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RATING ACTION: CRISP assigns 'AAA' on PLDT Co. with Stable Outlook

Makati City, January 6, 2014 - - The Credit Rating and Investors Services Philippines, Inc (CRISP) assigns a 'AAA' issuer rating with a stable outlook on the Philippine Long Distance Telephone Company (PLDT), the country's largest telecommunications operator. CRISP's rating assignment is based on the following rating factors:

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1. **Dominant market leadership.** PLDT holds a commanding market share in terms of subscribers with over 60% in the wireless, fixed line and broadband segments of a highly competitive Philippine telecommunications industry. Based on available information, PLDT enjoys :
 - *67% share in the Wireless Market Segment.* PLDT has 72 million of the country's approximately 109 million wireless subscribers, or 67% which represents the combined market share by Smart Communications and Sun Cellular in the wireless telecommunications market.
 - *69% share of subscribers in the Fixed Line Market Segment.* Out of approximately 3 million fixed line subscribers in the country, approximately 2 million are PLDT subscribers, which represents the lion's share of the fixed line market segment;
 - *64% share of subscribers in the Broadband Market Segment.* The combined market share of PLDT, Smart Communications and Sun Cellular amounting to about 3.3 million subscribers represents about 64% of the 5.2 million total broadband subscribers in the Philippines today.

CRISP cites PLDT's well-timed implementation of its capital investment program as a major factor in its dominant share in the telecommunications market. In 2011 and 2012, PLDT undertook a P67 billion network transformation program that upgraded its access network and made it more efficient and capable of more advanced generations of the Long Term Evolution (LTE) technology. The investment also expanded the company's digital fiber optic transmission network, now spanning 75,000-kilometers, the country's most extensive and resilient.

- 2. Strong historical financial performance.** Despite competitive pressures and a changing revenue mix, PLDT's consolidated financial performance remained healthy over the last five years, with EBITDA and income margins averaging 55% and 24% respectively, while ROEs during the same period averaged about 32%.

During the first 9 months of the current year, PLDT's unaudited operating results indicated both its EBITDA from continuing operations and overall core income growing by 4% year-on-year. Profit margin for the same period in 2013 and 2012 is holding steady at 23% while EBITDA margin grew slightly to 49% from 48% the year before. For the next 5 years, EBITDA is expected to continue to grow at low- to mid- single digits and would remain strong, with EBITDA margins averaging at about 48% for the next 5 years.

Strong cashflow. Historically, PLDT has generated strong cashflow from operations. During the last three years, PLDT's net cash flow from operations netted P80.4 billion in 2012, P79.2 billion in 2011 and P77.3 billion in 2010. After taking into account its financing and investing activities, PLDT's cash balance ended with healthy levels at P37.1 B, P46 B, and P36.7 B during the last three years beginning in 2010.

- 3. Excellent Management and Governance.** PLDT management's well thought-out strategy and timely execution of its investment and network transformation program ensure its current leadership position in the country's telecommunications industry, at least for the next 5 years. The combined effect of new technologies and the improving economic status of customers has caused a shift in the predominantly wireless/fixed line market to a more sustainable and growth-driven broadband market. The current thrust of PLDT management is expected to lead the pace of innovation and development of value added services in the industry.

CRISP views the PLDT Board's creation of its Group Enterprise Risk Management Department as a reflection of its proactive approach in addressing existing and emerging risks to its business and organization which is crucial in maintaining an organization's competitive position.

Outlook: Stable

CRISP assigns a stable credit outlook for PLDT's issuer rating as CRISP believes that PLDT's market leadership and strong financial returns will be sustained.

Disclaimer: CRISP rating is not a recommendation to buy, sell, or hold the rated instrument. CRISP's rating opinion on the likelihood of timely payment of debt obligations does not constitute an audit of the rated institution and are based on information provided by the issuer or obtained by CRISP from sources it considers reliable. Ratings are revised by CRISP as it deems events or circumstances so warrant.

CRISP's critical areas of analysis



Economic and Industry Trends	•Outlook and public policy
Market Trends	•Competition and market share
Organizational Strengths	•Leadership and strategy
Financial Strengths	•Flexibility
Issue Structure	•Credit enhancements

In arriving at a rating assignment, **CRISP** evaluates issues and trend that may affect the ability of the issuer or the debt instrument to generate adequate resources to pay interest and principal in a timely fashion.

CRISP does not assign specific weights to any particular analytical areas. Instead, **CRISP** performs a comprehensive analysis that takes into account the dynamic and possibly synergistic relationships among factors that account for the strength and stability of the issuer of structure of the debt instrument.

CRISP Rating Codes for Long Term Issues

CRISP's credit rating system uses a list of codes to represent the overall evaluation of the issue's credit risks. These codes are used to summarize the general characteristics of the issuer's creditworthiness.

A plus or minus may be assigned to indicate whether the issuer is on the bottom or higher end of a given rating category.

CRISP disclaimer

A credit rating from the Credit Rating and Investors Services Philippines is not a recommendation or opinion to buy, sell or hold any financial products.

CRISP's credit rating is a statement of opinion derived through evaluation of factors that are considered relevant to the ability and willingness of a debt issuer to pay their debt in full and timely manner.

CRISP uses audited financial statements, legal opinions and/or feasibility studies prepared by reputable companies on behalf of the issuer.

Credit ratings for long term issues

- AAA** Debt rated 'AAA' reflects strongest capacity to repay debt obligations.
- AA** Debt rated 'AA' reflects very strong capacity to repay debt obligations.
- A** Debt rated 'A' reflects strong capacity to repay debt obligations.
- BBB** Debt rated 'BBB' reflects adequate capacity to repay debt obligations but demonstrates some vulnerability to changes in economic conditions, industry shifts and business circumstances.
- BB** Debt rated 'BB' reflects current capacity to repay debt obligations but demonstrates significant vulnerability to potential changes in economic conditions, industry shifts and business circumstances which could lead to a weakened position to repay debt.
- B** Debt rated 'B' reflects current capacity to pay debt but demonstrates impaired capacity to repay debt with potentially unfavorable changes in economic conditions, industry shifts and business circumstances.
- C** Debt rated 'C' reflects speculative position to repay debt. Although the issuer might reflect some positive credit qualities its susceptibility to adverse conditions is very high and can exacerbate its already weak capacity to repay debt
- D** Debt rated 'D' indicates default when payments on a rated obligation was paid after the due date. This rating will also be assigned should an issuer take actions to defer payments on a loan obligation through bankruptcy petition or similar moves that will result in delayed or non-payment of principal and/or interest.