

Converge ICT Solutions, Inc.'s First Bond Issuance Gets a PRS Aaa Credit Rating

Philippine Rating Services Corporation (PhilRatings) assigned an Issue Credit Rating of **PRS Aaa**, with a **Stable Outlook**, for Converge Information and Communications Technology Solutions, Inc.'s (Converge, the Company) proposed P5.0 billion bond issuance, with an Oversubscription Option of up to P5.0 billion.

Obligations rated PRS Aaa are of the highest quality with minimal credit risk. The obligor's capacity to meet its financial commitment on the obligation is extremely strong. PRS Aaa is the highest rating assigned by PhilRatings.

In addition, 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 be maintained or to remain unchanged in the next twelve months."

The rating and Outlook were assigned given the following key considerations: (1) notable expansion in subscriber base and its position as a strong player in the fixed broadband market; (2) good cash flow generation and adequate financial flexibility to support network expansion; (3) highly conservative debt management; (4) the government's push for the improvement of the information and communications technology (ICT) landscape in the country; and (5) increased demand for high-speed broadband services due to the COVID-19 pandemic.

PhilRatings' ratings are based on available information at the time that the rating review was performed. PhilRatings shall continuously monitor developments relating to Converge and may change the rating and Outlook at any time, should circumstances warrant a change.

Converge (Converge Information and Communications Technology Solutions, Inc., the Company) is a relatively new player in the Philippine ICT market. Converge commenced its fixed broadband operations in 2012 and is the only operator that exclusively focuses on providing fixed wired broadband internet services in the country. The Company's subscriber base exponentially grew starting in Luzon where it first launched its services. Total subscribers expanded by a compounded annual growth rate (CAGR) of 92%, from more than 77,000 in 2016 to almost 1.05 million by the end of 2020. As of end-September 2021, total subscribers from the residential and enterprise businesses reached more than 1.59 million.

Converge follows a two-pronged strategy - "Go Deep" and "Go National". The former aims to deepen the Company's penetration in its existing coverage areas, while the latter aims to expand the Company's reach into new coverage areas across the country. The Company completed its nationwide subsea cable network backbone in October 2021, which connected Visayas and Mindanao to its Luzon loop. The network coverage of the Company reportedly reached more than 9.6 million homes as of September 30, 2021. According to the Company, this was approximately 57% of households in Luzon and 38% of households nationwide.

Globe Telecom, Inc. (Globe) and PLDT, Inc. (PLDT) are the two major players in the country that similarly offer fixed broadband services. In comparison to other players in the market, Converge is relatively small in terms of asset size but has acquired a strong footing in the fixed broadband market. Based on the total

fixed wired broadband subscribers of the three companies, Converge cornered 30% of the total as of end-September 2021. This puts Converge second to PLDT in terms of market share.

Converge has been able to consistently generate positive net cash from operations since 2016, owing to the sustained growth in earnings. Cash and cash equivalents grew from P316 million in 2016 to P9.6 billion as of September 30, 2021. Net income was on an uptrend from 2016 to 2020, driven by higher revenues due to the expansion of the Company's subscriber base. For the first nine months of 2021, net income was P5.2 billion, significantly higher by 137% than in the same period in 2020.

Considering the capital-intensive nature of the operations, Converge has been able to conservatively manage its debt levels. While total debt rose in line with the Company's expansion and acquisition of assets, total equity similarly grew with the plowback of earnings and capital raising activities. Converge listed its shares on the Philippine Stock Exchange (PSE) in October 2020, after its initial public offering (IPO) in the same month. Proceeds from the IPO were mainly used to fund capital expenditures in connection with the nationwide fiber network rollout. Gross debt-to-equity (DE) ratio has remained conservative since 2016, and was at 0.5x as of end-September 2021.

Recognizing the need for quality broadband connection in the country, the government created the National Broadband Plan (NBP). The NBP was developed to accelerate the deployment of fiber optic cables and wireless technologies nationwide, particularly in remote areas in the country. Such entails collaboration with relevant stakeholders, including the government, broadband network and service providers, and civil society organizations and user groups. The Department of Information and Communications Technology (DICT) was tasked to carry out the NBP. For Phase 1 of the project, DICT targets to complete 28 nodes of the national fiber backbone located in 12 provinces in Luzon within 2021.

The pandemic heightened the demand for high-speed broadband services. One of the main concerns in relation to improved connectivity is the lack of needed infrastructure to support distribution. The Bayanihan to Recover As One or Bayanihan 2, declared the temporary suspension of requirements to secure permits and clearances for the installation and operation of telecommunication towers within the next three years. In addition, the regulatory processes and procedures for the development of digital, internet, and satellite technology infrastructure in the country will be streamlined. The application process, which normally takes more than 200 days to complete, was reportedly shortened to around 16 days. These developments give broadband service providers better opportunities for growth and improvement.

According to the data from the NTC, telecommunication complaints jumped by 76% in 2020, from a year ago. More than 80% of the complaints were from the NCR which recorded a 144% hike from 2019. Converge was not exempted from such feedback from the public. Amidst such, Converge continues to strengthen its network to improve the quality of its service. The Company completed the closed fiber loops on its subsea cable network, connecting Visayas and Mindanao to Luzon. Because of these closed loops, an area experiencing a fiber cut can be supported through another route and long-term outages minimized.