

Bahrain Telecommunications Co.

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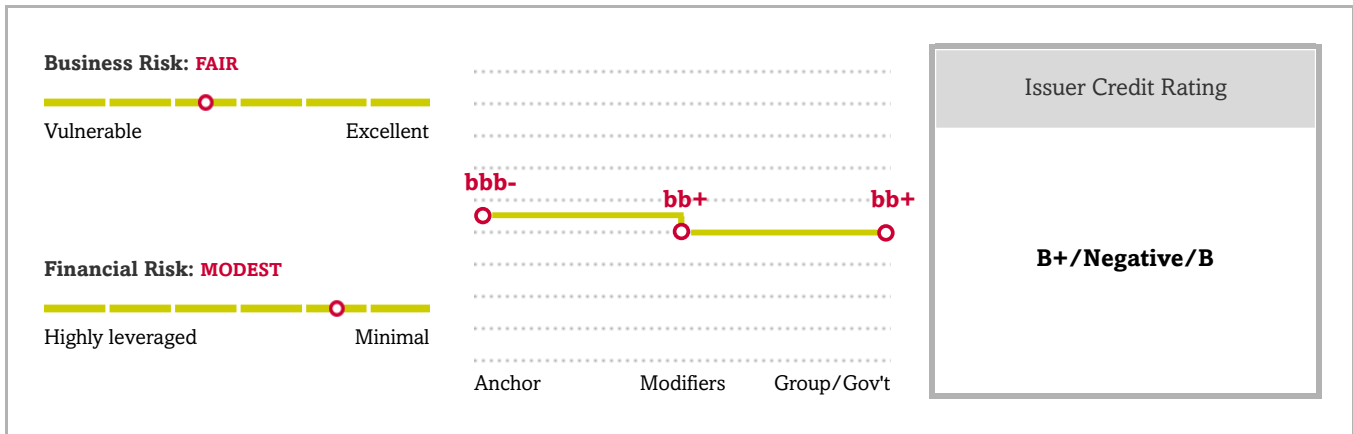
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Bahrain Telecommunications Co.



Credit Highlights

Overview	
Key strengths	Key risks
Solid position in its domestic market, benefiting from a more favorable regulatory environment, and one of the top two players in most international markets.	Smaller scale than peers', with operations in the highly competitive three-player Bahraini telecom market contributing about 47% of company revenue and EBITDA of Bahraini dinar (BHD) 155 million at end-2020.
Continued focus on cost efficiencies, supporting projected consistent profitability of S&P Global Ratings-adjusted EBITDA margin of 38%-39%.	Likely negative discretionary cash flow in 2021, constrained by sizable capital expenditure (capex) due to network upgrades, fiber rollouts, and license renewals, as well as significant dividends (90%-100% payout ratio).
Strong balance sheet with forecast adjusted debt-to-EBITDA ratio below 2x.	Increased taxes in international portfolio, most notably in Jordan.
	A very strong link to the Bahraini government (B+/Negative) that ushers in potential exposure to extraordinary negative intervention like special dividends in times of sovereign stress.

