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CREDIT OPINION
29 May 2019

Update

Rate this Research

RATINGS

PLDT Inc.

Domicile	Philippines
Long Term Rating	Baa2
Type	LT Issuer Rating - Dom Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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PLDT Inc.

Update to credit analysis

Summary

PLDT Inc.'s (PLDT) Baa2 rating reflects its leading revenue market share in the Philippines' duopolistic telecommunications market, as well as its higher operating margins compared with those of its global telecommunications peers in the Baa category.

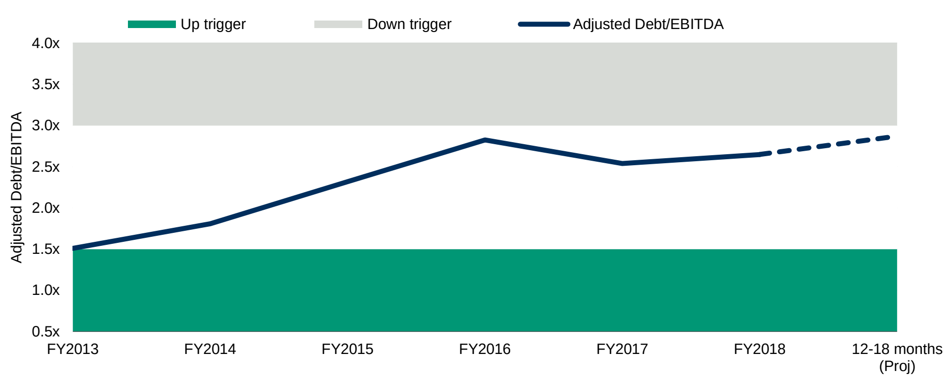
Data and broadband which contribute around 68% of revenues will continue to drive earnings and profitability. However, relatively intense domestic competition in the wireless segment and falling revenues from the continued shift of users away from texting and international inbound calling to over-the-top options will dampen operating performance.

Leverage, as measured by adjusted debt/EBITDA, registered 2.6x for the last twelve months ending 31 March 2019. The company reported cash and cash equivalents of PHP45 billion on the balance sheet, which together with projected cash from operations will be insufficient to fund higher capex needs over the next 12 months. As a result, we expect leverage will remain at the upper end of the tolerance range for its Baa2 rating.

Exhibit 1

Leverage will remain elevated reflecting higher debt levels to fund capex over the next 12-18 months

Still we expect leverage to remain below 3.0x over the next 12 months



Note: All figures and ratios are calculated using our estimates and standard adjustments. Moody's projections are our opinion and do not represent the views of the issuer. Periods are financial year-end unless indicated.
Sources: Company filings, Moody's Financial Metrics™, Moody's Investors Service estimates

Credit strengths

» Leading revenue market position in the duopolistic Philippines' telecommunications market

» EBITDA margin of 46%-48%, which remains strong relative to that of its peers

» Expectation of prudent management of balance sheet, a long-dated debt maturity profile and good access to the capital markets

Credit challenges

» Decline in higher-margin toll revenues (ILD and voice) along with relatively intense competition

» Elevated capex levels and weak cash flow will keep leverage at the upper end of the tolerance range for the company's Baa2 rating.

» Entrance of a third telecommunications operator, which will increase competition over time

» Event risks associated with its investments and acquisitions

Rating outlook

The stable outlook reflects our expectation that PLDT will retain solid margins relative to the Baa category, given its leading market position. We also expect management to remain prudent in its use of cash, particularly during periods of high and accelerated capital spending.

Factors that could lead to an upgrade

PLDT's rating could be upgraded if the company's (1) adjusted consolidated EBITDA margin is sustained above 45%, (2) adjusted consolidated debt/EBITDA falls below 1.5x on a sustained basis, or (3) retained cash flow/debt rises above 30%.

Factors that could lead to a downgrade

PLDT's rating will come under downward pressure if the company's (1) adjusted EBITDA margin falls below 40%; (2) adjusted debt/EBITDA exceeds 3.0x on a sustained basis; or (3) retained cash flow/debt remains below 20% on a sustained basis, as a result of weak operating performance or following additional investments or acquisitions.

