FitchRatings

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Fitch Affirms Ooredoo at 'A-'; Outlook Stable

Fitch Ratings - London - 24 Feb 2021: Fitch Ratings has affirmed Ooredoo Q.P.S.C.'s Long-Term Issuer Default Rating (IDR) and senior unsecured rating at 'A-'. The rating also applies to debt issued by Ooredoo International Finance Limited under the company's GMTN programme. The Outlook on the IDR is Stable. A full list of rating actions is available below.

The rating is driven by the strength of Ooredoo's links with the State of Qatar (AA-/Stable). The company is rated on a top-down basis, three notches below the sovereign rating of Qatar, in line with Fitch's Government-Related Entities (GRE) Rating Criteria.

Ooredoo's Standalone Credit Profile (SCP) is 'bbb'. This reflects a combination of factors that include a strong position in the company's domestic telecoms market, a diversified portfolio of international assets with some carrying emerging-market risk and strong underlying cash generation that enables some flexibility in managing the balance sheet. Operational and financial risks as a result of emerging-market exposure are effectively minimised and managed through a conservative financial policy and hedging.

Key Rating Drivers

Government Support: Ooredoo is majority-owned by the State of Qatar, with direct and indirect ownership of about 69%. Ooredoo's ratings are three notches lower than Qatar's sovereign rating, in accordance with Fitch's 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. Historically, Qatar has demonstrated this support by providing liquidity through deferred royalty payments and subscribing to its pro-rata share and any unsubscribed shares in rights issues.

SCP Underpinned by Domestic Operations: Ooredoo is the leading telecoms operator in Qatar, with operations in the Middle East, south-east Asia and north Africa. The 'bbb' SCP reflects a structurally well-positioned and stable, domestic market position and a significant exposure to emerging-market risks. At end-2020, Ooredoo generated about 25% of its revenue and 48% of its operating free cash flow (FCF; EBITDA less capex) from Qatar. We expect the operating FCF contribution from Ooredoo's domestic business to remain significant in the coming years, despite subscriber growth in its international operations.

Emerging-Market Risks: Ooredoo operates in a number of emerging markets across Africa and Asia, some of which have sub-investment grade sovereign ratings. Operations in these countries provide healthy growth potential, but also expose Ooredoo to macroeconomic challenges, political and foreign-exchange (FX) risks. At end-2020 Ooredoo had about 18% of its financial debt at the operating company level, primarily in local currency. The remainder of the debt is held at the parent company in US dollars. While Ooredoo has significant cash holdings in Qatari riyals pegged to the US dollar, it still has a foreign-currency mismatch between net debt and cashflow.

Indonesia Turnaround Momentum Maintained: Indosat is Ooredoo's largest international operations at about 26% of EBITDA and 15% of operating FCF in 2020. Significant network investments over the past two to three year, along with a focus on operational efficiencies and improved marketing, have enabled Ooredoo to regain its competitive position and return the business to EBITDA growth. The potential for a transaction with CK Hutchison could strengthen Ooredoo's operating profile given the opportunity to achieve consolidation in a market that currently supports five mobile operators. The transaction is currently not part of Fitch's base case for the rating.

Short-Term Pressures Digestible: Revenue growth in Indonesia, Myanmar and Palestine, combined with a focus on digitisation and cost optimisation, enabled Ooredoo to minimise the negative impact on trading from the coronavirus pandemic, macro-economic weakness in some markets and FX fluctuations, particularly in Iraq. As a result, Ooredoo's revenue and EBITDA declined 4% and 6% YoY in 2020. We expect these pressures to remain in the short term but with lower impact. This is likely to be supported by ongoing cost-optimisation programmes and diminishing impact from declines in legacy products and services that are not fully offset by growth in data and IP services.

Conservative Leverage Profile: Ooredoo's funds from operations (FFO) net leverage at end-2020 was 1.6x and comfortably within the company's 'bbb' SCP. We expect this to gradually reduce over the next two to three years. Our base case assumes no significant FX fluctuations but includes some EBITDA pressure in Oman as a result of a new mobile entrant and ongoing macro weakness. Ooredoo has a target of 1.5x-2.5x net debt to EBITDA (including an approximate 0.3x impact from leases). At end-2020 the company-defined net debt to EBITDA was 1.9x. We believe management is likely to maintain a conservative approach to its balance sheet.

Strong Cash Generation: Ooredoo has strong FCF generation as demonstrated by a FCF margin that we expect will remain at 6%-8% (excluding licence costs) over the next two to three years. This margin is strong compared with other EMEA telecoms operators' and provides Ooredoo with both flexibility and capacity in managing its operating risks, capital structure and leverage profile.

