

Rating Action: Moody's affirms PLDT at Baa2; outlook remains stable

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Hong Kong, March 18, 2021 -- Moody's Investors Service has affirmed PLDT Inc.'s Baa2 issuer rating. The rating outlook remains stable.

"The affirmation of PLDT's rating reflects its leading market position and healthy margins, which, coupled with the management's financial discipline, will keep the company's leverage at around 2.6x-2.8x over the next 12-18 months," says Annalisa Di Chiara, a Moody's Senior Vice President and the Lead Analyst for PLDT. "However, a commitment to shareholder returns and high capex levels will continue to strain the company's free cash flow over the next one to two years."

RATINGS RATIONALE

The affirmation of the rating reflects PLDT's (1) dominant market position in the Philippines' telecommunications market, (2) strong margins when compared with its global telecommunication peers in the Baa rating category, (3) solid credit profile, and (4) good liquidity.

PLDT is the leading telecommunications provider in the Philippines, with a 49% share of mobile subscribers and over 50% share of market revenues at the end of 2020. While its competitive environment will intensify given the presence of another large player (Globe Telecom) and the entrance of a third mobile operator (Dito Telecommunity), Moody's does not expect a significant disruption to PLDT's operations from Dito's entrance over the next 12-18 months. This is because it will still take some time for Dito to build a comprehensive mobile coverage, expand its network and acquire a meaningful subscriber base.

PLDT recorded its highest service revenue of PHP174 billion in 2020, a 7.6% increase from PHP161 billion in 2019 despite the coronavirus outbreak and the subsequent economic slowdown. Data-related services was the key driver for its revenue growth, contributing to 72% of revenues, compared to 57% at the end of 2018. The Philippines's growing mobile data usage underpinned the 29% increase in PLDT's mobile internet service revenues. There was also a strong uptake of home broadband services, which grew 16% in 2020 and now makes up around one-fifth of its revenues.

In addition, PLDT registered a consolidated adjusted EBITDA margin of 53.8% for fiscal 2020 ended 31 December 2020. PLDT's margins remain strong relative to that of similarly-rated global telecommunications peers (which typically have margins in the 35%-40% range), and further support the company's investment-grade rating. With growing revenues and tight management of costs, Moody's expects the company to maintain adjusted EBITDA margins of 50%-52% for 2021.

At the same time, PLDT's capex will remain elevated at PHP88 billion to PHP92 billion in 2021, or around 46% of Moody's projected revenues, as the company continues to invest in expanding mobile capacity and coverage, fiberization of its network and the last mile rollout of home broadband services.

As a result, Moody's expects PLDT's free cash flow will remain negative over the next 12-18 months, and the company will use debt to fund both capex and dividends, keeping its leverage in the 2.6x-2.8x range. Still, this leverage level is appropriate for its Baa2 rating, given its defensible and leading market position as well as strong margins.

PLDT's liquidity is good. As of 31 December 2020, PLDT reported cash and cash equivalents of PHP40.2 billion, which, combined with projected cash flow from operations of PHP75 billion to PHP80 billion over the next 12 months, and available committed credit facilities, will be sufficient to cover current debt maturities, estimated capital spending and dividends over the same period.

Moody's expects the company to remain proactive and prudent in managing its balance sheet and any upcoming maturities, particularly given its excellent access to the local bank and international bond markets.

The rating also considers the following environmental, social and governance (ESG) factors.

PLDT's major shareholders are First Pacific Company Limited (FirstPac) and NTT Communications/NTT

DOCOMO, INC. (A1 stable), with effective shareholdings of 26% and 20% as of 31 December 2020, respectively. Governance risk for PLDT is mitigated through a shareholder agreement between FirstPac and NTT, which specifies that NTT Group should not increase its stake in PLDT beyond 21%. NTT Group and FirstPac also have a right of first refusal over the other's PLDT shares.

The risk of PLDT being used as a conduit for FirstPac investments is tempered by a cooperation agreement between NTT Group and PLDT, which states that NTT Group must give prior approval to any major acquisitions, investments or transactions involving PLDT and its subsidiaries.

Despite a dominance of non-independent directors on PLDT's board and the company's high dividend payout ratio, PLDT's 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.

The stable outlook reflects Moody's expectation that PLDT will retain solid margins relative to the Baa category, given its leading market position. Moody's also expects its management to remain prudent in its use of cash, particularly during periods of high and accelerated capital spending, while its leverage will remain in the 2.6x-2.8x range.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATING

Upward rating pressure could emerge if PLDT's (1) adjusted consolidated EBITDA margin is sustained above 45%, (2) adjusted consolidated debt/EBITDA falls below 2.0x on a sustained basis, (3) retained cash flow/debt rises above 30% while (4) ensuring that shareholder returns and asset investment policies do not substantially weaken its financial profile.

PLDT's rating will come under downward pressure if the company's (1) adjusted EBITDA margin falls below 40%, (2) adjusted debt/EBITDA is 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. A meaningful deterioration in the company's market share would also be negative for the credit profile and rating.

The principal methodology used in this rating was Telecommunications Service Providers published in January 2017 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1055812. Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

PLDT Inc. is the leading integrated provider of wireless and fixed-line services in the Philippines, with 72.9 million mobile subscribers as at 31 December 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.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1243406.

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