

PLDT

Purchase of SkyCable to push through, finally

Reiterate Rating: BUY | PO: 1,700 PHP | Price: 1,294 PHP

Regulator clears the purchase

On Jan 19, the PCC finally approved PLDT's acquisition of Sky Cable, valued at Php6.75bn. This deal was first announced in March-2023, but only recently cleared by the regulator. The transaction is still subject to other closing conditions such as the termination of operations of Sky's pay TV and cable businesses. Once closed, PLDT will own 100% of Sky – including its broadband (Sky Fiber) and enterprise (Sky Biz) businesses.

PLDT bolsters its broadband, enterprise businesses

The most valuable assets that PLDT are acquiring consist of (1) Sky's broadband subscriber base of c.300k (2-3% market share), (2) the Enterprise business catering mainly to SMEs and MSMEs, and (3) the backbone network assets, including some optical fiber. Pre-transaction, PLDT was already the market leader in broadband (c.48% rev. share) – so this should widen the gap by a few percentage points more which is relevant as broadband growth has slowed the past two years. Acquiring Sky's backbone assets also enhances their network efficiently, versus having to spend to build their own. Sky Biz is also complementary to PLDT's Enterprise arm.

But at what cost?

PLDT's acquisition price of Php6.75bn implies roughly 6x EV/EBITDA in our estimate. This is broadly in-line with APAC telco valuations, but at a premium to PLDT's current market valuation of 5x EV/EBITDA. However, Sky's cable/pay TV businesses (which will be terminated) have been contributing negatively to the EBITDA line since its parent ABS-CBN lost its congressional franchise in 2020 – so valuations may be more favorable than it appears. Overall, we don't think this will have a significant impact on PLDT's financial condition / leverage, given the company's improving balance sheet. We reiterate our Buy on PLDT as we believe they are the biggest beneficiary among telcos of an improving macro backdrop given their 7.6% 2024E yield.

Estimates (Dec) (PHP)	2021A	2022A	2023E	2024E	2025E
Net Income (Adjusted - mn)	29,878	30,557	32,694	34,502	35,190
EPS	138.29	141.43	151.32	159.69	162.88
EPS Change (YoY)	10.4%	2.3%	7.0%	5.5%	2.0%
Dividend / Share	82.00	117.00	108.00	97.00	97.00
Free Cash Flow / Share	(55.57)	(89.56)	44.89	49.58	133.23
ADR EPS (US\$)	2.81	2.60	2.68	2.82	2.88
ADR Dividend / Share (US\$)	1.66	2.15	1.91	1.72	1.72
Valuation (Dec)					
P/E	9.36x	9.15x	8.55x	8.10x	7.94x
Dividend Yield	6.34%	9.04%	8.35%	7.50%	7.50%
EV / EBITDA*	5.54x	5.67x	5.17x	4.94x	4.76x
Free Cash Flow Yield*	-4.29%	-6.92%	3.47%	3.83%	10.30%

* For full definitions of *IQmethod*SM measures, see page 4.

26 January 2024

Equity

Jonathan Gabriel Madrid ^^
Research Analyst
Philippine Equity Partners
+63 2 8640 6738
gabriel.madrid@pep.com.ph

Jojo Gonzales ^^
Research Analyst
Philippine Equity Partners
jojo.gonzales@pep.com.ph

Stock Data

Price (Common / ADR)	1,294 PHP / 22.42 USD
Price Objective	1,700 PHP / 30.50 USD
Date Established	13-Dec-2023 / 13-Dec-2023
Investment Opinion	B-1-8 / B-1-8
52-Week Range	1,094 PHP-1,524 PHP
Market Value (mn)	4,944 USD
Market Value (mn)	279,576 PHP
Shares Outstanding (mn)	216.1 / 216.1
Average Daily Value (mn)	1.25 USD
Free Float	42.1%
BofA Ticker / Exchange	PHTCF / PHS
BofA Ticker / Exchange	PHI / NYS
Bloomberg / Reuters	TEL PM / TEL PS
ROE (2023E)	28.1%
Net Dbt to Eqty (Dec-2022A)	196.9%

Tickers:

ABS – ABS-CBN Corp.
TEL – PLDT, Inc.

Glossary:

MSME – micro, small, medium enterprises
PCC – Philippine Competition Commission
SME – small, medium enterprises

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Refer to important disclosures on page 5 to 8. Analyst Certification on page 3. Price Objective Basis/Risk on page 3.