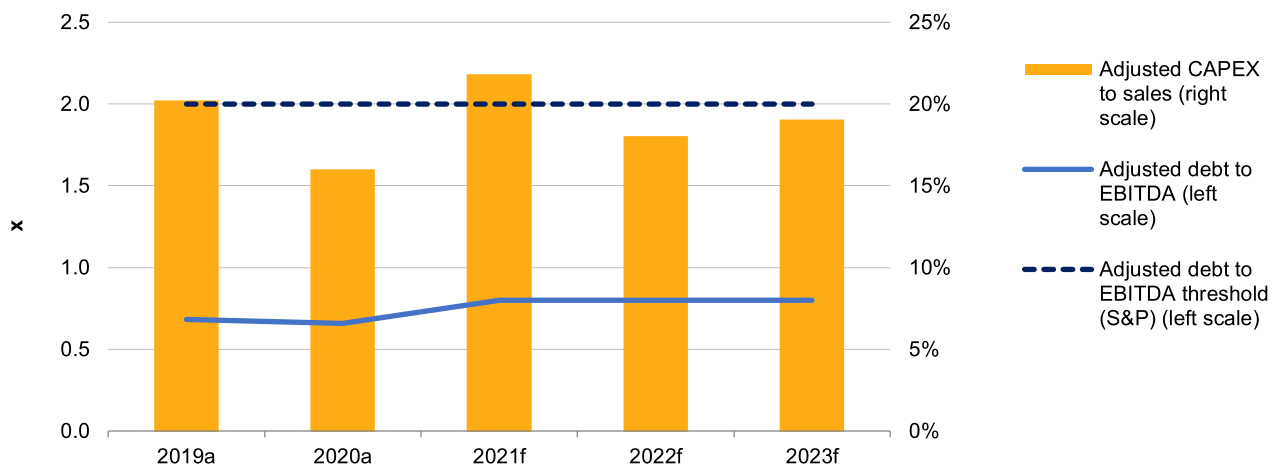
We expect Batelco's revenue will accelerate over the next two years, following a decline of about 3.5% in 2020. Under our base case for 2021-2022, Batelco's revenue is set to increase in the low-single digits. The boost will likely stem from eased COVID-19-related travel restrictions since we expect roaming revenue to increase as well as more tourists in Maldives. For first-quarter 2021, revenue rose 2% to BHD99.7 million from BHD97.6 million in first-quarter 2020. The growth continued in the second quarter with reported 6.8% year-on-year revenue increase to BHD98.4 million.

We expect Batelco will maintain its solid profitability, with adjusted EBITDA margins of 38%-39% over the next two years. In Bahrain, margins of 36%-37% will be supported by enhancements in mobile package plans and the company's continued focus on cost efficiencies, contributing about 40%-45% to total EBITDA on a reported basis. For its international portfolio (55%-60% of EBITDA), we expect adjusted EBITDA margins will remain relatively higher at about 40%-42% on the back of relatively higher profitability in the Maldives thanks to its market-leading position and service offerings, despite COVID-19-related setbacks on tourism in the country. For Batelco's remaining subsidiaries in Jordan and channel islands (Sure group), we expect EBITDA margins to remain stable, at about 30%-35% on average, on a reported basis, since Batelco remains a dominant player in its key markets. For first-quarter 2021, the adjusted EBITDA margin improved slightly to 43.9% from 42.6% year earlier, but eroded marginally in the second quarter to 42.3% from 43.6% a year ago.

Despite relatively higher capex and continued higher dividend payouts (90%-100% distribution) over the next two years, we expect net leverage will remain below 1.0x. The company plans to spend about BHD86 million in 2021 and BHD72 million in 2022, sizable investments that include 5G spectrum and cable and fiber rollouts in Bahrain and technological upgrades in its Jordan subsidiary. We note that the increase also stems from resumed capex projects following last year's pandemic-related pauses. Under our base-case forecasts, S&P Global Ratings-adjusted debt will be BHD125 million-BHD130 million over the next two years, translating to debt to EBITDA comfortably below 1.0x. Leverage is expected to remain low because capex will mostly be covered by the company's operating cash flow, which we forecast will be above BHD140 million, of which close to BHD74 million already achieved in the first year half. S&P Global Ratings-adjusted debt stood at BHD103 million as of end-March 2021.

