PhilRatings
PHILIPPINE RATING SERVICES CORPORATION
The Pioneer Domestic Credit Rating Agency

RATING NEWS
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BDO Leasing's P25 Billion STCPs Get High Rating

The short-term commercial papers (STCPs) of BDO Leasing and Finance, Inc. (BDOLF), totaling P25.0 Billion, were assigned an issue rating of **PRS 2** by Philippine Rating Services Corporation (PhilRatings). BDOLF is the leasing and financing arm of the BDO Group, with varied interests which also include banking, investment banking, bancassurance, insurance brokerage and stock brokerage.

BDOLF's leasing products include: finance lease, operating lease, direct lease and sale-leaseback. Financing services of BDOLF consist of commercial loans, retail loans, installment paper purchase and factoring of receivables.

A **PRS 2** rating is defined as: "Above average (strong) capability for payment of commercial paper issue on both interest and principal. This is normally evidenced by many characteristics of a PRS 1 rating, but to a lesser degree. Earning trends and coverage ratios, while sound, will be more subject to variations. Capitalization characteristics, while still appropriate, may be more affected by external conditions. Ample alternate liquidity is maintained."

The rating considers BDOLF's close strategic relationship with its strong Parent Company; its experienced management and the favorable outlook for the leasing and finance industry due to continued domestic economic growth. These rating factors are counterbalanced by BDOLF's increasing leverage, with debt as the main source for the company's continued expansion and expectations of tempered company profitability over the short-term.

The rating is based on available information and projections at the time that the rating review was performed. PhilRatings shall continuously monitor developments relating to BDOLF and may change the rating at any time, should circumstances warrant a change.

The anticipated continued growth of the Philippine economy favors the country's leasing and finance industry, as this brings increasing demand for capital equipment, a thriving consumer market, and tame inflation and lending rates. A research on the industry estimated the value of the financial leasing industry to be around P70 to P80 billion, with an annual growth rate of around 13%.

With the domestic industry dominated by players which are wholly-owned subsidiaries or affiliates of top Philippine banks, BDOLF immensely benefits from its close strategic relationship with its Parent Company, BDO Unibank, Inc. (BDO). BDOLF benefits from name recognition and marketing referrals provided by BDO through the bank's wide branch network and its Institutional Banking Group, providing opportunities for BDOLF to understand the local business environment and undertake client prospecting. As the bank's principal unit for its leasing and financing business, BDOLF is considered as strategically important to the BDO Group. BDO has a strong presence in BDOLF's Board of Directors, with Ms. Teresita T. Sy serving as Chairperson of both BDO and BDOLF.

The solid industry experience of management is a credit positive, and is considered a significant factor in BDOLF's industry competitiveness. Management is led by Mr. Roberto E. Lapid, who was elected as Vice-Chairman on December 1, 2010, and was appointed President on April 23, 2014. Mr. Lapid is also Vice-Chairman and President of BDO Rental, Inc., a wholly-owned subsidiary of BDOLF.

PhilRatings notes that BDOLF's leverage has been increasing, with additional borrowings used to fund portfolio expansion in recent years. Forecasts for 2015 and 2016 show debt will remain as BDOLF's main funding source, albeit growth in outstanding bills payables will slow down for the projected period.

Short-term profitability is expected to slow down, as additional borrowings to finance growth brings increased interest and financing charges. Additionally, expenses related to the transfer of BDOLF's Head Office are expected to have a significant impact on the company's bottom line for the period 2015 and 2016. PhilRatings notes though, that Head Office transfer-related expenses will be incurred mostly only in the short-term and are non-recurring.