FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Bahrain's Beyon at 'B+'; Outlook Stable

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Fitch Ratings - London - 31 May 2023: Fitch Ratings has affirmed Bahrain Telecommunications Company's (Beyon; formerly Batelco) Long-Term Issuer Default Rating (IDR) at 'B+'. The Outlook is Stable. A full list of rating actions is provided below.

Beyon's IDR is linked to Bahrain's sovereign rating (B+/Stable) and reflects that 77% of the company is directly or indirectly owned by the Bahraini government, which consequently exerts strong control over it.

Beyon's Standalone Credit Profile (SCP) is higher than its IDR at 'bb+'. This reflects a balance between the company's strong position in its domestic market, which drives nearly half of its adjusted operating cash flows, and the political and economic risks of the countries where Beyon has international operations. These risks are managed through a conservative financial approach.

KEY RATING DRIVERS

Rating Constrained at Sovereign Level: Beyon's IDR is constrained by the sovereign's, based on Fitch's Government-Related Entities (GRE) Rating Criteria and Parent and Subsidiary Rating Linkage (PSL) Criteria. We assess the company's SCP at 'bb+'. Under the GRE Rating Criteria, we assess status, ownership and control and financial implications of a GRE default as 'Strong'. We view support track record and expectations and socio-political impact of a GRE default as 'Moderate'.

Strong State Influence: The Bahraini government is invested in Beyon via Bahrain Mumtalakat Holding Company B.S.C. (c) (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 Beyon, and is represented by eight of 10 directors on the company's board: four from Mumtalakat (including the chair); two from SIO; and two from Amber Holding.

Digital Services Rebranding: in 2022 the company was rebranded from 'Batelco' to 'Beyon'. The rebranding reflects a strategic pivot away from a pure telecom operator with a steady diversification into digital services similar to Turkish peer Turkcell Iletisim Hizmetleri A.S (B/Negative). Beyon launched Beyon Solutions and Connect in 2022, in addition to Beyon Money. Beyon's cybersecurity unit has already established itself as a leading operator in the sector, serving six of the largest banks in Bahrain. Fitch expects that while digital services may contribute a modest share to 2023 revenue, they have the potential to be a driver of future growth.

Domestic Mobile Leader: During 2022 Beyon regained its leading market share of mobile subscribers in Bahrain at 38% at year-end. Both the second- and third-largest operators Saudi Telecom Company (STC) and Zain Mobile saw their market shares drop to 35% and 27% respectively. In a market where competition will put pressure on average revenue per user (ARPU), maintaining or increasing market share of subscriptions is vital for revenue growth to continue. Beyon's network coverage is market- leading and continued investments into the core and radio networks should further enhance the network quality of its 5G network, bolstering its competitive position.

Fixed Broadband Competition Intensifying: Beyon has completed the structural separation of its fixed- line assets into 100%-owned BNET. Following the separation, BNET now allows wholesale access of its network to STC and Zain. Between 2020 and 2022, Beyon's retail share of fixed broadband subscriptions has fallen to 77% from 88%. Fixed broadband revenues in Bahrain account for around 8% of Beyon's total revenues and expected growth in data usage will drive demand for high-speed fiber.

BNET and the Telecommunications Regulatory Authority recently agreed to changes in its wholesale access pricing framework, including discounts on some packages and higher speeds for the same price on others. We expect competition in fixed-line broadband services to intensify following the agreement and we expect lower revenue growth in fixed broadband as ARPUs come under pressure from 2023.

Capex Increasing: Fitch expects capex to increase in 2023 and remain high in 2024. This is primarily driven by investments in sub-sea cabling, data centres and the continued rollout of fiber. Beyon recently announced plans to invest USD250 million in two sub-sea cables and a new data centre. These investments should contribute to EBITDA growth for Beyon over the next five years.

