S&P Global Ratings

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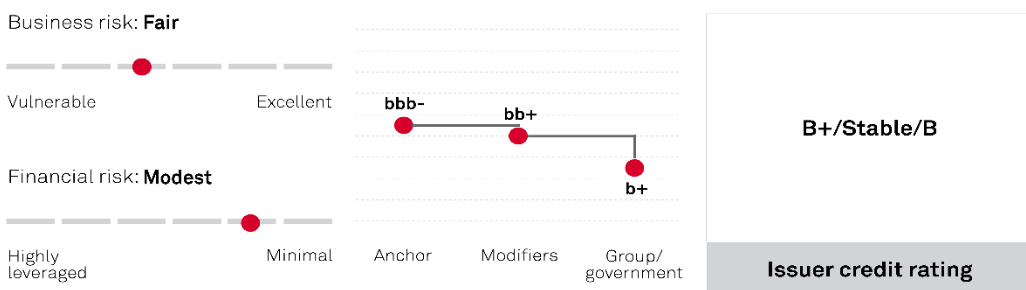
Bahrain Telecommunications Co.

July 3, 2024

Ratings Score Snapshot



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Credit Highlights

Overview

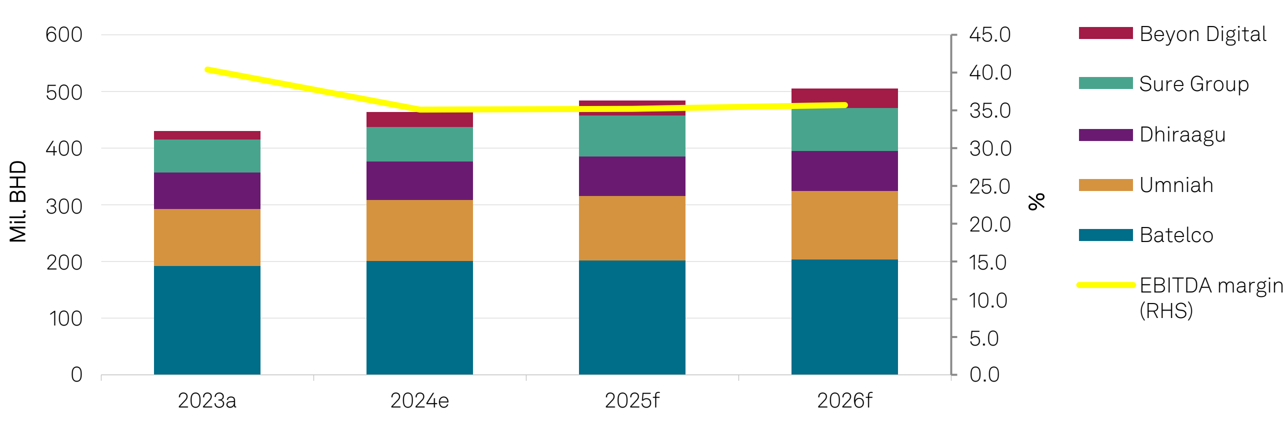
Key strengths	Key risks
Generated Bahraini dinar (BHD)172 million ($456 million) of consolidated EBITDA in 2023, and holds leading position in domestic Bahraini market (45% of first-quarter 2024 reported EBITDA), and among top three in its international markets (55% of first-quarter 2024 reported EBITDA).	Smaller scale compared with its Gulf Cooperation Council (GCC) and global rated peers, with main operations in the small and highly competitive three-player Bahraini market.
Increasing contribution from non-telecommunications business is diluting margins, but profitability remains resilient, with an expected S&P Global Ratings-adjusted EBITDA margin of 35%-40%.	Negative discretionary cash flow (DCF) likely in 2024 and 2025, given meaningful capital expenditure (capex) and dividends.
Strong balance sheet with an adjusted debt-to-EBITDA ratio of below 2x, even with sizable capex plans.	Very strong link to the Bahraini government (B+/Stable/B) exposes Beyon to extraordinary negative intervention like special dividends in times of sovereign stress.