Key indicators

Exhibit 2
PLDT Inc.

	FY2014	FY2015	FY2016	FY2017	FY2018	12-18 months (Proj)
Revenue (USD Billions)	$3.8	$3.8	$3.5	$3.2	$3.1	$3.3 - $3.4
Revenue (PHP Billions)	171	171	165	160	165	170 - 180
EBITDA Margin	53%	48%	46%	51%	47%	46% - 48%
Debt / EBITDA	1.8x	2.3x	2.8x	2.5x	2.6x	2.8x - 3.0x
RCF / Debt	22%	18%	22%	26%	27%	21% - 23%
(EBITDA - CAPEX) / Interest Expense	7.2x	4.2x	3.1x	4.0x	2.4x	1.5x - 1.7x

Note: All figures and ratios are calculated using Moody's estimates and standard adjustments. Moody's projections are our opinion and do not represent the views of the issuer. Periods are financial year-end unless indicated.
Sources: Moody's Financial Metrics™, Moody's Investors Service estimates

Profile

PLDT Inc. (PLDT) is the leading integrated provider of wireless and fixed-line services in the Philippines. The company is headquartered in Manila and listed on the Philippine Stock Exchange with its American depository receipts traded on the New York Stock Exchange.

Detailed credit considerations

Leading market position in the duopolistic telecommunications sector, but competition in the wireless segment remains

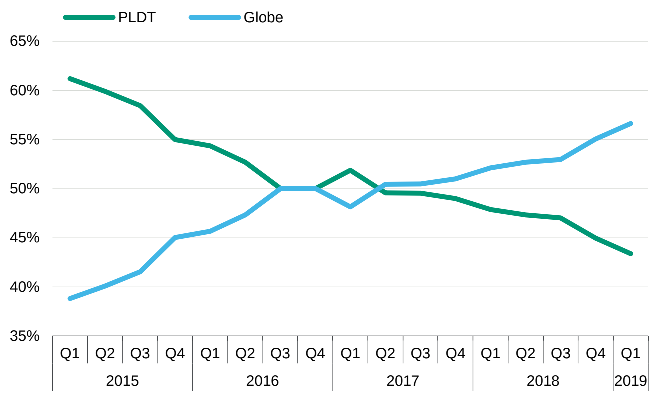
The Philippines' telecommunications sector is effectively a duopoly, with PLDT and Globe Telecom, Inc. (Globe) as the market leaders. As shown in Exhibit 3, despite some moderation competition in the wireless segment continues. Mobile subscriber share has migrated to a 43%/57% in Globe's favor down from a 60%/40% split in PLDT's favor in the first quarter of 2015.

That said, PLDT has maintained the leading revenue market share based on total telecom revenues. PLDT's consolidated revenue for the twelve months ended 31 March 2019 was PHP166 billion (about $3.2 billion), while Globe's total revenue was PHP139 billion (about $2.7 billion) for the same period, implying a 54%/46% revenue split.

Exhibit 3

PLDT's mobile market share has fallen to 43%...

Market share based on total number of mobile subscribers

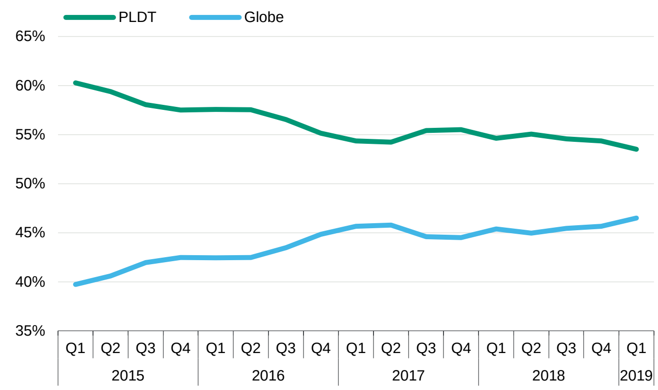


Sources: PLDT's and Globe's filings, Moody's Investors Service estimates

Exhibit 4

... although PLDT has maintained a leading revenue share (54%)

