

## Bulletin:

# PLDT's High Capital Spending Dries Up Rating Headroom

November 9, 2021

SINGAPORE (S&P Global Ratings) Nov. 9, 2021--S&P Global Ratings today said that high spending by PLDT Inc. (BBB+/Stable/--) to improve its mobile network and last-mile home broadband connectivity is necessary, but comes at the cost of rating headroom. We expect our ratings on the Philippines-based telecom operator to have very limited tolerance for downside risk through 2022. The leverage pressure should gradually ease thereafter with reduced spending and EBITDA improvement. Greater competitive pressure, which we view as more intense in the mobile segment currently, could derail PLDT's leverage self-correction and weigh on its credit quality.

Heightened capital expenditure (capex) and prepayments thus far in 2021 have weighed on PLDT's leverage, but we expect spending to ease over the next 12-18 months. The company's cash capex and working capital needs will likely reduce as copper-to-fiber migration concludes in the first quarter of 2022. Meanwhile, prepayments advanced to contractors in 2021 will partly offset continued spending on home broadband installations. We forecast continued EBITDA improvement, supported by recent capital investments.

PLDT's cash capex for the first three quarters of 2021 was Philippine peso (PHP) 84.5 billion, up more than 30% over the same period of 2020. Similarly, prepayments totaled PHP107.8 billion as at Sept. 30, 2021, about 60% higher than a year ago. Prepayments have grown due to an acceleration of home broadband installations. This is because PLDT prefunds contractors deployed for home broadband connections. This amount should unwind and be set off against billings, and as home broadband installations slow over time.

We project PLDT's debt-to-EBITDA ratio will remain close to our downgrade threshold of 2.5x through 2022 on the back of the high capital investments, before easing off into 2023. The company's debt-to-EBITDA ratio was about 2.7x as of Sept. 30, 2021, by our estimate.

We believe that capital spending by PLDT, while high, is necessary. The company faces intensified competition in both the mobile and fixed-line segments, with the advent of the Philippines' third licensed mobile player Dito Telecommunity Corp. in March 2021, and ongoing competition from fixed-line player Converge ICT Solutions Inc. The pandemic also fueled a surge in demand for fixed-line broadband, which drove PLDT's spending to capture more of the growing market. PLDT's ongoing capex spending also enhances its network quality and connectivity, which should reduce the risk of losing customers.

This report does not constitute a rating action.

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