

PLDT Inc.

Primary Credit Analyst:

Yijing Ng, Singapore (65) 6216-1170; yijing.ng@spglobal.com

Secondary Contact:

Simon Wong, Singapore (65) 6239-6336; simon.wong@spglobal.com

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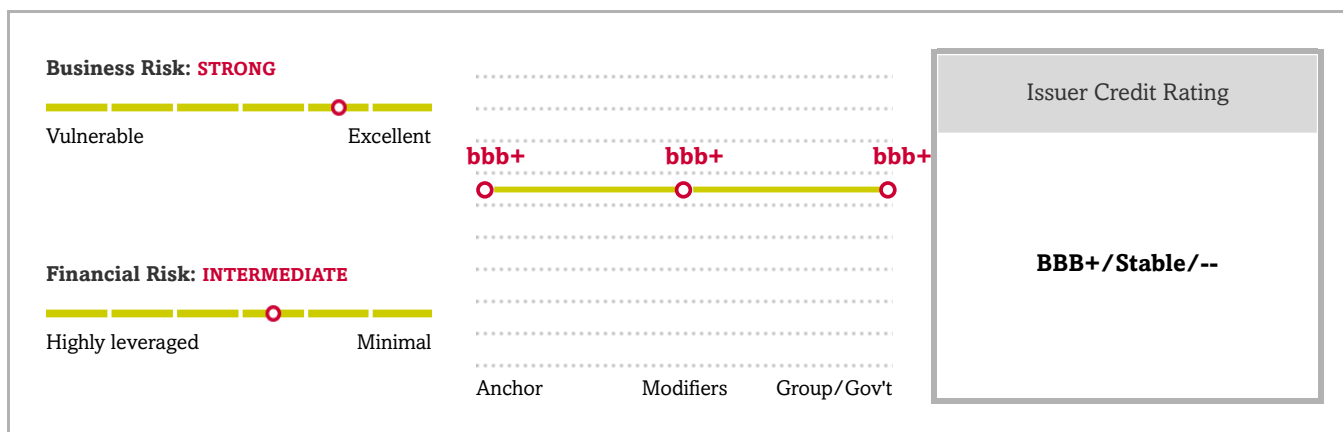
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PLDT Inc.



Credit Highlights

Overview	
Key strengths	Key risks
Leading fixed-line player in the Philippines' telecommunications industry.	Intensifying competitive pressure in both the mobile and fixed broadband space due to new entrants.
Strong growth potential in data and broadband in the Philippines.	Limited financial headroom given elevated capital expenditure and heightened competition.
Integrated services offering bolsters earnings stability.	

Improved network quality will allow PLDT Inc. to reclaim wireless market share and defend fixed-line leadership, but capital expenditure (capex) will remain elevated. Improved network quality following intense investments puts PLDT in good stead to regain market share in the wireless space in the Philippines telecommunications industry, before the entrance of the third player in 2021. PLDT's cash capex in 2019 was almost Philippine peso (PHP) 90 billion, and we expect capex to remain elevated through 2022, averaging PHP70 billion a year, up from about PHP49 billion in 2018. The increased investment was used to support network quality and coverage, as well as last-mile connectivity. The wireless revenue lead that competitor Globe Telecom, Inc. has over PLDT has narrowed to less than 10% in the first nine months of 2020. Meanwhile, PLDT has held its fort in the fixed-line segment, maintaining a steady lead over Globe. We expect that these trends would translate to a 6%-8% revenue growth for PLDT in 2020, followed by a slower growth of 4%-6% in 2021 and 2022 due to increased competition.

Competition is likely to intensify over the next few years and will put pressure on PLDT's financial headroom. We anticipate that earnings growth of both PLDT and Globe will be hit by the entry of Dito Telecommunity Corporation (Dito), which is slated to be in March 2021. The new player will likely engage in price competition to gain market share, as it ramps up network coverage and quality. There is also growing competition in the fixed-line segment, as smaller players like Converge ICT Solutions Inc. take a larger share of the growing pie. While PLDT's improved mobile and fixed-line networks will help it defend its position to some extent, such competitive pressures will still likely constrain earnings growth in subsequent years. We forecast reported EBITDA to grow about 11%-14% in 2020, and for this growth to slow to a mid-single digit annually in 2021 and 2022. Given the slower growth amid elevated capex, we expect PLDT will have limited financial headroom, with its debt-to-EBITDA ratio close to 2.5x through 2022.

