FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Bahrain's Beyon at 'B+'; Outlook Stable

Mon 15 Jul, 2024 - 9:14 AM ET

Fitch Ratings - London - 15 Jul 2024: Fitch Ratings has affirmed Bahrain Telecommunications Company's (Beyon; formerly Batelco) Long-Term Issuer Default Rating (IDR) at 'B+'. The Outlook is Stable. A full list of rating actions is provided below.

Fitch views Beyon as a government-related entity (GRE), which has a support score of 20 under our GRE Rating Criteria. This, together with its 'bb+' Standalone Credit Profile (SCP), leads to its IDR being capped at Bahrain's sovereign rating (B+/Stable).

Beyon's SCP reflects a balance between the company's robust financial profile, strong positions in its domestic market, which drive nearly half of its adjusted operating cash flows, and the political and economic risks of the markets where Beyon operates. These risks are well managed through a conservative financial approach.

KEY RATING DRIVERS

Domestic Mobile Leader: During 2023 Beyon remained a leader in the mobile market with a subscriber share of 43%, up from 39% in 2022. Both the second- and third-largest operators Saudi Telecom Company (STC) and Zain Mobile saw their market shares drop to 34% and 23%, respectively. In a market where competition weighs on average revenue per user, maintaining or increasing market share of subscriptions is vital for revenue growth to continue. Beyon's network coverage is market-leading and continued investments in the core and radio networks should further enhance the network quality of its 5G network, bolstering its competitive position.

Leader in Fixed, Some Attrition: Beyon remains a leader in its domestic fixed-line market. However, its market share has been declining over 2000-2023 to 75% from 89%, following the separation of its fixed- line assets into a 100%-owned BNET and opening wholesale access of its network to STC and Zain. We expect competition to remain stiff. However, Beyon's well-invested fibre assets and its network investments including in subsea cables should support the company's market positions.

Digital Services Strategic Focus: In 2022 the company was rebranded from 'Batelco' to 'Beyon', as part of a diversification into digital services away from being a pure telecom operator. It launched Beyon Solutions and Connect in 2022, in addition to Beyon Money. Beyon's cybersecurity unit has established itself as a leading operator in the sector, serving six of the largest banks in Bahrain. Digital services contributed a modest share of 3% to 2023 revenue but we expect them to be a driver of growth.

Capex Increasing: Fitch expects capex to remain high in 2024, driven by investments in sub-sea cabling, data centres and the continued rollout of 5G and fiber networks. In 2023 Beyon announced plans to invest USD250 million in two sub-sea cables and a new data centre. These investments should contribute to EBITDA growth for Beyon over the next five years.

Low Leverage: We expect higher capex to increase Fitch-defined EBITDA net leverage to around 1.1x-1.2x in 2024-2025 from 0.3x in 2023. At this level, Beyon maintains ample leverage headroom at its rating, demonstrating a commitment to a conservative financial policy. Beyon's leverage is similar to higher-rated telecom peers' and low for its 'B+' rating.

Diverse International Operations: Beyon's largest international operations are in Jordan, the Maldives, Guernsey, Jersey, Isle of Man, South Atlantic and Diego Garcia. It has the largest or second largest shares in most of its international markets, which enable it to generate strong free cash flow (FCF). However, the economic and political risks of Beyon's international markets constrain Beyon's SCP.

In Jordan (about 24% of group revenue in 2023), Beyon's subsidiary Umniah is a market challenger with the third largest share in both the mobile and fixed markets. Umniah is gradually building scale and deploying fibre in partnership with local electricity utilities and increasing 5G mobile coverage. This helped lift its market shares in mobile and fixed-line to 28.2% and 32.4% in 2023, from 27.5% and 29.8% in 2022, respectively, based on the group's estimates.

Links with Sovereign: The Bahraini government is invested in Beyon via Bahrain Mumtalakat Holding Company B.S.C. (c) (37%; B+/Stable), Amber Holding (20%) and the Social Insurance Organisation (SIO; 20%). Bahrain-based diversified investment holding company, Mumtalakat, is 100%-owned by the Bahrain government and is the government's investment arm. Through these entities, the Bahraini government exerts strong control over Beyon, and is represented by eight of 10 directors on the company's board: four from Mumtalakat (including the chair) and two each from SIO and Amber Holding.