Chart 1

Leverage Versus Capex

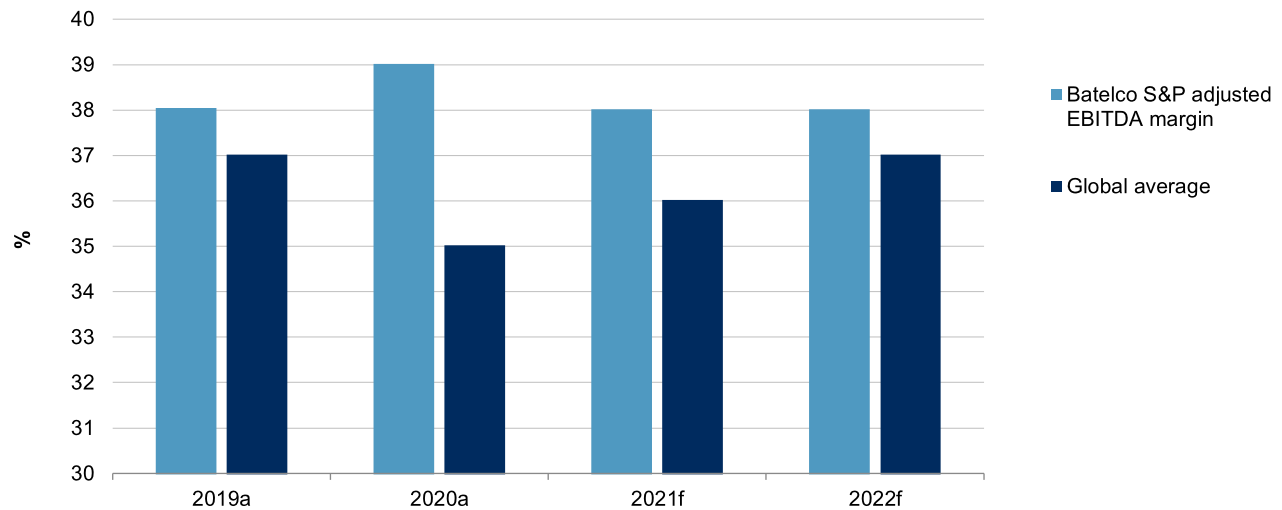


Source: S&P Global Ratings

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Chart 2

Profitability Versus Global Average



a--Actual. f--Forecast. Source: S&P Global Ratings, Industry Top Trends publication 2021
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Outlook: Negative

The negative outlook mirrors that on Bahrain, indicating that a sovereign downgrade 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.

Our Base-Case Scenario

Assumptions

- Overall improving macro environment in key operating markets in 2021-2022, following weaker environment in 2020, reflecting subdued oil prices and COVID-19 restrictions on economies. We expect GDP growth in all markets

from 2021. For Bahrain, we expect GDP growth of 2%-3% from 2021-22.

- Consolidated revenue growth of about 2%-3% per year in 2021-2022, following a 3.5% decline in 2020, supported by the company's efforts to expand its network along with 5G roll outs and increase in average revenue per user (ARPU) in the mobile and broadband segments, as well as a recovery in subscribers in the mobile segment in Bahrain and abroad.
- Low single-digit growth in the international market in 2021-2022, supported by mid to high single digit growth in Maldives in 2021-2022, due to resumption of tourism sector. We expect flat to low single-digit growth in Jordan, driven by growth in broadband revenues and decline in Sure Group revenues in 2021 due to reduced wholesale and roaming revenues.
- Adjusted EBITDA margins of about 38%-39% in 2021-2022, compared with 40% in 2020, since revenue growth was somewhat muted by higher operating expenses year on year post eased COVID-19-related lockdowns across markets.
- Capex of BHD70 million-BHD85 million in 2021 (compared to BHD62 million in 2020) due to 5G spectrum, fiber network expansion, and cable investments in Bahrain. The company's major capex plans in mobile network expansion and 5G rollout should continue to fuel broadband growth, and its upselling strategy to further increase ARPU growth, in addition to continued fiber rollout in fixed broadband.
- Annual dividends (including to minorities) of about BHD55-BHD60 million, translating into a payout ratio of about 90%-100%.