We anticipate resilient performance across operating markets, but increased competition and the ramp-up of the lower margin non-telco business should bring EBITDA margins to about 35%-40% in our base case. We forecast Bahrain Telecommunications Co.'s (rebranded Beyon) top line to grow by about 5%-10% in 2024, and by about 3%-5% annually in 2025 and 2026. In particular, we think its solid market share in domestic operations, despite increased competition, in addition to consistent growth in international portfolio will help with top line growth. We also anticipate a continued ramp up in the digital segment (Beyon Digital); this segment is still not yet meaningfully profitable but we expect it to grow faster than the core telecoms operations. We estimate the core telecoms business generates about 94%-95% of group revenues, and we do not expect this to materially change over the next two to three years. As a result, we now expect profitability to hover around 35%-40% over the next two-to-three years (40.4% in fiscal 2023).

The domestic and international portfolios remain resilient, despite intensified competition. This is supported by continued growth in the domestic market, which the company dominates with about a 40% mobile and more than a 70% fixed-line and fixed broadband-subscriber share. It is also benefiting from pre-to-postpaid customer migration, which should help offset average revenue per user (ARPU) dilution. We also expect growth in its international portfolio, which averages about 5%-6% annual revenue growth. This segment benefits from growth in data revenues (Umniah), macroeconomic and tourism activity (Dhiraaguu), and contract renewals and in-market consolidation (Sure Group), despite the competitive landscape. Increased competition is set to erode ARPU.

Our base case points to negative DCF in 2024 and 2025, owing to higher investments and elevated dividend distributions, but we forecast Beyon's credit ratios will stay as they are. We expect capex to sales to remain high in 2024 and 2025, averaging 30%, before tapering to about 15%-20% in 2026 (29% in 2023). We foresee heavy capex needs related to contributions to the South East Asia-Middle East-West Europe 6 (SMW6) subsea fiber system in Bahrain and the Maldives, 5G expansion investments in Jordan and the Channel Islands, and the expansion of data centers in Bahrain and Jordan, in addition to network maintenance and expansion. This, coupled with annual dividends (including to minorities) of around BHD70 million-BHD75 million in 2024 and around BHD60 million-BHD65 million from 2025 onward translates into negative DCF in 2024-2025. We expect debt to EBITDA will remain below 2.0x; at the end of March 2024 Beyon's S&P Global Ratings-adjusted ratio of debt to EBITDA was 0.6x, versus the 2.0x threshold that is commensurate with the current rating.

Revenue by cluster vs EBITDA margin



Source: S&P Global Ratings, company financials. a--Actual. e--Estimate. f--Forecast.

Outlook

Our stable outlook on Beyon mirrors that on Bahrain. In our base case, we assume the company will maintain its credit metrics amid a weaker economic environment domestically and internationally. We expect that Batelco will maintain a steady operating performance and its adjusted debt to EBITDA will stay well below 2.0x (0.6x as of March 31, 2024), despite increased capex requirements and high dividends.

Downside scenario

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

Upside scenario

We could raise our rating on Beyon if we raise our rating on Bahrain, provided we maintain our assessment of Batelco'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 will average 2.5% over 2024-2027, broadly in line with 2023, as we expect the government's economic recovery plan will continue to drive non-oil activity over the medium term, spurring domestic employment and attracting investments in strategic sectors such as tourism, housing, roads, airports, and electricity.
- Inflation will normalize at historical averages of 1%-2% over 2024-2027, compared with 0.1% in 2023.
- Positive revenue growth to continue, in the high single digits in 2024, moderating to about 3%-5% thereafter, reflecting growth across all markets.
- Adjusted EBITDA margins to moderate around 35%-40% in our base case, from 40.4% in 2023, given cost inflation, competition, and increasing contribution from low-margin non-telecom services.
- Capex of BHD140 million-BHD150 million in 2024, decreasing to BHD120 million-BHD130 million in 2025, due to investments in the SMW6 subsea cable system in Bahrain and the Maldives, 5G, and network expansion in Jordan and other regions.
- Annual dividends (including minorities) of BHD70 million-BHD75 million in 2024, decreasing to around BHD60 million-BHD65 million in 2025.

