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Ratings

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Ooredoo Q.P.S.C.

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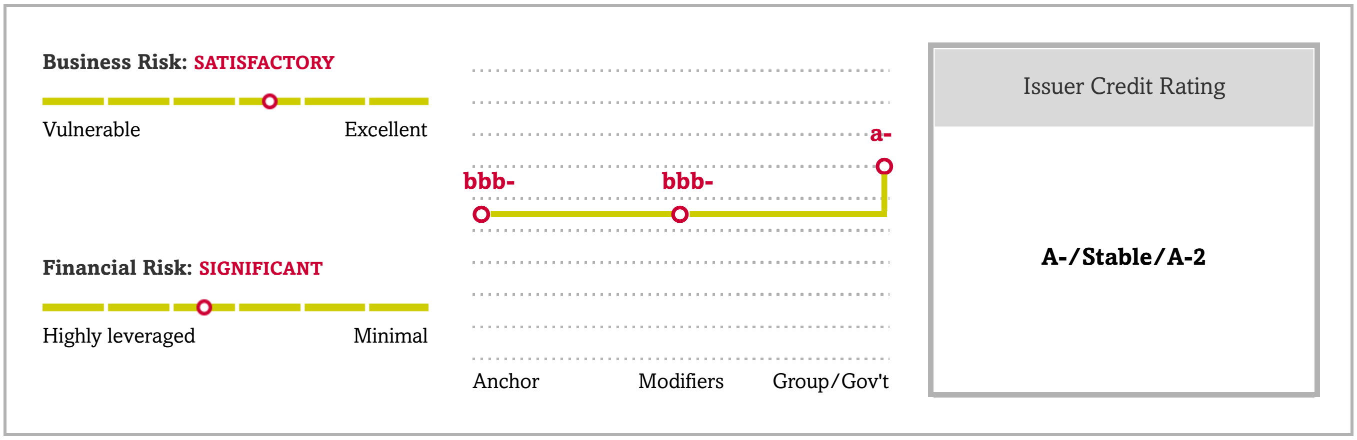


Credit Highlights

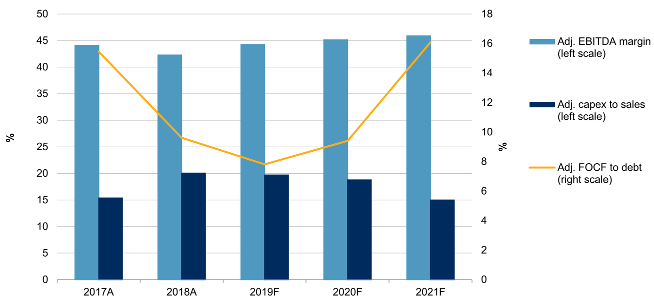
Overview

Key Strengths	Key Risks
Leading position in domestic and international markets.	Exposure to high country risk, notably in Iraq, Indonesia, Algeria, Tunisia, and Myanmar, which translates into currency-devaluation pressure and geopolitical uncertainty.
Strong profitability, with an adjusted EBITDA margin above 40%, supported by dominance in a two-player domestic market, and ongoing cost-efficiency initiatives.	Increased competition outside the domestic market, including the threat of new entrants, aggressive pricing power and regulatory pressure, and weaker macro sentiment.
Diversified geographic footprint across the Middle East, North Africa, and Asia.	Free operating cash flow (FOCF) generation could be depleted by higher-than-expected capital expenditure (capex) or dividends.
Moderate consolidated leverage, with S&P Global Ratings-adjusted debt to EBITDA well below 3.0x.	
Very strong link to Qatar (AA-/Stable/A-1+), who's potential support we incorporate into our rating.	

