Research Update:

Qatar-Based Telecom Operator Ooredoo 'A-' Rating Affirmed Following Subsidiary Indosat's Merger; Outlook Stable

March 14, 2022

Rating Action Overview

- S&P Global Ratings anticipates that Qatar-based Ooredoo QPSC will demonstrate stronger credit metrics and steady deleveraging in 2022-2023, with adjusted debt to EBITDA at 1.4x-1.7x over that period, and has therefore revised its financial risk profile to intermediate from significant.
- Following the merger of Ooredoo's 65% Indonesian subsidiary Indosat with PT Hutchison 3 Indonesia, the group holds a 32.8% stake in the merged entity Indosat Ooredoo Hutchison (IOH) and shares joint control with CK Hutchison.
- We think that the deconsolidation of Indosat will reduce the group's scope and scale, limit its growth potential, and increase the exposure to volatility of foreign currencies and higher-risk countries.
- We therefore affirmed our 'A-/A-2' long- and short-term issuer credit ratings on Ooredoo.
- The stable outlook on Ooredoo mirrors that on Qatar.

PRIMARY CREDIT ANALYST

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

SECONDARY CONTACT

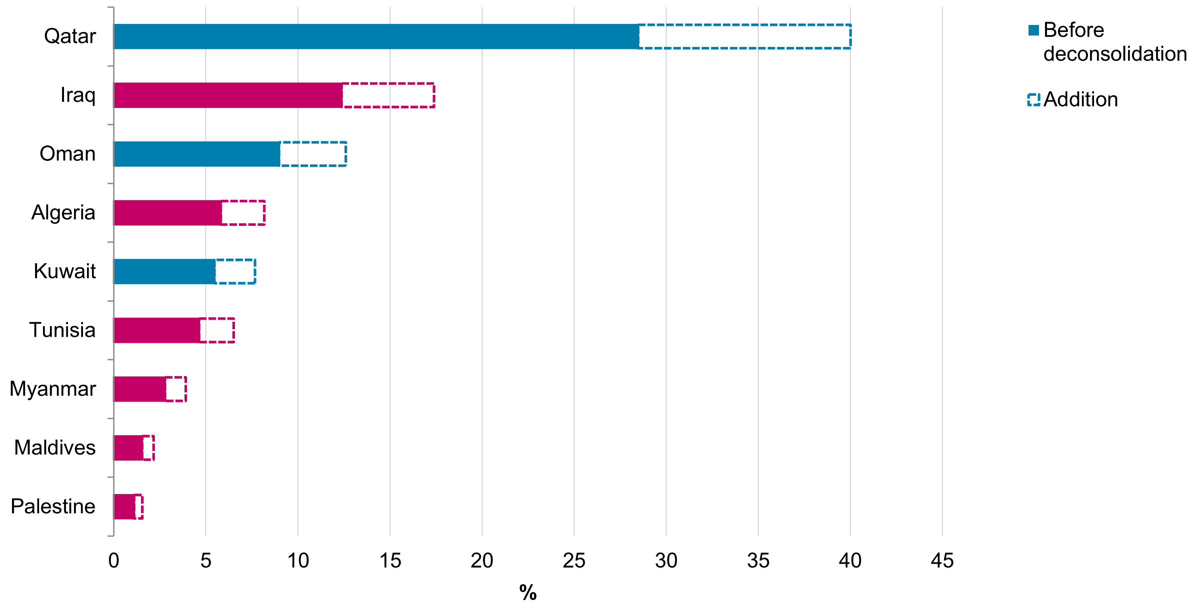
Rawan Oueidat, CFA
Dubai
+ 971(0)43727196
rawan.oueidat
@spglobal.com

Rating Action Rationale

We anticipate steady deleveraging in 2022-2023 with adjusted debt to EBITDA of 1.4x-1.7x. After the repayment of about Qatari riyal (QAR) 5 billion of gross debt in 2021, and the deconsolidation of about QAR8.7 billion of financial and lease liabilities at Indosat (but excluding about QAR3.6 billion of EBITDA from Indosat). Ooredoo's adjusted debt to EBITDA improved to 1.8x at the end of 2021 or 1.9x assuming full consolidation of Indosat (2.4x in 2020). We expect that the group's leverage will remain at the lower end of its 1.5x-2.5x net leverage target in 2022-2023, absent material acquisitions that are not part of our base-case scenario. Our expectation of adjusted debt to EBITDA improving to 1.4x-1.7x in 2022-2023 has led us to revise our financial risk profile assessment to intermediate from significant.