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Timestamp: 26 January 2024 08:29AM EST

iQprofileSM PLDT

Key Income Statement Data (Dec)	2021A	2022A	2023E	2024E	2025E
(PHP Millions)					
Sales	193,257	205,245	209,184	213,791	220,200
Gross Profit	179,916	190,728	195,132	200,607	206,612
Sell General & Admin Expense	(75,481)	(85,076)	(77,892)	(78,182)	(79,726)
Operating Profit	40,909	(5,191)	54,257	57,007	58,978
Net Interest & Other Income	(5,654)	22,004	717	(3,275)	(10,903)
Associates	(1,101)	(3,304)	(3,000)	(2,000)	(500)
Pretax Income	34,154	13,509	51,974	51,732	47,575
Tax (expense) / Benefit	(7,478)	(2,774)	(13,253)	(13,192)	(12,132)
Net Income (Adjusted)	29,878	30,557	32,694	34,502	35,190
Average Fully Diluted Shares Outstanding	216	216	216	216	216

Key Cash Flow Statement Data

Net Income	26,367	10,610	38,503	38,369	35,249
Depreciation & Amortization	54,991	98,942	48,529	50,585	52,621
Change in Working Capital	15,254	(6,034)	(10,879)	(15,279)	3,960
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(4,642)	(27,318)	15,855	15,321	14,452
Cash Flow from Operations	91,970	76,200	92,008	88,996	106,282
Capital Expenditure	(103,977)	(95,551)	(82,309)	(78,285)	(77,496)
(Acquisition) / Disposal of Investments	1,395	9,827	12,000	10,000	0
Other Cash Inflow / (Outflow)	(1,058)	52,718	1,000	827	913
Cash Flow from Investing	(103,640)	(33,006)	(69,309)	(67,458)	(76,583)
Shares Issue / (Repurchase)	0	0	0	0	0
Cost of Dividends Paid	(17,776)	(25,338)	(23,393)	(21,016)	(21,016)
Cash Flow from Financing	(4,904)	(42,304)	(24,618)	(24,493)	(26,488)
Free Cash Flow	(12,007)	(19,351)	9,699	10,712	28,786
Net Debt	228,650	224,369	238,701	252,156	258,145
Change in Net Debt	46,122	(4,281)	14,332	13,455	5,989

Key Balance Sheet Data

Property, Plant & Equipment	302,736	292,745	314,751	332,675	357,775
Other Non-Current Assets	249,661	250,088	246,862	244,637	243,913
Trade Receivables	21,790	26,255	25,857	26,122	26,497
Cash & Equivalents	23,907	25,211	23,292	20,337	23,548
Other Current Assets	28,234	29,863	27,184	27,886	28,728
Total Assets	626,328	624,162	637,945	651,657	680,460
Long-Term Debt	241,075	217,288	249,993	249,193	266,393
Other Non-Current Liabilities	33,514	45,911	45,911	45,911	45,911
Short-Term Debt	11,482	32,292	12,000	23,300	15,300
Other Current Liabilities	212,792	214,710	200,753	186,441	191,618
Total Liabilities	498,863	510,201	508,657	504,845	519,222
Total Equity	127,465	113,961	129,288	146,812	161,239
Total Equity & Liabilities	626,328	624,162	637,945	651,657	680,460

iQmethodSM - Bus Performance*

Return On Capital Employed	8.2%	-0.9%	9.7%	9.5%	9.4%
Return On Equity	25.0%	26.3%	28.1%	26.0%	23.7%
Operating Margin	21.2%	-2.5%	25.9%	26.7%	26.8%
EBITDA Margin	49.6%	45.7%	49.1%	50.3%	50.7%

iQmethodSM - Quality of Earnings*

Cash Realization Ratio	3.1x	2.5x	2.8x	2.6x	3.0x
Asset Replacement Ratio	1.9x	1.0x	1.7x	1.5x	1.5x
Tax Rate (Reported)	21.9%	20.5%	25.5%	25.5%	25.5%
Net Debt-to-Equity Ratio	179.4%	196.9%	184.6%	171.8%	160.1%
Interest Cover	3.9x	-0.4x	4.0x	4.1x	4.0x

Key Metrics

* For full definitions of iQmethodSM measures, see page 4.

Company Sector

Telecom Services-Wireless/Cellular

Company Description

PLDT is the largest Philippine telecom operator. It operates mobile and fixed services, including a growing broadband and enterprise segment. In terms of revenues, PLDT is the leader in both broadband and enterprise, and a strong 2nd in mobile. PLDT's largest common shareholders are First Pacific (25.6%) and the NTT group (20.3%).