Qatar-based telecommunications operator Ooredoo's FOCF is under pressure from sizeable capex, despite improving profitability. We expect a rebound in Ooredoo's international portfolio, and in Indonesia in particular as operations normalize following regulatory-mandated SIM card registration in the country in 2018. While this should support margins, we expect the company will make sizeable capex investments over the next two years for network modernization and upgrades, which could still weigh on FOCF until 2020 (see charts 1 and 2). This is especially the case in Indonesia (40%-45% of capex) where the company aims to retain and increase its market share. Nevertheless, we believe Ooredoo will report strong margins well above the global industry average, due to its dominant position in its two-player home market.

Chart 1

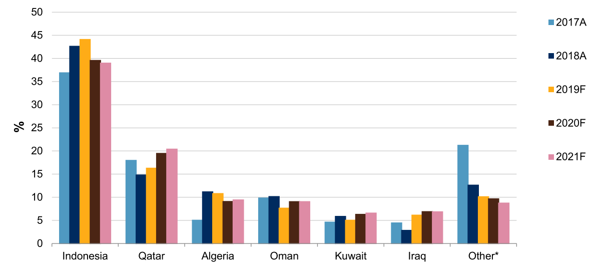
Ooredoo's Free Cash Flow Generation Versus Capex/Sales



A--Actual. F--Forecast. FOCF--Free operating cash flow. Capex--Capital expenditure.
Source: S&P Global Ratings.

Chart 2

Ooredoo's Capex Over 2017-2021 Goes Primarily To Indonesia



*Other includes Tunisia, Myanmar, the Maldives, and Palestine. A--Actual. F--Forecast. Source: Ooredoo and S&P Global Ratings' forecasts.

Outlook: Stable

The stable outlook on Ooredoo mirrors the outlook on Qatar. Our assessment of Ooredoo's stand-alone credit profile (SACP) at 'bbb-' is based on our expectation that, despite somewhat constrained FOCF over the next two years, its adjusted debt to EBITDA will remain below 2.5x in the absence of sizable acquisitions.

Downside scenario

We could lower our rating on Ooredoo if:

- We lowered our long-term sovereign rating on Qatar to 'A+' or lower;
- Adjusted debt to EBITDA approached 3x, which could follow weaker operating performance, financial policy decisions, or large debt-funded acquisitions; or
- Qatar reduced its shareholding in Ooredoo, potentially leading us to reassess the government's support to the group.

Upside scenario

We see limited upside for the rating at this time, provided our assessment of government support is unchanged.

Our Base-Case Scenario

We expect the adjusted EBITDA margin to rebound to historical levels of 44%-45% from 2019 as the negative effect of SIM card registration regulation in Indonesia, which accounts for about 20% of revenue and EBITDA, on top line growth and profitability ends. This was seen in the company's first-quarter 2019 results (see chart 3). At the same time, we expect the company will continue its heavy capex plans, namely in Indonesia, as part of its strategy to retain and increase market share. As a result, we expect some pressure on FOCF generation, at least until 2020 (see chart 2).

Assumptions

- A flat to low-single-digit consolidated revenue decline in 2019-2020, compared with a 9% decline in 2018, based on our view that structural changes that lowered the pre-paid subscriber base in Indonesia were completed in 2018. We expect heightened competitive pressure in Algeria, Iraq, Myanmar, and Kuwait, a change in product mix in Qatar (lower handset sales contribution), and weaker consumer sentiment in Algeria and Tunisia to mask some of the improvement witnessed in Indonesia, the Maldives, and Palestine.
- An adjusted EBITDA margin of 44%-45% in 2019-2020, compared with 42% in 2018 and in line with 2017 levels. We expect the company's ongoing cost-optimization initiatives, along with a reduced low-margin handset sales contribution in key markets (Qatar and Kuwait), to offset the pressures in international markets. The group has focused on cost savings as part of its strategy and aims to leverage synergies on a group level, for example in procurement, network optimization, and vendor agreements.
- Capex to sales to peak in 2019 at 19%-20%, before tapering to 15% by 2021. This is mainly due to increased spending in Indonesia, as the new management focus on market share accretion and a push-to-pull strategy. In addition, Ooredoo is preparing for 5G investments. We have incorporated the effect of 5G on Qatar operations only, but there is also the possibility for a 5G ramp-up in Kuwait and Oman.
- Expected dividends (including to minorities) of Qatari rial (QAR) 1.2 billion-QAR1.5 billion ($330 million-$400 million) per year, compared with QAR1.74 billion in 2018. We anticipate that the lower dividends, including to minorities, are a result of increased spending in key markets.

