

Rating Action: Qatar Telecom

Moody's assigns A1 to Qatar Telecom with a stable outlook

First-time ratings

DIFC, December 15, 2008 -- Moody's Investors Service has assigned A1 local and foreign currency long-term issuer ratings to Qatar Telecom (Qtel) Q.S.C. The outlook is stable. This is the first time Moody's assigned ratings to Qtel.

"The A1 ratings for Qtel benefit from implicit support from the Qatari government, which remains the majority shareholder with a 55% direct stake, its leading market positions as the local incumbent integrated telecommunication service provider in Qatar as well as in the international markets that Qtel has entered over the recent years," said Martin Kohlhase, the DIFC/Dubai-based lead analyst for Qtel. The close links with the government, further substantiated by a golden share that has veto rights in respect to strategic decisions in addition to board representation, result in a four-notch uplift from the baseline credit assessment.

Key to management's strategy is its vision to become a global top 20 telecommunication service provider by 2020. In order to reach this goal, the company has embarked on a growth strategy that relies on acquisitions of predominantly mobile telecom operators, located in fast-growing and under-penetrated markets in the Middle East, North Africa, South Asia (MENASA) region. This has elevated sales from outside Qatar to QR 5.5 billion by 30 June 2008 from QR 470 million in 2006. At the same time, the company raised its debt position to QR 29 billion from QR 0.7 billion. "By reaching its long-term goal, Moody's assumes that Qtel remains acquisitive and that debt-financing is an important element that will feature in the capital structure," added Kohlhase. Qtel aims to operate at Net Debt/EBITDA leverage multiples of between 2.5 and 3.0 times, that can temporarily go up to 3.5 times if underpinned by a swift de-levering back to levels of management's comfort zone.

Qtel's standalone credit risk encompasses its financial policy, the high exposure (40% of sales) to high-risk countries (such as Iraq, Indonesia, Algeria and Tunisia), the arrival of a new and strong competitor (Vodafone) to the Qatari market and higher capital expenditures into the network over the short- to medium term. Moody's also notes re-financing needs towards the end of 2009 when a USD 2 billion credit facility - currently fully drawn - becomes due. The rating is currently weakly positioned in its rating category and Moody's expects Qtel to improve its metrics, so that the rating will be more comfortably positioned within its baseline credit assessment. More positively, the ratings factor in the contribution from highly profitable domestic operations with EBITDA margins in excess of 50%, the stable regulatory framework, ongoing support from the government (such as participation in the rights issue of June 2008) and the integration track record of acquired businesses.

The stable outlook assumes no change in government ownership and implicit support and also takes into account the ability to keep EBITDA margins at levels of 50%. While the rating factors in that Qtel remains acquisitive in line with its long-term vision, Moody's assumes that this will not result in a step-change of the company's financial policy, which could result in a driver for rating change. It also reflects our expectation that Vodafone, the operator to enter the Qatari market during 2009, will only be moderately gaining market share and that no third mobile license will be awarded in Qatar before 2012.

A full ratings report on Qtel will be available shortly on Moodys.com.

The principal methodology used in rating Qtel was the rating methodology "Global Telecommunications Industry", which can be found at www.moody.com in the Credit Policy & Methodologies directory, in the Ratings Methodologies subdirectory. Other methodologies and factors that may have been considered in the process of rating Qtel can also be found in the Credit Policy & Methodologies directory.

Qtel, headquartered in Doha/Qatar, is Qatar's incumbent, fully-integrated telecommunications network and services provider. Qtel is 55% government-owned. Until 2009, Qtel is the sole provider of domestic fixed-line and mobile services and has operations in 16 MENASA countries. In 2007, Qtel posted total revenues of QR10.4 billion (USD2.8 billion).

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