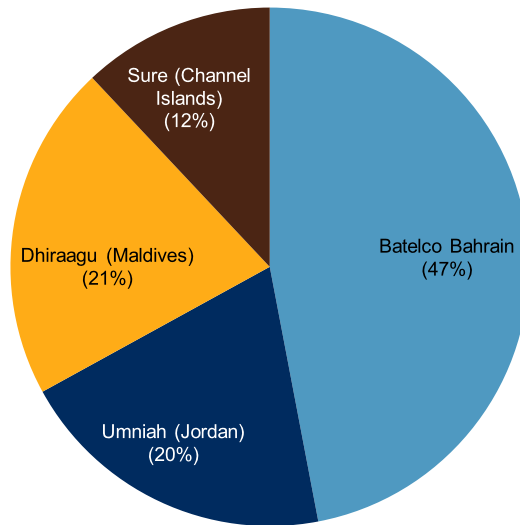
Key metrics

Bahrain Telecommunications Co.--Key Metrics*					
--Fiscal year end Dec. 31, 2020--					
	2019a	2020a	Q2-2021 RTM	2021f	2022f
(Mil. BHD)					
Revenue growth (%)	(1.1)	(3.5)	1.6	3-5	3-5
EBITDA margin (%)*	38.0	39.9	40.0	37-38	38-39
Capital expenditure	79.4	61.8	60.9	80 - 90	70-80
Debt/EBITDA (x) *	0.7	0.7	0.7	0-7-0.9	0-7-0.9
DCF	0.7	16.9	31.8	(10)-(15)	5-8
FFO/debt (%)*	127.9	133.3	136.0	100-110	110-120
FOCF/debt (%)*	55.4	76.5	88.5	30-40	50-60

*Adjusted by S&P Global Ratings. a--Actual. e--Estimate. f--Forecast. BHD--Bahraini dinar.

Company Description

Batelco is a Bahrain-based integrated telecom operator providing mobile, fixed telephony, and broadband services across Bahrain, Jordan, the Maldives, some British islands (including Guernsey, Jersey, and the Isle of Man), and Yemen (through its 27% shareholding). Batelco's revenue reached BHD387.3 million (\$1.03 billion) in fiscal year ended Dec. 31, 2020 (FY2020), with a total subscriber base of 8.2 million (including Sabafon and Atheeb).

Chart 3**Segmental Breakdown By EBITDA FY 2020**

Source: Company reports

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The Bahraini government, through three Bahraini-related entities, owns a 77% stake in the group, with the remaining 23% floated on the Bahrain Stock Exchange

Peer Comparison

Table 1

Bahrain Telecommunications Co.--Peer Comparison

	Bahrain Telecommunications Co.	Emirates Telecommunications Group Co. PJSC	Ooredoo Q.P.S.C.	Turk Telekom	Turkcell Iletisim Hizmetleri A.S.
Ratings as of Aug. 4, 2021	B+/Negative/B	AA-/Stable/A-1+	A-/Stable/A-2	BB-/Stable/B	BB-/Stable/--
--Fiscal year ended Dec. 31, 2020--					
(Mil. \$)					
Revenue	1,028.2	14,078.1	7,929.2	3,809.2	3,844.2
EBITDA	410.7	6,491.6	3,337.9	1,637.4	1,365.1
Funds from operations (FFO)	360.3	5,514.3	2,604.7	1,300.2	1,044.3

Table 1

Bahrain Telecommunications Co.--Peer Comparison (cont.)						
	Bahrain Telecommunications Co.	Emirates Telecommunications Group Co. PJSC	Ooredoo Q.P.S.C.	Turk Telekom	Turkcell Iletisim Hizmetleri A.S.	
Interest expense	39.7	362.1	562.8	350.8	148.6	
Cash interest paid	35.4	490.9	539.7	306.8	256.2	
Cash flow from operations	370.7	5,061.6	3,157.0	1,561.7	1,470.9	
Capital expenditure	164.0	1,929.6	1,700.1	820.8	742.4	
Free operating cash flow (FOCF)	206.8	3,132.1	1,457.0	740.9	728.5	
Discretionary cash flow (DCF)	45.0	844.6	1,099.5	659.9	613.4	
Cash and short-term investments	519.8	8,806.8	4,049.5	588.4	1,597.1	
Debt	270.2	913.4	8,133.8	2,490.9	1,544.2	
Equity	1,359.4	16,485.3	7,746.4	1,620.9	2,617.2	
Adjusted ratios						
EBITDA margin (%)	39.9	46.1	42.1	43.0	35.5	
Return on capital (%)	13.6	27.7	7.3	26.8	18.4	
EBITDA interest coverage (x)	10.3	17.9	5.9	4.7	9.2	
FFO cash interest coverage (x)	11.2	12.2	5.8	5.2	5.1	
Debt/EBITDA (x)	0.7	0.1	2.4	1.5	1.1	
FFO/debt (%)	133.3	603.7	32.0	52.2	67.6	
Cash flow from operations/debt (%)	137.2	554.2	38.8	62.7	95.3	
FOCF/debt (%)	76.5	342.9	17.9	29.7	47.2	
DCF/debt (%)	16.6	92.5	13.5	26.5	39.7	

