

MOODY'S

INVESTORS SERVICE

CREDIT OPINION

28 May 2020

Update

 Rate this Research

RATINGS

PLDT Inc.

Domicile	Manila, 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.

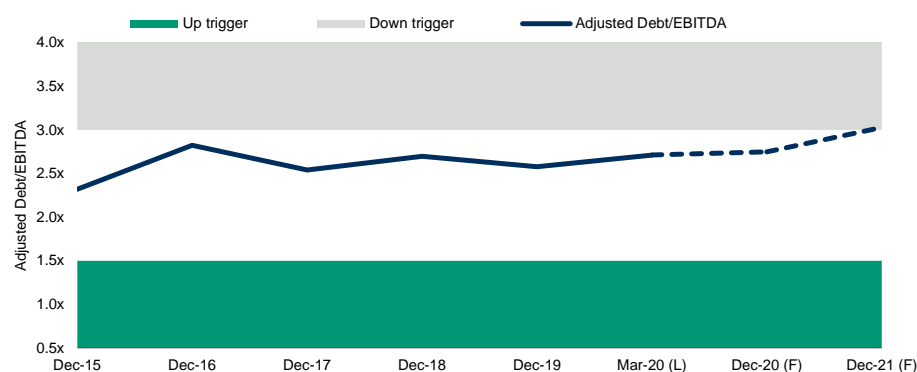
Data and broadband, which contribute around 67% of revenues for the 12 months ended March 2020, will continue to drive earnings and profitability. While competition in the wireless segment has eased recently, the entrance of third mobile operator could pressure margins and erode the incumbents' market share. Still, we believe a significant disruption over the next 12 months is low, as it will take time for a new player to build a network and establish a customer base.

We expect PLDT's leverage will remain elevated at the upper end of our tolerance range for the company's rating, or around 2.8x-3.0x, due to its sizeable capex plan.

We also expect PLDT to maintain prudent management of its balance sheet including a cash balance of around PHP30 billion and strong access to bank and capital markets.

Exhibit 1

Elevated leverage 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 48%-50%, 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

- » 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 mobile operator, which will increase competition over time

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 sustained above 3.0x; 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.

	Dec-16	Dec-17	Dec-18	Dec-19	Mar-20 (L)	12-18 months (Proj)
Revenue (USD Billions)	\$3.5	\$3.2	\$3.1	\$3.3	\$3.4	\$3.5 - \$3.8
Revenue (PHP Billions)	165	160	163	169	172	175 - 190
EBITDA Margin	46%	51%	48%	51%	50%	48% - 50%
Debt / EBITDA	2.8x	2.5x	2.7x	2.6x	2.7x	2.8x - 3.0x
RCF / Debt	22%	26%	27%	27%	26%	20% - 22%
(EBITDA - CAPEX) / Interest Expense	3.1x	4.0x	2.4x	-0.7x	-0.5x	Negative

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. is the leading integrated provider of wireless and fixed-line services in the Philippines, with 73.1 million mobile subscribers as at March 2020. 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

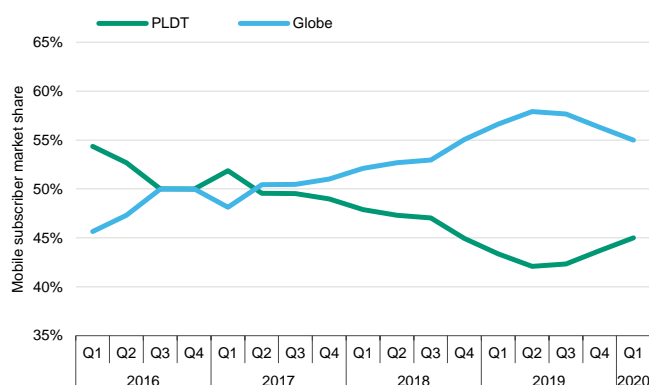
Leading market position in the duopolistic telecommunications sector, but competition in the wireless segment remains

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 45%/55% 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 2020 was PHP171 billion (about \$3.4 billion), while Globe's total revenue was PHP167 billion (about \$3.3 billion) for the same period, implying a 51%/49% revenue split. As shown in Exhibit 4, although Globe has gained subscriber market share from PLDT over the few years, PLDT has been recovering revenue market share consistently over the last three quarters.

