

FITCH DOWNGRADES OOREDOO TO 'A-'; OUTLOOK STABLE

Fitch Ratings-London-26 March 2018: Fitch Ratings has downgraded Ooredoo Q.P.S.C.'s Long-Term Issuer Default Rating (IDR) to 'A-' from 'A' and removed it from Rating Watch Negative (RWN). The Outlook on the IDR is Stable. A full list of rating actions is available at the end of this commentary.

Ooredoo was among the companies Fitch placed on Rating Watch Negative in November 2017 when the exposure draft of Fitch's new Government-Related Entities (GRE) Rating Criteria was published. In line with the final GRE rating criteria, we have determined that Ooredoo should be rated on a top-down basis, three notches below the sovereign rating of Qatar (AA-/Negative), the company's parent. This takes into account the company's standalone credit profile of 'BBB', together with the strength of linkage with the Qatari state and incentive-to-support factors.

KEY RATING DRIVERS

Government Support: Ooredoo is the leading telecoms operator in Qatar, with operations in the Middle East, south-east Asia and north Africa. Qatar directly and indirectly owns 69% of Ooredoo. Ooredoo's ratings are three notches lower than Qatar's sovereign rating, in accordance with Fitch's newly published GRE Rating Criteria. The ratings reflect the continued strength of Ooredoo's links with the State of Qatar, and moderate-to-strong incentives by the state to provide support. Continued government ownership of Ooredoo is emphasised by the presence of a change of control covenant in Ooredoo's financing documentation should Qatar cease to control the group.

Stable Outlook: The Outlook on Ooredoo's IDR is Stable, even though this rating is notched down from Qatar's rating, which is on a Negative Outlook. This is because a downgrade of the sovereign rating by one notch would not result in a change in Ooredoo's rating. According to the new GRE criteria, as Ooredoo's standalone credit profile of 'BBB' comes within four notches of the higher sovereign rating, the notching moves from top-down minus three to top-down minus two, assuming there is no change in our assessment of government support.

Standalone Rating: The 'BBB' standalone credit profile of Ooredoo reflects its leading position in its home market, where it faces limited competition, as well as significant exposure to emerging market risks. Ooredoo generated approximately 24% of its consolidated revenue in 2017 (and 28% of EBITDA) from Qatar and we expect the contribution from the domestic business to remain significant in the coming years, despite a weaker macroeconomic environment amid current political challenges.

Emerging Market Risks: Ooredoo operates in numerous emerging markets in Africa and Asia, some of which have sub-investment grade sovereign ratings. Operations in these countries provide good growth potential, but also expose Ooredoo to macroeconomic challenges and foreign exchange risks. Ooredoo has some of its borrowings in local currencies at the operating company level, but the majority of its debt is at the parent company in either USD or QAR. While Ooredoo has significant cash holdings in USD, there is still an FX mismatch between net debt and cashflow.

Emerging-market risks have abated slightly as operational performance has improved in 2017. The financial performance of Ooredoo's operations in Indonesia (25% of 2017 consolidated revenue) has been sound with 3% growth in reported revenue and a stable EBITDA margin at 47%. In Iraq (13% of 2017 revenue), revenue grew 6% as the security environment improved with EBITDA margin falling slightly to 44%. Both of these countries, Ooredoo's two largest international

operations, generate satisfactory cash flow (EBITDA less capex), although access to cash held in Iraq is limited.

Conservative Leverage Profile: Ooredoo's reported consolidated net debt/EBITDA at end-2017 was 1.8x, a reduction from 2.0x at end-2016, and well within the company's target range of 1.5x-2.5x. Ooredoo's definition of net debt excludes restricted cash and cash held in countries where the sovereign rating is below 'BBB+'. We believe management is likely to maintain its conservative approach to its balance sheet.

