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Rating Action: Moody's affirms PLDT's ratings and stable outlook

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Hong Kong, August 18, 2015 -- Moody's Investors Service, has affirmed the Baa2 issuer rating and senior unsecured rating of Philippine Long Distance Telephone Company (PLDT). At the same time, Moody's has maintained the stable rating outlook.

"Despite increasing capex and ongoing competitive pressures, PLDT's margins and credit metrics continue to solidly position the company in the Baa2 rating category," says Gloria Tsuen, a Moody's Vice President and Senior Analyst.

RATINGS RATIONALE

"The affirmation of the ratings reflects PLDT's dominant market position in the Philippines' duopolistic telecommunications market, strong margins compared to global telecommunication peers in the Baa rating category, solid credit profile, and excellent liquidity," says Tsuen, also Moody's Lead Analyst for PLDT.

Moody's expects PLDT to continue to dominate its major segments. As of June 2015, the company had market shares by subscribers of approximately 59% for cellular telephony, 67% for fixed-line voice services, and 58% for broadband.

PLDT's reported consolidated service revenues were down 2% year-over-year in 2Q 2015 to PHP40.6 billion. Declines in toll revenues (international long distance and national long distance) -- which accounted for 12% of consolidated service revenues in 2Q 2015-- weighed on revenue growth, as increasing internet data usage has shrunk voice and texting usage. In addition, the company's reported consolidated EBITDA margin fell 1.6 points to 43.4% in 2Q 2015, excluding MRP costs.

Notwithstanding, PLDT's strong operating profile, Moody's expects PLDT's EBITDA margin to erode slightly over the next 12-18 months as domestic competition will remain intense and as high-margin toll revenues decline. In addition, the company will need to continue its network and service investments, notably in digital businesses.

However, PLDT should maintain an adjusted consolidated EBITDA margin of over 50%, which is strong for both its rating level and compared to similarly rated industry peers with 30%-40% EBITDA margins.

PLDT has increased capital expenditure estimates by up to PHP4 billion to PHP43 billion for 2015, compared to PHP35 billion in 2014. Moody's also expects that capex will remain elevated in 2016, as the company is carrying out investments to improve its network quality and customer experience.

In addition, the company seeks to strengthen its ability to deliver multimedia content through its broadband and mobile networks and grow its e-commerce business, given its strategy to transform itself into a multi-media organization. Management has indicated however that any new acquisitions will be in the range of $10 million (PHP 463 million) to $20 million (PHP 925 million) each and possibly three or four per year.

"As a result, Moody's expects PLDT's leverage will trend above 2.0x and FCF will remain negative in 2015 and 2016, although the company plans to reduce special dividend payouts to conserve cash flows, and it could further sell down its holdings in Meralco (unrated) if necessary," says Tsuen.

PLDT's liquidity position is strong. As of June 2015, the company had debt maturing in the next 12 months of about PHP17 billion, which it can cover with its cash and cash equivalents of PHP37 billion. Refinancing is likely, given the company's excellent access to the local bank and bond markets.

The stable outlook reflects our expectation that PLDT will maintain its solid margins and liquidity profile, given its dominant market position. We also expect that management will remain prudent in its use of cash particularly during periods of high and accelerated capex.

Upward rating pressure could emerge if PLDT: (1) maintains adjusted consolidated EBITDA margins that exceed 45%; (2) lowers its adjusted consolidated debt/EBITDA to below 1.5x on a sustained basis; (3) increases its retained cash flow to debt to above 30%; and (4) ensures that shareholder returns and asset investment policies

do not substantially weaken its financial profile.

PLDT's ratings will come under downward pressure if (1) its adjusted EBITDA margin falls below 40%, (2) adjusted debt/EBITDA exceeds the range of 2.0x-2.5x, or (3) retained cash flow to debt declines to below 20%, as a result of continued weak operating performance or event risk. Any additional material investment in non-core businesses could also be negative for the ratings.

The principal methodology used in these ratings was Global Telecommunications Industry published in December 2010. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

Philippine Long Distance Telephone Company is the largest telecommunications operator in the Philippines. It is an integrated provider of fixed-line, broadband, cellular, and information and communications technology.

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The first name below is the lead rating analyst for this Credit Rating and the last name below is the person primarily responsible for approving this Credit Rating.

Gloria Tsuen, CFA
Vice President - Senior Analyst
Corporate Finance Group
Moody's Investors Service Hong Kong Ltd.
24/F One Pacific Place
88 Queensway
Hong Kong
China (Hong Kong S.A.R.)
JOURNALISTS: (852) 3758 -1350
SUBSCRIBERS: (852) 3551-3077

Laura Acres
Associate Managing Director
Corporate Finance Group
JOURNALISTS: (852) 3758 -1350
SUBSCRIBERS: (852) 3551-3077

Releasing Office:
Moody's Investors Service Hong Kong Ltd.

24/F One Pacific Place
88 Queensway
Hong Kong
China (Hong Kong S.A.R.)
JOURNALISTS: (852) 3758 -1350
SUBSCRIBERS: (852) 3551-3077

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