Key Metrics

	2018A	2019E	2020E
Revenue growth (%)	(8.6)	(5)-0	0-5
EBITDA margin* (%)	42.3	44-45	44-45
Capex to sales* (%)	20	19-20	19-20
Debt to EBITDA* (x)	2.4	2.0-2.5	2.0-2.5
FFO to debt* (%)	33.2	33-36	33-36
FOCF to debt* (%)	9.7	5-10	5-10

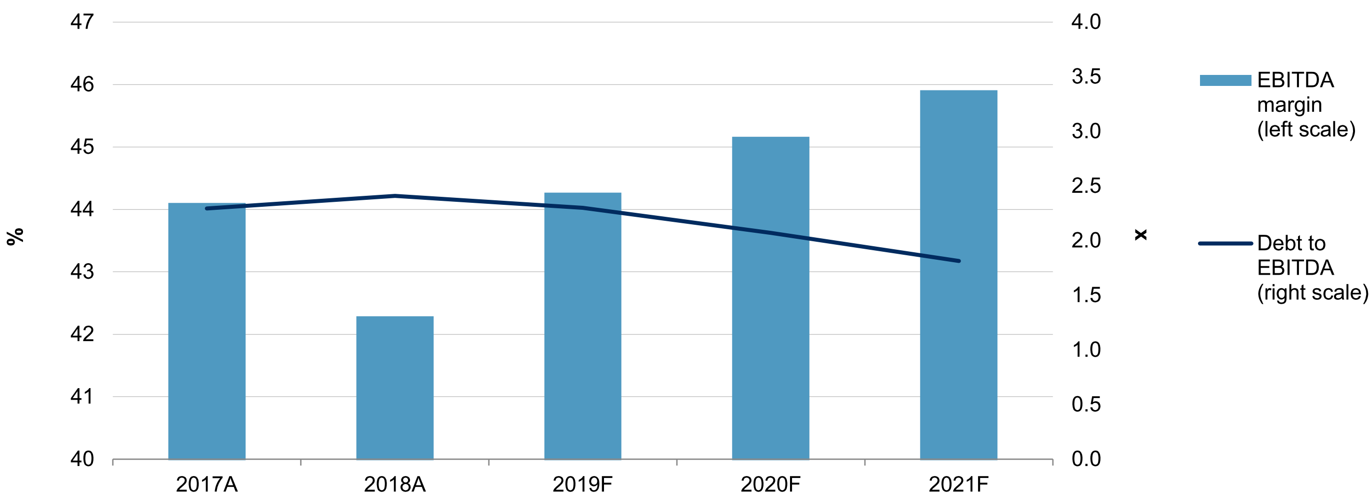
*Figures are S&P Global Ratings adjusted. A--Actual. E—Estimate. Capex--Capital expenditure. FFO--Funds from operations. FOCF--Free operating cash flow.

Base-case projections

Despite mounting challenges in the international portfolio, we expect profitability will normalize at historical levels from 2019. We expect profitability to rebound to 44%-45% on an adjusted basis in 2019 and 2020, compared with 42.3% in 2018, mainly supported by the recovery in Indonesia, in addition to a reducing contribution from lower margin handset sales in Qatar and Kuwait, and cost-optimization initiatives across all markets.

Chart 3

Ooredoo's EBITDA Margin Is Set To Increase After A Dip in 2018



A--Actual. F--Forecast. Source: S&P Global Ratings.