Market share based on total telecom revenues



Note: As of 31 March 2019. Total revenues includes service revenue (gross on interconnect charges) and non-service revenue.
Sources: PLDT's and Globe's filings, Moody's Investors Service estimates

In November 2018, the National Telecommunications Commission (Philippines' telecommunications regulator) held a bidding process to select the third mobile operator into the market to improve service quality and further increase competition. The Mislatel consortium - led by Udenna Corporation and China Telecom - has emerged as the provisional winner of the bid.

While Mislatel's entry into the Philippines market would intensify price competition and reduce the incumbents' market share, it will still take a number of years and substantial cash investment to build a network and establish a customer base.

Mislatel aims to start commercial operations in early 2021, a delay from its original plan to launch in late 2020. As a result, the threat of significant disruption to the market place over the next 12 months remains low in our view.

Weak free cash flow, reflecting muted operating performance and high levels of capital spending

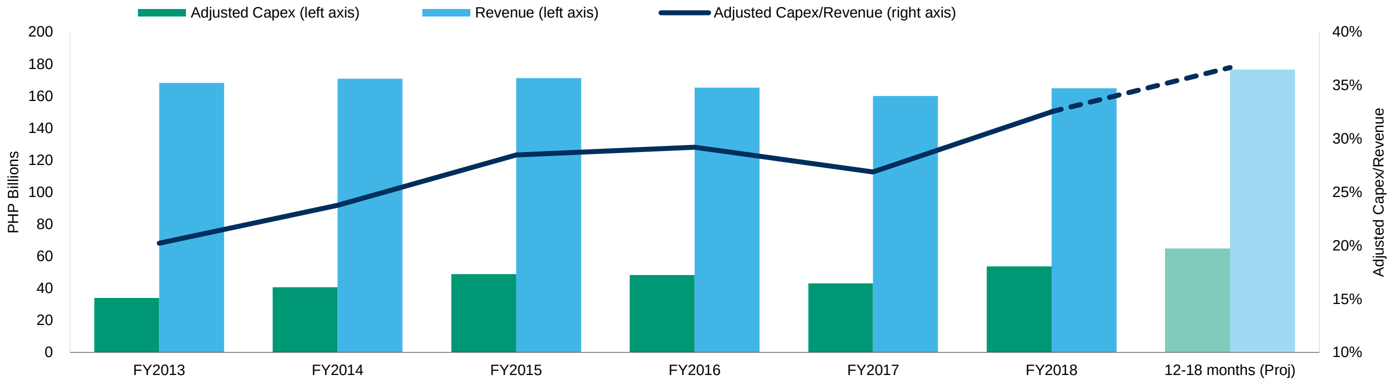
We expect PLDT's cash flow generation to remain weak as capital spending requirements remain elevated.

PLDT's capex guidance for 2019 is around PHP78.4 billion, its largest ever budget and an increase of 43% over the PHP54.8 billion registered over the last twelve months ended March 2019.

Around 20% of the planned capex, or PHP14-16 billion, is earmarked for expansion of its home broadband network, including customer premise equipment, installation and last mile delivery. A portion of the capex budget is also allocated for 5G investments, which PLDT will start this year.

Exhibit 5

PLDT's capital spending will be around 36%-38% of revenue in 2019



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Sources: Moody's Financial Metrics™, Moody's Investors Service estimates

Given the high levels of capital spending, we expect management to remain prudent in its use of cash, particularly with respect to dividends. PLDT's dividends are based on core income, with the company having the flexibility to conduct a look back at the end of the year to distribute excess cash as special dividends. The company plans a 60% payout in 2019 taking into account higher capex and its management of cash and gearing levels.