Exhibit 3

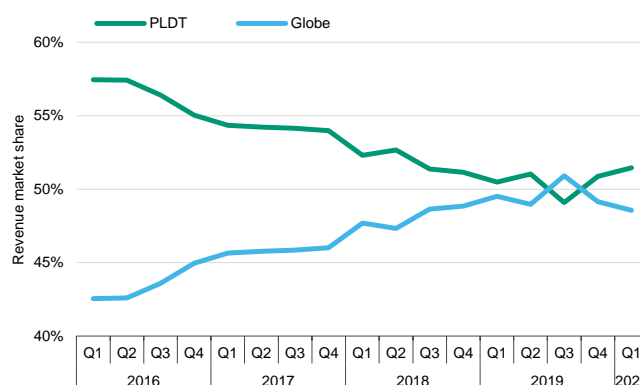
PLDT's mobile subscriber share has fallen to 45%...
Market share based on total number of mobile subscribers



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

Exhibit 4

... although PLDT has maintained a leading revenue share (51%)
Market share based on total telecom revenues



Note: As of 31 March 2020. 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

Revenue growth and healthy margins supported by continued growth in data

PLDT recorded its highest service revenue of PHP161 billion in 2019, a 5.9% increase from PHP152 billion in 2018. Momentum continued into 1Q 2020, as service revenue recorded a 7.7% year-over-year growth. Data-related services has been the key driver for revenue growth, making up 70% of service revenues for the quarter ended March 2020, compared to 42% as at March 2017.

The economic downturn caused by the coronavirus outbreak will weaken PLDT's revenue growth in 2Q 2020. We expect revenue growth of 5%-6% over the next 12-18 months, reflecting strong revenue growth in internet and data-related services, offset by declines in legacy voice and SMS revenues.

PLDT registered a consolidated adjusted EBITDA margin of 50.3% for the 12 months ended March 2020. PLDT's margins remain 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 growing service revenues and tight management of costs, we expect the company to maintain margins in the 48%-50% range and adjusted cash flow from operations of around PHP70-75 billion in 2020.

Entrance of a third mobile player will increase competition over time

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 Dito consortium - led by Udena Corporation and China Telecom - has emerged as the provisional winner of the bid.

Dito will need to complete a mandated technical launch in July 2020, its original commercial launch date. While its commercial launch has been delayed to March 2021, we believe there could be further delay due to the coronavirus outbreak. The Enhanced Community Quarantine (ECQ) and general quarantine measures in Philippines since mid March have led to manpower and supply chain disruptions, which will create difficulties for Dito to build out its network.

While Dito'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 capable of supporting data usage and establish a customer base. As a result, the threat of significant disruption to the market place over the next 12 months remains low in our view.

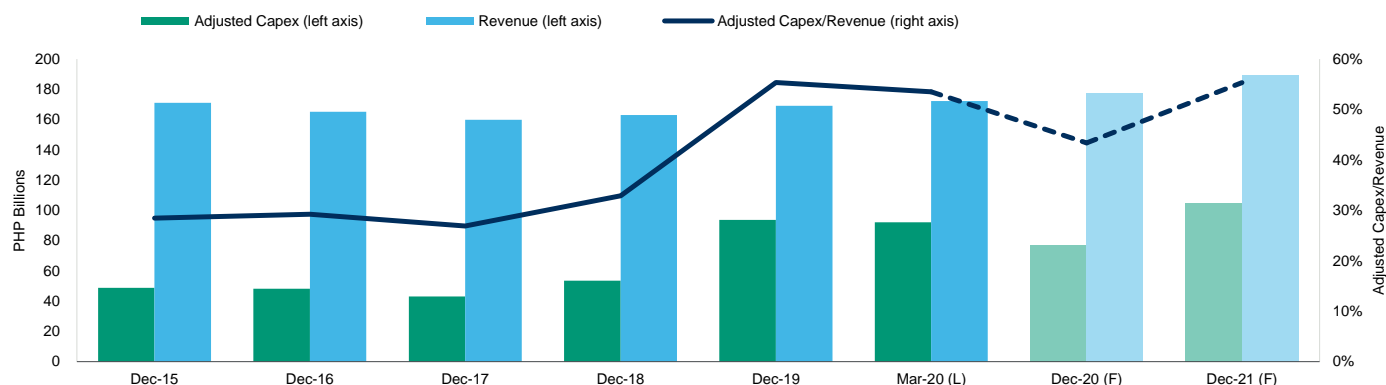
We also expect pricing competition to remain rational prior to Dito's launch. PLDT and Globe have invested considerably in their networks over the last few years, and would need to reap returns on these investments.

High capital spending and weak cash flow will keep leverage elevated but below 3.0x

PLDT's initial capex guidance of PHP83.1 billion for 2020 was its largest ever budget and an increase of 14% over the PHP72.9 billion registered in 2019. In light of manpower and supply chain disruptions due to the coronavirus outbreak, the company is deferring 20%-25% of this planned capex to 2021. As a result, PLDT's revised capex guidance for 2020 is now around PHP65 billion.