Outlook: Stable

The stable outlook reflects our view that PLDT will maintain its dominant position in the fixed-line segment of the Philippines' telecom market, and preserve a substantial portion of its wireless market share over the next 12-24 months.

Downside scenario

We could lower the rating if PLDT's capital structure weakens, such that the ratio of debt to EBITDA increases and remains above 2.5x on a sustained basis. This could happen if PLDT's capital spending is higher than we anticipate, or if the company's competitive position or operating performance deteriorates materially due to aggressive competition.

Upside scenario

We may raise the rating if PLDT deleverages, such that its ratio of debt to EBITDA declines to sustainably below 2.0x. The company would also have to show sufficient strength to withstand potential sovereign stress. However, an upgrade is unlikely in the near term due to elevated capital spending and increased competitive pressures.

Our Base-Case Scenario**Assumptions**

- Philippines' real GDP to contract by 9.5% in 2020 and to recover with a growth of 9.6% in 2021 and 7.6% in 2022. The telecommunications sector is moderately linked to GDP growth and we believe local competitive dynamics are more important in influencing the telecom operator's performance.
- Overall revenue to grow by 6%-8% in 2020, and 4%-6% annually in 2021 and 2022.
- Low fixed-line broadband penetration will drive high single-digit growth annually in the fixed line segment, despite higher competition from smaller niche players. In contrast, for the more penetrated mobile segment, we expect a high single-digit growth in 2020 to be followed by flat performance from 2021. This is due to a likely increase in competitive pressures following Dito's entry in 2021.
- Adjusted EBITDA margin to be about 48%-50% for 2020 to 2022.
- Cash capex of PHP70 billion-PHP75 billion in 2020, and to remain elevated in 2021 and 2022, averaging close to PHP70 billion a year. This is to expand PLDT's fiber network and improve its mobile network, as well as last-mile connectivity.
- Dividend payout of about PHP17 billion in 2020, and PHP17 billion-PHP18 billion in 2021 and 2022.

Key metrics

PLDT Inc.--Key Metrics

	--Fiscal year end Dec. 31--				
(Mil. PHP)	2018a	2019a	2020f	2021f	2022f
Revenue growth (%)	1.9	3.9	6-8	4-6	4-6
EBITDA margin (%)	47.3	47.4	48-50	48-50	48-50
Capital expenditure	47,268.0	88,246.0	70,000-75,000	70,000-75,000	65,000-70,000
Debt to EBITDA (x)	2.0	2.4	2.4-2.5	2.4-2.5	2.4-2.5
FFO to debt (%)	42.1	35.7	30-32	30-32	30-32
DCF to debt (%)	2.6	(21.2)	(13)-(11)	>(10)	>(10)

Note: All figures adjusted by S&P Global Ratings. a--Actual. f--Forecast. FFO--Funds from operations. PHP--Philippine peso.

Company Description

Established in 1928, PLDT is the largest integrated telecommunication services provider in the Philippines, with total revenues of PHP169 billion in 2019. The wireless and fixed-line segments contribute about equally to total service revenues. As of Sept. 30, 2020, PLDT had about 72.4 million mobile subscribers and about 2.8 million fixed-line and fixed wireless broadband subscribers.

PLDT's major shareholders are First Pacific Group (25.57%), NTT Group (20.35%), and JG Summit Group (11.27%).

Peer Comparison

Table 1

PLDT Inc.--Peer Comparison

Industry sector: Diversified telecom

	PLDT Inc.	Advanced Info Service Public Co. Ltd.	Telekom Malaysia Bhd.
	--Fiscal year ended Dec. 31, 2019--		
(Mil. PHP)			
Revenue	169,187.0	308,287.3	141,621.7
EBITDA	80,250.0	146,185.3	48,570.9
Funds from operations (FFO)	69,496.0	125,692.0	39,627.1
Interest expense	9,972.0	12,033.5	6,706.9
Cash interest paid	8,657.0	9,038.4	5,812.7
Cash flow from operations	62,458.0	133,029.7	44,939.4
Capital expenditure	88,246.0	39,247.1	18,505.6
Free operating cash flow (FOCF)	(25,788.0)	93,782.6	26,433.8
Dividends paid	15,533.0	35,874.8	931.4
Discretionary cash flow (DCF)	(41,325.0)	57,907.8	25,502.4
Cash and short-term investments	24,683.0	33,465.6	59,298.3
Debt	194,606.0	303,745.2	69,460.8
Equity	115,930.0	118,264.7	81,165.4

