

RATING ACTION COMMENTARY

Fitch Upgrades Ooredoo to 'A'; Outlook Stable

Wed 03 Apr, 2024 - 10:09 AM ET

Fitch Ratings - London - 03 Apr 2024: Fitch Ratings has upgraded Ooredoo Q.P.S.C.'s Long-Term Issuer Default Rating (IDR) to 'A' from 'A-'. The Outlook is Stable. We have also revised the Standalone Credit Profile (SCP) to 'bbb+' from 'bbb'. A full list of rating actions is below.

The upgrade of the IDR follows the upgrade of Qatar's sovereign rating to 'AA/Stable' from 'AA-' in March 2024. Ooredoo's rating is supported by the strength of its links with Qatar.

The revision of the SCP reflects Ooredoo's strong market position, our expectations of very low leverage and strong free cash flow (FCF) with high levels of debt service coverage from countries with high sovereign ratings. The SCP is constrained by exposure to operational and financial risks as a result of emerging-market exposure although these are effectively minimised and managed through a conservative financial policy and hedging.

KEY RATING DRIVERS

Government Links Support Rating: Ooredoo is majority-owned by Qatar, with direct and indirect ownership of about 68%. Ooredoo's ratings are two notches above its SCP of 'bbb+', in accordance with Fitch's GRE Rating Criteria. Our assessment of the overall links under the GRE Rating Criteria is 'Strong' with a support score of 20 out of a maximum 60. Fitch scores both of the responsibility-to-support factors as 'Strong' and one of the two incentive-to-support factors. 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.

Domestic Operations Anchor Rating: Ooredoo is Qatar's leading telecoms operator, with operations in the Middle East, south-east Asia and north Africa. In 2023, Ooredoo generated 42% of its operating FCF from Qatar with interest cover at Qatar alone of more than 5x. The domestic market is a duopoly with Ooredoo the market leader and

Vodafone Qatar the second-largest operator. Ooredoo has announced the disposal of its business in Myanmar, which will likely see the proportion of operating FCF from Qatar increase. The deal is pending regulatory approval and will remain consolidated in Fitch's forecasts until it has greater visibility of its completion.

Conservative Leverage Profile: Ooredoo's Fitch-defined EBITDA net leverage was lower than expected in 2023 at 0.4x. EBITDA margin growth and solid FCF conversion contributed to the strong deleveraging during the year. Company-reported leverage is well below its board guidance of 1.5x-2.5x (including lease debt) and we believe management is likely to maintain a conservative approach to its balance sheet.

Strategic Sense in Tower Merger: Ooredoo's transfer of towers into a newly formed TowerCo with Zain Group and TASC Towers makes strategic sense and will create significant opportunities for efficiency gains. The three partners have complimentary tower portfolios with clear overlap in Iraq where site sharing and decommissioning could support short-term cost savings. Ooredoo and Zain will both hold 49.3% in the TowerCo and as the contributor of the majority of the value in the overall tower portfolio, Ooredoo is set to receive a cash contribution from Zain for its equal shareholding, which it expects to receive over the next two years.

Leverage Headroom to Remain: Fitch includes lease-related costs in EBITDA, so Ooredoo's transfer of towers into a non-consolidated entity will mean higher lease costs at Ooredoo. The company expects the TowerCo to have revenues of USD500 million per year from 2025, of which Ooredoo and Zain will be anchor tenants (customers) in their respective markets. We estimate that after including ground lease savings for Ooredoo, net increase in lease costs will be over USD200 million per year, which we expect to drive a decline in Fitch-defined margins to 31.1% in 2025 from 35.4% in 2023.

Cash contributions from Zain and the potential for tower-related capex savings in Ooredoo may help offset the impact of higher lease costs on leverage, which we expect to remain well below 1x between 2024 and 2027.

DERIVATION SUMMARY

Ooredoo is rated two notches above its SCP on a bottom-up basis, under Fitch's GRE Rating Criteria. This reflects strong ties between the group and its ultimate parent and Fitch's assessment of a 'Strong' Support Score of 20 out a maximum of 60.

Ooredoo's 'bbb+' SCP reflects its strong domestic position, low leverage and high cash flows as well as its exposure to macroeconomic, political and regulatory risks from its international operations, which are exposed to emerging market risk in low-sovereign rated countries. Ooredoo's operating cash flow contribution from the domestic market is broadly similar to that of Telefonica SA (BBB/Stable), which also has significant emerging-market exposure within its portfolio.

