noncontrolling interest/minority interest	--	39.6	--	--	--	--	--
Debt - Guarantees	2.2	--	--	--	--	--	--
Total adjustments	(103.3)	39.6	5.5	0.8	1.8	(19.8)	(0.8)

#### S&P Global Ratings' adjusted amounts

	Debt	Equity	EBITDA	EBIT	Interest expense	Funds from operations	Cash flow from operations
Adjusted	133.5	504.9	148.3	73.6	15.0	128.5	113.2

BHD--Bahraini dinar.

## 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:** Strong (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

- 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: Group Rating Methodology, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria - Corporates - General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

## Related Research

- GCC Capital Market Issuance Should Bounce Back This Year Following A Brief Lull In The First Quarter, April 8, 2019
- Industry Top Trends 2019: Telecommunications, Nov. 15, 2018

### Business And Financial Risk Matrix

Business Risk Profile	Financial Risk Profile					
	Minimal	Modest	Intermediate	Significant	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
<b>Fair</b>	bbb/bbb-	<b>bbb-</b>	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

### Ratings Detail (As Of September 12, 2019)\*

#### Bahrain Telecommunications Co.

Issuer Credit Rating B+/Stable/B

#### Issuer Credit Ratings History

05-Dec-2017	B+/Stable/B
05-Jun-2017	BB-/Negative/B
12-Dec-2016	BB-/Stable/B
22-Feb-2016	BB/Stable/B

\*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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Research Update:

# Bahrain Telecommunications Ratings Affirmed As Upcoming Bond Maturity Lowers Liquidity; Outlook Stable

September 12, 2019

## Rating Action Overview

- Bahrain Telecommunications Co.'s (Batelco's) May 2020 bond maturity reduces its liquidity cushion over the 12-month period through June 2020.
- We are revising our liquidity assessment to adequate from strong and affirming our ratings on Batelco (B+/Stable/B).
- The stable outlook reflects our view that Batelco's large cash position can cover the upcoming maturities, and our expectation that refinancing will extend the maturity profile and return to a liquidity cushion more substantially above 1.2x.

## Rating Action Rationale

We have revised Batelco's liquidity assessment down to adequate from strong owing to the company's upcoming bond maturity (May 2020), which reduces our ratio of liquidity sources to uses to well below 1.5x. Upon successful refinancing, we expect a return to the more robust liquidity cushion the company has maintained in the past.

The 12-month sources-to-uses ratio starting July 1, 2019 (without bond refinancing, which is only planned for January 2020) is 1.2x. In our view, this is the minimum required for adequate liquidity, and this is achieved by Batelco through two mitigating factors: we assume about 15% of Batelco's Bahraini dinar (BHD) 86 million capital expenditure (capex) is discretionary and can be reduced; and we expect that the company can scale back its April 2020 dividend if needed to support liquidity.

We understand that the company intends to launch refinancing of its bonds in early 2020. In our view, refinancing within such a tight deadline could expose it to capital market conditions over a narrow window. Nevertheless, we view such risk as manageable. This is because Batelco benefits from sizable cash balances (about BHD200 million at July 1, 2019), which can fully cover the May maturities; good bank relationships, especially with local banks; a prudent balance sheet position

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with adjusted leverage of less than 1x; and a positive growth profile and operating trends. However, we will likely reassess our view in November 2019, when the bond maturity falls to six months. If a credible refinancing plan is not in place, and the company continues to invest in its current capex plans, we could lower our assessment to less than adequate if the cushion falls below 1.2x, though additional tightening or any increase in refinancing risk could further weaken our view of liquidity.

## **Outlook**

S&P Global Ratings' stable outlook on Bahraini 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 (0.9x for 2018), despite increased capex requirements and high dividends, and liquidity sources to uses of at least 1x.

## **Downside scenario**

We could lower our rating on Batelco if our liquidity forecast falls below 1x coverage, which could occur if Batelco underperforms our cash generation forecast over the next quarter or increases spending on capex, and does not refinance its May 2020 bond maturity or have a credible financing plan in place by November 2019. A downgrade of Bahrain would also likely lead us to downgrade Batelco, 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**

Our 12-month liquidity view as of July 1, 2019, assuming no refinancing, is as follows.

Principal liquidity sources:

- Consolidated cash and equivalents of about BHD202 million;
- Undrawn bank lines of about BHD9 million; and
- Funds from operations that we project will be about BHD136 million over the coming 12 months.

Principal liquidity uses:

- Debt maturities in 2019 and 2020 of about BHD198 million;
- Annual capex of about BHD73 million for the 12-month period, with an implied haircut of 15% (discretionary capex spending); and
- Annual dividends of about BHD16.6 million.

The company is not subject to any financial covenants.

We do not account for share buyback plans announced by the company as 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**

- 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: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, 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

## Ratings List

### Ratings Affirmed

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**Bahrain Telecommunications Co.**

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Issuer Credit Rating B+/Stable/B

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**Batelco International Finance No 1 Ltd**

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Senior Unsecured B+

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