Adjusted leverage to remain elevated but below 3.0x

PLDT's service revenue recorded a 2.0% increase to PHP154 billion in 2018 from PHP151 billion in 2017, marking the first year of service revenue growth since 2014. Momentum continued into 1Q 2019, as service revenue recorded a 4.9% year-over-year growth. Expansion in internet and data-related services was sufficient to offset the continued contractions in traditional text and international long-distance call services.

We expect revenue growth of 4%-5% over the next 12-18 months, reflecting strong revenue growth in the home and enterprise businesses as well as in mobile data, offset by declines in legacy voice and SMS revenues.

PLDT registered a consolidated adjusted EBITDA margin of 47.1% in 2018 which remains strong relative to that of its similarly rated global telecommunications peers (which typically have margins in the 30%-40% range) and further supports the company's investment-grade rating. With the moderation of subsidies and tight management of costs, we expect the company to maintain margins in the 46%-48% range and adjusted cash flow from operations of around PHP60 billion in 2019.

That said, PLDT's continued network investments for the roll-out of 3G/LTE network and further fiber expansion to support increases in data usage and improving customers' data experience will keep capex levels high.

As at 31 March 2019, PLDT had around PHP198 billion of adjusted debt, which we believe will rise to around PHP240 billion, barring any significant asset divestitures. As a result, we expect PLDT's adjusted leverage will remain elevated in 2019 around 2.8x-3.0x.

Investments in core and non-core businesses pose event risks

PLDT's rating continues to take into consideration the company's investment appetite because major investments will require debt financing or asset sales. Although we understand management's intention to keep investments modestly sized, we continue to evaluate the business and financial risks associated with any potential investments on a case-by-case basis.

For example, in May 2016, PLDT and Globe announced they would jointly acquire San Miguel Corporation's (SMC) telecommunications business for PHP69.1 billion (including the assumption of PHP17.0 billion in liabilities) as well as the shares of New Century Telecoms, Inc and eTelco, Inc for a total of PHP897 million (including the assumption of PHP130 million in liabilities). Although the transaction was partially debt-funded, it provided new spectrum frequencies, notably in the 700 megahertz (MHz), 900 MHz and 1,800 MHz bands, which helps PLDT improve its network quality and roll-out in regional and rural areas.

At the same time, PLDT has used sale of investments and assets to supplement its cash flow which we view positively in terms of managing its leverage position.

In 2017, PLDT sold its remaining 18% stake in SPi Global, a business process outsourcing provider, for $56.2 million, the proceeds of which were received in November 2017. The company also divested its entire stake in Beacon Electric Asset Holding Inc. in two separate transactions between May 2016 and June 2017 for a total of PHP48 billion. To date, PLDT has received around PHP43 billion (including the discounting of receivables through 1Q 2019) which has been used to fund capital spending.

In late 2018, PLDT's digital innovations arm, Voyager Innovations Inc, issued new shares raising $175 million from KKR & Co., Inc. and Tencent Holdings Limited (A1 stable) and $40 million from International Finance Corporation (IFC) and IFC Emerging Asia Fund. All monies raised will support Voyager's funding requirements over the next three years. While PLDT remains the single largest shareholder in Voyager with a 48% stake, this partnership alleviates the need to PLDT to invest additional monies going forward and will reduce the quantum of losses, both of which are credit positive for PLDT.

