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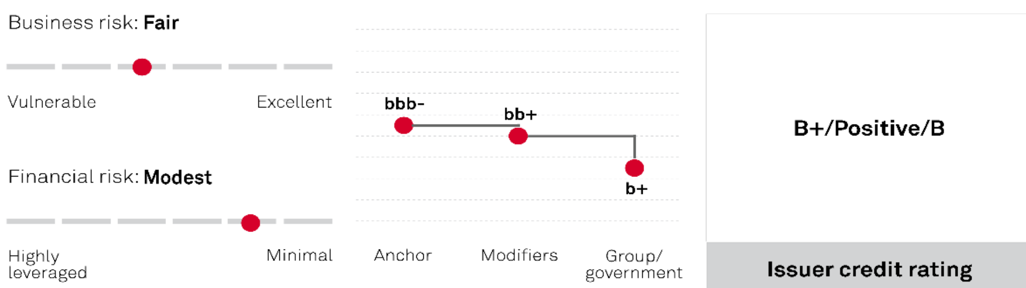
# Bahrain Telecommunications Co.

**July 25, 2023**

## Ratings Score Snapshot




Primary contact

**Tatjana Lescova**
Dubai
97143727151
tatjana.lescova
@spglobal.com

Additional contact

**Rawan Oueidat, CFA**
Dubai
971-0-43727196
rawan.oueidat
@spglobal.com

## Credit Highlights

### Overview

| Key strengths | Key risks |
|---|---|
| Market leader in Bahrain and top two or three in its international markets. | Smaller scale than Gulf Cooperation Council (GCC) peers, with main operations in the small and highly competitive three-player Bahraini market. |
| Some geographic diversification with a presence in four geographic markets. | Negative discretionary cash flow (DCF) likely in 2023-2024 due to increased capital expenditure (capex) and significant dividends. |
| Focus on product mix improvements and cost efficiencies supports an S&P Global Ratings-adjusted EBITDA margin of 42%-43% despite inflation. | Very strong link to Bahraini government (B+/Positive/B) exposes Beyon to extraordinary negative intervention like special dividends in times of sovereign stress. |
| Strong balance sheet with an adjusted debt-to-EBITDA ratio of below 2x, even assuming higher capex. | Global economic softening could weaken growth prospects. |

**New strategy in 2022 increases the focus on technology and non-telecom services, which will contribute to future growth and business diversification.**

Bahrain Telecommunications Co. (previously Batelco) was rebranded as Beyon at the end of 2022 as the company announced its new strategy as the largest communications and information technology company in Bahrain. The company's business segmentation now includes:

- Domestic telecom operations in Bahrain (now referred to as Batelco),
- International telecom subsidiaries in Jordan, The Maldives, and Channel Islands,
- Recently launched digital service companies: Beyon Money (fintech), Beyon Solutions (ICT infrastructure and services), Beyon Cyber (cyber security), and Beyon Connect (IT solutions).

Recently created digital operations will take years to ramp up and generate meaningful profits. Beyon incurred additional costs in 2022 on their creation, which diluted margins. We therefore expect EBITDA margins to improve slightly to 42%-43% in 2023-2024 on a favorable comparison basis as well as a ramp-up of digital services as they attract new customers and potentially expand geographically, growing faster than the core telecom operations. Based on our estimates, the core telecom business still generates up to 95% of the group’s revenue, which we do not expect to materially change over the next two to three years.

**Revenue may increase 1%-3% in 2023-2024 as growth in subscribers offsets a decline in average revenue per user (ARPU) and digital services expand, sustaining EBITDA margins of 42%-43%.**

Beyon’s mobile subscribers in Bahrain (47% of reported revenue) increased by over 13% in 2022. We expect the company to sustain this momentum in 2023 as it continues to focus on prepaid-to-postpaid customer migration. Bahrain's population could also grow by 2%, while international travel continues to rebound and regional GCC travel increases.

The growth in subscribers will partly mitigate the pressure on ARPU in both the prepaid and postpaid segments due to a competitive three-operator market In Bahrain, where Beyon remains the leader. The company also owns and operates the largest broadband network, with close to an 80% market share. It continues to invest in fiber, which we believe will enable it to sustain its leading position. However, we see a risk of declining ARPU and subscribers due to the legal separation of Bnet (broadband infrastructure) from Beyon in 2021, and market liberalization.

