

## Bahrain Telecommunications Downgraded To 'BB-' After Similar Action On Bahrain; Outlook Stable

**Primary Credit Analyst:**

Tommy J Trask, Dubai (971) 4-372-7151; tommy.trask@spglobal.com

**Secondary Contact:**

Mark Habib, Paris (33) 1-4420-6736; mark.habib@spglobal.com

- On Dec. 9, 2016, we lowered our long-term sovereign credit rating on the Kingdom of Bahrain to 'BB-' from 'BB'.
- The sovereign ratings constrain our ratings on Bahrain Telecommunications Co. (Batelco), owing to the company's very strong links with the government.
- Consequently, we are lowering our long-term rating on Batelco to 'BB-' from 'BB' and affirming the 'B' short-term rating.
- The stable outlook reflects that on Bahrain, as well as our view that Batelco is likely to maintain its operating performance and financial leverage (adjusted debt to EBITDA) comfortably below 4.0x (1.0x on Sept. 30, 2016).

DUBAI (S&P Global Ratings) Dec. 12, 2016--S&P Global Ratings said today that it has lowered its long-term corporate credit rating on Bahrain Telecommunications Co. (Batelco) to 'BB-' from 'BB'. The outlook remains stable.

The 'B' short-term corporate credit rating was affirmed.

At the same time, we lowered our issue ratings on the senior unsecured notes due 2020, issued by Batelco International Finance No. 1 Ltd. to 'BB-' from 'BB'.

The downgrade of Batelco follows our similar action on Bahrain on Dec. 9, 2016

(see "Kingdom of Bahrain Ratings Lowered To 'BB-' On Weakening External Finances; Outlook Stable" published on RatingsDirect). This is because we do not rate entities, including Batelco, with very strong links to the government, higher than the government itself, since the government can influence the entity's financial policy and strategy, industry regulation, and taxation, among other things. Batelco's very strong link with Bahrain's government stems from the sovereign's direct and indirect ownership of about 78% of the company and the government's majority representation on Batelco's board.

We continue to assess Batelco's stand-alone credit profile (SACP) at 'bb+', two notches higher than the long-term rating on the company, reflecting an operating performance in line with our expectation, low financial leverage, and strong liquidity.

Constraining Batelco's business risk profile are its fairly small scale on a global basis, the evolving competitive and regulatory landscape for telecoms in Bahrain, and Batelco's exposure to country risk. Offsetting these weaknesses are Batelco's adequate competitive position in Bahrain's fixed-line and mobile telephony markets, and high margins. The company dominates Bahrain's fixed-line market, whereas the mobile industry is competitive.

Batelco's financial risk profile is supported by its currently very low debt leverage and large cash balance. The weak fiscal position of Batelco's majority shareholder, Bahrain, leads us to expect a continued high dividend payout ratio. In our base case, we forecast the S&P Global Ratings-adjusted debt-to-EBITDA ratio will remain at about 1x in 2016 and 2017, and that discretionary cash flow generation will stay broadly neutral, given a reduction in future capital expenditure; but dividends will remain high. We expect revenue and margins to remain broadly unchanged.

Our negative view of Batelco under our comparable ratings analysis is due to Bahrain's weak fiscal profile and the risks this could have, either directly or indirectly, on Batelco.

The stable outlook on Batelco reflects that on Bahrain, as well as our view that the company is likely to maintain its operating performance and financial leverage ratio (adjusted debt to EBITDA) below 4.0x (actual 0.9x for 2015), or 3x combined with weak or negative free operating cash flow.

We may revise our SACP assessment down to 'bb' if Batelco's adjusted debt to EBITDA materially exceeded 2x, or if it were substantially above 1.5x alongside weak or negative free operating cash flow. However, this would be neutral to the rating because it is already capped by the sovereign rating at 'BB-'.

#### Downside scenario

A further downgrade of the sovereign would likely lead to a commensurate downgrade of Batelco.

We could also lower the rating on Batelco if its stand-alone credit quality deteriorated substantially, for example if leverage increased materially beyond 4x, or 3x combined with weak or negative free operating cash flow, although headroom is currently significant. This could result from acquisitions, weakening operating performance (notably in the domestic market), or higher dividends.

#### Upside scenario

Upside rating potential currently depends on the sovereign rating, given our view that it constrains the rating on Batelco.

#### RELATED CRITERIA

- 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: Ratios And Adjustments, Nov. 19, 2013
- 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: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers, May 07, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Corporates - General: 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

#### RELATED RESEARCH

- Kingdom of Bahrain Ratings Lowered To 'BB-' On Weakening External Finances; Outlook Stable, Dec. 9, 2016

#### **Additional Contact:**

Industrial Ratings Europe; Corporate\_Admin\_London@spglobal.com

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