S&P Global
Ratings

RatingsDirect®

Bahrain Telecommunications Co.

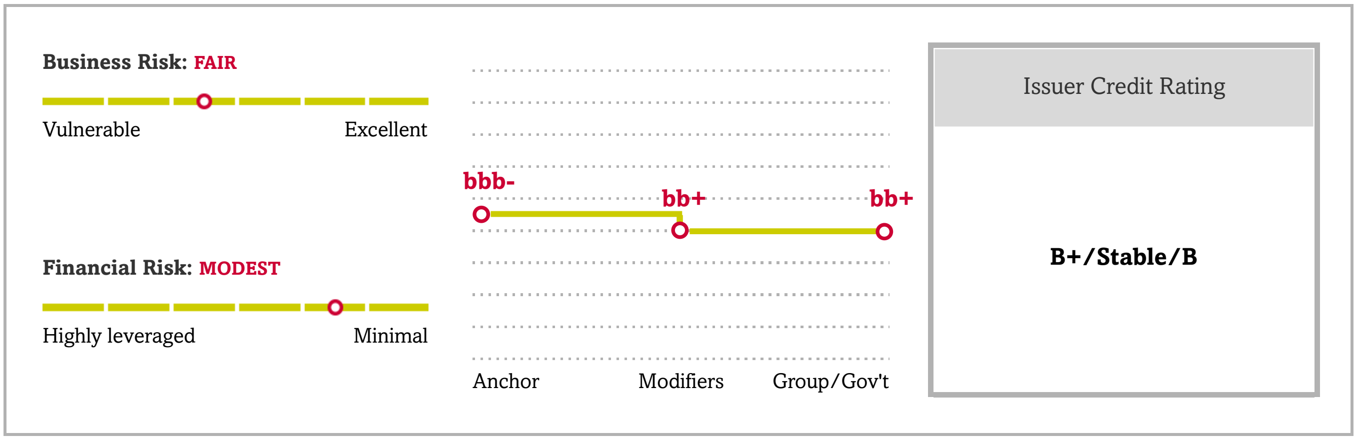
Primary Credit Analyst:
Tatjana Lescova, Dubai + 97143727151; tatjana.lescova@spglobal.com

Secondary Contact:
Rawan Oueidat, CFA, Dubai + 971(0)43727196; rawan.oueidat@spglobal.com

Table Of Contents

Table Of Contents (cont.)

Bahrain Telecommunications Co.



Credit Highlights

Overview

Key strengths	Key risks
Solid position in its domestic market in Bahrain and stable No.2 or No.3 position in international markets.	Smaller scale than GCC peers, with the main operations in a highly competitive three-player Bahraini telecom market contributing about 47% of company revenue and 41% of EBITDA reported at Bahraini dinar (BHD) 164 million at end-2021.
Some geographic diversification with presence in four countries, despite smaller size than peers in the Gulf Cooperation Council (GCC).	Limited discretionary cash flow forecast in 2022-2023, due to upscaled capital expenditure (capex), as well as significant dividends.
Focus on cost efficiencies expected to mitigate inflationary pressures and sustain steady S&P Global Ratings-adjusted EBITDA margin of 40%-41% in 2022-2023.	Uncertain economic fallout from the geopolitical instability.
Strong balance sheet with forecast adjusted debt-to-EBITDA ratio well below 2x.	A very strong link to the Bahraini government (B+/Stable/B) that ushers in potential exposure to extraordinary negative intervention like special dividends in times of sovereign stress.

After a 3.2% revenue growth achieved in 2021, we anticipate further 2%-3% revenue increase in 2022-2023. Global economic conditions have been worsening since the start of 2022, but we think that Bahrain Telecommunications Co. (Batelco) will continue to demonstrate growth and sustain stable profitability with S&P Global Ratings-adjusted EBITDA margin at 40%-41% in 2022-2023. While inflationary pressures are an overarching risk globally, we currently expect a relatively mild 3% inflation in 2022 in Bahrain. The Bahraini economy's sensitivity to oil prices, which are expected to remain high in 2022, will support the economic outlook, while also sustaining consumer spending in the next 12-18 months. At the same time, we think that downside risks in 2023 will depend on the economic fallout from the Russia-Ukraine conflict, including with regard to commodities prices and associated inflation. Batelco is the leading mobile operator in Bahrain, boasting a 36% subscription-based market share, on par with Saudi Telecommunication Co. (stc) (source: Bahrain's Telecommunications Regulatory Authority, Q1 2022 Quarterly Market Indicator Report) and fixed provider (76% market share in fixed lines and 82% in fixed broadband). The Bahraini operations contribute 47% of revenue and 41% of EBITDA. As the investments in fiber and the adoption of 5G progress, the domestic revenue will continue to grow. Additionally, in line with other GCC telecom operators, Batelco is also expanding its nontelecom services, having launched three new entities in 2022, BEYON Cyber (cyber security), BEYON Solutions