In Jordan (24% of revenue), where the group is the No. 3 mobile operator with 1.7 million mobile subscribers, the group is making advances in 5G investments. This is a market where competition remains tough, given that all three operators in the country were granted 5G licenses in 2022. We expect mobile data revenue to increase over the next two to three years, driving revenue growth. In addition, fiber investments will spur subscriber growth. With over a 55% share of the two-operator market in the Maldives (16% of revenue), Beyon will capitalize on a continued rebound in international travel, including from China. Beyon's operations in the Channel Islands (14% of revenue) will receive a slight boost from its Airtel-Vodafone acquisition once the group obtains regulatory approval. The group will also improve its market share in a small and fragmented market where Beyon competes with three other operators.

We expect profitability to improve slightly, in line with the increasing revenue and product mix changes. Our S&P Global Ratings-adjusted EBITDA margin is 42%-43% for 2023, up from 41.1% in 2022.

**DCF will likely be negative in 2023-2024, owing to higher investments and elevated dividend distributions.**

We expect capex to reach Bahraini dinar (BHD) 190 million-BHD200 million in 2023 from BHD65 million in 2022 as Beyon rolls out new cable projects. The capex includes: (1) contributions to the

Southeast Asia-Middle East-Western Europe (SMW6) subsea fiber system in Bahrain and The Maldives; (2) 5G license investments in Jordan; (3) expansion of data centers in Bahrain and the Channel Islands; and (4) network maintenance and expansion, among other things. Investment outlays should taper off from 2024, although they could remain at historically high levels of BHD130million-BHD160 million. This is given the group's focus on expanding its network reach and capabilities.

The investments should help Beyon execute its upselling strategy to higher-ARPU products, namely 5G and fiber broadband plans. This could deliver sales and profitability growth over the next few years. The higher capex will lead to negative DCF in 2023-2024, assuming annual dividend payouts of BHD60 million-BHD70 million. That said, the company historically demonstrated flexibility in curtailing and postponing capex. Given its prudent financial policy, we therefore believe negative DCF will not exceed BHD100 million in 2023.

**Leverage could increase, with a ratio of adjusted debt to EBITDA of 1.4x-1.6x by 2024, due to the higher capex.**

This will remain consistent with the current rating and leave headroom for strategic growth initiatives. Thanks to the considerable rating headroom afforded by the currently low adjusted debt-to-EBITDA ratio. At the end of March 2023, Beyon had an S&P Global Ratings-adjusted ratio of debt to EBITDA of 0.5x, versus the 2.0x threshold that is commensurate with the current rating. Hence, even if the company executes full capex without delays, it can maintain the leeway under the rating.

We do not factor in any material acquisitions in our base case, although the group demonstrated its appetite for external growth by making an offer to acquire Airtel-Vodafone in the Channel Islands in 2022 (still under regulatory review) and acquiring a majority stake in DTS Solution (cyber security) in the United Arab Emirates in 2023.

We factor into the rating our negative view of Beyon's smaller scale than global and regional peers, exposure to high country risks in its international portfolio, and financial policy, which is significantly looser than current leverage ratios. The company is committed to maintaining an adjusted net leverage ratio of below 3.0x (including leases).

# Outlook

The positive rating outlook on Beyon mirrors that on Bahrain. It also reflects our view that Beyon will maintain its operating performance and its adjusted debt-to-EBITDA ratio will stay well below 2.0x (0.5x as of March 31, 2023), despite increased capex and high dividends.

## Downside scenario

We could lower our ratings on Beyon if we took a similar rating action on Bahrain, provided we maintained our assessment of Beyon's relationship with the government.

## Upside scenario

We could raise our ratings on Beyon if we raised our ratings on Bahrain, provided we maintain our assessment of Beyon's relationship with the government.

