

FITCH REVISES BATELCO'S OUTLOOK TO NEGATIVE; AFFIRMS IDR 'BB+'

Fitch Ratings-London-15 June 2017: Fitch Ratings has revised Bahrain Telecommunications Company's (Batelco) Outlook to Negative from Stable while affirming the Long-term Issuer Default Rating (IDR) at 'BB+'. Fitch has also affirmed the unsecured rating of Batelco International Finance No. 1 Limited at 'BB+'.

This rating action follows Fitch's revision of the Outlook on the sovereign rating of Bahrain to Negative from Stable and the affirmation of its Long-Term Foreign and Local Currency IDRs at 'BB+' on 12 June 2017 (see 'Fitch Revises Bahrain's Outlook to Negative, Affirms IDR 'BB+' at www.fitchratings.com).

KEY RATING DRIVERS

Linkage to the Sovereign: Batelco's current rating does not benefit from any uplift for government support, as the company's 'BB+' standalone rating is at the same level as the sovereign. Batelco as a state-owned entity is highly unlikely to be rated higher than the sovereign, therefore any negative rating action for the sovereign would impact Batelco's rating negatively. Batelco could benefit from a one-notch uplift from sovereign support if the sovereign rating is higher than Batelco's standalone rating. An upgrade of the sovereign rating could result in an upgrade for Batelco, provided there is continued support from the government of Bahrain. Batelco is 78% directly and indirectly owned by the government of Bahrain, and is represented by six out of 10 directors on Batelco's board.

Leverage Remains Low: Despite group revenue and EBITDA coming under pressure in 2016 and 1Q17, Fitch's views Batelco's financial profile as satisfactory, underpinned by our expectation of a conservative leverage profile (funds from operations (FFO) adjusted net leverage around 1.5x-2.0x over the next three years), good pre-dividend cash flow generation and a sound liquidity profile over the medium term.

Domestic Market Key: Batelco is facing intense competition in its domestic market (which accounted for 48% of the group's 2016 EBITDA), especially in mobile. Pursuing a convergence strategy, focused on a high-quality fixed and mobile infrastructure should allow Batelco to retain its strong market share in the mid-to-high value consumer segment as well as in the business segment.

International Diversification: Batelco's largest international operations are in the Maldives, Jordan and the Channel Islands. The Maldives and the Channels Islands are performing in line with Fitch's expectations and underlying EBITDA should remain stable over the next three years. Jordan (around 20% of Batelco's consolidated revenue) is a greater challenge due to its weak macroeconomic trends and higher execution risks as Batelco invests in network expansion. Overall, Batelco has the financial flexibility to support its investment in Jordan, which is reflected in the ratings.

DERIVATION SUMMARY

Batelco's standalone rating is 'BB+', reflecting the company's improving domestic position, low leverage as well as risks in its international operations. We do not envisage Batelco being rated above the sovereign, especially given the government's significant shareholding in the company.

KEY ASSUMPTIONS

Our assumptions within the rating case for the issuer include:

- Revenue growth of 1%-1.5% per annum in 2017-2019;
- EBITDA margin largely stable at 36%-37% in 2017-2019;
- Capex (excluding spectrum) averaging around 15%-20% of revenue in 2017-2019;
- Annual dividend payments rising in line with EBITDA.

RATING SENSITIVITIES

Batelco

Future Developments That May, Individually or Collectively, Lead to Negative Rating Action

- Pressure on free cash flow (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.
- Debt-funded acquisitions leading to an increase in FFO net leverage above 3.5x (1.6x at end-2016) with failure to deleverage below such threshold within the next 18 months.
- A weakening in the linkage with the sovereign, which would be a negative credit factor, as would any possibility of the sovereign rating being downgraded from 'BB+'. Batelco as a state-owned entity is highly unlikely to be rated higher than the sovereign.

Future Developments That May, Individually or Collectively, Lead to Positive Rating Action

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

Bahrain sovereign

Future Developments That May, Individually or Collectively, Lead to Negative Rating Action

- Failure to shrink the fiscal deficit and set out a clear path towards stabilising the government debt-to-GDP ratio.
- Severe deterioration of the domestic security environment.

Future Developments That May, Individually or Collectively, Lead to Positive Rating Action

- A narrowing of the budget deficit consistent with a decline of the government debt-to-GDP ratio in the medium term.
- A broadly accepted political solution to domestic political tensions.

Contact:

Principal Analyst

Samer Haydar

Associate Director

+971 4424 1200

Supervisory Analyst

Damien Chew, CFA

Senior Director

+44 20 3530 1424

Fitch Ratings Limited

30 North Colonnade

London E14 5GN

Committee Chairperson

Tajesh Tailor

Senior Director

+44 20 3530 1726

Media Relations: Peter Fitzpatrick, London, Tel: +44 20 3530 1103, Email: peter.fitzpatrick@fitchratings.com.

Additional information is available on www.fitchratings.com. For regulatory purposes in various jurisdictions, the supervisory analyst named above is deemed to be the primary analyst for this issuer; the principal analyst is deemed to be the secondary.

Applicable Criteria

Country-Specific Treatment of Recovery Ratings (pub. 18 Oct 2016)

<https://www.fitchratings.com/site/re/887669>

Criteria for Rating Non-Financial Corporates (pub. 10 Mar 2017)

<https://www.fitchratings.com/site/re/895493>

Parent and Subsidiary Rating Linkage (pub. 31 Aug 2016)

<https://www.fitchratings.com/site/re/886557>

Recovery Ratings and Notching Criteria for Non-Financial Corporate Issuers (pub. 21 Nov 2016)

<https://www.fitchratings.com/site/re/890199>

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, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT WWW.FITCHRATINGS.COM. 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 RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2017 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