MOODY'S
INVESTORS SERVICE

Rating Action: Moody's takes rating actions on two Omani GRIs

Global Credit Research - 23 Feb 2015

Omantel's A3 rating and stable outlook affirmed; OPWP's outlook changed to negative

DIFC - Dubai, February 23, 2015 -- Moody's Investors Service today affirmed the A3 long term issuer rating and stable outlook of Oman Telecommunications Company S.A.O.G. (Omantel) and changed the outlook to negative from stable for the A1 long-term domestic and foreign currency issuer ratings of Oman Power & Water Procurement Cp. (S.A.O.C.) (OPWP). OPWP's ratings were affirmed.

Today's actions follow the outlook change to negative from stable on the A1 rating of the government of Oman on 20 February 2015. The outlook change for the sovereign rating is driven by uncertainty surrounding the effectiveness of the government's policy response to a multi-year period of low oil prices, which exerts downward pressures on economic growth, government finances and the external payments position. For additional information, please refer to the related announcement https://www.moodys.com/research/--PR_318111.

RATINGS RATIONALE

RATIONALE FOR AFFIRMING OMANTEL'S ISSUER RATING

Moody's expects that the impact of an anticipated weakening of the Oman government's credit metrics will have limited bearing on Omantel's credit profile. This is predicated by (1) Moody's expectation that Omantel's revenues will continue to benefit from a buoyant consumer environment in its core market where adherence to diversification plans by the Oman government will ensure continued nominal GDP growth in the non-oil sector; (2) Omantel's strong standalone baseline credit profile, with credit metrics expected to remain strongly positioned relative to peers; and (3) Omantel's relatively low debt levels and a robust liquidity profile comprising a staggered debt maturity profile negating dependence on the Government of Oman for financial support.

The rating agency will continue to closely monitor the evolution of Omantel's credit profile focusing on (1) any material negative impact of a lower oil price and downward sloping glide path of oil production on telecommunications consumer trends in its core market in Oman; (2) whether the proposed royalties increase to 12% of revenues in Oman is introduced (see https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_177722); (3) any differing dynamics in the competitive environment impacting Omantel's margins and dominant market position, especially if a third network operator where to be introduced; and (4) the potentially negative consequences of an increasing capital expenditure spend trendline on free cash flow generation and credit metrics. Any materialisation of the aforementioned, which would have a significant impact on Omantel's credit profile on a forward looking basis, could lead to Moody's revisiting the Omantel's Baseline Credit Assessment rating for negative pressure.

The stable outlook on the rating reflects Moody's expectation that Omantel will continue to consistently operate within its current financial profile, i.e., net debt/EBITDA leverage of below 1.5x, EBITDA margins of above 50% and retained cash flow (RCF)/debt of above 25%.

RATIONALE FOR CHANGING THE OUTLOOK TO NEGATIVE FROM STABLE OF THE DOMESTIC AND FOREIGN CURRENCY ISSUER RATINGS OF OPWP

By changing OPWP's A1 outlook to negative from stable, Moody's has extended the rating action on the government of Oman to OPWP given the close links between the two entities. OPWP's intrinsic strengths rest on the (1) role the company plays in the country's power and water sector; (2) provisioning of timely financial support from the government as stipulated by law; and (3) exclusive government ownership of OPWP. Given the legal and regulatory framework, in combination with the government's exclusive ownership and low business risk profile, OPWP's baseline credit assessment (BCA) of a1 is on par with the credit risk assessment of the government of Oman.

As Moody's does not expect any near-term changes to the regulatory framework that could jeopardize OPWP's role, OPWP's rating is expected to continue to move in lock-step with that of the government of Oman.