Low Leverage: We expect the higher capex to increase EBITDA net leverage to around 1.4x by 2024 from 0.2x in 2022. At this level, Beyon maintains ample leverage headroom at its rating, demonstrating a commitment to a conservative financial policy. Beyon's leverage is similar to higher-rated telecom peers' and low for its 'B+' rating.

Macroeconomic Exposure: As with other GCC markets, migrant workers represent a large share of the population in Bahrain. These consumers typically opt for lower ARPU services and prefer the flexibility of prepaid mobile subscriptions, which accounted for around 70% of the total consumer mobile base in Bahrain. Beyon and its competitors are exposed to migrant worker population changes, depending on the strength of the local economy and oil prices. If economic conditions weaken in Bahrain and the migrant population in the country falls significantly, this could lead to a decline in mobile revenues.

DERIVATION SUMMARY

Beyon's 'bb+' SCP reflects its incumbent position in its domestic market, low leverage as well as risks to its international operations. We do not envisage Beyon to be rated above the sovereign rating, especially given the government's significant shareholding in the company and strong ties between the company and the state.

Oman Telecommunications Company S.A.O.G. (Omantel; BB/Positive) is of similar size, with its rating similarly capped by the sovereign rating. Other telcos in the region, such as Ooredoo Q.P.S.C. (A-/Positive), 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 1%-2% per year in 2023 to 2025

-Fitch-defined EBITDA margin falling gradually to 36.6% by 2024 before increasing to 37% by 2025

-Capex at around 44% of sales in 2023, reflecting investments in sub-sea cables and data centres before falling to around 27% by 2025

-Dividend growth of 4% per year

-No M&A cash flows in respect of the Sure / Airtel-Vodafone merger, which is still to complete

RATING SENSITIVITIES

BEYON

Factors That Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade:

- An upgrade of the sovereign rating, or a revision 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 free cash flow driven by EBITDA margin erosion, consistently higher capex and shareholder distributions, or significant underperformance in the core domestic market and at other key subsidiaries could be negative for the SCP but not necessarily for the IDR

- Fitch-defined EBITDA net leverage remaining above 4.2x with failure to deleverage below this threshold within the next 18 months could pressure the SCP but not necessarily the IDR.

BAHRAIN

Factors That Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade:

-Public Finances: Further significant deterioration of public debt dynamics, for example due to a sustained fall of oil prices below our long-term assumptions, or a failure to implement fiscal reforms that reduce the fiscal break-even oil price

-External Finances: Signs of weakening GCC support, which could place greater pressure on the balance of payments and currency peg in the context of low levels of reserves. This could lead to the removal of the +1 notch on external finance

Factors That Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade:

- Public Finances: Confidence in a sustained reduction in government debt/GDP over the medium term and further structural improvement of public finances, reducing the need for an expanded GCC financing package. This could lead to the removal of the -1 notch on public finances

-Structural Features: An easing of socio-political constraints on fiscal policy, allowing for deeper reforms that generate higher non-oil revenue. This could lead to the removal of the -1 qualitative overlay notch on structural features

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-2022 Beyon had BHD253.8 million of cash on its balance sheet, and BHD233.5 million of bank loans with maturities dates ranging from 2023 to 2031.

ISSUER PROFILE

Beyon is an international converged telecommunications services provider and the incumbent operator in its domestic market Bahrain.

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.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

Beyond's rating is linked to Bahrain's sovereign rating.

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

RATING ACTIONS

ENTITY / DEBT	RATING		PRIOR
Bahrain Telecommunications Company	LT IDR Affirmed	B+ Rating Outlook Stable	B+ Rating Outlook Stable

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Government-Related Entities Rating Criteria (pub. 30 Sep 2020)

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

Parent and Subsidiary Linkage Rating Criteria (pub. 01 Dec 2021)

Corporate Rating Criteria (pub. 28 Oct 2022) (including rating assumption sensitivity)

Country-Specific Treatment of Recovery Ratings Criteria (pub. 03 Mar 2023)

APPLICABLE MODELS

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

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.1.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Bahrain Telecommunications Company	UK Issued, EU Endorsed

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