Company Description

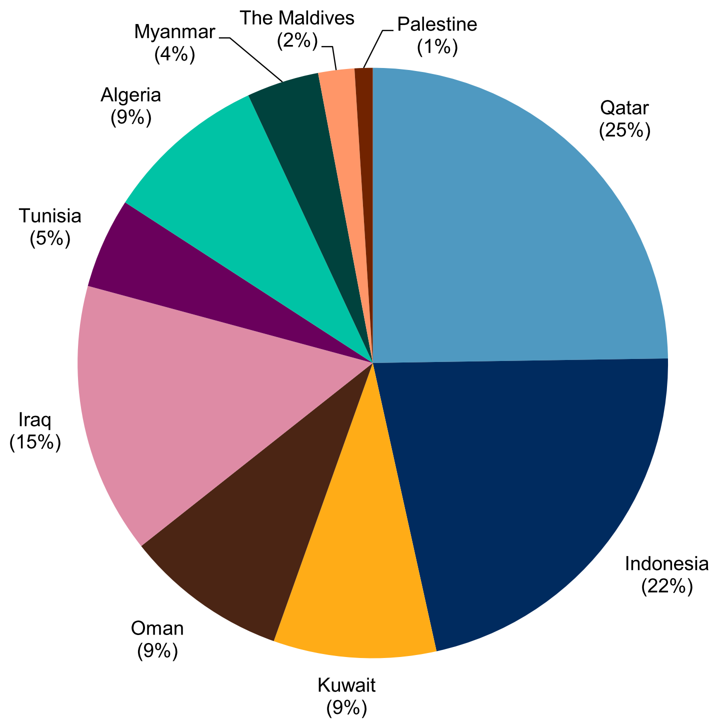
Ooredoo is a Qatar-based international fixed and mobile telecom operator with a customer base of more than 112 million as of first-quarter 2019--versus 150 million in first-quarter 2018. Its geographic footprint is spread across 10 countries in the Middle East (Qatar, Kuwait, Oman, Iraq, and Palestine), North Africa (Tunisia and Algeria), and Asia (Indonesia, Myanmar, and the Maldives).

The Qatari government is the major shareholder in Ooredoo through its 52% direct stake and 17% indirect ownership via other government-related entities (GREs).

Most of Ooredoo's consolidated revenue comes from mobile services, while about 75% stems from operations outside of Qatar.

Chart 4

Qatar And Indonesia Provide Nearly Half Of Ooredoo's Revenue



First-quarter 2019 revenue data. Source: S&P Global Ratings.

Business Risk: Satisfactory

Ooredoo's business profile is supported, in our view, by its dominant position in its two-player domestic market (25%-30% of group revenue and EBITDA), its above-industry-average EBITDA margin, and continued improvement in the international portfolio. Ooredoo has significant geographic diversification, with operations in 10 markets across the Middle East, North Africa, and Asia, and leading market positions in most of the markets in which it operates (see table 1).

These strengths are partly offset by an exposure to high-risk countries, particularly in Iraq, Indonesia, Algeria, Tunisia, and Myanmar. Furthermore, Ooredoo's international operations are exposed to currency depreciation, political uncertainty, weaker macroeconomic conditions, and competitive pressure weighing on performance across Algeria, Myanmar, and Tunisia.

Peer comparison

Compared with other operators in the Gulf Cooperation Council (GCC; Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates) countries, Ooredoo has similar profitability. However, its historically higher capex requirements have translated into weaker FOCF generation and higher debt to EBITDA. Compared with Turkish operators, Ooredoo has higher profitability, benefiting from a more favorable tax and regulatory environment.