We deconsolidate Indosat following its merger with PT Hutchison 3 Indonesia, a subsidiary of CK Hutchison Holdings Ltd. (A/Stable/--), and expect this to have a marginally positive impact on Ooredoo's credit metrics while amplifying some operational risks. Following the merger, Ooredoo and CK Hutchison will each have an indirect 32.8% stake in the merged entity, IOH, and will share joint control. As a result, Ooredoo will deconsolidate its former subsidiary (which contributed 27% of consolidated revenue and 29% of EBITDA in 2021). Given the high capital intensity of Indonesian operations with capital expenditure (capex) estimated at around 30% of revenue and additional costs related to the integration, the deconsolidation of Indosat will have a marginally positive impact on Ooredoo's deleveraging trajectory. On the other hand, this will lead to a significant reduction in the company's scale of operations, as well as lower growth rates on average. Indonesia (BBB/Negative/A-2) with its 270 million population and expected 5.6% and 4.8% GDP growth in 2022-2023, was a key growth driver for the group, helped by limited foreign exchange (FX) volatility given our expectation of low annual 1%-2% currency depreciation. Strong growth rates in Indonesia were offsetting the risk of FX volatility in other areas, such as Iraq, Algeria, and Tunisia, which we anticipate will weigh more heavily on reported revenue in 2022-2023. Reduced scope of operations, as indicated a sharp reduction in the number of customers to 57.6 million from 121 million, as well as a relative increase of exposure to higher-risk countries constrain our views on Ooredoo's business risk profile. Still, we believe that the group remains well geographically diversified compared with some Gulf Cooperation Council (GCC) peers, such as stc and Batelco, and benefits from no. 1 or 2 market positions in its domestic and international operations, which will support strong EBITDA margins at 40%-42%. We also think that improved no. 2 position in Indonesia and anticipated synergies of $300 million-$400 million will enable IOH to improve its free operating cash flow (FOCF) in two-to-three years once the integration is complete. This in turn increases the likelihood of more regular dividend distributions, ultimately benefiting both parents, although this is not part of our base-case scenario.

Reported EBITDA Contribution Change By Geography After Indosat Deconsolidation
As of fiscal year-end 2021



*Red indicates high (5) and very high (6) risk countries.

The revenue rebound in 2021 across most regions and better-than-expected EBITDA margin underpin the prospects of gradual deleveraging. The group's consolidated revenue progressed by 3.6% in 2021, including Indonesia, which grew at a healthy 14% and offset some FX headwinds and weaker regions. Excluding Indonesia, the group's reported revenue contracted by a modest 0.2%. The more profitable operation in Qatar (which reported a 51.6% EBITDA margin in 2021) grew 6%, and we expect the growth to continue in 2022 as the World Cup, to be held in Qatar, will fuel higher roaming and prepaid revenue. Nevertheless, we foresee tighter competition from the second Qatari operator, Vodafone, as it gains ground and expands its 5G coverage, which will limit profitability expansion in our view. We also expect high oil prices to sustain stronger customer demand in other GCC countries--Kuwait (which had a 29.1% EBITDA margin) and Oman (52.2%). We expect Oman's revenue contraction (7% in 2021) to bottom out in 2022, but think that EBITDA margins will be challenged by the introduction of a third operator, Vodafone, in December 2021. We expect negative effect from FX depreciation in Tunisia (38.7% EBITDA margin) and Algeria (34.6% EBITDA margin), that will offset growth in local currency. In Iraq, we don't anticipate further devaluation of the Iraqi dinar, which led to a 9% revenue drop in 2021 masking 9% growth in local currency that 4G rollout supported and we expect to continue to provide momentum in 2022. We also think that Myanmar (35.2% EBITDA margin) will continue to be affected by a state of emergency and think that Ooredoo will focus on cost optimization and capex containment. The Maldives (49.2% EBITDA margin) will continue to surf on the gradual recovery of international travel that should benefit the group. We think Ooredoo will demonstrate growth rates of negative