(ICT services), and BEYON Connect (digital solutions), which follow the launch of BEYON Money (digital payment app) at the end of 2021. They are expected to ramp-up over the next three to five years and provide further uplift to the revenue. The separation of BNET, Batelco's broadband infrastructure, completed on June 1, 2021, will increase competition in that segment. Still, we expect an only marginal decline in average revenue per user, because we believe that the revenue decline will be moderate and Batelco will remain the main fixed broadband provider. In Jordan (23% of revenue and 18% of EBITDA), where Batelco's 96% subsidiary Umniah is the No.3 player, the company will benefit from growing mobile broadband revenue, and the solar project completed in 2019 will help contain energy costs, supporting the margins. We see gradual international travel resumption under our base case that will continue to improve roaming revenue in the Maldives (52%-owned subsidiary Dhiraagu, 15% of revenue, and 20% of EBITDA) and underpin EBITDA margin in excess of 50%, in a favorable regulatory framework with only two operators and a No.1 position for Batelco. We understand that the regulatory framework in the Maldives will remain unchanged at least until 2026, when the discussions about a potential third entrant will open. In the Channel Islands (15% of revenue and 11% of EBITDA), we expect that the group's wholly owned subsidiary SURE will continue to demonstrate steady performance and 1%-2% growth rate. Amid volatile market conditions, we positively note Batelco's limited foreign exchange exposure (FX) as it operates in countries with currencies pegged against the U.S. dollar, with the exception of Channel Islands, for which we expect negative FX translation impact due to Sterling depreciation against the U.S. dollar.

We foresee higher capital expenditure (capex) than previously assumed in 2022-2023, which, alongside stable dividend payout, will absorb virtually all cash generation. Under our revised base case, we expect BHD100 million–BHD110 million ($265 million-$292 million)of capex per year in 2022 and 2023, an estimated 20%-25% of revenue (versus 17% in 2021). The key investments will include fiber in Bahrain and Jordan, continued 5G rollout in Bahrain, and subsea cables, data centers, and digital. In addition, we also factor in a 5G license in Jordan in 2023 for an estimated $70 million (BDH27 million), following the announcement of 5G services launch earlier this year in the country. Bahrain will remain the main investment area, accounting for about a half of total spending (excluding the 5G license in Jordan). At the same time, we anticipate stable dividend payout of BHD55 million–BHD60 million per year. As a result, we think that the company will generate hardly any discretionary cash flow (DCF) in 2022-2023, after a strong BHD45 million in 2021 that was supported by lower capex and working capital inflow.

With an adjusted debt to EBITDA of 0.4x at the end of March 2022, Batelco's low leverage fits comfortably with our view of the company's stand-alone credit profile (SACP). Despite higher capex and sizable dividends, Batelco's cash flow generation will help sustain relatively stable and a low adjusted debt-to-EBITDA ratio of 0.5x-0.7x in 2022-2023. This is well below 2.0x we think is commensurate with our current view of its financial risk profile, and the company's own financial policy target of keeping the net leverage below 3.0x (including leases and guarantees). We positively note the company's long-dated debt profile with the largest debt instrument, a $450 million term loan maturing in 2025, $137 million loans in Jordan maturing in 2031 and $14.4 million loans in the Maldives maturing in 2024 (as of Dec. 31, 2021). All the group's debt is floating rate and Batelco doesn't swap interest rates as part of its financial management. The interest rate hikes that started in 2022 will only slightly increase its interest burden. We think that the group's main funding need over the coming years will be in Jordan, where it is about to start capital-intensive 5G investments, which will exceed local cash generation as per our base case.

