



PRESS RELEASE:

WARA reviews ONATEL's ratings

WARA upgrades ONATEL's long-term credit rating to BBB from BBB-

WARA upgrades the long-term rating of Burkina Faso's leading telecom company ONATEL to BBB from BBB-. The outlook remains stable.

Ouagadougou, 11/07/18 — **West Africa Rating Agency (WARA)** has upgraded **ONATEL's** ratings. On WARA's regional rating scale, ONATEL's long-term rating has improved to **'BBB'** from **'BBB-'**, in the investment grade category, while its short-term rating stays at **'w-4'**. The ratings essentially reflect the company's seasoned expertise on its domestic market, its leading position in Burkina Faso, its resilience to external threats, as well as its healthy financial profile. The outlook on ONATEL's ratings remains **stable**.

At the same time, on its international rating scale, WARA has affirmed ONATEL's ratings at **iB/Stable/iw-6**.

ONATEL's ratings remain heavily dependent on the macroeconomic and political environment of Burkina Faso, as well as on the company's ability to preserve high profitability and leading competitive position on the domestic telecom market. The rationale behind the rating upgrade and stable outlook is that the company has managed to maintain a leading share in all of its submarkets, despite growing competitive threats and a challenging regulatory and social context. The rating upgrade is also explained by the company's commercial strategy as well as the investments it undertakes to further strengthen its competitiveness while remaining innovative. This has allowed ONATEL to diversify its product range and widen its offering. Another important aspect of the upgrade is ONATEL's resilience capacity, enabling the company to weather a painful social crisis in 2016. On top of this, financial performance is robust and in steady improvement for the past five years. Finally, the permanent operating support provided by Maroc Télécom, which shareholding in ONATEL increased to 61% in April 2018, enables the company to count on efficient procedures, put in place about a decade ago. Despite Maroc Télécom's shareholding, "ONATEL's credit ratings do not incorporate any external support factors" says Oumar NDIAYE, WARA's lead analyst for ONATEL. "However, WARA's opinion as to ONATEL's creditworthiness intrinsically captures the operating

contribution of Maroc Télécom Group; indeed, the scores on which ONATEL's ratings are based implicitly take into consideration the day-to-day support of the Moroccan telecom leader, which in turn positively contribute to the stability of its subsidiary in Burkina Faso".

Having said that, "ONATEL's ratings incorporate a negative adjustment into the scorecard, in order to reflect the relative importance of social, regulatory and tax risks, and most importantly increasing competitive pressures, which in turn should dilute the market shares of existing telecom players in Burkina Faso" says Mr. NDIAYE.

ONATEL was the first telecom operator to be established in Burkina Faso, and as such, ONATEL enjoys an operating infrastructure that is incrementally improving thanks to sizable investments (30 billion CFA francs in 2017). ONATEL's mobile line of business grew 3% in 2017, serving more than 7.3 million clients; mobile Internet also saw a massive jump in volumes in 2017, at 29%. Better management of the landline network has helped the company stabilize this line of business, with the number of its customers growing to 76,000 in 2017 from 75,727 in 2016. Revenues grew by a rate of 3% in 2017, at 162.7 billion CFA francs (157 billion in 2016), with operating income of 43.5 billion CFA francs (+7%) and a net income of 28.2 billion. These figures demonstrate ONATEL's resilience and capacity to continue generating profits despite uneasy economic conditions.

An upgrade of ONATEL's ratings will depend on: i) an upgrade of Burkina Faso's sovereign ratings, which appears unlikely in the short term; ii) a material and durable increase in mobile and landline internet market shares to depart from competition; iii) the modernization of its infrastructure in order to improve the quality of its network; iv) the reduction of the losses incurred in the landline business, itself possibly derived from the combined effect of stronger revenue streams and lower personnel expenses; and v) shorter payment delays granted to customers.

A downgrade of ONATEL's ratings would be the consequence of: i) a significant deterioration of ONATEL's profitability, should the expected fourth operator drive ONATEL's market shares and revenues down; ii) the materialization of social and/or political risks in Burkina Faso, which in turn could durably weaken the national economy and ONATEL's business; or iii) an increase in regulatory and tax pressure to a degree where ONATEL's profits

would be excessively squeezed.

As a matter of reference, WARA considers that the probability of occurrence of the best case scenarios is equal to that of the worst case scenarios in the medium term; in other words, ONATEL's current ratings carry as much downward pressure as upward potential.

The methodology used by WARA to rate ONATEL is the credit rating methodology for the industrial and commercial companies, which was published on the 15th of July 2012 (revised in September 2016), and is available on WARA's website:

<http://www.emergingmarketsratings.com/>

Information sources used by WARA to carry out ONATEL's ratings are mainly private information obtained during discussions with ONATEL's management team and parent company in April 2018. This information, coupled with publicly available sources, is considered by WARA as satisfactory for conducting ONATEL's credit rating process.

Finally, WARA notes that the credit rating process of ONATEL was requested and participating, meaning that it was performed upon a request by ONATEL, and that the company's management actively participated in the discussions with WARA's team of analysts.

ONATEL's long-term rating of **'BBB'** is one notch above the minimum credit rating accepted by the CREPMF to issue debt without a guarantee.

The comprehensive credit rating report is available upon request by e-mail. Contact: infos@rating-africa.org

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