1% to positive 1% as the high-growth Indonesia that previously offset FX risks in other markets will no longer be included in the consolidation scope. At the same time, the group's focused cost efficiencies program should help alleviate the pressure from higher energy costs and sustain the EBITDA margin at 40%-42%.

Ooredoo's average capital intensity is set to decline as 5G investments in Qatar, Oman, and Kuwait are well advanced and highly capital-intensive Indonesia is excluded from the perimeter. In 2021, the group's capex was close to 20% of revenue, but 16% excluding Indosat. The deconsolidation of Indosat, where capex accounts for about 30% of revenue, will reduce the group's capex requirements. In Qatar, where 5G investments are almost complete, the group will have much lower 10%-12% capex spending, mostly related to maintenance. The same applies in Kuwait and Oman, where 5G investments are well advanced and will further decline from 2023 onwards. In other geographies, such as Iraq, Algeria and Tunisia, capex is mostly related to the 4G rollout and maintenance and is expected in the 12%-20% range. We expect that Ooredoo will generate QAR2.5 billion-QAR3.0 billion in FOCF per year in 2022-2023, assuming high working capital outflows of QAR1.0 billion per year.

Outlook

The stable outlook on Ooredoo mirrors that on Qatar. Our assessment of Ooredoo's stand-alone credit profile (SACP) at 'bbb-' is based on our expectation that Ooredoo's adjusted debt to EBITDA will remain below 2x absent sizable acquisitions, and the company's FOCF to debt coverage will improve above 15%.

Downside scenario

We could lower our rating on Ooredoo if we lowered our long-term sovereign rating on Qatar to 'A+' or lower. While less likely, we could also lower the rating if:

- 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, provided our assessment of government support is unchanged. We could revise upward our view on the company's stand-alone credit profile if, in addition to the expected deleveraging, the exposure to high-risk countries and foreign exchange volatility decreased, and the company's financial policy demonstrates commitment to lower leverage.

Company Description

Ooredoo is a Qatar-based international fixed and mobile telecommunications operator with a customer base of about 58 million, excluding the now-deconsolidated Indonesian operations. Its geographic footprint spans nine places in the Middle East (Qatar, Kuwait, Oman, Iraq, and

Palestine), North Africa (Tunisia and Algeria), and Asia (Myanmar and the Maldives).

The Qatari government is the major shareholder in Ooredoo through its 51.6% direct stake and 17% indirect ownership via other government-related entities (GREs). Most of the group's consolidated revenue comes from mobile services, and pro forma Indosat's deconsolidation, about 66% of its revenue stems from operations outside of Qatar.

Ooredoo is listed the Qatar Stock Exchange and the Abu Dhabi Securities Exchange. Its market capitalization is about QAR24 billion ($6.6 billion). Pro forma Indosat's deconsolidation, the group generated revenue of QAR21.9 billion and EBITDA of QAR9.6 billion in 2021.

