

RATING ACTION COMMENTARY

Fitch Affirms PLDT at 'BBB'; Withdraws Ratings

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Fitch Ratings - Hong Kong/Singapore - 28 Jan 2021: Fitch Ratings has affirmed PLDT Inc.'s Long-Term Foreign- and Local-Currency Issuer Default Ratings at 'BBB'. The Outlook is Stable. At the same time, the ratings have been withdrawn.

PLDT's ratings reflect its robust market position in both the fixed and wireless markets in the Philippines. We expect PLDT to have FFO net leverage of 2.5x-2.7x in 2021-2022, below the 2.8x level at which we would consider negative rating action. We believe PLDT's solid network infrastructure will continue to underpin its leading market position despite the entry of a third telco. PLDT's revenue growth is supported by expanding mobile and broadband segments.

Fitch has chosen to withdraw all of PLDT's ratings for commercial reasons.

KEY RATING DRIVERS

Mid-Single-Digit Mobile Growth: Fitch forecasts PLDT's mobile segment revenue will rise at mid-single-digit percentages in 2021-2022 as its strong network infrastructure and market execution continue to support growth. PLDT's mobile revenue market share increased from 44% in 2019 to 48% in 9M20, based on Fitch's estimate.

We expect PLDT to face more intense competition from Globe Telecom, Inc. (BBB-/Stable), which is likely to increase capex to reduce market share loss in anticipation of the entry of the third telco, Dito Telecommunity, in 1H21. However, we believe the impact from Dito will be moderate as it will likely require time to build comprehensive mobile coverage and a customer base.

Aggressive Fibre Rollout: PLDT's fibre expansion underscores its strategy to capture growth in the home-broadband and enterprise segments and strengthen its network ahead of Dito's entry. PLDT's fibre coverage passed 8.3 million homes by end-September 2020, with 3.8 million in fibre-port capacity of which 1.4 million fibre ports were available for sale. We expect PLDT to continue to expand its fibre footprint to strengthen its position.

PLDT's broadband subscribers rose to 2.8 million by end-September 2020 from 2.3 million at end-March 2020 as demand increased amid the pandemic. The growth was

slower than that of Globe, which focuses on the fixed-wireless broadband service that can expand at a faster pace than fibre broadband, helping Globe to surpass PLDT as the broadband leader by subscribers. However, PLDT retained its broadband revenue leadership as fibre broadband's average revenue per user is much higher than that of fixed-wireless broadband.

Negative FCF: We forecast PLDT's free cash flow (FCF) will be negative in 2021-2022, as cash flow from operations will be insufficient to fund high capex and a dividend policy of 60% of the previous year's core income. We forecast 2021 capex of around PHP85 billion to expand mobile coverage and capacity, and roll out its fixed-broadband network. However, we forecast 2021-2022 FFO net leverage of below 2.8x, as the negative FCF's impact on net leverage will be partially offset by higher EBITDA generation. PLDT aims to maintain long-term net debt/EBITDA at 2.0x.

Robust Market Position: PLDT's ratings are supported by its established position as the largest integrated telco in the Philippines and its competitive strength in both fixed and wireless services. It had a revenue market share of 65% in the fixed-line market and 48% in mobile in 9M20. PLDT's EBITDA contribution from the fixed segment was around 40% in 9M20 (2019:39%), while the remaining 60% was from the mobile segment (2019: 60%).

Margin Dilution: PLDT's EBITDA is likely to decline to 45%-46% of total revenue in 2021-2022 (2020 estimate: 47%) amid stronger competition in the mobile business from Globe and Dito. However, the overall EBITDA margin should be supported by the strong growth potential in the underserved fixed-broadband segment where competition is less intense, and PLDT's continuous cost-management programmes.

DERIVATION SUMMARY

PLDT is rated higher than its closest peer, Globe, due to its robust position in both fixed and wireless markets. Globe has been the mobile leader since 3Q16, but PLDT has narrowed the gap in market share over the past few quarters. Globe's mobile revenue share fell to 52% in 9M20 (2019: 56%), and it continued to trail PLDT with 45% of total telecom revenue share. PLDT's fibre-broadband strategy offers long-term growth and bundling opportunities against the new mobile entrant.

PLDT is also rated a notch higher than India's Bharti Airtel Limited (BBB-/Negative). This is because the intense competition in India justifies a tighter FFO net leverage threshold of 2.5x for Bharti at a 'BBB-' rating. Bharti's ratings are on a Negative Outlook to reflect the heightened probability that India's Country Ceiling of 'BBB-' could be lowered to 'BB+'.

Fixed-broadband operator Telekom Malaysia Berhad (TM, BBB+/Stable) has lower FFO net leverage than PLDT and is in a better position due to its market dominance and

more modest competition in Malaysia's fixed-broadband market. However, TM's strengths are offset by its lower operating EBITDA margins, which are likely to narrow further due to pressure on broadband tariffs.

KEY ASSUMPTIONS

Fitch's Key Assumptions Within Our Rating Case for the Issuer

- Revenue to increase by mid-single digits in 2021-2023
- Pre-IFRS 16 lease-adjusted EBITDA margin of 45%-46%
- Capex to be around PHP85 billion in 2021, and around PHP70 billion in 2022-2023
- Dividend payment of 60% of previous year's core net income
- No major debt-funded M&A or divestments

RATING SENSITIVITIES

Rating sensitivities are no longer relevant because the ratings have been withdrawn.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Non-Financial Corporate issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

LIQUIDITY AND DEBT STRUCTURE

Adequate Liquidity: PLDT's unrestricted cash balance of PHP34 billion and committed undrawn long-term bank facilities of PHP14 billion as of end-September 2020 are sufficient to fully cover its short-term maturities of PHP25 billion and dividends payable of PHP1 billion. The company's liquidity is also supported by strong access to capital markets and banks.

Well-Laddered Debt Maturity: PLDT's total on-balance-sheet debt of PHP223 billion as of end-September 2020 is well spread out, with 80% of debt due after 2022.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

Following the withdrawal of ratings for PLDT, Fitch will no longer be providing the associated ESG Relevance Scores.