

Research Update:

Bahrain Telecommunications Co. Outlook Revised To Positive In Line With Sovereign; 'B+/B' Ratings Affirmed

November 30, 2022

Rating Action Overview

- On Nov. 25, 2022, we revised our outlook on Bahrain to positive from stable.
- Our rating on Bahrain drives our long-term rating on Bahrain Telecommunications Co. (Batelco) because we view Batelco as a government-related entity (GRE), with a very strong link with the government, which owns 77% of the company.
- We therefore revised our outlook on Batelco to positive from stable and affirmed our 'B+/B' long- and short-term issuer credit ratings on the company.
- The stand-alone credit profile of Batelco remains unchanged at 'bb+'.
- The positive outlook mirrors that on Bahrain, with any upside for Batelco dependent on a stronger sovereign rating.

PRIMARY CREDIT ANALYST

Tatjana Lescova
Dubai
+ 97143727151
tatjana.lescov
@spglobal.com

SECONDARY CONTACT

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

Rating Action Rationale

The outlook revision follows a similar action on Bahrain. We revised our outlook on Bahrain to positive on Nov. 25, 2022(see "Bahrain Outlook Revised To Positive From Stable On Improving Fiscal Trajectory; 'B+/B' Ratings Affirmed," published Nov. 25, 2022, on RatingsDirect). Given Batelco's very strong link with the government, our rating on Bahrain drives our long-term rating on the company. This is because we think the government can influence Batelco's financial policy and strategy, as well as industry regulation and taxation.

We consider Batelco a GRE due to the sovereign's stake of about 77%. In accordance with our criteria for GREs, we base our view of a moderately high likelihood of extraordinary government support on our assessment of Batelco's:

- Limited importance for the government, given that increased competition in Bahrain's telecommunications market has resulted in a meaningful market share decline for Batelco. We also think the telecom regulator is independent from the government, especially compared with

those in most other Gulf Cooperation Council countries, where the introduction of competition has not significantly affected incumbent telecom operators. Therefore, we think the Bahraini 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 are members of the government.

Batelco's stand-alone credit profile remains 'bb+', supported by steady operating performance, resilient margins, and a strong balance sheet.

This is balanced by the group's limited scale compared with global and regional peers, exposure to challenges including country risk in its international portfolio, and high capital expenditure and dividends. Over the first nine months of 2022, Batelco reported about 1% revenue growth, with a notable increase in contribution from wholesale services, while data and fixed telecommunication services declined by about 10%. S&P Global Ratings-adjusted 12-month EBITDA margin at the end of September was broadly stable at 40.1%, and adjusted debt to EBITDA was 0.5x, in line with our expectations.

Batelco's subsidiary in the Channel Islands--Sure Group--made an offer to acquire its competitor Airtel-Vodafone.

If this transaction were approved by the regulators, this would reduce the number of telecom operators to two from three currently and strengthen the group's market position. We don't expect this acquisition to have a significant impact on the group's leverage, which remains relatively low and provides headroom for external growth.

Outlook

Our positive 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 (0.5x as of Sept. 30, 2022), despite increased capital expenditure 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 raised our rating on Bahrain, provided we maintain our assessment of Batelco's relationship with the government.

Ratings Score Snapshot

Issuer Credit Rating	B+/Positive/B
Business risk:	Fair
Country risk	High
Industry risk	Intermediate
Competitive position	Fair

Issuer Credit Rating	B+/Positive/B
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)
Rating above the sovereign	-3 notches

ESG credit indicators: E-2, S-2, G-3

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- 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 23, 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 Outlook Revised To Positive From Stable On Improving Fiscal Trajectory; 'B+/B' Ratings Affirmed, Nov 25, 2022

Ratings List

Ratings Affirmed; Outlook Action

	To	From
Bahrain Telecommunications Co.		
Issuer Credit Rating	B+/Positive/B	B+/Stable/B

Certain terms used in this report, particularly certain adjectives used to 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 information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; or Stockholm (46) 8-440-5914

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