Outlook: Stable

Our stable outlook on Batelco mirrors that on Bahrain. It also reflects our view that Batelco will maintain steady operating performance and its adjusted debt to EBITDA will stay well below 2.0x (0.4x as of Mar. 31, 2022), despite increased capex requirements and high dividends.

Downside scenario

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

Upside scenario

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

Our Base-Case Scenario

Assumptions

- Continued supportive economic environment in Bahrain on the back of rising oil and aluminum prices, with GDP expected to grow at 3.2% in 2022 and 2.8% in 2023, following a 2.2% rebound in 2021 because the economy is on track for recovery from the COVID-19 pandemic. We expect GDP growth in Batelco's other markets.
- We expect 3% inflation in 2022 in Bahrain; however, upward pressure on inflation, through rising import prices, is starting to weigh on private sector confidence and could serve as a drag on medium-term growth.
- Revenue growth of about 2%-3% per year in 2022-2023, despite a 1.3% contraction in the first quarter of 2022 due to lower data and roaming revenue in the Maldives as a lingering effect of COVID-19. We think that fiber investments, leading to a higher penetration (78% currently), 5G rollout, and continued efforts to convert pre-paid customers to more profitable post-paid, will drive revue growth in Bahrain.
- In Jordan, mobile broadband will be the key growth driver, along with the fiber rollout. In addition, early mobile termination fees were ended in 2021, which could facilitate switching between operators. In Maldives, we expect growth to be supported by resumption of international travel, which will lift roaming revenue. Overall, for international operations, we expect revenue growth at about 4% in 2022 and 2%-3% in 2023.
- Adjusted EBITDA margins of about 40%-41% in 2022-2023, compared with 40.9% in 2021 and 40.3% for the rolling 12 months at the end of the first quarter of 2022, slightly down on one-off costs incurred to launch five new digital entities (Beyon Money, Batelco Remittance Services (a subsidiary of Beyon Money), Beyon Solutions, Beyon Connect, and Beyon Cyber). We think that inflation will pressure margins, but Batelco will remain focused on cost efficiencies and on passing price increases to customers.
- Higher capex than we previously assumed of about BHD100 million–BHD110 million per year in 2022-2023, chiefly for fiber investments in Bahrain, where the company intends to increase its penetration to 99%. The company will also continue to invest in subsea cables, 5G, and network expansions. Supply chain bottlenecks and raw material price inflation will lead to higher shipping costs and more costly equipment, but we don't expect any disruptions to the investment plans.
- Stable annual dividends (including to minorities) of about BHD55 million-BHD60 million, despite expected growing net income.

Key metrics

Bahrain Telecommunications Co.--Key Metrics

	--Fiscal year end Dec. 31--				
(Mil. BHD)	**2019a**	**2020a**	**2021a**	**2022f**	**2023f**
Revenue growth (%)	(1.1)	(3.5)	3.2	3-4	2-3
EBITDA margin (%)*	38.0	39.9	40.9	40-41	40-41
Capital expenditure	79.4	61.8	68.7	100-110	100-110
Debt/EBITDA (x)*	0.7	0.7	0.5	0.5-0.6	0.5-0.7
DCF	0.7	16.9	45.0	0	0
FFO/debt (%)*	127.9	133.3	182.2	150-160	140-160

Bahrain Telecommunications Co.--Key Metrics (cont.)

	--Fiscal year end Dec. 31--				
(Mil. BHD)	**2019a**	**2020a**	**2021a**	**2022f**	**2023f**
FOCF/debt (%)*	55.4	76.5	123.6	50-55	40-60

*Adjusted by S&P Global Ratings. a--Actual. f--Forecast. FFO--Funds from operations. DCF--Dicsounted cash flow. FOCF--Free operating cash flow. BHD--Bahraini dinar.