Our Base-Case Scenario

Assumptions

- Our broader economic outlook, with continued economic recovery expected to continue in 2022-2023, will support revenue growth. We expect Qatar's GDP to expand by 4.0% in 2022 and 1.6% in 2023. High oil prices should provide further uplift in oil-related economies, such as Qatar, Kuwait, Oman, and Algeria. However, continued inflation and geopolitical risks could undermine consumer confidence and translate into reduced consumer spending, which could affect Ooredoo.
- In our base-case scenario, we foresee a flat to less than 1 % revenue drop in 2022, compared to a pro-forma 0.2% revenue contraction on a reported basis excluding the contribution from Indonesia in 2021. We see some upside for roaming and pre-paid revenue from the World Cup to be held in Qatar in November and December 2022. At the same time, FX depreciation in Algeria and Tunisia, a new entrant in Oman, and tight competition with the second operator in Qatar will limit revenue expansion to 0%-1% in 2023.
- The EBITDA margin will be 40%-42%, which we expect the group's focus on cost efficiencies to help sustain. In addition, we think that the company will be able to grow its customer base outside of the GCC region on continued roll-out of 4G, new services and digitalization trend, that will help keep stable profitability. In the GCC region, we expect the migration from prepaid to post-paid, as well as 5G to positively contribute, albeit tight competition will limit margin expansion, in our view.
- Capex to sales will moderate to about 14% in 2022-2023 as 5G investments are well advanced in Qatar from 16% in 2021 (excluding Indonesia).
- Expected dividends (including to minorities) will be QAR1.3 billion (about $350 million) per year.
- S&P Global Ratings-adjusted FOCF will be QAR2.5 billion-QAR3.0 billion for 2022-2023.

Key metrics

Ooredoo Q.P.S.C.--Key Metrics*

	--Fiscal year ended Dec. 31--				
(Bil. QAR)	2019a	2020a	2021a§	2022e§	2023f§
Revenue growth (%)	0	(3.5)	(0.2)	(1)-0	0-1
EBITDA margin (%)	43	42.1	44	40-42	40-42

Ooredoo Q.P.S.C.--Key Metrics* (cont.)

	--Fiscal year ended Dec. 31--				
(Bil. QAR)	2019a	2020a	2021a§	2022e§	2023f§
Debt to EBITDA (x)	2.3	2.4	1.8	1.6-1.7	1.4-1.5
FFO to debt (%)	34.3	32.02	44	44-46	50-52
FOCF to debt (%)	20.3	17.91	10.3	15-18	20-25

*All figures adjusted by S&P Global Ratings. §Excluding Indonesian operations. QAR--Qatari riyal. FFO--Funds from operations. FOCF--Free operating cash flow. a--Actual. e--Estimate. f--Forecast.

Liquidity

Our short-term rating on Ooredoo is 'A-2'. We assess the company's liquidity as strong. In our base-case scenario, 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.

We estimate that Ooredoo's main liquidity sources over the 12 months from Dec. 31, 2021, include:

- Consolidated cash and equivalents of QAR11.7 billion.
- Funds from operations of around QAR6.0 billion.
- Availability under various revolving credit lines of QAR3.7 billion, with the earliest $150 million RCF maturing in October 2023.
- An equalization payment of $387 million (QAR1.4 billion) from CK Hutchison for its 32.8% indirect stake in IOH.

We estimate Ooredoo's main liquidity uses over the same period include:

- Short-term debt maturities of QAR675 million.
- Annual capex of about QAR3 billion.
- Working capital outflows of around QAR1.0 billion.
- Annual dividends of about QAR1.3 billion (including dividends to minority interests).

Covenants

Ooredoo must comply with two maintenance bank covenants. These include a maximum net debt to EBITDA of 4.5x (1.5x at Dec. 31, 2021) and minimum EBITDA to net interest payable of 2.75x (8.3x at Dec. 31, 2021).

As of Dec. 31, 2021, the group complied with its covenants. We forecast significant headroom under our base-case scenario.

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. The group 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 68.6% (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.

Issue Ratings - Subordination Risk Analysis

Capital structure

Ooredoo's capital structure comprises $4.25 billion of bonds and $1 billion of bank loans as of end-2021 at the Ooredoo Q.P.S.C. level.

Analytical conclusions

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

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: Intermediate

- Cash flow/leverage: Intermediate

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)

ESG credit indicators:

E-2, S-2, G-2

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
- 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 23, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, 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

- Industry Top Trends 2022: Telecommunications, Jan. 25, 2022

Ratings List

Ratings Affirmed	
Ooredoo QPSC	
Issuer Credit Rating	A-/Stable/A-2
Senior Unsecured	A-
Ooredoo International Finance Ltd.	
Senior Unsecured	A-