Key Metrics

Bahrain Telecommunications Co.--Key metrics

(Mil. BHD)	2022a	2023a	2024e	2025f	2026f
Revenue	403	425	450-470	460-480	480-500
EBITDA	166	172	155-165	160-180	160-180

Bahrain Telecommunications Co.--Key metrics

(Mil. BHD)	2022a	2023a	2024e	2025f	2026f
Funds from operations (FFO)	145	143	130-140	140-150	150-160
Capital expenditures (Capex)	65	125	140-150	120-130	85-95
Dividends (including to minorities)	59	57	70-75	60-65	60-65
Discretionary cashflow (DCF)	33	(25)	(75)-(85)	(40)-(50)	0-10
Adjusted debt	74	112	190-200	240-250	240-250
Adjusted ratios					
Debt/EBITDA (x)	0.4	0.7	1.0-1.5	1.0-1.5	1.0-1.5
FFO/debt (%)	196	127	65-70	55-60	60-65
EBITDA Margin (%)	41.1	40.4	35-40	35-40	35-40

All figures adjusted by S&P Global Ratings. a--Actual. e--Estimate. f--Forecast. BHD—Bahraini dinar.

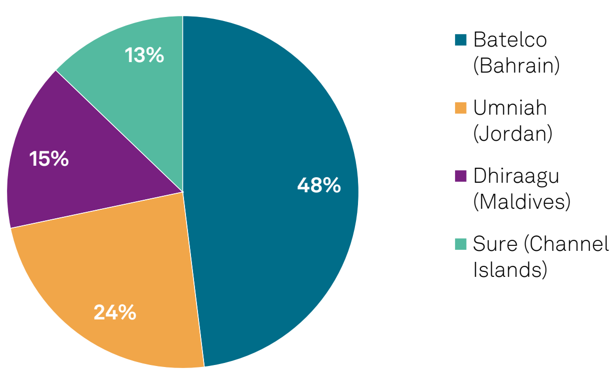
Company Description

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, albeit fully impaired). The company also owns 15% of listed Saudi fixed line and broadband company, Etihad Atheeb Telecommunications Co. Beyon's revenue reached BHD424.9 million in 2023 (BHD110.5 million at the end of the first quarter of 2024), with a total subscriber base of 4.2 million.