Table 1

Ooredoo Q.P.S.C.-- Peer Comparison

Industry sector: Diversified telecom

	Ooredoo Q.P.S.C.	Saudi Telecom Co.	Emirates Telecommunications Group Company PJSC	Bahrain Telecommunications Co.	Turk Telekom
Rating as of July 3, 2019	A-/Stable/A-2	A-/Stable/A-2	AA-/Stable/A-1+	B+/Stable/B	BB-/Stable/B
(Mil. $)	--Fiscal year ended Dec. 31, 2018--				
Revenue	8,219.6	13,851.6	14,262.7	1,076.5	3,858.5
EBITDA	3,474.6	5,464.1	6,241.4	393.5	1,553.0
Funds from operations (FFO)	2,728.6	5,206.8	5,477.7	340.9	1,311.6
Interest expense	646.2	118.0	324.1	39.7	232.6
Cash interest paid	610.1	73.1	318.8	36.4	222.6
Cash flow from operations	2,446.9	5,330.8	5,234.0	300.3	1,327.4
Capital expenditure	1,647.1	2,600.9	2,283.6	128.1	767.7
Free operating cash flow	799.9	2,729.9	2,950.4	172.2	559.6
Discretionary cash flow	323.9	582.8	641.6	32.9	559.6
Cash and short-term investments	4,804.7	4,755.3	7,721.4	378.7	736.2
Debt	8,212.6	0.0	1,341.6	354.1	3,572.9
Equity	7,739.3	17,769.6	15,585.2	1,339.2	1,407.6
Adjusted ratios					
EBITDA margin (%)	42.3	39.4	43.8	36.6	40.2
Return on capital (%)	8.1	20.1	25.6	11.7	19.9
EBITDA interest coverage (x)	5.4	46.3	19.3	9.9	6.7
FFO cash interest coverage (x)	5.5	72.2	18.2	10.4	6.9
Debt/EBITDA (x)	2.4	0.0	0.2	0.9	2.3
FFO/debt (%)	33.2	N.M.	408.3	96.3	36.7
Cash flow from operations/debt (%)	29.8	N.M.	390.1	84.8	37.2
Free operating cash flow/debt (%)	9.7	N.M.	219.9	48.6	15.7
Discretionary cash flow/debt (%)	3.9	N.M.	47.8	9.3	15.7

N.M.--Not meaningful. FFO--Funds from operations.

Financial Risk: Significant

Ooredoo's financial risk profile is supported by a conservative reported net debt-to-EBITDA target of 1.5x-2.5x (adjusted debt to EBITDA of below 3.0x), strong underlying cash flow generation in its home market, ongoing support from the government, strong liquidity, and a focus on network optimization. We expect the company's capex to sales will be in line with 2018 levels of 19%-20% in 2019 and 2020, before returning to 15% by 2021. The group's track record of acquisitions and sizable dividends could weigh on its financial risk profile, in our opinion. However, we view positively Ooredoo's focus on network optimization and modernization, with 4G technology already introduced in eight of its 10 markets. Although we expect capex to sales to temporarily peak in 2019-2020 due to higher planned investments in Indonesia, we expect FOCF generation to ramp up by 2021 (see chart 1).

Financial summary

Table 2

Ooredoo Q.P.S.C.--Financial Summary

Industry sector: Diversified telecom

	--Fiscal year ended Dec. 31--				
(Mil. QAR)	**2018**	**2017**	**2016**	**2015**	**2014**
Revenue	29,926.7	32,735.0	32,503.3	32,160.9	33,207.2
EBITDA	12,650.5	14,432.7	13,992.2	13,528.6	13,301.7
Funds from operations (FFO)	9,934.7	11,606.3	11,319.9	10,716.1	10,333.3
Interest expense	2,352.6	2,364.0	2,400.2	2,442.6	2,374.5
Cash interest paid	2,221.3	2,265.8	2,349.9	2,377.1	2,270.4
Cash flow from operations	8,909.0	10,176.0	9,883.3	10,464.5	11,338.9
Capital expenditures	5,996.9	5,027.0	8,358.9	10,333.5	10,737.8
Free operating cash flow	2,912.2	5,149.0	1,524.4	131.0	601.1
Discretionary cash flow	1,179.4	3,395.6	334.0	(1,375.7)	(1,345.4)
Cash and short-term investments	17,493.3	18,459.2	16,501.9	18,158.2	17,437.4
Gross available cash	17,493.3	18,459.2	16,501.9	18,158.2	17,437.4
Debt	29,901.2	32,454.2	35,323.3	35,035.3	35,552.8
Equity	28,177.7	29,691.3	29,001.1	28,372.9	30,468.5
Adjusted ratios					
EBITDA margin (%)	42.3	44.1	43.0	42.1	40.1
Return on capital (%)	8.1	9.4	9.9	8.8	8.2
EBITDA interest coverage (x)	5.4	6.1	5.8	5.5	5.6
FFO cash interest coverage (x)	5.5	6.1	5.8	5.5	5.6
Debt/EBITDA (x)	2.4	2.2	2.5	2.6	2.7
FFO/debt (%)	33.2	35.8	32.0	30.6	29.1
Cash flow from operations/debt (%)	29.8	31.4	28.0	29.9	31.9
Free operating cash flow/debt (%)	9.7	15.9	4.3	0.4	1.7
Discretionary cash flow/debt (%)	3.9	10.5	0.9	(3.9)	(3.8)