DERIVATION SUMMARY

Ooredoo's rating is three notches below that of Qatar on a top-down basis, under Fitch's new GRE Rating Criteria, reflecting strong ties between the company and its ultimate parent and moderate-to-strong incentives by the state to provide support. The new GRE criteria take into account Ooredoo's 'BBB' standalone rating, which reflects the company's strong domestic position as well as significant macroeconomic and regulatory risks from the company's international operations. The strength and stability of the company's FCF generation in its home market only partly offsets this emerging market exposure.

Ooredoo's three-notch differential with the sovereign rating is wider than Etisalat's (A+/Stable) two-notch differential to Abu Dhabi's (AA/Stable) sovereign rating. This is because the new GRE criteria factor in standalone credit profiles. Etisalat's standalone rating (A-) is higher than Ooredoo's.

KEY ASSUMPTIONS

Fitch's Key Assumptions within our Rating Case for the Issuer:

- A 1% decline in reported revenue in 2018 followed by around 2% growth per annum in 2019-2021, assuming no significant foreign exchange movements;
- EBITDA margin averaging around 42% during 2018-2021;
- Capex-to-sales ratio of 23% in 2018, declining to 19% in 2020 and 2021;
- Stable dividend policy; and
- Refinancing of maturing sukuk during 2018.

RATING SENSITIVITIES

Ooredoo Q.P.S.C.

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

- An improvement in the company's standalone credit profile, possibly due to improved competitive and financial profiles of the company's international operations, accompanied by continuing government support
- Tangible evidence of strengthening of government support, such as explicit guarantees from Qatar
- A Positive Outlook on Qatar's sovereign rating or a rating upgrade

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

- A reduction in implied support and commitment from the government, as well as importance to and ownership by Qatar, which would prompt a review of the ratings. A significant increase in leverage above the company's target net debt/EBITDA of 2.5x for a sustained period could also indicate weaker state support

Qatar Sovereign Rating

The main factors that could, individually or collectively, lead to negative rating action are

- A failure to narrow fiscal deficits or a materialisation of large contingent liabilities, placing further strain on sovereign assets

- A further deterioration in Qatar's external balance sheet, for example due to continued outflows of non-resident funding
- Further escalation of measures from other countries against Qatar

The Outlook is Negative. Consequently, Fitch does not currently anticipate developments with a high likelihood of leading to an upgrade. However, future developments that could, individually or collectively, lead to positive rating action are

- A return to fiscal surpluses, for example due to sustained higher hydrocarbon prices, spending cuts or measures to raise non-oil revenue
- An improvement in Qatar's external balance sheet
- Normalisation of Qatar's external relations

LIQUIDITY

Sukuk Maturity in 2018: Ooredoo has an upcoming Sukuk maturity of USD1.25 billion in December 2018, which could either be refinanced by a bond or repaid from existing funds. Liquidity remained ample as of end-2017 with a QAR3 billion committed unutilised revolving credit facility and unrestricted cash balances of QAR15 billion, which are sufficient to meet cash flow needs.

FULL LIST OF RATING ACTIONS

Ooredoo Q.P.S.C.

- Long-Term IDR downgraded to 'A-' from 'A'; RWN removed; Outlook Stable

Ooredoo International Finance Limited

- Global medium-term note programme USD5 billion listed on the Irish stock exchange and notes under the programme: senior unsecured downgraded to 'A-' from 'A'; RWN removed

- Global medium-term note programme USD5 billion listed on the London stock exchange and notes under the programme: senior unsecured downgraded to 'A-' from 'A'; RWN removed

Ooredoo Tamweel Limited

- Sukuk notes issued under the programme: senior unsecured downgraded to 'A-' from 'A'; RWN removed

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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

Corporate Rating Criteria (pub. 23 Mar 2018)

<https://www.fitchratings.com/site/re/10023785>

Government-Related Entities Rating Criteria (pub. 07 Feb 2018)

<https://www.fitchratings.com/site/re/10019302>

Sukuk Rating Criteria (pub. 14 Aug 2017)

<https://www.fitchratings.com/site/re/902221>

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