Rating Constrained at Sovereign Level: Our assessment of Beyon's overall links with the state under our GRE Rating Criteria is 'Strong' with a support score of 20 out of a maximum 60. As Beyon's 'bb+' SCP is above the sovereign IDR, this results in the Beyon's IDR being constrained by the sovereign's IDR.

Strong Support Responsibility, Weaker Incentive: We score two responsibility-to-support factors under our GRE Criteria as 'Strong'. This reflects its majority ownership by the state and the government's ability to appoint eight of Beyon's 10 board members. Only one of the incentive-to-support factors is scored as 'Strong'. Beyon is a high-profile issuer in Bahrain, with default contagion risk for other GREs and we view the incumbent's fixed-line telecom assets as nationally and strategically important for Bahrain. However, we would expect only limited operational disruption to national telecom networks in a Beyon default.

DERIVATION SUMMARY

Beyon's 'bb+' SCP reflects its incumbent position in its domestic market, low leverage as well as risks in its international operations. We do not expect Beyon to be rated above the sovereign, especially given the government's significant shareholding in the group and strong ties with the state.

Oman Telecommunications Company S.A.O.G. (Omantel; BB+/Stable) is of similar size, with its rating similarly capped by the sovereign rating. Other telcos in the region, such as Ooredoo Q.P.S.C. (A/Stable), are much larger and can rely on domestic markets that are less competitive, as well as on government support.

KEY ASSUMPTIONS

Fitch's Key Assumptions Within Our Rating Case for the Issuer

-- Revenue growth of 7.4% in 2024 and then 3%-5% per year in 2025 to 2027

-- Fitch-defined EBITDA margin of around 36% in 2024-2027

-- Capex at 34% of sales in 2024, reflecting investments in sub-sea cables and data centres, before falling to 19% by 2026

-- Dividend of BD65 million (including a special dividend) in 2024 and BD60 million per year in 2025-2027

-- M&A cash outflow of BD40 million in 2024

RATING SENSITIVITIES

Beyon

Factors That Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade:

- An upgrade of the sovereign rating, or a revision of the Outlook to Positive, with continued support from the government of Bahrain, without weakening in its linkage with the sovereign

Factors That Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade:

- Negative rating action on the sovereign

- Pressure on FCF driven by EBITDA margin erosion, consistently higher capex and shareholder distributions, or significant underperformance in the core domestic market and at other key subsidiaries could be negative for the SCP but not necessarily for the IDR

- Fitch-defined EBITDA net leverage remaining above 4.2x and failure to deleverage below this threshold within the next 18 months could pressure the SCP but not necessarily the IDR

Bahrain

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade:

-Public Finances: Further deterioration of public debt dynamics, for example, due to a sustained fall in oil prices below our long-term assumptions, or longer delays in implementing fiscal reforms that reduce the fiscal breakeven oil price

-External Finances: Signs of weakening GCC support, which could place greater pressure on the balance of payments and currency peg amid low levels of reserves. This could lead to the removal of the +1 notch on external finances

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade:

-Public Finances: Confidence in a sustained reduction in government debt/GDP over the medium term and further structural improvement of public finances, reducing the need for a GCC financing package. This could lead to the removal of the -1 notch on public finances

-Structural Features: An easing of socio-political constraints on fiscal policy, allowing for deeper reforms that generate higher non-oil revenue. This could lead to the removal of the -1 qualitative overlay notch on structural features

LIQUIDITY AND DEBT STRUCTURE

Adequate Liquidity: At end-2023 Beyon had BD203million of cash on its balance sheet, and BHD255 million of bank loans with maturities from 2024 to 2033.

ISSUER PROFILE

Beyon is an international converged telecommunications services provider and the incumbent operator in its domestic market Bahrain.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

Beyon's IDR is capped at Bahrain's IDR under Fitch's GRE Criteria.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY / DEBT ⬍	RATING ⬍	PRIOR ⬍

Bahrain Telecommunications Company	LT IDR Affirmed	B+ Rating Outlook Stable	B+ Rating Outlook Stable

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Corporate Rating Criteria (pub. 03 Nov 2023) (including rating assumption sensitivity)

Sector Navigators – Addendum to the Corporate Rating Criteria (pub. 21 Jun 2024)

Government-Related Entities Rating Criteria (pub. 09 Jul 2024)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.1.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Bahrain Telecommunications Company	UK Issued, EU Endorsed

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