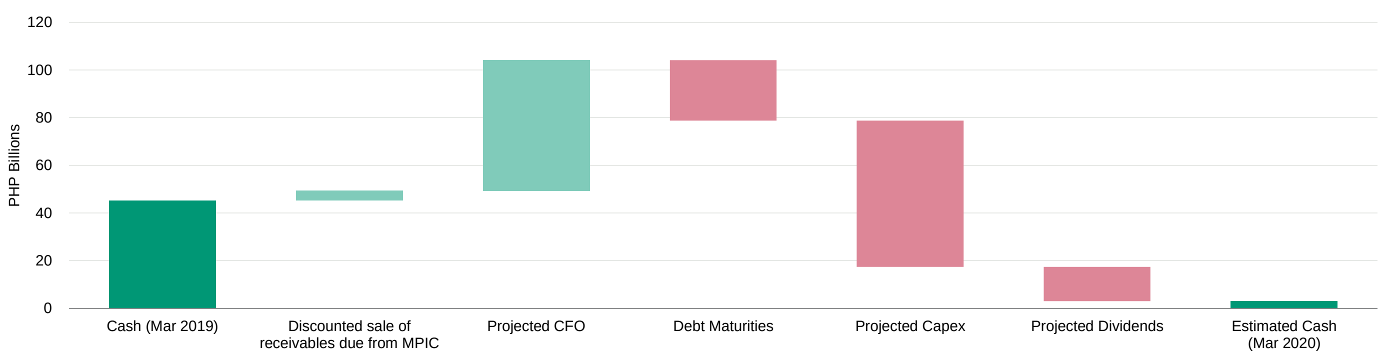
PLDT sold additional shares in Rocket Internet AG (Rocket) - a German internet company - raising proceeds of PHP11.4 billion. PLDT has reduced its stake in Rocket to 1.7% from 10% at initial investment in 2014.

Liquidity analysis

At 31 March 2019, the PLDT reported cash and cash equivalents of PHP45 billion. This cash, combined with projected cash flow from operations of PHP55 billion over the next 12 months, will be insufficient to cover current debt maturities, estimated capital spending and dividends over the same period.

Given high capital expenditure requirements expected over the next 12-18 months, we expect PLDT will likely use asset sales to supplement cash flows, including the sale of its remaining stake in Rocket and/or discounting remaining receivables due from MPIC. PLDT has also announced that it is evaluating the sale of properties in Makati City, which include an office building and the company's headquarters, to fund capital spending.

Exhibit 6
PLDT will need to supplement liquidity with asset sales or the next 12-18 months

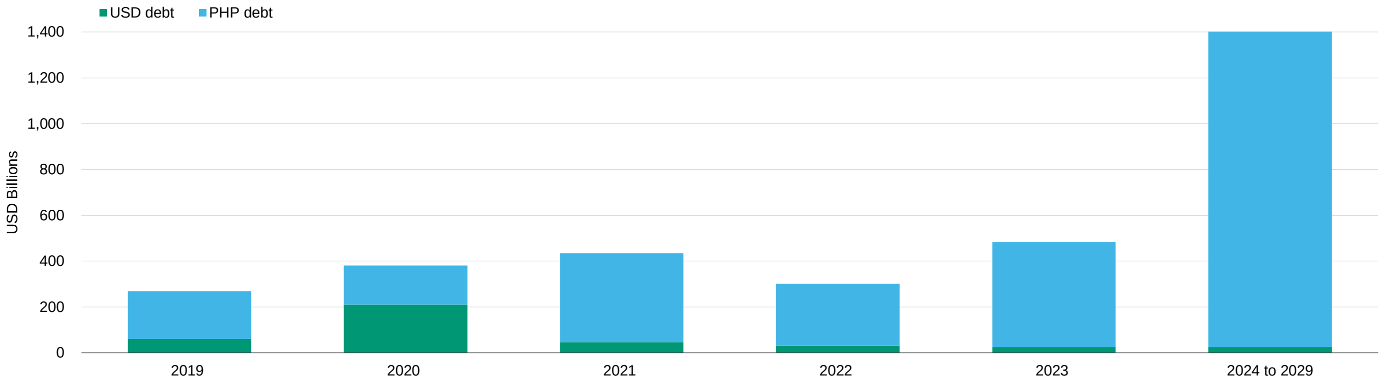


Sources: Moody's Financial Metrics™, Moody's Investors Service estimates

The company's debt maturity profile is relatively long-dated more than 50% of debt maturing after 2022. We expect the company to maintain good access to the local banking market as it looks to refinance any upcoming debt maturities.

