

ISSUER COMMENT

Omantel's Acquisition of Stake in Zain Group Is Credit Positive

From [Credit Outlook](#)

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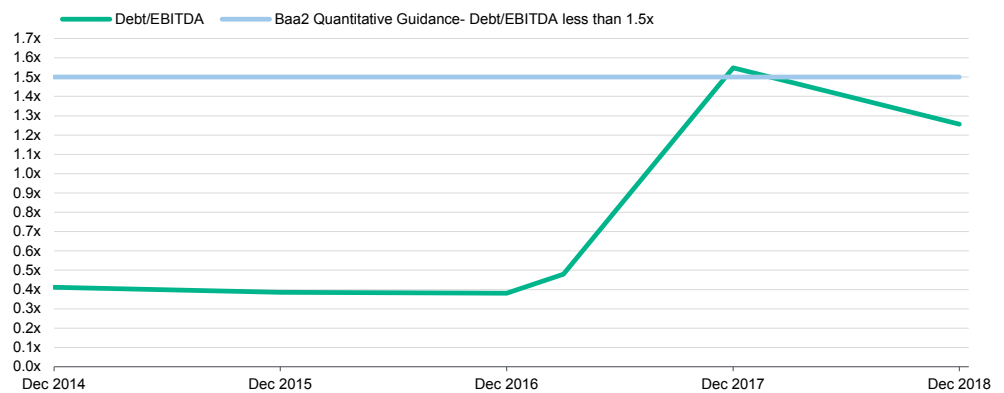
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Last Thursday, [Oman Telecommunications Company S.A.O.G.](#) (Omantel, Baa2 negative) announced plans to acquire a 9.84% stake in Kuwait-based Mobile Telecommunications Company K.S.C.P (Zain Group, unrated) for \$846.1 million. Oman's largest telecommunications services provider will acquire the shares directly from Zain Group, which currently holds 9.84% of its own ordinary share capital in the form of treasury shares. Although the transaction will be debt-funded, Omantel's investment is credit positive because it will allow the company to share technological and sourcing platforms with Zain Group, which will lower operating costs through synergies.

Omantel will fund its acquisition entirely with debt, using a bridge-loan facility. The company has indicated that it would consider various debt instruments when it comes to refinancing the bridge loan. Omantel can accommodate the additional debt within our 12-18 month quantitative guidance horizon for Omantel's rating (see exhibit).

Omantel's Debt/EBITDA with Stake in Zain Group If Entirely Debt-Funded

Debt/EBITDA will remain within our quantitative guidance for its rating over the next 12-18 months.



Sources: The company and Moody's Investors Service

The transaction is subject to approval by Kuwaiti regulators and to competitive bids. Any bids exceeding Omantel's offer must arrive within 10 days of Boursa Kuwait clearance. Absent any competing bids and regulatory obstacles, the parties expect to close the transaction by the end of this month. Omantel also has the option to counter any competing bids.

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Zain Group has revenue of \$3.5 billion and operates in nine countries in the Middle East and North Africa. By sharing procurement and investment in digital telecommunications service offerings, Zain Group and Omantel's partnership will lower costs. The telecommunications sector is becoming increasingly more service and value oriented as customers shift to data from voice, a trend that we expect will gain momentum. Omantel will face additional competitive pressure with the introduction of a third telecommunication services provider in Oman that we expect will emerge before year-end.

Omantel will gain a liquid asset given that Zain Group trades on the Bursa Kuwait with no carry cost. Zain Group's dividend to Omantel, based on its 12-month year-to-date dividend yield of 7.43%, will exceed Omantel's cost of debt financing. Omantel may also realize further upside given that some of Zain Group's underperforming operations show signs of recovery, which should add to dividend payments. The [Government of Oman](#) (Baa2 negative), which owns 51% of Omantel, has its four-year debt currently yielding around 3.5%, while Omantel would likely obtain financing slightly above this level.

Omantel faces stronger competition from Omani Qatari Telecommunications Company SAOG (Ooredoo Oman, unrated), which is a subsidiary of Qatar-based [Ooredoo Q.P.S.C.](#) (A2 stable), a geographically diversified telecommunications provider with revenue of \$10 billion compared with Omantel's \$1.4 billion. Ooredoo's size allows it to source its equipment more cost effectively and spread technological innovation over a far larger base of operations to realize lower research and developments costs per operation. Omantel would have found it challenging to compete with Ooredoo given its limited scale of operations as an operator only in Oman.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

Report Number: 196809

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