PRESS RELEASE

PhilRatings PHILIPPINE RATING SERVICES CORPORATION *The Pioneer Domestic Credit Rating Agency*	**RATING NEWS** **28 November 2017**

PhilRatings Assigns High Issuer Credit Rating for BDO Leasing

Philippine Rating Services Corporation (PhilRatings) assigned a **PRS Aa (corp.)** issuer credit rating for BDO Leasing and Finance, Inc. (BDOLF), the leasing and finance arm of the BDO Group. The rating was obtained in relation to BDOLF's application for a license to issue Commercial Papers with a total amount of P15.0 billion. BDOLF, a subsidiary of BDO Unibank, Inc. (BDO), is recognized as one of the leading players in the commercial leasing industry, directly competing with other financing companies affiliated with top Philippine banks and other financial services firms.

BDOLF's leasing activities include the renting and leasing of equipment and real properties while its financing activities involve the borrowing and relending of funds. Like most financing companies in the Philippines, BDOLF does not have a license to engage in quasi-banking functions. This precludes the company from taking deposits and incurring debt from more than 19 lenders, at any one time. The company's product offerings include finance leases, operating leases, amortized commercial loans, and retail loans, among others.

An issuer rating is an opinion on the general and overall creditworthiness of the issuer, evaluating its ability to meet all its financial obligations within a time horizon of one year. The focus is on financial strength and stability under normal and stressed conditions to be able to meet existing and prospective financial obligations.

A company rated **PRS Aa (corp.)** differs from the highest-rated corporates only to a small degree, and has a strong capacity to meet its financial commitments relative to that of other Philippine corporates.

The assigned issuer rating considers BDOLF's strong brand recognition due to the company's close strategic relationship with its Parent Bank; its continued asset expansion supported by increasing leverage; expectations of compressed margins and returns amid sustained revenue growth; and the favorable outlook for the leasing and financing industry due to continued domestic economic growth.

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 rating was also assigned an Outlook of **Stable**. This means that the assigned issuer credit rating is likely to remain unchanged in the next 12 months.

As of end-September 2017, BDO directly owned 87.43% of BDOLF's common shares. BDOLF has largely benefited from the BDO Group's extensive market reach and well-established presence throughout the country, in terms of marketing referrals, as well as the strong franchise of the Group. A significant percentage of BDOLF's loan portfolio as of end of the period was accounted for by common clients with BDO. The company's marketing structure is also aligned with that of BDO's Institutional Banking Group (IBG). The closer synergy with the BDO Group's IBG will support BDOLF's thrust to tap more corporate accounts for possible lease requirements.

In 2016, BDOLF entered into a joint venture with Mitsubishi Motors Philippines Corp. (MMPC), Sojitz Corp., and JACCS Co. Ltd. to establish MMPC Auto Financial Services Corp. (MAFS), an automotive financing company that will provide loans and finance leases to the customers of MMPC. The new company started operations in mid-September 2016 and is 40%-owned by BDOLF. The company recognized a share in MAFS' net loss in 2016 amounting to P19.9 million. To date, all 48 MMPC outlets have been covered by the nationwide rollout of the JV company.

BDOLF's leasing and financing portfolio stood at P31.4 billion as of end-2016, up by 14.3% year-on-year. This further increased to P33.7 billion as of end-September 2017. The share of provincial accounts to BDOLF's total clients also increased. The company plans to continue to increase its marketing plantilla to be able to focus on accounts in areas outside Metro Manila. For the projected period, BDOLF's asset growth is seen to be robust.

The company's bills payable remains as its primary source of funding, accounting for more than 80% of total liabilities as of end-2016. Bills payable stood at P27.3 billion, P12.9 billion of which were peso borrowings from local banks while P14.4 billion was in the form of short-term notes issued to corporate investors. As of September 2017, outstanding bills payable further went up to P30.5 billion. Forecasts indicate that debt will remain as BDOLF's main funding source.

In 2016, gross revenues reached P2.9 billion, up by 9.5% from P2.6 billion in 2015. BDOLF registered a net income of P570.0 million for the year. PhilRatings, however, notes the faster rate of increase in operating costs and expenses, resulting in lower operating and net income margins of 26.30% and 19.97%, respectively. Despite lower margins, BDOLF was able to attain both its revenue and net income targets for 2016.

For the first nine months of 2017 (9M2017), BDOLF's gross revenues amounted to P2.3 billion. Despite the growth in the volume of loans, BDOLF registered a lower net income, amounting to P405.9 million, down by 4.4% from P424.5 million in the same period of 2016. Operating income margin was at 22.87%, while net income margin was at 17.53%, both lower than year-ago and year-end 2016 levels.

Going forward, BDOLF expects to continue expanding its business revenues. Increases in operating expense, however, will result in the compression of margins and returns.

The Philippine economy posted a 6.9%-growth in the third quarter of 2017, outperforming China's 6.8%- and Indonesia's 5.1%- growth rates. The country ranked second to Vietnam's 7.5%-growth for the quarter. With the 6.7%- GDP growth for the first nine months of the year, the Philippines remains on track to meet the government's growth target range of between 6.5% and 7.5% for full year 2017. According to BDOLF, infrastructure-related projects are likely to sustain the projected GDP growth for the country.

Several sectors such as transportation, logistics and hauling, as well as renewable energy, trading and tourism are expected to ramp up the performance of the leasing and financing industry going forward. BDOLF expects these sectors to boost its portfolio. Construction and transportation, which are major parts of its portfolio, will be instrumental in expanding the company's assets, as most of the brand new equipment will need financing.

The issuer rating was also assigned an Outlook of **Stable**. An Outlook is an indication as to the possible direction of any rating change within a one year period and serves as a further refinement to the assigned credit rating for the guidance of investors, regulators, and the general public. A **Stable** Outlook is defined as: "The rating is likely to remain unchanged in the next twelve months."