Exhibit 7

PLDT's debt maturity profile is relatively long-dated



Note: 2019 refers to the period from 1 April 2019 to 31 December 2019
Source: PLDT's filings

Other considerations

Major shareholders

PLDT's major shareholders are First Pacific Company Limited (FirstPac) and NTT Communications/NTT DOCOMO, INC. (NTT Group, Aa3 stable), with effective common shareholdings as of January 2019 of around 26% and 20%, respectively. JG Summit Group also owns 8%.

We understand that NTT Group has an existing shareholders' agreement with FirstPac, which specifies that NTT Group should not increase its stake in PLDT beyond 21%.

Moreover, NTT Group and FirstPac have a right of first refusal over the other's PLDT shares. Furthermore, under its cooperation agreement with PLDT, NTT Group must give prior approval to any major acquisitions, investments or transactions involving PLDT and its subsidiaries.

In our view, this arrangement partially tempers the risk of PLDT being used as a conduit for FirstPac investments. While no rating uplift is factored into PLDT's rating because of NTT Group's ownership stake, we view positively the presence of a financially strong investor with the potential to aid technology transfers.

Foreign-currency risk

Exposure to foreign exchange risk has reduced since 2017 and remains manageable. According to PLDT's disclosure, around 12% of its gross debt was US dollar denominated as of March 2019, down from 20% as of year-end 2017. The unhedged portion equates to 7% of total debt, or $0.2 billion, after taking into account the company's US dollar cash holdings and currency hedges. In addition, around 16% of the company's consolidated gross revenue was denominated in or linked with the US dollar in the three months ended March 2019.

Rating methodology and scorecard factors

PLDT maps to a Baa3 grid-indicated rating based on our Telecommunications Service Providers rating methodology (published on 31 January 2017). The final rating of Baa2 considers the duopolistic environment in Philippines which supports PLDT's relatively higher EBITDA margins.

Exhibit 8

PLDT Inc.

Telecommunications Service Providers Industry Grid [1]	Current FY 12/31/2018		Moody's 12-18 Month Forward View [2]	
Factor 1 : Scale (12.5%)	**Measure**	**Score**	**Measure**	**Score**
a) Revenue (USD Billion)	$3.1	B	$3.3 - $3.4	B
Factor 2 : Business Profile (27.5%)				
a) Business Model, Competitive Environment and Technical Positioning	A	A	A	A
b) Regulatory Environment	Baa	Baa	Baa	Baa
c) Market Share	A	A	A	A
Factor 3 : Profitability and Efficiency (10%)				
a) Revenue Trend and Margin Sustainability	Baa	Baa	Baa	Baa
Factor 4 : Leverage and Coverage (35%)				
a) Debt / EBITDA	2.6x	Baa	2.8x - 3.0x	Ba
b) RCF / Debt	27.2%	Baa	21% - 23%	Ba
c) (EBITDA - CAPEX) / Interest Expense	2.4x	Ba	1.5x - 1.7x	B
Factor 5 : Financial Policy (15%)				
a) Financial Policy	Baa	Baa	Baa	Baa
Rating:				
a) Indicated Outcome from Scorecard		Baa3		Baa3
b) Actual Rating Assigned				Baa2

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] This represents Moody's forward view, not the view of the issuer, and unless noted in the text, does not incorporate significant acquisitions and divestiture.
Sources: Moody's Financial Metrics™, Moody's Investors Service estimates