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

Revenue breakdown by operating segments

First-quarter 2024



Source: Company financials

Peer Comparison

Bahrain Telecommunications Co.--Peer Comparisons

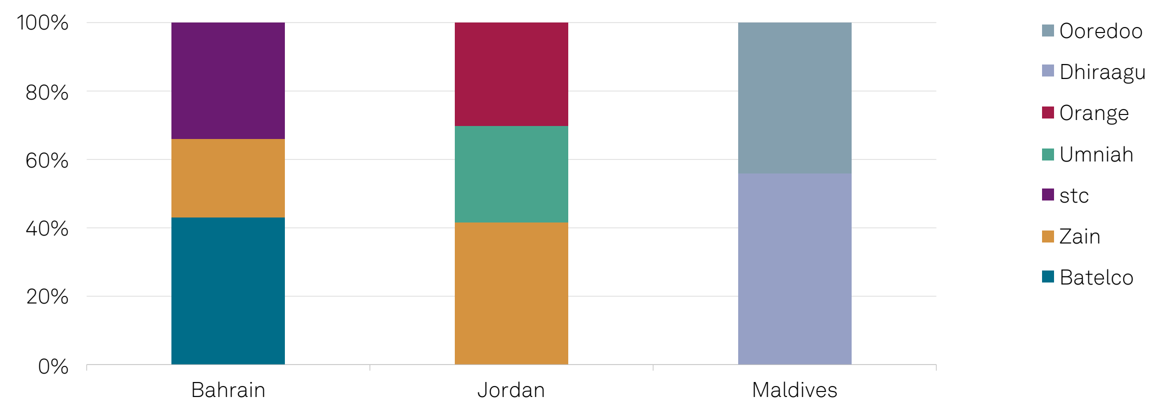
	Bahrain Telecommunications Co.	Emirates Telecommunications Group Co. PJSC	Ooredoo QPSC	Turk Telekom	Turkcell Iletisim Hizmetleri A.S.
Foreign currency issuer credit rating	B+/Stable/B	AA-/Stable/A-1+	A/Stable/A-1	BB-/Positive/B	BB-/Positive/--
Local currency issuer credit rating	B+/Stable/B	AA-/Stable/A-1+	A/Stable/A-1	BB-/Positive/B	BB-/Positive/--
Period	Annual	Annual	Annual	Annual	Annual
Period ending	2023-12-31	2023-12-31	2023-12-31	2023-12-31	2023-12-31
Mil.	$	$	$	$	$
Revenue	1,127	14,634	6,363	3,388	3,622
EBITDA	455	6,352	2,664	962	1,187
Funds from operations (FFO)	378	4,910	2,281	766	895
Interest	62	847	233	265	232
Cash interest paid	55	921	225	184	274
Operating cash flow (OCF)	417	4,299	2,434	786	1,413
Capital expenditure	332	1,980	854	782	828
Free operating cash flow (FOCF)	85	2,319	1,579	4	585
Discretionary cash flow (DCF)	(67)	229	1,079	3	499
Cash and short-term investments	601	8,001	2,984	621	1,990
Gross available cash	601	9,433	2,984	621	1,990
Debt	298	5,738	2,186	1,634	1,088
Equity	1,546	13,905	8,399	3,324	4,134
EBITDA margin (%)	40.4	43.4	41.9	28.4	32.8
Return on capital (%)	17.4	28.3	15.9	(2.1)	14.9
EBITDA interest coverage (x)	7.3	7.5	11.4	3.6	5.1
FFO cash interest coverage (x)	7.9	6.3	11.1	5.2	4.3
Debt/EBITDA (x)	0.7	0.9	0.8	1.7	0.9
FFO/debt (%)	127.0	85.6	104.3	46.9	82.2
OCF/debt (%)	140.2	74.9	111.3	48.1	129.9
FOCF/debt (%)	28.7	40.4	72.2	0.2	53.8
DCF/debt (%)	(22.4)	4.0	49.3	0.2	45.9

Business Risk

Our business risk profile assessment for Beyon primarily reflects the company's solid operating performance and resilient margins, but is balanced by its limited scale compared to global and regional peers, and its exposure to challenges in its international portfolio.

We note Beyon’s strong market share in Bahrain (about 40%), and No. 1 and No. 2 positions across its international portfolio. The main constraints to our business risk profile assessment are its fairly small scale on a global basis, given that the majority of its operational markets have relatively small populations; the evolving competitive landscape in Bahrain; increased taxes in the international portfolio (namely in Jordan); and its exposure to country risk.