Table 1

PLDT Inc.--Peer Comparison (cont.)			
Industry sector: Diversified telecom			
	PLDT Inc.	Advanced Info Service Public Co. Ltd.	Telekom Malaysia Bhd.
Adjusted ratios			
EBITDA margin (%)	47.4	47.4	34.3
Return on capital (%)	13.9	17.9	11.6
EBITDA interest coverage (x)	8.0	12.1	7.2
FFO cash interest coverage (x)	9.0	14.9	7.8
Debt/EBITDA (x)	2.4	2.1	1.4
FFO/debt (%)	35.7	41.4	57.0
Cash flow from operations/debt (%)	32.1	43.8	64.7
FOCF/debt (%)	(13.3)	30.9	38.1
DCF/debt (%)	(21.2)	19.1	36.7

PHP--Philippine peso.

We view Thailand's Advanced Info Service Public Co. Ltd. (AIS) and Telekom Malaysia Bhd. (TM) as peers of PLDT, as they are all single country operators.

In our view, PLDT's market position is weaker than TM's. Although PLDT is the leader in the Philippine telecom market, its revenue size is just under 20% larger than Globe. In contrast, TM enjoys a near monopoly in Malaysia's fixed-line market. AIS, on the other hand, has almost half of the mobile revenue market share in the Thai wireless services market even though it is dominated by three players.

PLDT's diversification is, however, stronger than both AIS and TM. PLDT has almost equal revenue contribution from wireless and fixed-line services. In contrast, AIS is predominantly a wireless operator, while TM is largely a fixed-line operator. In our view, this diversification helps in the stability of PLDT's earnings as the fixed-line and wireless segments are affected by different factors. For example, PLDT was able to gain from growth in the fixed-line segment amid the COVID-19 pandemic due to higher adoption stemming from work-from-home arrangements. At the same time, it managed to regain ground in the wireless segment as its investments in network quality paid off. Although AIS also benefits from increased fixed broadband adoption amid the COVID-19 pandemic, its revenue is predominantly from mobile services, which is facing a contraction due to reductions in its prepaid subscriber base and average revenue per user. Thus, we expect AIS' overall revenue to be down 4%-5% in 2020. For TM, we expect revenue to continue declining beyond 2020, due to ongoing mobile and data substitution, as well as increasing competition in fixed broadband.

PLDT's leverage is similar to AIS', and both of them face limited financial headroom due to elevated capex amid ongoing competitive pressures. TM's lower leverage reflects the company's cost cutting efforts, as well as its adoption of a more conservative dividend payout policy.

