

 <p>PhilRatings PHILIPPINE RATING SERVICES CORPORATION</p> <p><i>The Pioneer Domestic Credit Rating Agency</i></p>	<p>RATING NEWS 21 November 2016</p>
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BDO Leasing Gets High Credit Rating

BDO Leasing and Finance, Inc. (BDOLF), the leasing and finance arm of the BDO Group, was assigned an issuer credit rating of **PRS Aa (corp.)** by Philippine Rating Services Corporation (PhilRatings). BDOLF, a subsidiary of BDO Unibank, Inc. (BDO), is a non-bank financial institution mainly engaged in servicing the leasing and/or financing requirements of individual consumers and commercial clients.

BDOLF's leasing activities include the renting and leasing of equipment and real properties. It provides direct leases, real estate leases and sale-leaseback arrangements. The company's financing activities involve the borrowing and relending of funds. It offers financing products such as amortized consumer and commercial loans, installment paper purchases, floor stock financing, receivables discounting and factoring.

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 economic and industry outlook.

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.

BDOLF 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 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. BDOLF's Chairperson is Ms. Teresita T. Sy, 66 years old, who has been a Director of the company for the past 11 years. She also serves as Board Chairperson of BDO, and of various subsidiaries within the BDO Group.

As of end-2015, BDOLF's leasing and financing portfolio stood at P27.5 billion, up by 16.1% year-on-year. This further increased by 8.4% to P29.8 billion as of end-September 2016. Given the company's growing leasing and finance portfolio, total assets stood at P37.0 billion as of end-September 2016.

The company's bills payable remains as its primary source of funding, accounting for 81.5% of total liabilities as of end-2015. Bills payable stood at P23.9 billion, P11.4 billion of which were peso borrowings from local banks while P12.5 billion was in the form of short-term notes issued to individual and corporate investors. As of September 30, 2016, outstanding bills payable further went up to P25.9 billion, while total liabilities stood at P31.9 billion. Consequently, liabilities to equity ratio showed an increasing trend. From 4.87x as of end-2014, the ratio went up to 5.61x as of end-2015, and further increased to 6.16x as of end-September 2016. While BDOLF's total equity increased by 4.8% to P5.2 billion as of end-2015, the rate of buildup in the company's total liabilities has outpaced the growth in its total equity. This indicates the increasing role of debt in funding the company's growing portfolio. Forecasts indicate that debt will remain as BDOLF's main funding source.

Gross revenues reached P2.6 billion in 2015, up by 14.6% from P2.3 billion in 2014. BDOLF registered a net income of P555.6 million for the year, representing a 10.2% hike from that for the previous year. While absolute numbers generally improved in 2015, the rate of growth in revenues and net income were slower as compared to 2014. This resulted in lower operating and net profit margins of 27.83% and 21.32%, respectively. For the first nine months of 2016 (9M2016), BDOLF posted a year-on-year increase of 12.3% in gross revenues. Interim net income amounted to P424.5million, higher by 9.6% from the P387.3 million net income registered in the same period of 2015. The company's revenue and net income will continue to improve. Increases in operating expense, however, will result in the compression of margins and returns, going forward.

The growth momentum of the Philippine economy was sustained in the second quarter of 2016 as Gross Domestic Product (GDP) grew by 7.0% year-on-year, making the country one of the fastest growing economies during the period, along with India (+7.1%), China (+6.7%), Vietnam (+5.6%) and Indonesia (+5.2%). Based on the forecast of the International Monetary Fund (IMF), the Philippines is expected to grow by 6.2% in 2016. Full-year inflation is still seen to remain low and stable within the government's target of 2.0% to 4.0%. The Bangko Sentral ng Pilipinas (BSP) expects that the domestic economic activity is likely to stay firm, supported by solid private household consumption, investments, buoyant business and consumer sentiment, among others.

The Philippine financial sector remained sound and stable in the first half of 2016. Bank lending has sustained its double-digit year-on-year growth. Domestic market interest rates generally declined in the second quarter of 2016. Expectations that the US Federal Reserve may raise interest rates in the latter part of 2016, however, could affect movements in financial markets. Overall demand for loans from both enterprises and households was seen to be stable, based on the results of the survey conducted by the BSP in the third quarter of 2016.