Appendix

Exhibit 9

Peer Snapshot

	PLDT Inc. Baa2 Stable			Telekomunikasi Indonesia (P.T.) Baa1 Stable			Axiata Group Berhad Baa2 Stable			XL Axiata Tbk (P.T.) Baa3 Stable			Indosat Tbk. (P.T.) Baa3 Negative		
(in US millions)	FYE Dec-16	FYE Dec-17	FYE Dec-18	FYE Dec-16	FYE Dec-17	FYE Dec-18	FYE Dec-16	FYE Dec-17	LTM Sep-18	FYE Dec-16	FYE Dec-17	FYE Dec-18	FYE Dec-16	FYE Dec-17	FYE Dec-18
Revenues	$3,482	$3,174	$3,130	$8,746	$9,584	$9,203	$5,211	$5,679	$5,926	$1,604	$1,709	$1,614	$2,194	$2,236	$1,628
EBITDA	$1,613	$1,616	$1,473	$4,864	$5,435	$4,658	$2,505	$2,695	$2,746	$874	$928	$843	$1,134	$1,111	$622
Total Debt	$4,347	$4,142	$3,906	$4,516	$5,119	$4,808	$6,452	$6,438	$6,011	$2,148	$2,264	$2,318	$2,305	$2,247	$2,289
Cash & Cash Equivalents	$779	$659	$982	$2,209	$1,853	$1,213	$1,189	$1,683	$1,454	$104	$181	$73	$137	$142	$73
EBITDA Margin	46.3%	50.9%	47.1%	55.6%	56.7%	50.6%	48.1%	47.5%	46.3%	54.5%	54.3%	52.2%	51.7%	49.7%	38.2%
(EBITDA-CAPEX) / Interest Expense	3.1x	4.0x	2.4x	7.9x	8.5x	5.4x	1.6x	3.4x	1.7x	1.3x	1.2x	1.3x	2.4x	2.9x	0.5x
Debt / EBITDA	2.8x	2.5x	2.6x	0.9x	1.0x	1.0x	2.8x	2.3x	2.2x	2.5x	2.5x	2.8x	2.1x	2.0x	3.7x
FCF / Debt	-6.3%	0.3%	-1.6%	-0.4%	-11.3%	-23.0%	-1.3%	2.1%	-6.1%	0.8%	6.1%	6.0%	7.7%	8.0%	-5.2%
RCF / Debt	22.2%	26.3%	27.2%	48.4%	47.7%	39.0%	26.2%	33.2%	17.0%	38.3%	34.2%	31.6%	38.0%	38.4%	20.1%

All figures & ratios calculated using Moody's estimates & standard adjustments. FYE = Financial Year-End. LTM = Last Twelve Months.
Source: Moody's Financial Metrics™

Exhibit 10
Debt adjustment breakdown

(in PHP Billions)	FYE Dec-13	FYE Dec-14	FYE Dec-15	FYE Dec-16	FYE Dec-17	FYE Dec-18
As Reported Debt	**104.1**	**130.1**	**160.9**	**185.0**	**172.6**	**176.3**
Pensions	10.3	13.1	10.2	11.2	9.0	7.1
Operating Leases	18.1	20.1	19.1	19.9	21.0	22.0
Hybrid Securities	0.0	0.0	0.0	0.0	4.2	0.0
Moody's-Adjusted Debt	**132.5**	**163.3**	**190.2**	**216.1**	**206.8**	**205.4**

All figures are calculated using Moody's estimates and standard adjustments. FYE = Fiscal year-end.
Sources: Moody's Financial Metrics™, Moody's Investors Service estimates

Exhibit 11
EBITDA adjustment breakdown

(in PHP Billions)	FYE Dec-13	FYE Dec-14	FYE Dec-15	FYE Dec-16	FYE Dec-17	FYE Dec-18
As Reported EBITDA	**80.1**	**85.8**	**71.3**	**65.8**	**78.6**	**80.1**
Pensions	(0.3)	0.5	0.5	0.5	0.2	0.5
Operating Leases	6.0	6.7	6.4	6.6	7.0	7.3
Unusual	4.3	(0.7)	6.7	0.4	(2.3)	(10.5)
Non-Standard Adjustments	(2.3)	(2.0)	(2.8)	3.2	(2.1)	0.1
Moody's-Adjusted EBITDA	**87.8**	**90.3**	**82.0**	**76.5**	**81.4**	**77.5**

All figures are calculated using Moody's estimates and standard adjustments. FYE = Fiscal year-end.
Sources: Moody's Financial Metrics™, Moody's Investors Service estimates

Ratings

Exhibit 12

Category	Moody's Rating
PLDT INC.	
Outlook	Stable
Issuer Rating -Dom Curr	Baa2

Source: Moody's Investors Service

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.

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