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Research Update:

Ratings On Omantel And Batelco Lowered After Oman And Bahrain Downgrades; Outlooks Stable

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Overview

- On Feb. 17, 2016, Standard & Poor's lowered its long-term sovereign ratings on the Sultanate of Oman to 'BBB-' from 'BBB+' and on the Kingdom of Bahrain to 'BB' from 'BBB-'.
- We are consequently lowering our long-term ratings on Oman Telecommunications Co. to 'BBB-' from 'BBB' and on Bahrain Telecommunications Co. to 'BB' from 'BB+'.
- The stable outlooks on the two companies reflect the stable outlooks on the respective sovereigns and our view that the ratings on Omantel and Batelco are now constrained at 'BBB-' and 'BB', respectively, owing to the sovereign ratings.

Rating Action

On Feb. 22, 2016, Standard & Poor's Ratings Services lowered its long- and short-term corporate credit ratings on Oman Telecommunications Co. (Omantel) to 'BBB-/A-3' from 'BBB/A-2'. At the same time, we lowered our long-term corporate credit rating on Bahrain Telecommunications Co. (Batelco) to 'BB' from 'BB+' and affirmed the 'B' short-term corporate credit rating. The outlooks on the long-term ratings on the two companies are stable.

Rationale

The rating actions follow our downgrades of the Sultanate of Oman and the Kingdom of Bahrain (see "Sultanate of Oman Ratings Lowered To 'BBB-/A-3'; Outlook Stable" and "Kingdom of Bahrain Downgraded To 'BB/B' On Lower Oil Price Assumptions; Outlook Stable," published Feb. 17, 2016, on RatingsDirect).

Oman Telecommunications Co.

The ratings on Omantel are now constrained at the 'BBB-' level, based on our sovereign rating on Oman. This is because we do not rate entities with strong links to the government higher than the rating on the government itself, since the government can influence the company's financial policy and strategy, as well as industry regulation or taxation. Nevertheless, Omantel's stand-alone credit profile (SACP) is still strong at 'bbb', supported by a strong competitive position in Oman's fixed-line and mobile telephony markets, solid operating performance, high profitability, and a net cash position. Somewhat offsetting this is Omantel's fairly small scale in the global market, the

evolving competitive and regulatory landscape for telecom operators in Oman, and Omantel's exposure to country risk.

The lower rating means Omantel now has increased debt capacity at the current rating level. We could consider a further downgrade if its adjusted debt to EBITDA exceeded 2.5x (actual 0.2x for rolling 12 months to Sept. 30, 2015), as opposed to our previous threshold of 2x. This could result from weakening operating performance (notably in the domestic market) or higher dividends.

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

Bahrain Telecommunications Co.

The ratings on Batelco are now constrained at the 'BB' level, based on our sovereign rating on Bahrain. This is because we do not rate entities with very strong links to the government higher than the rating on the government itself, since the government can influence the company's financial policy and strategy, as well as industry regulation or taxation. Nevertheless, Batelco's SACP remains 'bb+', supported by an adequate competitive position in Bahrain's fixed-line and mobile telephony markets with high margins, low financial leverage, and a large cash balance. This is somewhat tempered by its fairly small scale on a global basis, the evolving competitive and regulatory landscape for telecoms in Bahrain, and its exposure to country risk.

The lower rating means Batelco now has increased debt capacity at the current rating level. We could consider a further downgrade if Batelco's adjusted debt to EBITDA materially exceeded 3x (actual 0.9x for 2015), as opposed to our previous threshold of 2x, or if it was substantially above 2.5x in combination with weak or negative free operating cash generation. This could result from a merger or acquisition, weakening operating performance (notably in the domestic market), or higher dividends.

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

Ratings Score Snapshot

Oman Telecommunications Co.

Corporate Credit Rating: BBB-/Stable/A-2

Business risk: Satisfactory

- Country risk: Moderately high
- Industry risk: Intermediate
- Competitive position: Satisfactory

Financial risk: Minimal

- Cash flow/Leverage: Minimal

Anchor: a-

Modifiers

- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Financial policy: Neutral (-1 notch)
- Management and governance: Satisfactory (no impact)
- Comparable ratings analysis: Negative (-1 notch)

Stand-alone credit profile: bbb

- Sovereign rating: BBB-/Stable/A-3
- Likelihood of government support: Moderately high

Bahrain Telecommunications Co.

Corporate Credit Rating: BB/Stable/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)
- Liquidity: Adequate (no impact)
- Financial policy: Neutral (no impact)
- Management and governance: Fair (no impact)
- Comparable ratings analysis: Negative (-1 notch)

Stand-alone credit profile: bb+

- Sovereign rating: BB/Stable/B
- Likelihood of government support: Moderately high

Related Criteria And Research

Related Criteria

- Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Key Credit Factors For The Telecommunications And Cable Industry, June 22, 2014
- Methodology For Linking Short-Term And Long-Term Ratings For Corporate,

Insurance, And Sovereign Issuers, May 7, 2013

- Methodology: Industry Risk, Nov. 19, 2013
- Corporate Methodology, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Group Rating Methodology, Nov. 19, 2013
- Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

Related Research

- Sultanate of Oman Ratings Lowered To 'BBB-/A-3'; Outlook Stable, Feb. 17, 2016
- Kingdom of Bahrain Downgraded To 'BB/B' On Lower Oil Price Assumptions; Outlook Stable, Feb. 17, 2016
- S&P Lowers Its Hydrocarbon Price Deck Assumptions On Market Oversupply; Recovery Price Deck Assumptions Also Lowered, Jan. 12, 2016

Ratings List

Downgraded; Ratings Affirmed

	To	From
Oman Telecommunications Co. Corporate Credit Rating	BBB-/Stable/A-3	BBB/Stable/A-2
Bahrain Telecommunications Co. Corporate Credit Rating	BB/Stable/B	BB+/Stable/B

N.B. This list does not include all ratings affected.

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