Investment Rationale

We rate PLDT a Buy. We see moderate broadband and resilient enterprise growth overcoming flattish mobile. Sale of tower assets to help strengthen balance sheet, support capex and dividends. Investment in fintech is supportive of the core telco business and the broader eco-system of e-wallets, payments, and financial services.

Stock Data

Shares / ADR	1.00
Price to Book Value	2.3x

Price objective basis & risk

PLDT (PHTCF / PHI)

We derive our PHP1700 (ADR:US\$30.50) PO using a DCF-based SOTP valuation for the core telco business. PLDT's core business is valued using a 8.9% WACC and a 3.0% terminal growth rate. We assume a payout ratio of 60% on telco core income. On top of the core telco business, we value Voyager, the fintech business, at its last transaction price. Our PO implies 5.8x 2024E EV/EBITDA, broadly in-line with APAC peer average of 6x.

Downside risks: (1) increased mobile and/or broadband competition, (2) an FX or inflation shock that may impact demand or costs, (3) changes in technology that imply substantially increased capital spending.

Upside risks: (1) a benign competitive environment in mobile and/or broadband, (2) better economic and consumer growth that drives subscriber growth and telco spending by consumers higher, (3) tapering of capex longer-term.

Analyst Certification

I, Jonathan Gabriel Madrid, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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BofA Securities is currently acting as buy-side advisor to Frontier Tower Associates Philippines Inc, a regional telecom infrastructure platform backed by KKR to acquire a portion of telecoms towers from Smart Communications, a wholly owned subsidiary of PLDT Inc, which was announced on March 17, 2023.

APR - Telecommunications Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Advanced Info	AVIZF	ADVANC TB	Thititthep Nophaket
	CelcomDigi	DIGBF	CDB MK	Sukriti Bansal
	Converge ICT	XLERF	CNVRG PM	Jonathan Gabriel Madrid
	Digital Telecommunications Infra Fund	TTCFF	DIF TB	Thititthep Nophaket
	Far EasTone	FEOTF	4904 TT	Brooksley Kang
	GDS Holdings	GDS	GDS US	Daley Li, CFA
	GDS Holdings	XMJFF	9698 HK	Daley Li, CFA
	Indus Towers	XYAF	INDUSTOW IN	Sachin Salgaonkar
	INTUCH	XIHTF	INTUCH TB	Thititthep Nophaket
	KT	KTCNF	030200 KS	Sun Jung Lee
	KT	KT	KT US	Sun Jung Lee
	NextDC Limited	NXDCF	NXT AU	Ware Kuo
	PLDT	PHTCF	TEL PM	Jonathan Gabriel Madrid
	PLDT -A	PHI	PHI US	Jonathan Gabriel Madrid
	Singtel	SNGNF	ST SP	Sachin Salgaonkar
	SK Telecom	SKMTF	017670 KS	Sun Jung Lee



APR - Telecommunications Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	SK Telecom	SKM	SKM US	Sun Jung Lee
	Taiwan Mobile	TWMBF	3045 TT	Brooksley Kang
	Telstra Group	TTRAF	TLS AU	Ware Kuo
	Telstra Group-A	TLGPY	TLGPY US	Ware Kuo
	TPG Telecom	TPGTF	TPG AU	Ware Kuo
	XL Axiata	PTXAF	EXCL IJ	Sukriti Bansal
NEUTRAL				
	Bharti Airtel	BHTIF	BHARTI IN	Sachin Salgaonkar
	Chunghwa Telecom	CHWAF	2412 TT	Brooksley Kang
	Chunghwa Telecom	CHT	CHT US	Brooksley Kang
	LG Uplus	LTCLF	032640 KS	Sun Jung Lee
	Megaport Ltd	MGPPF	MP1 AU	Ware Kuo
	PT Telkom	TLKMF	TLKM IJ	Sukriti Bansal
	PT Telkom	TLK	TLK US	Sukriti Bansal
	Spark New Zealand Ltd	NZTCF	SPK NZ	Ware Kuo
	Spark New Zealand Ltd.-SP ADR	SPKKY	SPKKY US	Ware Kuo
	True Corporation	XTPCF	TRUE TB	Thititthep Nophaket
	VNET Group	VNET	VNET US	Daley Li, CFA
UNDERPERFORM				
	Axiata	AXXTF	AXIATA MK	Sukriti Bansal
	Vodafone Idea	IDEAF	IDEA IN	Sachin Salgaonkar
RVW				
	TM	MYTEF	T MK	Sachin Salgaonkar

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income
Operating Profit
Expected 5 Year CAGR From Latest Actual
Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

