

Research Update:

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

November 28, 2023

Rating Action Overview

- On Nov. 24, 2023, we revised our outlook on Bahrain to stable from positive.
- 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 stable from positive and affirmed our 'B+/B' long- and short-term issuer credit ratings on the company. The stand-alone credit profile (SACP) on Batelco is unchanged at 'bb+'.
- The stable outlook mirrors that on Bahrain, with any upside for Batelco dependent on a higher sovereign rating.

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Rating Action Rationale

The outlook revision follows a similar action on Bahrain. We revised our outlook on Bahrain to stable from positive on Nov. 24, 2023 (see "Bahrain Outlook Revised To Stable From Positive On Weaker Fiscal Consolidation; 'B+/B' Ratings Affirmed," published 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 about 77% stake. 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.

Our SACP on Batelco 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 (capex) and dividends. Over the first nine months of 2023, Batelco reported about 6% revenue growth, mainly driven by mobile revenue growth. It also demonstrated growth across all geographical markets. The company's S&P Global Ratings-adjusted EBITDA margin for the 12 months to Sept. 30, 2023, was broadly stable at 41.2%, and adjusted debt to EBITDA remained limited at 0.7x, despite increased capex.

Outlook

Our stable outlook on Batelco mirrors that on Bahrain. In our central scenario, we assume the company will maintain its credit metrics amid a weaker economic environment domestically and internationally. We expect that Batelco will maintain steady operating performance and its adjusted debt to EBITDA will stay well below 2.0x (0.7x as of Sept. 30, 2023), despite increased capex requirements and high dividends.

Downside scenario

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

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:	

Issuer Credit Rating	B+/Stable/B
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

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 22, 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 Stable From Positive On Weaker Fiscal Consolidation; 'B+/B' Ratings Affirmed, Nov. 24, 2023

Ratings List

Ratings Affirmed; Outlook Action

	To	From
Bahrain Telecommunications Co.		
Issuer Credit Rating	B+/Stable/B	B+/Positive/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.spglobal.com/ratings for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at <https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceid/504352>. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings. Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.

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