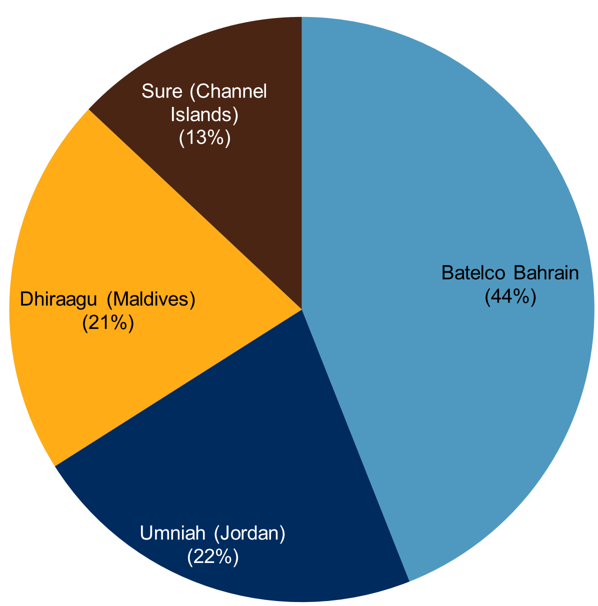
Company Description

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, the Isle of Man, the Falkland Islands, and Diego Garcia), and Yemen (through its 27% shareholding).

Batelco's revenue reached BHD399.6 million ($1.06 billion) in 2021, with a total subscriber base of 3.9 million.

Chart 1

Segmental Breakdown By EBITDA; 2021



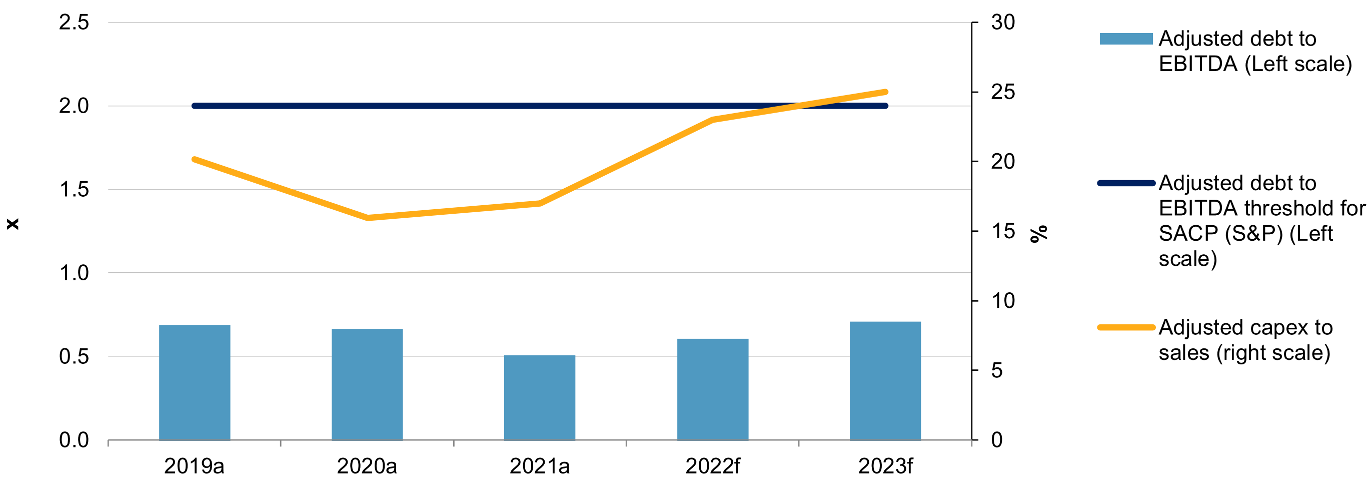
Source: Company reports.

The Bahraini government, through three Bahraini-related entities, owns a 77% stake in the group, with the remaining 23% floating on the Bahrain Stock Exchange.Batelco's market capitalization was around BHD748 million ($2 billion) at the time of this report.

Financial Risk: Modest

Chart 2

Adjusted Debt To EBITDA Versus Capex
Displaying changes in data over time



a--Actual. f--Forecast. SACP--Stand-alone credit profile. Capex--Capital expenditure. Source: S&P Global Ratings.

