

10 JUN 2021

Fitch Affirms Batelco at 'B+'; Outlook Stable

Fitch Ratings - London - 10 Jun 2021: Fitch Ratings has affirmed Bahrain Telecommunications Company's (Batelco) Long-Term Issuer Default Rating (IDR) and senior unsecured rating at 'B+'. The Outlook is Stable. A full list of rating actions is provided below.

The IDR of Batelco is linked to Bahrain's sovereign rating (B+/ Stable), reflecting its 77% ownership and strong control by the Bahraini government. Batelco's Standalone Credit Profile (SCP) of 'bb+' is higher than its IDR. The SCP reflects a balance between its strong position in its domestic market, which drives nearly half of its adjusted operating cashflows, and the political and economic risks of the countries in which Batelco has international operations. These risks are effectively managed through a conservative financial approach.

Key Rating Drivers

Profitable Growth Despite Covid-19: Batelco reported a 4% revenue decline in 2020, primarily as a result of declines in legacy products and weaker mobile roaming due to the impact of coronavirus measures. It was able to effectively offset these at the underlying EBITDA level (adjusted for right-of-use asset depreciation and interest on lease liabilities), which grew 9% YoY due to lower operating expenses. The lower operating cost structure should support continued EBITDA growth this year.

Domestic Market Underpins Rating: Bahrain is a key market for Batelco, accounting for 47% of total revenue and adjusted EBITDA in 2020. Its operating position in its domestic market is improving following the deployment of its fibre network. However, competition in the mobile segment remains intense as third mobile operator STC Bahrain tries to build revenue market share. Pursuing a convergence strategy focused on a high-quality fixed and mobile infrastructure is allowing Batelco to retain its strong market shares in the mid- to high-value consumer segment and the business segment.

Bahrain Network Separation: The separation of Batelco's network into two legal entities is a regulatory requirement. The separation (similar to BT Group in the UK) creates a separate fixed-line entity that has the obligation to serve both internal and external wholesale customers equally without discrimination. The separation may create greater competitive pressure on retail broadband prices in the short- to- medium term. Should these pressures materialise, we do not expect them to have a significant impact on the rating given the level of wholesale prices, potential for growth in the wholesale division and Batelco's moderate leverage.

Diverse International Operations: Batelco's largest international operations are in the Maldives, Jordan and the Channel Islands. Batelco has a number one or two market position in most of its international markets that enable them to generate strong free cashflow. In Jordan (about 20% of adjusted group

EBITDA), Batelco is a market challenger, with a 25% share in the mobile market. It is gradually building scale and deploying fibre in partnership with local electricity utilities, which should support its market position and drive growth from broadband and convergent services. The economic and political risks of some Batelco's international markets restrains the group's SCP.

Portfolio Reshaping: Batelco's strategy is to optimise the group's core businesses and grow beyond the core network connectivity business. This could involve investing in select segments that have strong digital growth potential. Batelco has a conservative financial profile to support the strategy implementation and reshaping of portfolio.

Low Leverage: Fitch views Batelco's financial profile as strong, underpinned by our expectation of a conservative leverage profile, and sound liquidity over the medium term. We expect funds from operations (FFO) net leverage to stabilise at around 0.5x over the medium term (versus 0.6x at end-2020), a level that is low for the 'B+' rating.

Strong State Influence: The Bahraini government is invested in Batelco via Bahrain Mumtalakat Holding Company (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 Batelco, and is represented by eight of 10 directors on the group's board: four from Mumtalakat (including the Chairman); two each from SIO and Amber Holding.

GRE Criteria Application: Batelco's IDR is constrained by the sovereign's based on Fitch's Government-Related Entities (GRE) Rating Criteria and Parent and Subsidiary Rating Linkage Criteria. Under the GRE Rating Criteria we assess status, ownership and control; support track record and expectations as well as financial implications of a GRE default as 'Strong'. We view socio-political impact of a GRE default as 'Moderate'.

Derivation Summary

The SCP of 'bb+' of Batelco reflects its incumbent position in its domestic market, low leverage as well as risks to its international operations. We do not envisage Batelco being rated above the sovereign rating, especially given the government's significant shareholding in the company and strong ties between the group and the state. Oman Telecommunications Company S.A.O.G. (Omantel; BB-/Negative) is of similar size, with its rating similarly capped by the sovereign rating. Other telcos in the region such as Emirates Telecommunications Group Company PJSC (Etisalat; A+/Stable) and 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

- Reported revenue growth of 2%-3% per year in 2021 to 2023
- Adjusted EBITDA margin around 37.5%% in 2021 and gradually increasing to over 38% by 2023
- Right-of-use asset depreciation and interest on lease liabilities at BHD11 million-BHD12 million for the next three years
- Capex at around 25% of sales in 2021 and declining to around 18% by 2023
- Dividend growth of 4% per year through to 2023

Key Recovery Rating Assumptions:

With low leverage, recovery prospects of Batelco's senior unsecured debt are good, assuming a distressed enterprise value (EV)/EBITDA multiple of 5.5x is used to calculate the post-reorganisation valuation.