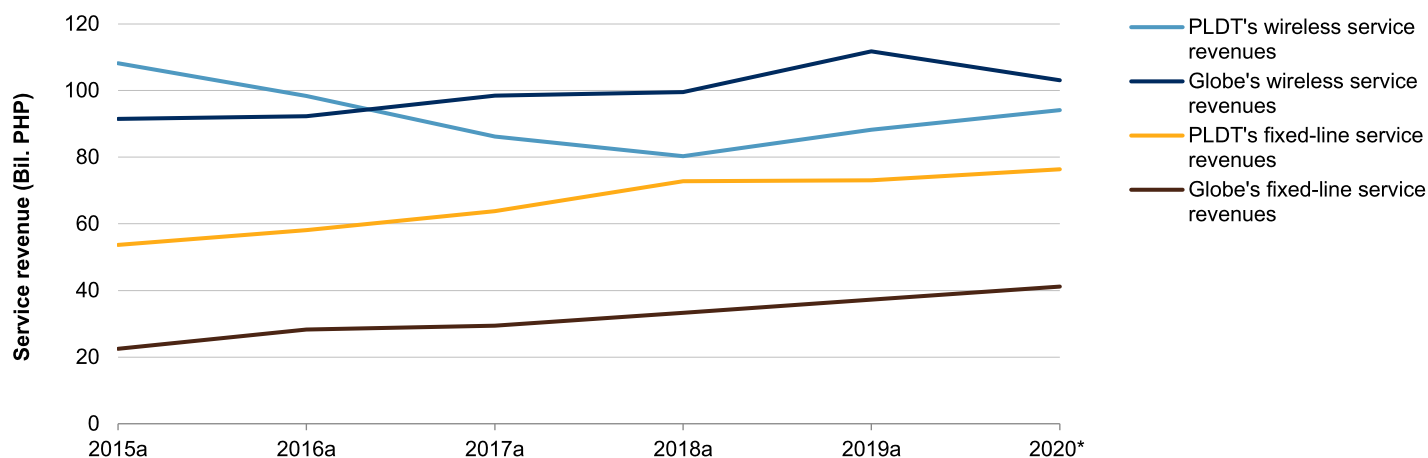
Business Risk: Strong

We expect PLDT to retain its overall leading position in the Philippines' telecom market, underpinned by its brand name and its investments to improve network quality.

In our view, PLDT will retain its dominant position and grow its fixed-line segment despite increasing competition. This is because there is strong growth potential in fixed-line home broadband, which is still an underpenetrated segment in the Philippines. We estimate that as of September 2020, only about a third or less of Philippine households have fixed or fixed-wireless broadband subscriptions, with such subscriptions totaling just over 7 million. We expect growing fixed-line demand, catalyzed by work-from-home arrangements amid the pandemic, will lead to more competition from Globe and niche players like Converge. However, we believe the increasing demand will still allow PLDT to realize growth. The improving fixed-line network will also allow PLDT to benefit from growing demand for corporate data and information and communication technology services.

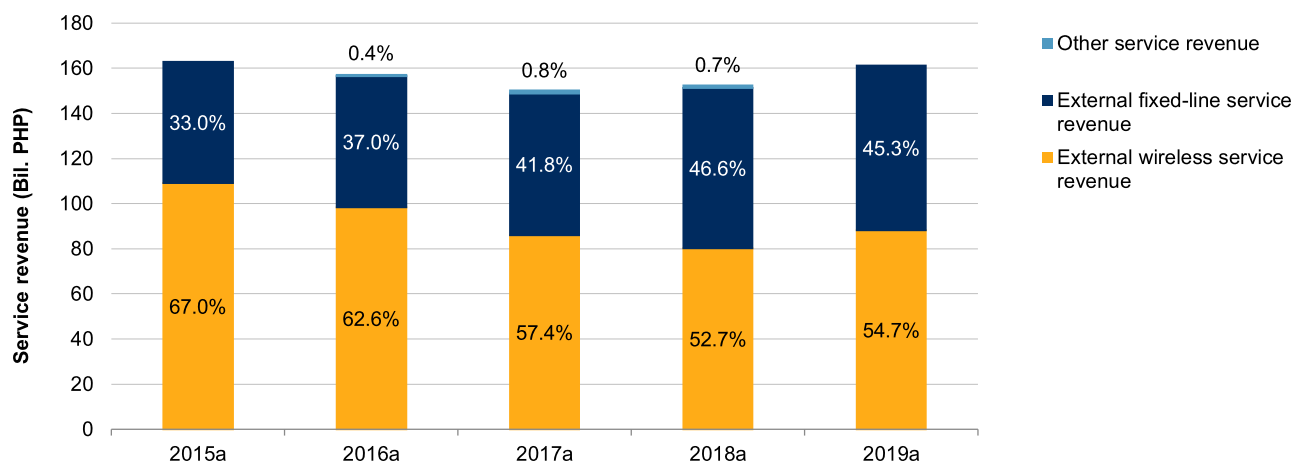
We believe that PLDT benefits from being an integrated telecom services player, as it is able to offer both fixed broadband and fixed-wireless broadband as an alternative in more rural areas. The company's bundled offerings could also help to reduce subscriber turnover to some extent.