Exhibit 5

PLDT's capital spending will be around 40%-45% of revenue in 2020



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

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.

However, around 20% of the planned capex is earmarked for expansion of its home broadband network and can be funded from the associated incremental revenues. This capital spending is crucial for the company to strengthen its market position in the home broadband segment, which could mitigate potential declines in mobile segment earnings after Dito's commercial launch.

PLDT also has the flexibility to defer a portion of its capex budget which is allocated for 5G investments.

As at 31 March 2020, PLDT had around PHP235 billion of adjusted debt, which we believe will rise to around PHP250 billion in 2020 to help fund capex. As a result, we expect PLDT's adjusted leverage will remain elevated in 2020 at around 2.8x-2.9x.

ESG considerations

Environmental considerations

Telecommunications service providers like PLDT have overall low direct business exposure to environmental risks.

Social considerations

PLDT's credit profile incorporates its moderate exposure to social risks associated with the global telecommunications sector. The sector relies on technology and is evolving rapidly, and customers are demanding data security on top of speed and network capacity. This risk is partially mitigated by PLDT's ongoing investments in its network. There have also been no material cases of data security breaches in past years. Customers complaints are investigated and remedial actions are taken where necessary.

Governance considerations

The rating takes into account a dominance of non-independent directors on PLDT's board and the company's high dividend payout ratio. However, governance risk is mitigated by its public listings on the Philippine stock exchange and New York Stock Exchange, and compliance with the stock exchanges' prevailing laws and regulations.

Liquidity analysis

PLDT's liquidity position is inadequate. As of 31 March 2020, PLDT reported cash and cash equivalents of PHP30.9 billion. This cash, combined with projected cash flow from operations of PHP70-75 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 various properties, including real estate in Makati City, to fund capital spending.

Exhibit 6

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

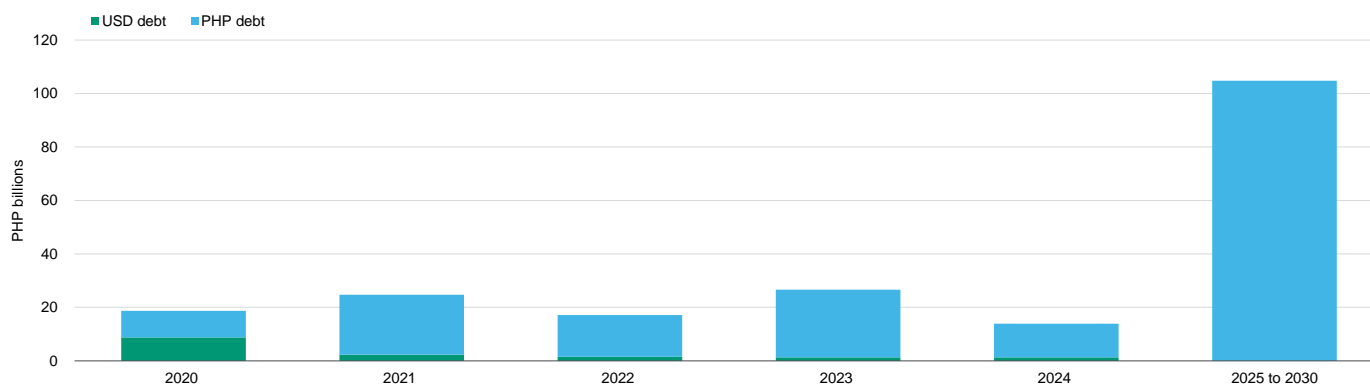


Sources: Moody's Financial Metrics™, Moody's Investors Service estimates

The company's debt maturity profile is relatively long-dated more than 50% of debt maturing after 2024. 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: Debt maturities in 2020 are for 1 April 2020 through 31 December 2020.

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 31 March 2020 of around 26% and 20%, respectively. JG Summit Group also owns 11%.

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 7% of its gross debt was US dollar denominated as of March 2020, down from 20% as of year-end 2017. The unhedged portion, after taking into account the company's US dollar cash holdings and currency hedges, equates to 6.7% of total debt, or \$0.3 billion. In addition, around 17% of the company's consolidated gross revenue was denominated in or linked with the US dollar in the quarter ended March 2020.

Rating methodology and scorecard factors

Based on our [Telecommunications Service Providers](#) rating methodology, PLDT maps to a scorecard-indicated rating of Ba1 for the 12 months ended March 2020 and in our 12-18 month forward view. The final rating of Baa2 also considers the duopolistic environment in Philippines which supports PLDT's high EBITDA margins.

Exhibit 8

PLDT Inc.