# Our Base-Case Scenario

## Assumptions

- Continued supportive economic environment in Bahrain on the back of elevated, albeit declining, oil and aluminum prices. We assume GDP growth of 2.8% for 2023 and 2.4% for 2024, following a 4.9% rebound in 2022, thanks to record-high prices for hydrocarbon and primary industry materials. Low to mid-single-digit GDP growth in Beyon's overseas markets.
- Inflation in Bahrain to remain limited at 1.2% in 2023 and normalize at 2% thereafter.
- Positive revenue growth to continue, with low-single-digit growth in 2023-2024, reflecting increased subscribers.
- S&P Global Ratings-adjusted EBITDA margins of 42%-43% in 2023-2024, up from 41.1% in 2022, supported by revenue growth, an improved product mix, continued cost optimization, and a gradual ramp-up of non-telecom services.
- Higher capex than we previously expected, reaching BHD190 million-BHD200 million in 2023, and BHD150 million-BHD160 million in 2024, with recently announced investments in the SMW6 subsea cable system in Bahrain and The Maldives, 5G, and network expansion in Jordan and other regions.
- Annual dividends (including to minorities) of BHD60 million-BHD70 million.

## Key metrics

| **Period ending** | **Dec-31-2021** | **Dec-31-2022** | **Dec-31-2023** | **Dec-31-2024** | **Dec-31-2025** |
|---|---|---|---|---|---|
| (Mil. BHD) | 2021a | 2022a | 2023e | 2024f | 2025f |
| Revenue | 400 | 403 | 414 | 420 | 426 |
| EBITDA | 164 | 166 | 170-175 | 175-180 | 180-185 |
| Funds from operations (FFO) | 149 | 145 | 145-150 | 145-150 | 150-155 |
| Interest expense | 12 | 16 | 22 | 26 | 25 |
| Cash flow from operations (CFO) | 170 | 157 | 150-160 | 150-160 | 150-160 |
| Capital expenditure (capex) | 69 | 65 | 190-200 | 150-160 | 120-130 |
| Free operating cash flow (FOCF) | 101 | 93 | (40)-(45) | (5)-(10) | 20-30 |
| Dividends | 54 | 59 | 60-70 | 60-70 | 60-70 |
| Discretionary cash flow (DCF) | 45 | 33 | (10) | (70)-(75) | (40)-(50) |
| Debt | 82 | 74 | 175 | 250 | 298 |
| **Adjusted ratios** | | | | | |
| Debt/EBITDA (x) | 0.5 | 0.4 | 1.0-1.2 | 1.4 -1.6 | 1.5- 1.6 |
| FFO/debt (%) | 182.2 | 196.0 | 80-85 | 55-60 | 50-55 |
| FFO cash interest coverage (x) | 17.5 | 11.7 | 7.5-8.0 | 6.5-7.0 | 7.0 -7.2 |
| EBITDA interest coverage (x) | 14.1 | 10.6 | 7.5-8.0 | 6.85-7.0 | 7.0-7.5 |
| EBITDA margin (%) | 40.9 | 41.1 | 42-434 | 42-43 | 42-43 |

| | | | | | |
|---|---|---|---|---|---|
| Return on capital (%) | 15.2 | 16.8 | 14.5-15.0 | 14.0-14.5 | 13.0-14.0 |

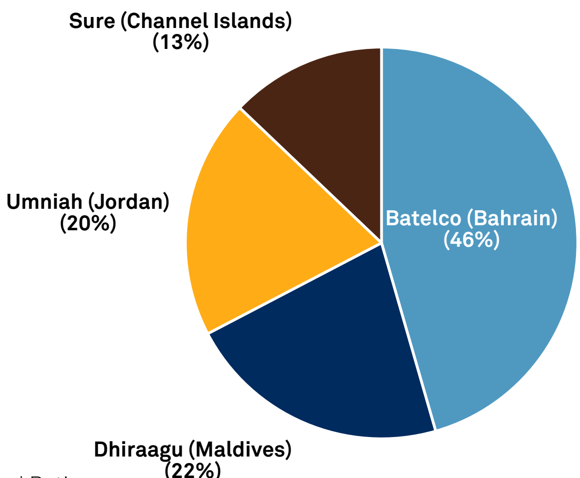
# Company Description

Beyon 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, Isle of Man, Falkland Islands, and Diego Garcia), and Yemen (through a 27% shareholding). The company also owns 15% of listed Saudi fixed line and broadband company, Etihad Atheeb Telecommunications Co.

Beyon's revenue reached BHD402.8 million (US$1.07 billion) in 2022, with a total subscriber base of 4.1 million.

The Bahraini government, through three Bahraini-related entities, owns 77% of the group, with the remaining 23% listed on the Bahrain stock exchange.