Mobile market share by country for key operations



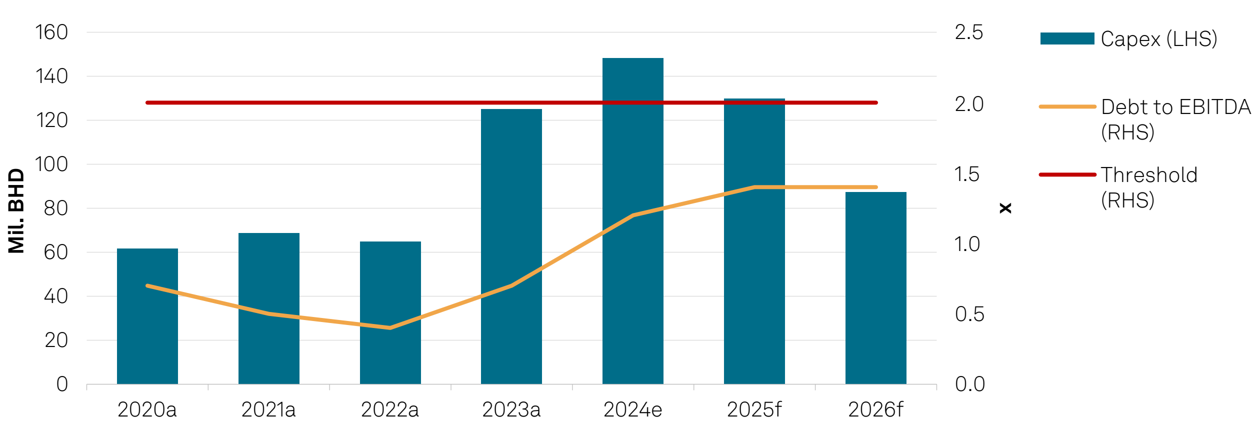
Source: Company data;
Note: Market share for Bahrain and Maldives as of year-end 2023, for Jordan as of third-quarter 2023

Financial Risk

Our assessment of Beyon's financial risk profile incorporates the company's strong balance sheet, with adjusted debt to EBITDA of about 1.0x-1.5x, despite sizable investments (we forecast capex to sales to be 25%-35% in 2024 and 2025), and dividends.

Under our base case, we assume capex of BHD140 million-BHD150 million in 2024, decreasing to BHD120 million-BHD130 million in 2025, and annual dividends of BHD70 million-BHD75 million in 2024, decreasing to around BHD60 million-BHD65 million in 2025. 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, company financials. a- -Actual. e- -Estimate. f- -Forecast. Capex- -Capital expenditure.

Debt maturities

Debt maturities as of March 31, 2024:

- Within one year: BHD179.9 million (out of which $450 million/BHD170 million is a company-secured five-year facility to refinance in third-quarter 2024)
- Beyond one year: BHD73.1 million

Bahrain Telecommunications Co.--Financial Summary

Period ending	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023
Reporting period	2018a	2019a	2020a	2021a	2022a	2023a
Display currency (mil.)	BHD	BHD	BHD	BHD	BHD	BHD
Revenues	406	401	387	400	403	425
EBITDA	148	153	155	164	166	172
Funds from operations (FFO)	129	133	136	149	145	143
Interest expense	15	15	15	12	16	23
Cash interest paid	14	12	13	9	13	21
Operating cash flow (OCF)	113	137	140	170	157	157
Capital expenditure	48	79	62	69	65	125
Free operating cash flow (FOCF)	65	58	78	101	93	32
Discretionary cash flow (DCF)	12	1	17	45	33	(25)
Cash and short-term investments	143	203	196	224	243	227
Gross available cash	156	203	196	224	243	227
Debt	133	104	102	82	74	112
Common equity	505	513	512	531	542	583
Adjusted ratios						
EBITDA margin (%)	36.6	38.0	39.9	40.9	41.1	40.4
Return on capital (%)	11.7	14.6	13.6	15.2	16.8	17.4
EBITDA interest coverage (x)	9.9	9.9	10.3	14.1	10.6	7.3
FFO cash interest coverage (x)	10.4	11.9	11.2	17.5	11.7	7.9
Debt/EBITDA (x)	0.9	0.7	0.7	0.5	0.4	0.7
FFO/debt (%)	96.3	127.9	133.3	182.2	196.0	127.0
OCF/debt (%)	84.8	131.5	137.2	207.4	213.2	140.2
FOCF/debt (%)	48.6	55.4	76.5	123.6	125.4	28.7
DCF/debt (%)	9.3	0.7	16.6	55.0	44.4	(22.4)

Reconciliation Of Bahrain Telecommunications Co. Reported Amounts With S&P Global Adjusted Amounts (Mil. BHD)

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Financial year	Dec-31-2023									
Company reported amounts	255	532	425	171	104	23	172	165	57	125
Cash taxes paid	-	-	-	-	-	-	(9)	-	-	-

