



PRESS RELEASE:

WARA reviews ONATEL's ratings

WARA affirms once again ONATEL's rating at BBB-

WARA affirms once again the long-term rating of Burkina Faso's leading telecom company ONATEL at BBB-. The outlook remains stable.

Ouagadougou, 25/10/17 — **West Africa Rating Agency (WARA)** has once again affirmed **ONATEL's** ratings. On WARA's regional rating scale, ONATEL's long-term rating remains '**BBB-**', in the investment grade category, and 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, 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 continues to assign ONATEL ratings of **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 WARA's ratings and outlook on ONATEL is that the company has managed to further improve its market share and strengthen its position on all its submarkets, despite growing competitive threats with the entry of ORANGE, and a challenging regulatory and social context. On top of it, the permanent operating support provided by Maroc Télécom, ONATEL's majority owner, 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 Mohamed Amine Sabibi, 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 the entry of mobile operator ORANGE (after its recent acquisition of the second domestic player AIRTEL Burkina), which in turn should mechanically dilute the market shares of existing telecom players in Burkina Faso" says Mr. Sabibi.

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 (29 billion CFA francs in 2016). ONATEL's mobile line of business grew 4% in 2016, serving more than 7 million clients; mobile Internet also saw a massive jump in volumes in 2016, at 28%. Better management of the landline network has helped the company stabilize this line of business, which volumes grew by 1% in 2016, against -7% in 2015. Revenues grew by a rate of 9% in 2016, at 157 billion CFA francs (145 billion in 2015), with operating income of 40.7 billion CFA francs (+ 6%) and a net income of 24 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 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 2017. 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 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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