

Research Update:

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

June 2, 2021

Rating Action Overview

- On May 28, 2021, we revised our outlook on Bahrain to negative from stable.
- Our rating on Bahrain drives our long-term rating on Bahrain Telecommunications Co. (Batelco) because of Batelco's very strong link with the government.
- We revised our outlook on Batelco to negative from stable and affirmed our 'B+/B' long- and short-term issuer credit ratings on the company.
- The negative outlook indicates that we could lower the ratings if we take a similar rating action on Bahrain.

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Rating Action Rationale

The outlook revision follows a similar action on Bahrain (B+/Negative/B) on May 28, 2021 (see "Bahrain Outlook Revised To Negative On Persistent Fiscal And External Pressure; 'B+/B' Ratings Affirmed").

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 as a government-related entity (GRE) due to the sovereign's stake of about 77% in the company. 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 the majority of 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 solid 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.

Outlook

The negative outlook indicates that a downgrade of Bahrain would lead us to lower our ratings on Batelco.

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 revise the outlook on Batelco to stable if we took a similar rating action on Bahrain, provided we maintained our view of Batelco's stand-alone credit quality and relationship with the government.

Ratings Score Snapshot

Issuer Credit Rating: B+/Negative/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

- 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 Outlook Revised To Negative On Persistent Fiscal And External Pressure; 'B+/B' Ratings Affirmed, May 28, 2021

Ratings List

Ratings Affirmed; Outlook Action

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

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