Derivation Summary

Ooredoo's rating is three notches below that of Qatar on a top-down basis, under Fitch's GRE Rating Criteria, reflecting strong ties between the company and its ultimate parent and moderate-to-strong incentives by the state to provide support. Ooredoo's three-notch differential with the sovereign rating is wider than Emirates Telecommunications Group Company PJSC's (A+/Stable) two-notch differential to Abu Dhabi's (AA/Stable) sovereign rating. This is because our GRE criteria factors in a company's SCP. Etisalat's SCP of 'a-' is higher than Ooredoo's.

The 'bbb' SCP of Ooredoo reflects its strong domestic position as well as significant macroeconomic, political and regulatory risks from its international operations. The strength and stability of the its FCF generation in the Qatari market only partly offsets its emerging-market exposure. Ooredoo's operating cash flow contribution from the domestic market is broadly similar to that of Telefonica S.A. (BBB/ Stable), which also has a significant emerging-market exposure within its portfolio.

Key Assumptions

Fitch's Key Assumptions Within Our Rating Case for the Issuer

- Reported revenue to be flat in 2021 and to grow 0%-0.5% per year in 2022-2024 (assuming no significant FX movements);

- Fitch-defined EBITDA margin remaining broadly flat at around 36% in 2021-2024;

- Capex excluding spectrum at 20% of sales in 2021, declining to around 18% in 2022-2024; and

- Stable dividend in 2021, followed by growth of 10% per year in 2022-2024.

RATING SENSITIVITIES

Ooredoo Q.P.S.C.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- An improvement in SCP, possibly due to improved competitiveness and financial profile of the international operations, accompanied by continuing government support

- Tangible evidence of strengthening of government support, such as explicit guarantees from Qatar

- An Outlook revision on Qatar's sovereign rating to Positive or a sovereign rating upgrade

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- 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

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- A marked and sustained reduction in government debt to a level approaching the 'AA' median, for example as a result of a prolonged period of fiscal surpluses, combined with a reduction of risks associated with large contingent liabilities.

- A substantial improvement in Qatar's external balance sheet to a level more in line with 'AA' rated regional peers', for example through prolonged external surpluses leading to a build-up of central bank reserves and the Qatar Investment Authority's assets.

- An improvement in structural factors such as a reduction in geopolitical risk from a sustained easing of US-Iran tensions and intra-GCC tensions, substantial reduction in hydrocarbon dependence, or an improvement in governance or business environment indicators to levels approaching the 'AA' medians.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- A failure to reduce government debt, for example due to higher fiscal deficits than currently forecast, or an assessment that contingent liabilities are likely to crystallise on the sovereign balance sheet.

- A deterioration in Qatar's external balance sheet, for example due to renewed pressure on non-resident funding in the banking sector requiring further liquidity injections by the sovereign, or unfavourable investment returns.

- An escalation of regional geopolitical tensions that threatens Qatar's economic and financial stability, for example if it increases the likelihood of war between the US and Iran, leading to capital flight from banks or to prolonged disruptions of Qatar's hydrocarbon and transport sectors.

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

Strong Liquidity: As at end-2020, Ooredoo reported readily available cash of QAR14.6 billion, a majority of which was denominated in Qatari riyal. It has QAR3 billion in a committed revolving credit facility and USD175 million in undrawn facilities at the holding company level. This provides ample cover to meet maturities in 2021.

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.

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

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Rating Actions

ENTITY/DEBT	RATING			RECOVERY	PRIOR
Ooredoo Q.P.S.C.	LT IDR	A-	Affirmed		A-
Ooredoo International Finance					

ENTITY/DEBT		RATING		RECOVERY	PRIOR
Limited					
• senior unsecured	LT	A-	Affirmed		A-

RATINGS KEY	OUTLOOK	WATCH
POSITIVE	⊕	⬘
NEGATIVE	⊖	⬙
EVOLVING	⊙	◆
STABLE	⊡	

Applicable Criteria

Corporate Rating Criteria (pub.21 Dec 2020) (including rating assumption sensitivity)

Corporates Notching and Recovery Ratings Criteria (pub.14 Oct 2019) (including rating assumption sensitivity)

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

Sector Navigators - Addendum to the Corporate Rating Criteria (pub.21 Dec 2020)

Applicable Models

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

Corporate Monitoring & Forecasting Model (COMFORT Model), v7.9.0 (1)

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