Telecommunications Service Providers Industry Scorecard [1]		Current LTM 03/31/2020	Moody's 12-18 Month Forward View [2]
Factor 1 : Scale (12.5%)	Measure	Score	Measure Score
a) Revenue (USD Billion)	\$3.4	B	\$3.5 - \$3.8 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	2.7x	Baa	2.8x - 3.0x Ba
b) RCF / Debt	26.5%	Baa	20% - 22% Ba
c) (EBITDA - CAPEX) / Interest Expense	-0.5x	Ca	Negative Ca
Factor 5 : Financial Policy (15%)			
a) Financial Policy	Baa	Baa	Baa Baa
Rating:			
a) Indicated Outcome from Scorecard		Ba1	Ba1
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

in US millions)	PLDT Inc.			Telekomunikasi Indonesia (P.T.)			Axiata Group Berhad			XL Axiata Tbk (P.T.)			Indosat Tbk. (P.T.)		
	Baa2 Stable			Baa1 Stable			Baa2 Stable			Baa3 Stable			Baa3 Negative		
	FYE Dec-18	FYE Dec-19	LTM Mar-20	FYE Dec-17	FYE Dec-18	LTM Sep-19	FYE Dec-17	FYE Dec-18	LTM Sep-19	FYE Dec-17	FYE Dec-18	FYE Dec-19	FYE Dec-17	FYE Dec-18	FYE Dec-19
Revenues	\$3,095	\$3,269	\$3,351	\$9,584	\$9,203	\$9,375	\$5,679	\$5,923	\$5,932	\$1,709	\$1,614	\$1,778	\$2,236	\$1,628	\$1,847
EBITDA	\$1,477	\$1,664	\$1,685	\$5,435	\$4,658	\$4,994	\$2,727	\$2,627	\$2,608	\$933	\$847	\$981	\$1,111	\$622	\$689
Total Debt	\$3,985	\$4,382	\$4,616	\$5,119	\$4,808	\$5,344	\$6,438	\$6,594	\$6,160	\$2,264	\$2,318	\$2,776	\$2,247	\$2,289	\$2,203
Cash & Cash Equivalents	\$982	\$481	\$608	\$1,853	\$1,213	\$1,058	\$1,683	\$1,227	\$1,190	\$181	\$73	\$116	\$142	\$73	\$424
EBITDA Margin	47.7%	50.9%	50.3%	56.7%	50.6%	53.3%	48.0%	44.4%	44.0%	54.6%	52.5%	55.2%	49.7%	38.2%	37.3%
(EBITDA-CAPEX) / Interest Expense	2.4x	-0.7x	-0.5x	8.5x	5.4x	7.1x	3.5x	1.3x	1.4x	1.3x	1.3x	0.5x	2.9x	0.5x	-1.1x
Debt / EBITDA	2.7x	2.6x	2.7x	1.0x	1.0x	1.1x	2.2x	2.6x	2.4x	2.5x	2.8x	2.8x	2.0x	3.7x	3.1x
FCF / Debt	-1.6%	-18.2%	-17.2%	-11.3%	-23.0%	0.0%	2.1%	-6.5%	-2.5%	6.1%	6.0%	5.3%	8.0%	-5.2%	-6.9%
RCF / Debt	26.7%	27.4%	26.5%	47.7%	39.0%	43.7%	33.8%	26.7%	27.9%	34.2%	31.6%	30.9%	38.4%	20.1%	36.3%

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-15	FYE Dec-16	FYE Dec-17	FYE Dec-18	FYE Dec-19	LTM Ending Mar-20
As Reported Debt	160.9	185.0	172.6	176.3	208.9	221.7
Pensions	10.2	11.2	9.0	7.1	8.9	8.9
Operating Leases	19.1	19.9	21.0	22.0	0.0	0.0
Hybrid Securities	0.0	0.0	4.2	4.2	4.2	4.2
Moody's-Adjusted Debt	190.2	216.1	206.8	209.5	222.0	234.8

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-15	FYE Dec-16	FYE Dec-17	FYE Dec-18	FYE Dec-19	LTM Ending Mar-20
As Reported EBITDA	71.3	65.8	78.6	80.1	81.3	81.8
Pensions	0.5	0.5	0.2	0.5	(0.2)	(0.2)
Operating Leases	6.4	6.6	7.0	7.3	0.0	0.0
Unusual	6.7	0.4	(2.3)	(10.3)	3.5	3.3
Non-Standard Adjustments	(2.8)	3.2	(2.1)	0.1	1.5	1.7
Moody's-Adjusted EBITDA	82.0	76.5	81.4	77.8	86.1	86.6

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

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