KEY ASSUMPTIONS

- Reported revenue growth in the low single digits between 2024 and 2027
- Fitch-defined EBITDA margins to fall to 31% by 2025, reflecting increase lease costs following the tower transfer, and remaining broadly flat thereafter
- Capex (intangible asset investments) at between 15-16% of sales in 2024 to 2027
- Dividend per share of QAR0.55 paid in 2024 rising to QAR0.63 by 2027, no one-off shareholder distributions assumed following proceeds from TowerCo partners or from the announced sale of the Myanmar subsidiary

RATING SENSITIVITIES

Ooredoo Q.P.S.C.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- An upgrade of Qatar's sovereign ratings
- Tangible evidence of strengthening government support, such as explicit guarantees from Qatar
- An increase in the SCP is not expected given the current mix of operating markets with a material increase in cash flows coming from countries with an investment-grade sovereign rating, accompanied by continuing government support

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- A downgrade of Qatar's sovereign ratings

- 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

- The SCP may be lowered if Fitch-defined net debt leverage increased above 1x on a sustained basis in combination with an erosion in FCF or a greater share of EBITDA from sub-investment grade countries

Qatar (March 2024)

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

-External Finances: A deterioration in Qatar's external balance sheet, for example, due to renewed increases in net external debt, pressure on non-resident funding for banks requiring liquidity injections by the sovereign, or signs of sustained unfavourable investment returns on sovereign assets.

-Public Finances: A renewed rise in GG debt/GDP, for example, due to a return to fiscal deficits, or an assessment that contingent liabilities are likely to crystallise on the sovereign balance sheet.

-Structural Features: A sharp escalation of regional geopolitical tensions that threatens Qatar's economic and financial stability, for example, if it caused capital flight from banks or prolonged disruptions of Qatar's hydrocarbon and transport sectors.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

-Structural Features: Improvement in structural factors such as reduction in hydrocarbon dependence and a strengthening in governance, and a reduction in geopolitical risk while maintaining strong fiscal and external balance sheets.

LIQUIDITY AND DEBT STRUCTURE

Ample Liquidity: At end-2023, Ooredoo reported readily available cash of QAR10.5 billion. It has QAR5 billion in undrawn credit facilities and evenly balanced debt maturities.

ISSUER PROFILE

Ooredoo is a converged telecom service provider headquartered in Qatar but with an international footprint covering the middle east, north Africa, and Asia.

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

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕	PRIOR ↕
Ooredoo Q.P.S.C.	LT IDR A Rating Outlook Stable Upgrade	A- Rating Outlook Positive
Ooredoo International Finance Limited		
senior unsecured	LT A Upgrade	A-

[VIEW ADDITIONAL RATING DETAILS](#)

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APPLICABLE CRITERIA

[Corporates Recovery Ratings and Instrument Ratings Criteria \(pub. 14 Oct 2023\) \(including rating assumption sensitivity\)](#)

[Corporate Rating Criteria \(pub. 04 Nov 2023\) \(including rating assumption sensitivity\)](#)

[Sector Navigators – Addendum to the Corporate Rating Criteria \(pub. 04 Nov 2023\)](#)

[Government-Related Entities Rating Criteria \(pub. 13 Jan 2024\)](#)

APPLICABLE MODELS

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

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.1.0 ([1](#))

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Ooredoo Q.P.S.C.

Ooredoo International Finance Limited

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Ooredoo International Finance Limited

UK Issued, EU Endorsed

Ooredoo Q.P.S.C.

UK Issued, EU Endorsed

UNSOLICITED ISSUERS

Ooredoo International Finance Limited (Unsolicited)

With Rated Entity or Related Third Party Participation No

With Access to Internal Documents No

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ENTITY/SECURITY	ISIN/CUSIP	RATING TYPE	SOLICITATION STATUS
Ooredoo Q.P.S.C.	-	Long Term Issuer Default Rating	Unsolicited
Ooredoo Q.P.S.C.	-	Standalone Credit Profile	Unsolicited
Ooredoo International Finance Limited USD 750 mln 5% Notes 19 Oct 2025 ser RegS (gtd: Ooredoo Q.P.S.C.)	XS0551307100	Long Term Rating	Unsolicited
Ooredoo International Finance Limited	-	Long Term Rating	Unsolicited

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