Numerator

Current Share Price
Current Share Price
Annualised Declared Cash Dividend
Cash Flow From Operations – Total Capex
EV = Current Share Price × Current Shares + Minority Equity + Net Debt +
Other LT Liabilities
Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Amortization
Shareholders' Equity
Sales
N/A
N/A

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)
Shareholders' Equity / Current Basic Shares
Current Share Price
Market Cap = Current Share Price × Current Basic Shares
Sales
Basic EBIT + Depreciation + Amortization

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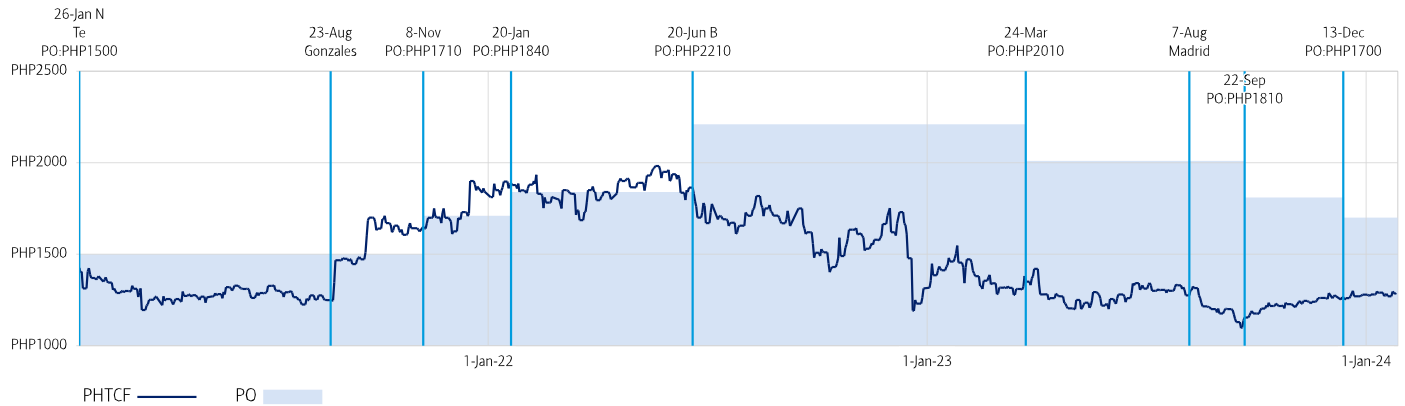
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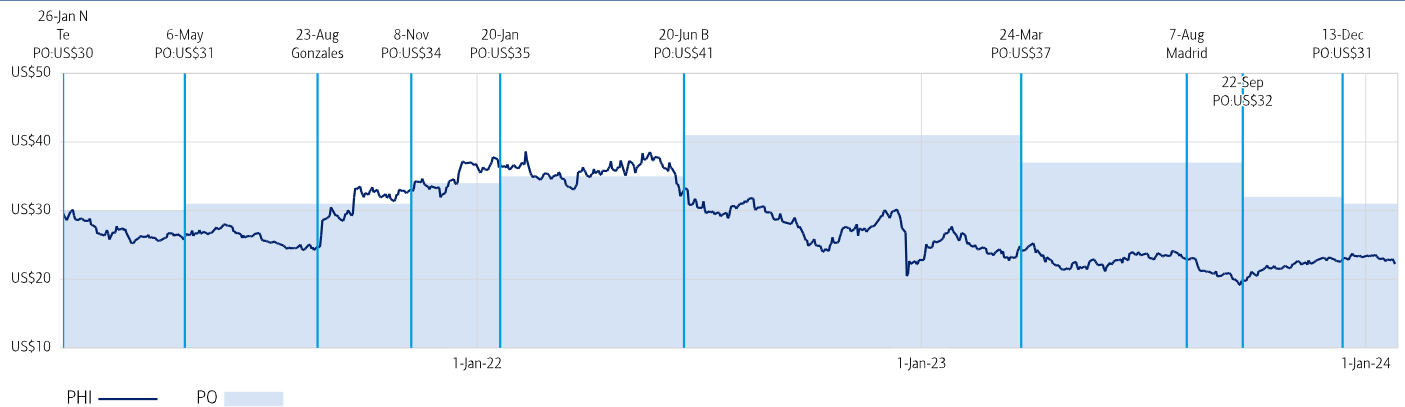
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PLDT (PHTCF) Price Chart



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PLDT -A (PHI) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Telecommunications Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	57	51.82%	Buy	43	75.44%
Hold	27	24.55%	Hold	17	62.96%
Sell	26	23.64%	Sell	12	46.15%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2}Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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