

Globe Telecom (GLO PM)

FUNDAMENTAL VIEW ¹

As of 15 May 2024

- Globe's FY23 earnings and 1Q24 earnings grew modestly, but leverage metrics have not yet improved due to a weak broadband business, sticky dividends, and still-historically high capex (even if lower YoY).
- We believe credit metrics may improve only slightly in FY24 as modest EBITDA growth, lower YoY capex, and PHP 29 bn of residual tower sales closures through 2Q24 are negated by potentially higher dividend payouts.
- While we acknowledge the competitive pressures by new entrant DITO, we think the impact is mitigated by Globe's still-dominant mobile market position and DITO's slowing expansion (given its weak financials and the costly capex involved).
- Weakness in the broadband business could decelerate and improve from 3Q24 onwards.

RISKS & CATALYSTS

As of 15 May 2024

- Globe faces mounting competitive pressures from new mobile entrant DITO and incumbent broadband competitor PLDT.
- Aggressive expansion by new entrant DITO over the next 2-4 years could chew away at Globe's market share and restrain recoveries in average revenues per user (ARPU).
- Globe incurs significant capex that has pressurized its leverage metrics and free cash flows. That said, capex should meaningfully decline ahead in line with management guidance (FY24E capex ~22% YoY lower than FY23A capex).
- Consistent dividend payouts could worsen Globe's already negative free cash flows; Globe recently raised the upper end of its dividend policy from 75% to 90% of net income, suggesting an increased skew to shareholder-friendly actions.

CREDIT QUALITY SCORE (CQS)²

As of 04 Jul 2024

CURRENT CQS

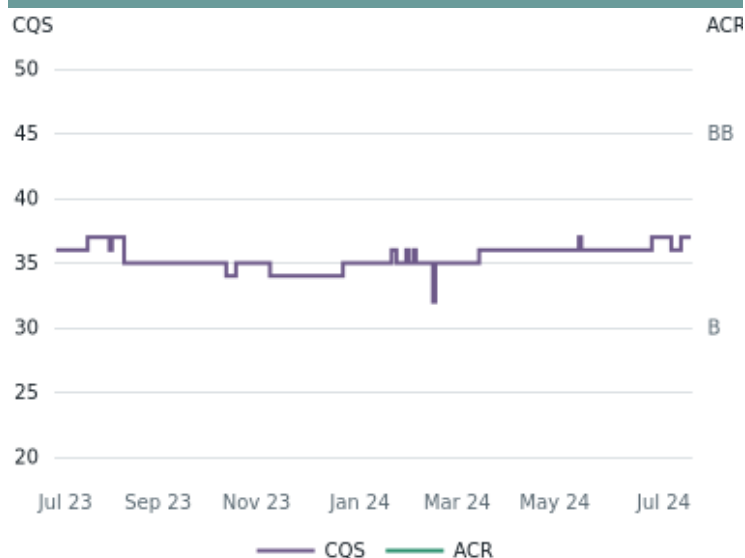
37

CQS OUTLOOK ³

NEGATIVE

STABLE

POSITIVE

HISTORICAL RATINGS: AVERAGE AGENCY RATING (ACR)⁴ VS CQS

KEY METRICS

As of 15 May 2024

PHP BN	FY21	FY22	FY23	1Q23	1Q24
Debt to Book Cap	69.4%	67.5%	69.7%	67.6%	69.6%
Net Debt to Book Cap	63.0%	63.7%	66.6%	64.3%	66.4%
Debt/Total Equity	227.2%	208.1%	230.5%	208.9%	229.1%
Debt/Total Assets	56.7%	57.1%	60.3%	56.3%	60.0%
Gross Leverage	3.3x	3.9x	4.3x	4.0x	4.3x
Net Leverage	3.0x	3.7x	4.1x	3.8x	4.1x
Interest Coverage	7.6x	5.9x	4.6x	5.5x	4.4x
EBITDA Margin	46.7%	46.7%	47.7%	48.2%	49.4%

BUSINESS DESCRIPTION

As of 15 May 2024

- Globe is a leading telecom operator in the Philippines, competing alongside its main rival PLDT in a duopoly setting.
- Globe provides 2G/3G/4G mobile, fixed-line, broadband, enterprise data, and other digital services to retail and corporate customers.
- Globe operates through 2 main business segments – “Mobile Services” and “Fixed Line and Home Broadband Services”.
- Its “Mobile Services” segment offers mobile voice, mobile SMS and mobile data services to retail customers in the Philippines. These services are marketed under the “Globe Postpaid”, “Globe Prepaid” and “TM” brands.
- Its “Fixed Line and Home Broadband Services” segment provides fixed line voice, corporate data and home broadband services to retail and corporate customers in the Philippines.
- Globe commercially launched 5G services on a small-scale basis in Jun-2019. It currently maintains 5G coverage of 96% of the National Capital Region, with over 2,000 5G sites nationwide.
- Globe maintains dominant market shares in the mobile data, voice and SMS space (FY22 revenue market share [RMS] of 52% vs PLDT 40%), but loses out to PLDT in the home broadband space (FY22 RMS of 28%-30% vs PLDT 48%-50%).
- Globe is largely owned by two established corporate groups – Ayala Corporation (~47 stake) and Singtel (~43% stake).

GLOSSARY

¹ The **Fundamental View** is our current assessment of credit quality and our expectation of how credit quality will trend over the next year or longer.

² The **Credit Quality Score (CQS)** is a number between 5 and 100. It is a medium-term credit score for corporates and financial institutions that utilizes a combination of sector fundamental scores and equity market signals. Values of CQS above 50 generally indicate investment grade credit quality.

³ The **Credit Quality Score (CQS) Outlook** is the near-term (3 month) outlook for the CQS, based on its trend, volatility and distance from the adjacent CQS risk bucket.

⁴ The **Agency Composite Rating (ACR)** is the average senior unsecured rating from one or more major rating agencies.

Quantitative scores provided by CreditSights Analytics, LLC. Scores are shown as for the lesser of (1) 2 years and (2) date of CreditSights inception of quantitative coverage.

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