### FY2022 - Segmental Breakdown By Reported EBITDA




Source: S&P Global Ratings.


# Peer Comparison

**Bahrain Telecommunications Co.--Peer Comparisons**

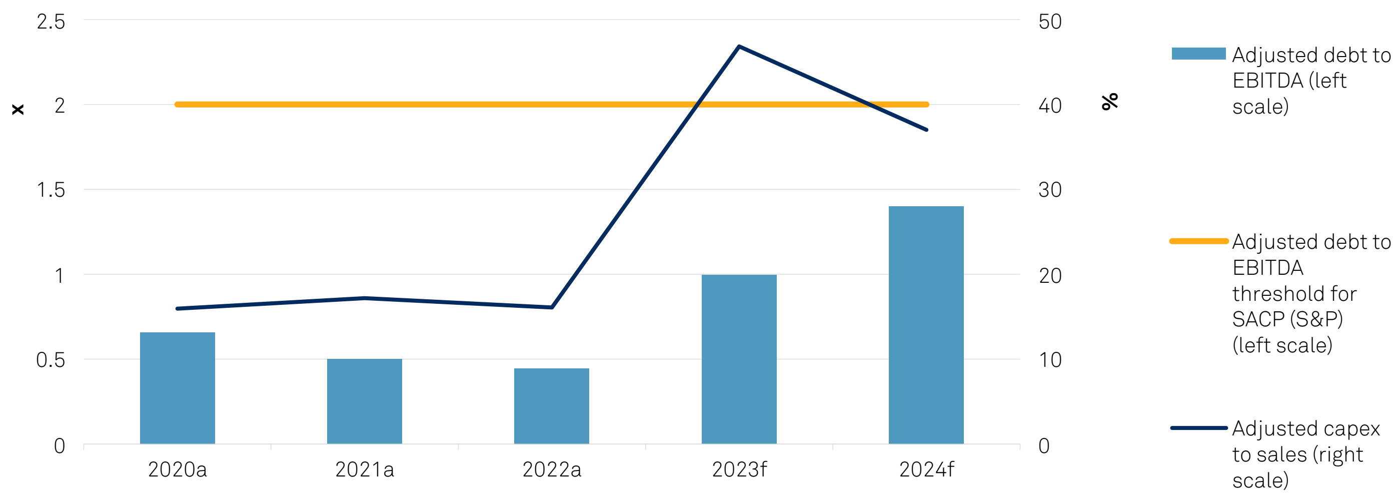
| | Bahrain Telecommunications Co. | Emirates Telecommunications Group Co. PJSC | Ooredoo QPSC | Turk Telekom | Turkcell Iletisim Hizmetleri A.S. |
|---|---|---|---|---|---|
| Foreign currency issuer credit rating | B+/Positive/B | AA-/Stable/A-1+ | A/Stable/A-1 | B/Negative/B | B/Negative/-- |
| Local currency issuer credit rating | B+/Positive/B | AA-/Stable/A-1+ | A/Stable/A-1 | B/Negative/B | B/Negative/-- |
| Period | Annual | Annual | Annual | Annual | Annual |
| Period ending | 2022-12-31 | 2022-12-31 | 2022-12-31 | 2022-12-31 | 2021-12-31 |
| Mil. | BHD | BHD | BHD | BHD | BHD |
| Revenue | 403 | 5,381 | 2,350 | 968 | 1,008 |
| EBITDA | 166 | 2,399 | 963 | 333 | 363 |
| Funds from operations (FFO) | 145 | 2,034 | 841 | 268 | 283 |
| Interest | 16 | 179 | 108 | 77 | 40 |
| Cash interest paid | 13 | 176 | 91 | 54 | 64 |
| Operating cash flow (OCF) | 157 | 1,977 | 733 | 342 | 532 |
| Capital expenditure | 65 | 824 | 327 | 260 | 223 |
| Free operating cash flow (FOCF) | 93 | 1,154 | 405 | 82 | 309 |
| Discretionary cash flow (DCF) | 33 | 329 | 259 | (18) | 235 |
| Cash and short-term investments | 243 | 3,595 | 1,325 | 168 | 532 |
| Gross available cash | 243 | 3,613 | 1,325 | 168 | 532 |
| Debt | 74 | 1,976 | 1,338 | 680 | 617 |
| Equity | 542 | 5,131 | 2,916 | 402 | 605 |
| EBITDA margin (%) | 41.1 | 44.6 | 41.0 | 34.4 | 36.0 |
| Return on capital (%) | 16.8 | 27.0 | 12.9 | 21.5 | 20.4 |
| EBITDA interest coverage (x) | 10.6 | 13.4 | 8.9 | 4.3 | 9.0 |
| FFO cash interest coverage (x) | 11.7 | 12.5 | 10.3 | 5.9 | 5.4 |
| Debt/EBITDA (x) | 0.4 | 0.8 | 1.4 | 2.0 | 1.7 |
| FFO/debt (%) | 196.0 | 102.9 | 62.9 | 39.4 | 45.9 |
| OCF/debt (%) | 213.2 | 100.1 | 54.8 | 50.2 | 86.3 |
| FOCF/debt (%) | 125.4 | 58.4 | 30.3 | 12.0 | 50.1 |
| DCF/debt (%) | 44.4 | 16.7 | 19.4 | (2.6) | 38.1 |