Fitch calculates the recovery prospects for Batelco's senior unsecured debt at 100%, but the Recovery Rating is capped at 'RR4'/50% by country risk considerations.

RATING SENSITIVITIES

Batelco

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- An upgrade of the sovereign rating, or a change of the Outlook to Positive, with continued support from the government of Bahrain, without a weakening in the 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 under-performance in the core domestic market and at other key subsidiaries may be negative for the SCP but not necessarily the IDR.
- FFO net leverage sustained above 4.5x with failure to deleverage below such a threshold within the next 18 months may put pressure on the SCP but not necessarily the IDR.

Bahrain Sovereign

The main factors that could, individually or collectively, lead to positive rating action/upgrade are:

- Public Finances: Confidence in a narrowing of the budget deficit and a firm downward path in government debt/GDP over the medium term from a projected peak of around 133%, reducing the potential need for an expanded GCC financing package beyond 2023 and causing the removal of the -1

QO notch for Public Finances.

- Structural Features: A marked reduction in domestic and regional political risks or greater evidence of weaker socio-political constraints on fiscal policy, allowing for deeper reforms to use GDP per capita for generating more substantial diversified revenue and causing the removal of the -1 QO notch.

The main factors that could, individually or collectively, lead to negative rating action/downgrade:

-Public Finances: Further significant deterioration of public debt dynamics, or increased financing constraints including a weakening of financial support from GCC partners.

-External Finances: Signs of lessening GCC support which could place greater pressure on the balance of payments and currency peg and lead to the removal of the +1 notch on External Finances.

-Structural: Severe deterioration of the domestic security environment that hits economic performance and hinders fiscal reform implementation.

Best/Worst Case Rating Scenario

International scale credit ratings of Non-Financial Corporate issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

Liquidity and Debt Structure

Adequate Liquidity: At end-2020 Batelco had BHD195.3 million of cash on its balance sheet, and BHD7.2 million of Bahrain sovereign bonds with next maturities in 2022 and 2023.

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.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This 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. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

Fitch Ratings Analysts

Tajesh Tailor

Senior Director

Primary Rating Analyst

+44 20 3530 1726

Fitch Ratings Ltd 30 North Colonnade, Canary Wharf London E14 5GN

Shrouk Diab

Associate Director

Secondary Rating Analyst

+971 4 424 1250

Damien Chew, CFA

Senior Director

Committee Chairperson

+44 20 3530 1424

Media Contacts

Adrian Simpson

London

+44 20 3530 1010

adrian.simpson@thefitchgroup.com

Rating Actions

ENTITY/DEBT	RATING		RECOVERY	PRIOR
Bahrain Telecommunications Company	BBB- B+	●	Affirmed	B+ ●
• senior unsecured LT	B+		Affirmed	RR4 B+

RATINGS KEY OUTLOOK WATCH

POSITIVE



NEGATIVE



RATINGS KEY OUTLOOK WATCH

EVOLVING



STABLE



Applicable Criteria

[Corporate Rating Criteria \(pub.21 Dec 2020\) \(including rating assumption sensitivity\)](#)

[Corporates Recovery Ratings and Instrument Ratings Criteria \(pub.09 Apr 2021\) \(including rating assumption sensitivity\)](#)

[Country-Specific Treatment of Recovery Ratings Criteria \(pub.05 Jan 2021\)](#)

[Government-Related Entities Rating Criteria \(pub.30 Sep 2020\)](#)

[Parent and Subsidiary Linkage Rating Criteria \(pub.26 Aug 2020\)](#)

Applicable Models

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

Corporate Monitoring & Forecasting Model (COMFORT Model), v7.9.0 [\(1\)](#)

Additional Disclosures

[Solicitation Status](#)

Endorsement Status

Bahrain Telecommunications Company UK Issued, EU Endorsed

Disclaimer

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK:

[HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://www.fitchratings.com/understandingcreditratings). IN ADDITION, THE

FOLLOWING [HTTPS://WWW.FITCHRATINGS.COM/RATING-DEFINITIONS-DOCUMENT](https://www.fitchratings.com/rating-definitions-document) DETAILS FITCH'S RATING DEFINITIONS FOR EACH RATING SCALE AND RATING CATEGORIES, INCLUDING DEFINITIONS RELATING TO DEFAULT. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE AVAILABLE AT [HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY](https://www.fitchratings.com/site/regulatory). FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR WHICH THE LEAD ANALYST IS BASED IN AN ESMA- OR FCA-REGISTERED FITCH RATINGS COMPANY (OR BRANCH OF SUCH A COMPANY) CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH RATINGS WEBSITE.

Copyright

Copyright © 2021 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at

the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

Endorsement policy

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch's approach to endorsement in the EU and the UK can be found on Fitch's [Regulatory Affairs](#) page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.