Batelco enjoys solid profitability (EBITDA margin of over 38%) with a strong balance sheet position (adjusted net debt to EBITDA below 1.0x) in FY2020.

Compared with Turkish peers, Batelco is much smaller in scale, but has a stronger balance sheet.

Among Batelco's peers across the Gulf Cooperation Council, Ooredoo is the closest peer in terms of stand-alone credit quality. We view Ooredoo as stronger, given its larger scale, greater geographical diversity, and slightly higher profitability, which is mainly a reflection of the more-favorable competitive landscape in Qatar (a duopoly, compared with Bahrain's three-player market). Nevertheless, we note that Batelco enjoys a stronger balance sheet (leverage below 1.0x versus Ooredoo's 2.0x-2.5x ratio), which gives it a better financial standing to withstand the high capex needs and sizable dividends both operators face.

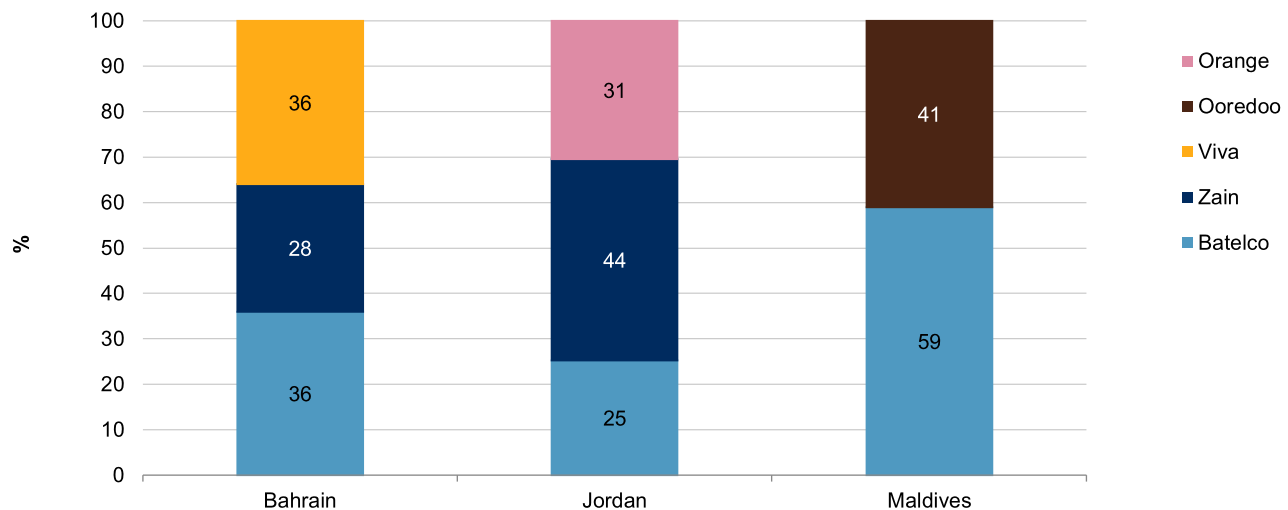
Business Risk: Fair

We expect Batelco to maintain its market position in Bahrain (36% market share of mobile revenues 2020) and in its international markets where it is one of the leading telecom providers in Jordan (No.3), Maldives (No.1), and Channel Islands and other islands (No.1).