Reconciliation Of Bahrain Telecommunications Co. Reported Amounts With S&P Global Adjusted Amounts (Mil. BHD)

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Cash interest paid	-	-	-	-	-	-	(17)	-	-	-
Cash interest paid: other	-	-	-	-	-	-	(3)	-	-	-
Lease liabilities	54	-	-	-	-	-	-	-	-	-
Postretirement benefit obligations/ deferred compensation	2	-	-	-	-	-	-	-	-	-
Accessible cash and liquid investments	(204)	-	-	-	-	-	-	-	-	-
Share-based compensation expense	-	-	-	1	-	-	-	-	-	-
Asset-retirement obligations	4	-	-	-	-	-	-	-	-	-
Nonoperating income (expense)	-	-	-	-	10	-	-	-	-	-
Reclassification of interest and dividend cash flows	-	-	-	-	-	-	-	(8)	-	-
Noncontrolling/ minority interest	-	50	-	-	-	-	-	-	-	-
Debt: Contingent considerations	1	-	-	-	-	-	-	-	-	-
Debt: Earnouts and deferred consideration for business acquisitions	1	-	-	-	-	-	-	-	-	-
Total adjustments	(143)	50	-	1	10	-	(29)	(8)	-	-
S&P Global Ratings adjusted	**Debt**	**Equity**	**Revenue**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from Operations**	**Operating cash flow**	**Dividends**	**Capital expenditure**
	112	583	425	172	114	23	143	157	57	125

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 starting April 1, 2024.

Principal liquidity sources

- Consolidated cash and equivalents of about BHD193 million;
- Undrawn bank lines of about BHD65 million maturing in more than 12 months; and
- Funds from operations that we estimate at BHD125 million-BHD135 million.

Principal liquidity uses

- Short-term debt maturities of BHD10.6 million; we understand that the company is in the process of signing a syndicated facility to refinance the $450 million loan maturing in March 2025, which will be drawn in third-quarter 2024.
- Capex of BHD140 million-BHD150 million; and
- Dividends of BHD65 million-BHD75 million.

Covenant Analysis

Requirements

Beyon's US$450 million term loan (executed in 2024) 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 0.7x at Dec. 31, 2023) and minimum tangible net worth of BHD100 million (reported US$599 million at Dec. 31, 2023).

Compliance expectations

We expect significant headroom under these covenants.

Other considerations

We factor into the rating our negative view of Batelco compared with its rated peers, given its smaller scale than global and regional peers, exposure to challenges such as high country risk in the international portfolio, and the company's financial policy, which is significantly looser than current leverage ratios. The company is committed to maintaining an adjusted net leverage ratio below 3.0x.

Environmental, Social, And Governance

Governance factors are a 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 45% of its revenue. We assess the company's management and governance as neutral, 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 given 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 Beyon's market share. 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 given that the government owns about 77% of it. Furthermore, Beyon's board mainly comprises members of the government.

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

Rating Component Scores

Rating Component Scores

Foreign currency issuer credit rating	**B+/Stable/B**
Local currency issuer credit rating	**B+/Stable/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	Neutral (no impact)
Comparable rating analysis	Negative (-1 notch)
Stand-alone credit profile	**bb+**
Related government rating	B+/Stable/B
Likelihood of government support	Moderately High (-3 notches)

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
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Sector-Specific Corporate Methodology, April 4, 2024
- Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- Corporate Methodology, Jan. 7, 2024

Related Research

- GCC Corporate And Infrastructure Outlook 2024: Holding Up Against Refinancing Needs, March 4, 2024
- Bahrain Outlook Revised To Stable From Positive On Weaker Fiscal Consolidation; 'B+/B' Ratings Affirmed, Nov. 24, 2023

Ratings Detail (as of July 03, 2024)*	
Bahrain Telecommunications Co.	
Issuer Credit Rating	B+/Stable/B
Issuer Credit Ratings History	
28-Nov-2023	B+/Stable/B
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.