# Financial Risk

Our assessment of Beyon's financial risk profile incorporates the company's strong balance sheet and limited financial leverage.

Our base case assumes capital spending of BHD190 million-BHD200 million in 2023, decreasing to BHD150 million-BHD160 million in 2024, and annual dividends of BHD60 million-BHD70 million. We expect Beyon to maintain a net debt-to-EBITDA ratio of below 2.0x over the next two years. We also expect negative DCF, due to the much higher capex and increased dividends.

### Adjusted Debt To EBITDA Versus Capex*




Source: S&P Global Ratings. *Capital expenditure.


### Bahrain Telecommunications Co.--Financial Summary

| Period ending | Dec-31-2017 | Dec-31-2018 | Dec-31-2019 | Dec-31-2020 | Dec-31-2021 | Dec-31-2022 |
|---|---|---|---|---|---|---|
| Reporting period | 2017a | 2018a | 2019a | 2020a | 2021a | 2022a |
| Display currency (mil.) | BHD | BHD | BHD | BHD | BHD | BHD |
| Revenues | 379 | 406 | 401 | 387 | 400 | 403 |
| EBITDA | 135 | 148 | 153 | 155 | 164 | 166 |
| Funds from operations (FFO) | 118 | 129 | 133 | 136 | 149 | 145 |
| Interest expense | 13 | 15 | 15 | 15 | 12 | 16 |

**Bahrain Telecommunications Co.--Financial Summary**

| | | | | | | |
|---|---|---|---|---|---|---|
| Cash interest paid | 12 | 14 | 12 | 13 | 9 | 13 |
| Operating cash flow (OCF) | 93 | 113 | 137 | 140 | 170 | 157 |
| Capital expenditure | 54 | 48 | 79 | 62 | 69 | 65 |
| Free operating cash flow (FOCF) | 39 | 65 | 58 | 78 | 101 | 93 |
| Discretionary cash flow (DCF) | (16) | 12 | 1 | 17 | 45 | 33 |
| Cash and short-term investments | 159 | 143 | 203 | 196 | 224 | 243 |
| Gross available cash | 159 | 156 | 203 | 196 | 224 | 243 |
| Debt | 115 | 133 | 104 | 102 | 82 | 74 |
| Common equity | 502 | 505 | 513 | 512 | 531 | 542 |
| Adjusted ratios | | | | | | |
| EBITDA margin (%) | 35.7 | 36.6 | 38.0 | 39.9 | 40.9 | 41.1 |
| Return on capital (%) | 10.8 | 11.7 | 14.6 | 13.6 | 15.2 | 16.8 |
| EBITDA interest coverage (x) | 10.3 | 9.9 | 9.9 | 10.3 | 14.1 | 10.6 |
| FFO cash interest coverage (x) | 10.9 | 10.4 | 11.9 | 11.2 | 17.5 | 11.7 |
| Debt/EBITDA (x) | 0.9 | 0.9 | 0.7 | 0.7 | 0.5 | 0.4 |
| FFO/debt (%) | 102.1 | 96.3 | 127.9 | 133.3 | 182.2 | 196.0 |
| OCF/debt (%) | 80.8 | 84.8 | 131.5 | 137.2 | 207.4 | 213.2 |
| FOCF/debt (%) | 33.8 | 48.6 | 55.4 | 76.5 | 123.6 | 125.4 |
| DCF/debt (%) | (13.8) | 9.3 | 0.7 | 16.6 | 55.0 | 44.4 |

# Liquidity

We assess Beyon's liquidity as adequate, based on our estimate that liquidity sources will cover uses by 1.2x over the 12 months to March 31, 2024.