We believe that PLDT has regained ground in the wireless space and its investments have put it in good stead to defend its wireless market share. Since losing its lead to Globe in the wireless segment in 2017, the wireless revenue gap between PLDT and Globe has widened. At the worst, PLDT's wireless revenue was about 20% less than Globe's in 2019. This has narrowed to less than 10% in the first nine months of 2020. PLDT's improved mobile network is evident in its ballooning mobile data traffic. PLDT's data traffic in the first nine months of 2020 was 2,114 petabytes (PB), about 90% more than the first nine months of 2019, and 20% higher than Globe's 1,762 PB. The situation was different 12 months ago, when PLDT's data traffic was about 8% lower than Globe's.

Chart 1**PLDT Leads Fixed-Line Revenues, Closes In On Globe For Wireless Revenues**

*Annualised as of Sept. 30, 2020. a--Actual. PHP--Philippine peso. Globe--Globe Telecom Inc. Source: S&P Global Ratings
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PLDT's integrated offerings provide more stability to its overall earnings, in our view. The growth in fixed-line helped to substantially mitigate the decline in the wireless segment from 2016 to 2018, as PLDT ceded mobile market share to Globe. Similarly, we believe that the growth potential of the fixed-line segment will drive PLDT's overall earnings growth through to 2022, as PLDT faces heightened competition in the wireless space.

Chart 2**PLDT's Diversified Business Bolsters Its Earnings Stability**

PHP--Philippine peso. a--Actual. Source: S&P Global Ratings.
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We expect Dito, upon its entry, to compete on price because its coverage would be weaker than that of PLDT and Globe. Dito has committed to the Department of Information and Communications Technology that it would reach 37% coverage in the first year of operations, and gradually increase this to 84% by the fifth year. We expect Dito's entry to affect PLDT's earnings growth, rather than its subscriber numbers. It is commonplace in the Philippines to hold multiple SIM cards to take advantage of temporary promotions offered by operators.

We anticipate that PLDT will lose some active subscribers to Dito, owing to the price-sensitive nature of the Philippine market. We forecast flat performance in 2021 and 2022 in the wireless segment, following a year of high single-digit revenue growth in 2020. The permanence and extent of impact from the new player's entrance will depend on factors including Dito's network quality and the existing players' reaction to the price competition. Fast-growing mobile data demand will help cushion the impact from the intensified competition.

Financial Risk: Intermediate

PLDT has limited financial headroom at the current rating level, in our view. We estimate the company's ratio of debt to EBITDA to be close to 2.5x through 2022. The thin buffer from the downward rating trigger of debt to EBITDA exceeding 2.5x is due to our expectations that capex will remain elevated.

We expect PLDT's discretionary cash flows to remain negative over the next three years. This is because cash flows from operations are insufficient to fund the elevated capex and meet dividend payouts based on the current dividend policy. The negative discretionary cash flows are likely to result in adjusted debt increasing to about PHP250 billion in 2022, up from PHP194.6 billion in 2019.

PLDT's capex will remain elevated through 2022 to support higher mobile traffic, fixed broadband demand, and in anticipation of heightened competition. Capex will be used to improve network coverage and capacity, as well as last-mile connectivity for home broadband services. We estimate that capex will average PHP70 billion a year from 2020 to 2022, up from the yearly average of PHP43 billion in 2017 and 2018.

In our view, PLDT will be unwilling to substantially cut capex in the face of heightened competitive pressure. This is unless demand is lower than expected for home broadband, in which case it could reduce capex for last-mile connectivity.

PLDT has shown financial discipline in reducing its dividend payout from 100% in 2013 to 90% in 2014, and further to 75% in 2015 and 60% since 2016. Our base case assumes its dividend payout will remain at about PHP17 billion-PHP18 billion annually until 2022. We do not expect PLDT to increase its payout ratio amid elevated capex and heightened competition.