Reconciliation

Table 1

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

	--Fiscal year ended Dec. 31, 2021--					
Bahrain Telecommunications Co. reported amounts						
	Debt	**Shareholders' equity**	**EBITDA**	**Operating income**	**S&P Global Ratings' adjusted EBITDA**	**Cash flow from operations**
Reported	226.9	489.6	163.0	89.2	163.5	171.8
S&P Global Ratings' adjustments						
Cash taxes paid	--	--	--	--	(5.2)	--
Cash interest paid	--	--	--	--	(5.9)	--
Cash interest paid: Other	--	--	--	--	(3.1)	--
Reported lease liabilities	53.6	--	--	--	--	--
Accessible cash and liquid investments	(201.9)	--	--	--	--	--
Share-based compensation expense	--	--	0.5	--	--	--
Asset-retirement obligations	3.4	--	--	--	--	--

Table 1

Bahrain Telecommunications Co.--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. BHD) (cont.)						
Nonoperating income (expense)	--	--	--	3.9	--	--
Reclassification of interest and dividend cash flows	--	--	--	--	--	(1.9)
Noncontrolling interest/minority interest	--	41.1	--	--	--	--
Total adjustments	(144.9)	41.1	0.5	3.9	(14.2)	(1.9)
S&P Global Ratings' adjusted amounts						
	Debt	**Equity**	**EBITDA**	**EBIT**	**Funds from operations**	**Cash flow from operations**
Adjusted	81.9	530.7	163.5	93.1	149.3	169.9

BHD--Bahraini dinar.

Liquidity: Adequate

We assess Batelco's liquidity as adequate, based on our estimate that liquidity sources will exceed uses by 1.2x over the 12 months started March 31, 2022.

Principal liquidity sources	Principal liquidity uses
• Consolidated cash and equivalents of about BHD229 million; • Undrawn bank lines of about BHD3.6 million maturing in more than 12 months; and • Estimated funds from operations of about BHD140 million-BHD150 million.	• Debt maturities of BHD4.4 million; • Annual capex of BHD100 million to BHD1105 million; • Dividends of about BHD55 million-BHD60 million; and • Minimal working capital outflow. We do not account for the company's share buyback plans as those are not a contracted cash outflow. Cash uses may be significantly higher than the aforementioned estimates if acquisition opportunities arise or there are exceptional dividends, which we do not factor into our base case.

Covenant Analysis

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 0.5x at the end March 2022) and minimum tangible net worth of BHD100 million (reported $501 million). We expect significant headroom under these covenants.

Other Credit Considerations

We factor into the rating our negative view of Batelco compared with its rated peers, given its smaller scale than global and regional peers, exposure to challenges such as high country risk in the international portfolio, and the company's financial policy, which is significantly looser than current leverage ratios. The company is committed to maintaining an adjusted net leverage ratio below 3.0x.

Group Influence (GRE)

We consider Batelco to be a government-related entity (GRE) due to the sovereign's stake of about 77% in the company. 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 GCC 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.

Environmental, Social, And Governance

ESG Credit Indicators

E-1	**E-2**	E-3	E-4	E-5	S-1	**S-2**	S-3	S-4	S-5	G-1	G-2	**G-3**	G-4	G-5

- N/A	- N/A	- Other governance factors

N/A—Not applicable. ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicator Definitions And Applications," published Oct. 13, 2021.

Governance factors are a moderately negative consideration in our credit rating analysis of Batelco. Our view reflects the elevated country-related governance risks in Bahrain, where the company generates close to 47% of its revenue. We assess the company's management and governance as fair, taking into account its detailed disclosures and track record of strategic planning, mitigated by headroom under its financial policy framework that would allow for higher debt (adjusted debt to EBITDA below 3.0x).

Issue Ratings - Subordination Risk Analysis

Capital structure

Batelco's capital structure primarily comprises a term loan of $450 million (BHD170 million). This represents around 75% of gross debt, which is raised at the parent level.

Analytical conclusions

In the absence of significant subordination risk because 76% of gross debt is at the parent level, we rate Batelco's debt at 'B+'. This is in line with the foreign currency issuer credit rating on Batelco. We think that Batelco's strong balance sheet helps it offset subordination risks.

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 (no impact)

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 | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Bahrain 'B+/B' Ratings Affirmed; Outlook Stable, April 12, 2022

Business And Financial Risk Matrix

	Financial Risk Profile					
Business 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+
Fair	bbb/bbb-	**bbb-**	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Ratings Detail (As Of July 27, 2022)*	
Bahrain Telecommunications Co.	
Issuer Credit Rating	B+/Stable/B
Issuer Credit Ratings History	
29-Nov-2021	B+/Stable/B

Ratings Detail (As Of July 27, 2022)*(cont.)	
02-Jun-2021	B+/Negative/B
01-Apr-2020	B+/Stable/B
10-Dec-2019	B+/Positive/B
05-Dec-2017	B+/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.