## Principal liquidity sources

- Consolidated cash and equivalents of about BHD234 million;
- Undrawn bank lines of about BHD11.4 million maturing in more than 12 months; and
- Funds from operations that we estimate at BHD140 million-BHD150 million.

## Principal liquidity uses

- Short-term debt maturities of BHD6.6 million;
- Capex of BHD190 million-BHD200 million in 2023;
- Dividends of BHD60 million-BHD70 million; and
- Minimal working capital outflow.

# Covenant Analysis

## Requirements

Beyon's US$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 ratio of 0.4x at end-March 2023) and minimum tangible net worth of BHD100 million (reported US$520 million in March 2023).

## Compliance expectations

We expect significant headroom under these covenants.

# Environmental, Social, And Governance

### ESG credit indicators

| E-1 | **E-2** | E-3 | E-4 | E-5 | S-1 | **S-2** | S-3 | S-4 | S-5 | G-1 | G-2 | **G-3** | G-4 | G-5 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|

| Environmental | Social | Governance |
|---|---|---|
| - N/A | - N/A | - Other governance factors |

N/A--Not applicable. ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

Governance factors are a moderately negative consideration in our credit rating analysis of Beyon. Our view reflects the elevated country-related governance risks in Bahrain, where the company generates close to 47% of its revenue. We assess the company's management and governance as fair, taking into account its detailed disclosures and track record of strategic planning, mitigated by headroom under its financial policy framework that would allow for higher debt (adjusted debt-to-EBITDA ratio of below 3.0x).

# Government Influence

We consider Beyon to be a government-related entity due to the sovereign's stake of about 77% in the company. We base our view of a moderately high likelihood of extraordinary government support on our assessment of the company's:

- Limited importance for the government, given that increased competition in Bahrain's telecoms market has reduced the market share of Beyon. It also reflects our view that the Bahraini telecoms regulator is independent from the government, especially compared with most other GCC countries, where the introduction of competition has not significantly affected the incumbent telecoms operators. Therefore, we believe the Bahrain government might have less incentive to support Beyon; and

- Very strong link with the government since the government owns about 77% of the company. Furthermore, Beyon's board mainly comprises members of the government.

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

# Issue Ratings--Subordination Risk Analysis

## Capital structure

Beyon's capital structure primarily comprises a term loan of US$450 million (BHD170 million). This represented over 70% of the company's gross debt as of end-March 2023. The debt was raised at the parent level.

## Analytical conclusions

In the absence of significant subordination risk because over 70% of the gross debt is at the parent level, we rate Beyon's debt at 'B+'. This is in line with the long-term foreign-currency issuer credit rating on Beyon. In our view, the company's strong balance sheet helps to offset subordination risks.

### Rating Component Scores

| | |
|---|---|
| **Foreign currency issuer credit rating** | **B+/Positive/B** |
| **Local currency issuer credit rating** | **B+/Positive/B** |
| **Business risk** | **Fair** |
| Country risk | High |
| Industry risk | Intermediate |
| Competitive position | Fair |
| **Financial risk** | **Modest** |
| Cash flow/leverage | Modest |
| **Anchor** | **bbb-** |
| 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: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- 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 | Industrials: Key Credit Factors For The Telecommunications And Cable Industry, June 23, 2014

- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, 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 'B+/B' Ratings Affirmed; Outlook Remains Positive, May 26, 2023

## Ratings Detail (as of July 24, 2023)*

| | |
|---|---|
| **Bahrain Telecommunications Co.** | |
| Issuer Credit Rating | B+/Positive/B |
| **Issuer Credit Ratings History** | |
| 30-Nov-2022 | B+/Positive/B |
| 29-Nov-2021 | B+/Stable/B |
| 02-Jun-2021 | B+/Negative/B |
| 01-Apr-2020 | B+/Stable/B |
| 10-Dec-2019 | B+/Positive/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.