Our business risk assessment is supported by Batelco's solid operating performance, with S&P Global Ratings-adjusted EBITDA margins expected to be 38%-39% over the next two years. However, we note constraint from the company's fairly small operational scale compared to global and regional peers. Most of its operational markets have relatively small populations, where we see country risk exposure--such as increased taxes in Jordan and evolving competitive landscape in its domestic market.

Chart 4

Mobile Subscriber Market Share By Country For Key Operations (2020a)



a--Actual. Source: Company reports S&P Global Ratings.

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Financial Risk: Modest

Our assessment of Batelco's financial risk profile incorporates the company's strong balance sheet, and its relatively limited financial leverage.

Under our base case, we assume average capital spending of about BHD70 million-BHD85 million annually through 2022 and annual dividends of averaging about BHD60 million, we expect the company's net debt to EBITDA ratio to remain below 1.0x over the next two years. We also see a potential for negative discretionary cash flow in 2021, due to

relatively higher capex and consistent dividends.

Financial summary

Table 2

Bahrain Telecommunications Co.--Financial Summary					
Industry sector: Diversified telecom					
	--Fiscal year ended Dec. 31--				
	2020	2019	2018	2017	2016
(Mil. BHD)					
Revenue	387.3	401.5	405.9	379.4	367.1
EBITDA	154.7	152.7	148.3	135.4	137.1
Funds from operations (FFO)	135.7	133.4	128.5	117.8	119.0
Interest expense	15.0	15.4	15.0	13.1	13.3
Cash interest paid	13.3	12.3	13.7	11.9	12.1
Cash flow from operations	139.6	137.1	113.2	93.2	130.3
Capital expenditure	61.8	79.4	48.3	54.2	72.6
Free operating cash flow (FOCF)	77.9	57.7	64.9	39.0	57.8
Discretionary cash flow (DCF)	16.9	0.7	12.4	(15.9)	6.2
Cash and short-term investments	195.8	202.6	142.8	158.7	172.4
Gross available cash	195.8	202.6	155.6	158.7	172.4
Debt	101.8	104.3	133.5	115.3	119.6
Equity	512.1	513.4	504.9	502.5	537.0
Adjusted ratios					
EBITDA margin (%)	39.9	38.0	36.6	35.7	37.4
Return on capital (%)	13.6	14.6	11.7	10.8	10.4
EBITDA interest coverage (x)	10.3	9.9	9.9	10.3	10.3
FFO cash interest coverage (x)	11.2	11.9	10.4	10.9	10.8
Debt/EBITDA (x)	0.7	0.7	0.9	0.9	0.9
FFO/debt (%)	133.3	127.9	96.3	102.1	99.5
Cash flow from operations/debt (%)	137.2	131.5	84.8	80.8	109.0
FOCF/debt (%)	76.5	55.4	48.6	33.8	48.3
DCF/debt (%)	16.6	0.7	9.3	(13.8)	5.2

Reconciliation

Table 3

Bahrain Telecommunications Co.--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. BHD)

--Fiscal year ended Dec. 31, 2020--						
Bahrain Telecommunications Co. reported amounts						
	Debt	Shareholders' equity	EBITDA	Operating income	S&P Global Ratings' adjusted EBITDA	Cash flow from operations
Reported	223.6	473.2	154.7	81.1	154.7	143.4

Table 3**Bahrain Telecommunications Co.--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. BHD) (cont.)**