Financial summary

Table 2

PLDT Inc.--Financial Summary

Industry sector: Diversified telecom

	--Fiscal year ended Dec. 31--				
	2019	2018	2017	2016	2015
(Mil. PHP)					
Revenue	169,187.0	162,914.0	159,926.0	165,262.0	171,103.0
EBITDA	80,250.0	77,119.0	79,460.0	76,619.5	90,110.0
Funds from operations (FFO)	69,496.0	65,175.8	66,806.3	61,458.7	74,713.3
Interest expense	9,972.0	10,270.2	9,839.7	9,399.8	8,185.7
Cash interest paid	8,657.0	9,499.2	9,143.7	8,195.8	6,852.7
Cash flow from operations	62,458.0	65,137.8	60,448.3	56,750.7	79,192.3
Capital expenditure	88,246.0	47,268.0	36,753.0	42,418.0	42,805.0
Free operating cash flow (FOCF)	(25,788.0)	17,869.8	23,695.3	14,332.7	36,387.3
Dividends paid	15,533.0	13,869.0	16,558.0	22,987.0	32,532.0
Discretionary cash flow (DCF)	(41,325.0)	4,026.8	7,137.3	(8,654.3)	3,854.3
Cash and short-term investments	24,683.0	52,819.0	33,979.0	41,460.0	47,884.0
Gross available cash	24,683.0	52,819.0	33,979.0	41,460.0	47,884.0
Debt	194,606.0	154,649.8	167,813.7	173,297.1	147,698.9
Equity	115,930.0	116,306.0	110,823.0	108,177.0	113,538.0
Adjusted ratios					
EBITDA margin (%)	47.4	47.3	49.7	46.4	52.7
Return on capital (%)	13.9	7.7	9.6	12.4	14.0
EBITDA interest coverage (x)	8.0	7.5	8.1	8.2	11.0
FFO cash interest coverage (x)	9.0	7.9	8.3	8.5	11.9
Debt/EBITDA (x)	2.4	2.0	2.1	2.3	1.6
FFO/debt (%)	35.7	42.1	39.8	35.5	50.6
Cash flow from operations/debt (%)	32.1	42.1	36.0	32.7	53.6
FOCF/debt (%)	(13.3)	11.6	14.1	8.3	24.6
DCF/debt (%)	(21.2)	2.6	4.3	(5.0)	2.6

PHP--Philippine peso.

Reconciliation

Table 3

PLDT Inc.--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. PHP)

--Fiscal year ended Dec. 31, 2019--

PLDT Inc. reported amounts

	Debt	Shareholders' equity	EBITDA	Operating income	Interest expense	S&P Global Ratings' adjusted EBITDA	Cash flow from operations	Dividends	Capital expenditure
Reported	192,556.0	111,987.0	79,815.0	39,401.0	8,376.0	80,250.0	69,392.0	15,592.0	89,701.0

Table 3

PLDT Inc.--Reconciliation Of Reported Amounts With S&P Global Ratings' Adjusted Amounts (Mil. PHP) (cont.)

S&P Global Ratings' adjustments									
Cash taxes paid	--	--	--	--	--	(2,097.0)	--	--	--
Cash interest paid	--	--	--	--	--	(7,143.0)	--	--	--
Reported lease liabilities	16,315.0	--	--	--	--	--	--	--	--
Debt-like hybrids	360.0	(360.0)	--	--	59.0	(59.0)	(59.0)	(59.0)	--
Postretirement benefit obligations/deferred compensation	6,239.8	--	(203.0)	(203.0)	--	--	--	--	--
Accessible cash and liquid investments	(22,214.7)	--	--	--	--	--	--	--	--
Capitalized interest	--	--	--	--	1,455.0	(1,455.0)	(1,455.0)	--	(1,455.0)
Share-based compensation expense	--	--	638.0	--	--	--	--	--	--
Asset-retirement obligations	1,236.9	--	--	--	82.0	--	--	--	--
Nonoperating income (expense)	--	--	--	1,253.0	--	--	--	--	--
Reclassification of interest and dividend cash flows	--	--	--	--	--	--	(5,420.0)	--	--
Noncontrolling interest/minority interest	--	4,303.0	--	--	--	--	--	--	--
Debt: Foreign currency hedges	113.0	--	--	--	--	--	--	--	--
Total adjustments	2,050.0	3,943.0	435.0	1,050.0	1,596.0	(10,754.0)	(6,934.0)	(59.0)	(1,455.0)
S&P Global Ratings' adjusted amounts									
	Debt	Equity	EBITDA	EBIT	Interest expense	Funds from operations	Cash flow from operations	Dividends paid	Capital expenditure
Adjusted	194,606.0	115,930.0	80,250.0	40,451.0	9,972.0	69,496.0	62,458.0	15,533.0	88,246.0

PHP--Philippine peso.