WHAT COULD CHANGE THE RATING UP / DOWN

OMANTEL

What Could Change the Rating - Up

The maintenance of the current rating will depend on Omantel maintaining an operating performance in line with historical trends. Omantel's current profile -- geographical concentration, its size, the potential for strategic and transforming acquisitions -- limit the rating upside of the BCA to a3 and the final rating to A2. However, Moody's views an upgrade as unlikely given competition in the market and the erosion of Omantel's EBITDA margin, as well as the fact that the company's credit metrics have built-in headroom for acquisitions. An increase in government support and/or a strengthening of the creditworthiness of Oman's rating could lead to an upgrade of Omantel's rating.

What Could Change the Rating - Down

Conversely, an increase in Omantel's financial leverage (debt/EBITDA in excess of 1.5x) could result in Moody's lowering the company's baa1 BCA. This could be triggered by a transformational acquisition/investment and/or continued pressure on the company's operating performance. A RCF/debt ratio of below 30% could also exert negative pressure onto the BCA. Downward pressure on the rating could result if the government lowers its stake in Omantel such that it loses control of the company (i.e., below 50% plus one share) or if Moody's assesses implicit government support as having weakened (from the current assessment of 'strong').

OPWP

OPWP's rating is derived from the strength of the sovereign, and a rating downgrade of the government of Oman could also lead to a downgrade of OPWP's rating. The rating assumes that OPWP will not be raising any debt, other than for short term liquidity purposes. Any changes in the regulatory framework or government policies that create financial stress on OPWP could lead to negative rating pressure. In particular, the rating incorporates the assumption that OPWP will not absorb or otherwise finance any of the licensed suppliers' liabilities that may result from the potential reduction of government subsidies to the sector. Market liberalisation measures, such as the privatisation of OPWP, would require a reassessment of the company's rating position and could result in downward rating pressure.

Given the negative outlook, an upgrade at this juncture is unlikely.

The methodologies used in rating Omantel were Global Telecommunications Industry published in December 2010, and Government-Related Issuers published in October 2014. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

The methodologies used in rating OPWP were Regulated Electric and Gas Utilities published in December 2013, and Government-Related Issuers published in October 2014. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

Oman Telecommunications Company S.A.O.G. (Omantel) is the incumbent telecommunications service provider in the Sultanate of Oman. Omantel is predominantly active in Oman from which it derives 98% of its revenues and where it is the leading service provider, primarily competing with Nawras (a 55% subsidiary of Ooredoo Q.S.C.; A2 negative). In 2008 the company acquired a 56% stake in WorldCall, a telecom operator in Pakistan. Omantel recorded revenues of OMR481.2million ($1.25 billion) for the financial year ended 2014.

Oman Power and Water Procurement Co. S.A.O.C. (OPWP) undertakes fully regulated water and electricity procurement services within the Sultanate of Oman. Established in 2003 and with headquarters in Muscat/Oman, OPWP has the exclusive right (subject to certain limited exceptions) to act as the sole buyer of electricity and related water from licensed production facilities, and is the sole seller of electricity and related water to the licensed electricity suppliers and water authorities.

OPWP is a closed joint stock company registered under the Commercial Companies Law of Oman, owned 0.01% by the Ministry of Finance and 99.9% by Electricity Holding Company S.A.O.C., which is itself wholly-owned by the Ministry of Finance.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this rating action, and whose ratings may change as a result of this rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

The below contact information is provided for information purposes only. Please see the ratings tab of the issuer page at www.moodys.com, for each of the ratings covered, Moody's disclosures on the lead analyst and the Moody's legal entity that has issued the ratings.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Douglas Rowlings
Analyst
Corporate Finance Group
Moody's Investors Service Middle East Limited
Gate Precinct 3, Level 3
P.O. Box 506845
DIFC - Dubai
UAE
Telephone: 00971 4237 9536

David Staples
MD - Corporate Finance
Corporate Finance Group
Telephone: 00971 4237 9536

Releasing Office:
Moody's Investors Service Middle East Limited
Gate Precinct 3, Level 3
P.O. Box 506845
DIFC - Dubai
UAE
Telephone: 00971 4237 9536

MOODY'S
INVESTORS SERVICE

FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.