S&P Global Ratings' adjustments						
Cash taxes paid	--	--	--	--	(5.6)	--
Cash interest paid	--	--	--	--	(11.2)	--
Cash interest paid: Other	--	--	--	--	(2.2)	--
Reported lease liabilities	51.0	--	--	--	--	--
Postretirement benefit obligations/deferred compensation	--	--	0.0	0.0	--	--
Accessible cash and liquid investments	(176.2)	--	--	--	--	--
Asset-retirement obligations	3.3	--	--	--	--	--
Nonoperating income (expense)	--	--	--	2.4	--	--
Reclassification of interest and dividend cash flows	--	--	--	--	--	(3.8)
Noncontrolling interest/minority interest	--	38.9	--	--	--	--
Total adjustments	(121.8)	38.9	0.0	2.5	(19.0)	(3.8)
S&P Global Ratings' adjusted amounts						
	Debt	Equity	EBITDA	EBIT	Funds from operations	Cash flow from operations
Adjusted	101.8	512.1	154.7	83.6	135.7	139.6

BHD--Bahraini dinar.

Liquidity: Adequate

We assess Batelco's liquidity as adequate, based on our estimate that liquidity sources will exceed uses by 1.2x over the 12 months started after June 30, 2021. Below, our forecast principal liquidity sources and uses for the same period.

Principal liquidity sources	Principal liquidity uses
<ul style="list-style-type: none"> Consolidated cash and equivalents of close to about BHD200 million; Undrawn bank lines of about BHD15 million; and Estimate funds from operations of about BHD130 million-BHD140 million. 	<ul style="list-style-type: none"> Debt maturities of BHD5.7 million; Annual capex of BHD80 million to BHD85 million; and Dividends of about BHD55 million-BHD60 million. Minimal working capital outflow. <p>We do not account for share buyback plans announced by the company as it is not a contracted cash outflow.</p> <p>We are mindful that cash uses may be significantly higher than the aforementioned estimates if acquisition</p>

opportunities arise or there are exceptional dividends, which are not factored into our base case.

Covenant Analysis

We understand that the \$450 million term loan is subject to a maximum net debt (including letters of credits, guarantees, and finance leases) to EBITDA covenant of 3.0x (reported net debt to EBITDA of 0.7x) and minimum tangible net worth of \$265 million (reported \$501 million). We expect significant headroom under the covenants.

Other Credit Considerations

We factor into the rating our negative view of Batelco compared with its rated peers, given its smaller scale compared to global and regional peers, exposure to challenges such as high country risk in the international portfolio, and the company's financial policy, which is significantly looser than current leverage ratios.

Group Influence

We consider Batelco to be a government-related entity (GRE) due to the sovereign's stake of about 77% in the company. Our view of a moderately high likelihood of extraordinary government support is based on our assessment of Batelco's:

- Limited importance for the government, given that increased competition in the Bahraini telecoms market has resulted in a meaningful market share decline for Batelco. It also reflects our view that the Bahraini telecoms regulator is independent from the government, especially compared with the majority of other GCC countries, where the introduction of competition has not significantly affected incumbent telecoms operators. Therefore, we believe that the Bahrain 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 comprises members of the government.

Given Batelco's very strong link with the government, our rating on Bahrain caps the company's long-term rating because we believe the government can influence Batelco's financial policy and strategy, as well as industry regulation or taxation.

Issue Ratings - Subordination Risk Analysis

Capital structure

Batelco's capital structure primarily comprises a term loan of \$450 million (BHD170 million). This represents around 76% of gross debt, which is raised at the parent level.

Analytical conclusions

In the absence of significant subordination risk as 76% of gross debt is at the parent level, we rate Batelco's debt at 'B+'. This is in line with the foreign currency issuer credit rating Batelco. We think that Batelco's strong balance sheet helps it offset subordination risks.

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 (no impact)

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

Business And Financial Risk Matrix

Business Risk Profile	Financial Risk Profile					
	Minimal	Modest	Intermediate	Significant	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Ratings Detail (As Of August 5, 2021)*

Bahrain Telecommunications Co.

Issuer Credit Rating B+/Negative/B

Issuer Credit Ratings History

02-Jun-2021	B+/Negative/B
01-Apr-2020	B+/Stable/B
10-Dec-2019	B+/Positive/B
05-Dec-2017	B+/Stable/B
05-Jun-2017	BB-/Negative/B
12-Dec-2016	BB-/Stable/B

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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