QAR--Qatari rial.

Liquidity: Strong

The short-term rating is 'A-2'. We assess the company's liquidity as strong. In our base case, we expect sources of liquidity to cover uses by at least 1.5x over the next 24 months. We also consider Ooredoo's solid relationship with banks and prudent risk management.

Principal Liquidity Sources	Principal Liquidity Uses
We estimate that Ooredoo's main liquidity sources over the 12 months from March 31, 2019, include: • Consolidated cash and equivalents of QAR13.7 billion. • QAR5.9 billion committed long-term undrawn credit facilities, comprising a QAR3 billion revolving credit facility (RCF) maturing in January 2020, and the $795 million unused portion of the $1 billion RCF maturing June 2022. • Funds from operations of QAR9 billion-QAR10 billion.	We estimate Ooredoo's main liquidity uses over the same period include: • Short-term debt maturities of QAR9.2 billion. • Annual capex of QAR5.0 billion–QAR 6.0 billion. • Working capital outflows of QAR 1.0 billion-QAR1.5 billion. • Annual dividends of about QAR1.2 billion (including dividends to minorities).

Debt maturities

- 2019: $1.6 billion
- 2020: $0.65 billion
- 2021: $1.00 billion
- Thereafter: $4.25 billion

Covenant Analysis

Compliance expectations

On March 31, 2019, the group was compliant with the below covenants. We forecast significant headroom in our base case.

Requirements

Ooredoo must comply with two maintenance bank covenants. These include a maximum net debt to EBITDA of 4x (first-quarter 2019 actual 2.2x; 1.8x excluding the impact of International Financial Reporting Standards 16) and minimum EBITDA to net interest payable of 3x (first-quarter 2019 actual 7.9x).

Government Influence

The long-term rating on Ooredoo is three notches higher than the 'bbb-' SACP, because we see a high likelihood that the government of Qatar would provide timely and sufficient extraordinary support to the group in the event of distress. This reflects our assessment of Ooredoo as a GRE with an:

- Important role for Qatar's government, given its position as the largest telecom services provider in the country. Ooredoo represents a key part of Qatar's communications infrastructure and is a flagship company for the state. It also contributes to the diversification of Qatar's economy away from the oil and gas industry; and
- Very strong link with the government, considering the state's 69.0% (51.6% direct and 17.0% indirect) shareholding in the company, appointment of board members, and oversight of decision-making processes, particularly those related to prospective investments outside the country.

Environmental, Social, And Governance

The diplomatic spat between Qatar and other GCC countries, which has been ongoing since June 2017, has slightly deflated roaming revenue, but had no material effect on ratings because roaming revenue is so small. The Qatari government, Ooredoo's majority owner, blocks voice over internet protocol (VoIP) services such as Skype. Such restrictions limit over-the-top competition, supporting high profitability margins of about 50% in Qatar. We do not expect Qatar to liberalize this policy, but could reassess if we see demand for a change. Ooredoo's exposure to higher temperatures in Gulf states does not affect our rating. Although an increase in extreme weather could increase the energy required to operate its network, energy costs in the GCC are heavily subsidized and contribute only 15% to operating expenditure.

