

# MOODY'S

## INVESTORS SERVICE

### **Announcement: Moody's: PLDT's investment can be accommodated within its Baa2 ratings**

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Global Credit Research - 11 Aug 2014

Hong Kong, August 11, 2014 -- Moody's Investors Service says that Philippine Long Distance Telephone Company's (PLDT) investment in Rocket Internet AG (Rocket, unrated) can be accommodated within its Baa2 ratings and stable outlook.

On 7 August 2014, PLDT announced that it had entered into a global strategic partnership with Rocket, a German internet company, to jointly develop mobile and online payment technologies and services in the Philippines and other emerging markets.

Under the partnership agreement, PLDT will invest EUR333 million (about PHP19.5 billion) for a 10% stake in Rocket. PLDT will also obtain the right to appoint one member of Rocket's nine-person supervisory board.

"PLDT plans to fund the investment from cash and new debt, and as a result we expect PLDT's leverage to increase modestly in 2014. However, we expect the leverage increase will remain within the parameter for its Baa2 ratings," says Yoshio Takahashi, a Moody's Vice President and Analyst.

Moody's expects PLDT's adjusted debt/EBITDA to increase to 1.9x-2.0x by December 2014, from approximately 1.8x for the 12 months to June 2014.

Moody's estimates that PLDT will be able to finance the majority of the investment from its excess cash. It had PHP43 billion in cash and cash equivalents as of June 2014, which is approximately PHP10 billion above its historical level of at least PHP30 billion.

While the partnership with Rocket should help PLDT strengthen its mobile and online payment services, generating stable returns from investments in the fast-changing and competitive internet industry is challenging.

Nevertheless, the investment is still moderate at about 5% and 15% of PLDT's total assets and total equity, respectively, based on its balance sheet as of June 2014.

PLDT's ratings continue to take into account its increased investment appetite, as demonstrated by this most recent investment.

Moody's expects PLDT to continue to seek investment opportunities in the internet and multimedia sectors to strengthen its ability to deliver multimedia content through its broadband and mobile networks, and to grow its e-commerce business.

However, Moody's views that a new major investment is unlikely at least for the next 6-12 months, given PLDT's increased leverage.

The company's financial results for 1H 2014 were slightly below Moody's expectations. Its reported consolidated EBITDA for 1H2014 declined 4% year-on-year due to an increase in handset subsidies, cash expenses related to the operation of its expanded network, and residual post-Typhoon Yolanda restoration costs.

Given PLDT's 1H results, Moody's expects the company's reported consolidated EBITDA to fall moderately in 2014.

However, PLDT's earnings should slightly improve in 2015, given that it will no longer have to deal with the aftermath of Typhoon Yolanda, and considering the company's plan to reduce costs, as well as the continued growth in revenue from its broadband, corporate data, and mobile internet businesses.

PLDT's dominant market positions in the fixed-line, broadband, and cellular services will continue to support its stable earnings from its core-telecommunications service.

PLDT's liquidity profile remains strong. As of June 2014, its cash and cash equivalents totaled PHP43 billion. Moody's expects cash flows from operations of PHP70 billion-PHP75 billion over the next 12 months. In Moody's

estimation, this should be sufficient to fund cash needs of approximately PHP105 billion, including short term debt of PHP14 billion, capex of approximately PHP30 billion and the likely maintenance of a 100% dividend payout ratio.

The principal methodology used in this rating was Global Telecommunications Industry published in December 2010. Please see the Credit Policy page on [www.moody.com](http://www.moody.com) for a copy of this methodology.

PLDT is the largest telecommunications operator in the Philippines. It is an integrated provider of fixed-line, broadband, cellular, and information and communications technology.

Rocket is a German internet company providing e-commerce, online marketplaces and financial technology platforms for consumers in over 100 countries. It reported aggregated revenues of over EUR700 million in 2013.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on [www.moody.com](http://www.moody.com) for the most updated credit rating action information and rating history.

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