Liquidity: Adequate

We assess PLDT's liquidity as adequate. We expect the company's liquidity sources to be about 1.2x-1.3x its uses over the 12 months ending Sept. 30, 2021. We also believe liquidity sources will remain positive over the subsequent 12 months. The company should be able to service its maturing debt and capital outlays from its sources of liquidity even if EBITDA falls by 15%.

PLDT has good access to financial markets with solid relationships with domestic and international banks. The company has a generally satisfactory standing in credit markets, considering its position as the largest

telecommunications player in the Philippines. This is evidenced in its 2020 bond issuance, which was 17x oversubscribed.

At the same time, we consider that PLDT could scale down capex if its uptake of home broadband services is slower than expected. We also believe PLDT has generally prudent financial risk management, as evidenced from the company cutting its dividend payout ratio gradually over the years to 60%, down from 100% in 2013.

Principal liquidity sources	Principal liquidity uses
<ul style="list-style-type: none"> Cash and cash equivalents of PHP33.7 billion as of Sept. 30, 2020. Estimated funds from operations of PHP70 billion over the 12 months to Sept. 30, 2021. Proceeds from the sale of its equity interest in Beacon Electric Holdings Inc. of PHP2.45 billion over the 12 months ending Sept. 30, 2021. 	<ul style="list-style-type: none"> Short-term debt maturities of PHP25.3 billion as of Sept. 30, 2020. Capex that we estimate at PHP72 billion over the 12 months ending Sept. 30, 2021. If the uptake of PLDT's home broadband services is lower than it expects, we estimate capex can be cut to PHP55 billion. Working capital outflow of PHP1 billion over the same period. Dividend payouts of PHP17 billion-PHP18 billion over the same period. In times of liquidity stress, we expect PLDT to not pay dividends.

Debt maturities

Table 4

PLDT Inc.--Debt Maturities*	
Year	Amount (Mil. PHP)
2020	4,543.0
2021	22,651.0
2022	17,608.0
2023	26,579.0
2024	14,916.0
After 2024	137,713.0

*As Of Sept. 30, 2020. PHP--Philippine peso.

Covenant Analysis

We believe PLDT has adequate headroom in the financial covenants on its bank loans and bonds over the next 12 months. In November 2019, PLDT received bondholders' consent to relax its financial covenant of debt to EBITDA to 4x, from 3x.

Other than the debt-to-EBITDA ratio, other major financial covenants include a ratio of debt to equity of no more than

3x and EBITDA interest coverage ratio of at least 1.8x.

We expect PLDT's ratio of debt to EBITDA to be below 3x, its ratio of debt to equity to average 1.8x, and its EBITDA interest coverage ratio to be 9x-10x through 2022.

Issue Ratings - Subordination Risk Analysis

Capital structure

As of Sept. 30, 2020, PLDT's capital structure consisted of PHP222.8 billion of debt (excluding lease obligations). All debt is unsecured, and about 35% of debt is held at the subsidiaries' level. This is below the 50% priority debt ratio threshold, over which we consider senior unsecured lenders at the parent level may be disadvantaged in the event of financial stress.

Analytical conclusions

We equalize the rating on PLDT's senior unsecured notes with the issuer credit rating on the company. This is because we do not view PLDT's capital structure as having material structural or contractual subordination risks.

Ratings Score Snapshot

Issuer Credit Rating

BBB+/Stable/--

Business risk: Strong

- **Country risk:** Moderately high
- **Industry risk:** Intermediate
- **Competitive position:** Strong

Financial risk: Intermediate

- **Cash flow/leverage:** Intermediate

Anchor: bbb+

Modifiers

- **Diversification/portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Adequate (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Stand-alone credit profile : bbb+

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
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- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Business And Financial Risk Matrix

Business Risk Profile	Financial Risk Profile					
	Minimal	Modest	Intermediate	Significant	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Ratings Detail (As Of November 25, 2020)*

PLDT Inc.

Issuer Credit Rating	BBB+/Stable/--
Senior Unsecured	BBB+

Issuer Credit Ratings History

09-May-2014	Foreign Currency	BBB+/Stable/--
02-May-2013		BBB/Stable/--
20-Dec-2012		BBB-/Positive/--
09-May-2014	Local Currency	BBB+/Stable/--
20-Dec-2013		BBB/Stable/--

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable

Ratings Detail (As Of November 25, 2020)*(cont.)

across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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