Issue Ratings - Subordination Risk Analysis

Capital structure

Ooredoo's capital structure comprises $4.85 billion of bonds and $2.51 billion of bank loans outstanding as of first-quarter 2019.

Analytical conclusions

We rate debt issued by Ooredoo at 'A-', in line with the issuer credit rating, since no significant elements of subordination risk are present in the capital structure.

Reconciliation

Table 3

Reconciliation Of Ooredoo Q.P.S.C. Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. QAR)

	--Fiscal year ended Dec. 31, 2018--						
Ooredoo Q.P.S.C. reported amounts							
	Debt	**Shareholders' equity**	**EBITDA**	**Operating income**	**Interest expense**	**S&P Global Ratings' adjusted EBITDA**	**Cash flow from operations**
Reported	37,646.9	22,208.7	11,713.5	3,713.0	2,122.8	12,650.5	7,867.1
S&P Global Ratings' adjustments							
Cash taxes paid	--	--	--	--	--	(494.6)	--
Cash taxes paid - Other	--	--	--	--	--	--	--
Cash interest paid	--	--	--	--	--	(2,007.5)	--
Operating leases	2,849.6	--	495.3	213.7	213.7	(213.7)	281.6
Postretirement benefit obligations/deferred compensation	221.8	--	41.4	41.4	16.1	--	--
Accessible cash & liquid investments	(13,120.0)	--	--	--	--	--	--
Asset retirement obligations	70.5	--	--	--	--	--	--
Nonoperating income (expense)	--	--	--	923.1	--	--	--
Reclassification of interest and dividend cash flows	--	--	--	--	--	--	760.3
Noncontrolling interest/minority interest	--	5,969.0	--	--	--	--	--
Debt - Guarantees	664.0	--	--	--	--	--	--
Debt - Derivatives	83.3	--	--	--	--	--	--
Debt - Other	1,485.0	--	--	--	--	--	--
EBITDA - Other	--	--	400.3	400.3	--	--	--
EBIT - Other	--	--	--	(400.3)	--	--	--
Total adjustments	(7,745.7)	5,969.0	937.0	1,178.2	229.8	(2,715.9)	1,042.0
S&P Global Ratings' adjusted amounts							
	Debt	**Equity**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from operations**	**Cash flow from operations**
Adjusted	29,901.2	28,177.7	12,650.5	4,891.2	2,352.6	9,934.7	8,909.0

QAR--Qatari riyal.

Ratings Score Snapshot

Issuer Credit Rating

A-/Stable/A-2

Business risk: Satisfactory

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

Financial risk: Significant

- **Cash flow/Leverage:** Significant

Anchor: bbb-

Modifiers

- **Diversification/Portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Strong (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Stand-alone credit profile : bbb-

- **Related government rating:** AA-
- **Likelihood of government support:** High (+3 notches from SACP)

Related Criteria

- Criteria - Corporates - General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- 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
- General Criteria: Methodology For Rating Sukuk, Jan. 19, 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 22, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013

- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- ESG Industry Report Card: Telecoms, May 21, 2019
- GCC Capital Market Issuance Should Bounce Back This Year Following A Brief Lull In The First Quarter, April 8, 2019
- Qatar-Based Telecom Operator Ooredoo Affirmed At 'A-/A-2' Despite Challenges In International Markets; Outlook Stable, Jan. 14, 2019
- Industry Top Trends 2019: Telecommunications, Nov. 15, 2018

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	Modest	Intermediate	**Significant**	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	**bbb-/bb+**	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Ratings Detail (As Of July 3, 2019)*

Ooredoo Q.P.S.C.	
Issuer Credit Rating	A-/Stable/A-2
Issuer Credit Ratings History	
10-Dec-2018	A-/Stable/A-2
29-Aug-2017	A-/Negative/A-2
12-Jun-2017	A-/Watch Neg/A-2
12-Jan-2017	A-/Positive/A-2
11-Jan-2016	A-/Stable/A-2

*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.

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