PhilRatings PHILIPPINE RATING SERVICES CORPORATION *The Pioneer Domestic Credit Rating Agency*	**RATING NEWS** **October 18, 2022**

Arthaland Corporation's New ASEAN Green Bond Issue of up to P3 billion gets Very Strong Credit Rating

Philippine Rating Services Corporation (PhilRatings) assigned an Issue Credit Rating of **PRS Aa**, with a **Stable Outlook**, to Arthaland Corporation's (ALCO) proposed fixed-rate ASEAN Green Bond issuance amounting to P3.0 billion. This represents the second and final tranche of the Company's 3-year Shelf Registration of up to P6.0 billion.

PhilRatings has also maintained the Issue Credit Rating of **PRS Aa**, with a **Stable Outlook**, for the company's outstanding ASEAN Green Bonds amounting to P3.0 billion.

ASEAN Green Bonds adhere to the ASEAN Green Bonds Standards which require proceeds to be used exclusively to fund eligible green projects, including certified green buildings. A regular review on the use of proceeds and quantifiable updates on the funded project's environmental benefits is also required.

The proceeds from the proposed ASEAN Green Bonds will be used to fund additional investment into Arthaland's existing eligible project, to fund the acquisition of properties for expansion and to partially fund scheduled repayments of the loan that financed Arthaland Century Pacific Tower.

Obligations rated **PRS Aa** are of high quality and are subject to very low credit risk. The obligor's capacity to meet its financial commitment on the obligation is very strong.

On the other hand, an Outlook is an indication as to the possible direction of any rating change within a one-year period and serves as further refinement of the assigned credit rating for the guidance of investors, regulators, and the general public. A **Stable Outlook** is assigned when a rating is likely to be maintained or to remain unchanged in the next 12 months.

PhilRatings' ratings are based on available information and projections at the time that the rating review was performed. PhilRatings shall continuously monitor developments relating to ALCO and may change the rating at any time, should circumstances warrant a change. The rating assigned is in relation to the Company's capacity to pay the rated bonds only and is not an opinion on the project's adherence to the ASEAN Green Bonds Standards or environmental impact.

The ratings and Outlook were assigned given the following key considerations: (1) highly recognized and has a good reputation in developing premium green certified buildings in the Philippines; (2) ability to grow and compete in its chosen niche, despite the presence of larger, more established competitors; (3) relatively manageable liquidity position in relation to debt servicing; (4) healthy margins and sustained profitability; and (5) economic recovery and gradual pick up of the property sector.

ALCO is a recognized sustainable developer of premium residential and commercial properties. All of the Company's projects are multi-certified by both local and global organizations in terms of environmental sustainability. These certifications include: the Philippine Green Building Council's (PHILGBC) Building for Ecologically Responsive Design Excellence (BERDE), U.S. Green Building Council's (USGBC) Leadership in Energy and Environmental Design (LEED), International Finance Corporation's (IFC) Excellence in Design for Greater Efficiencies (EDGE), and the International WELL Building Institute's (IWBI) WELL Building Standard (WELL). The company is also the first real estate developer in Asia and the first signatory from the Philippines to the Net Zero Carbon Building Commitment of the World Green Building Council (WorldGBC). As a signatory to this program, ALCO commits to decarbonizing its entire portfolio by 2030. ALCO is the only real estate developer in the country that has a portfolio which is composed entirely of certified sustainable projects.

From 2009, ALCO has managed to establish a distinct brand within a very competitive market. The Company has made significant progress in reaching its medium-term goal (2018 to 2024) of growing its Gross Floor Area (GFA) to approximately 484,000 sqm. Within 2022, total GFA of projects launched will be approximately 452,000 sqm or 93% of the GFA target. ALCO finalized the handover of Phase 1 of Cebu Exchange in September 2020, following its pre-pandemic schedule. Handover for Phase 2 of the project was likewise done in April 2022, also in line with the pre-pandemic schedule. The North Tower of Savya Financial Center in Arca South, Taguig City, initiated turnover to its buyers in January 2022. The South Tower will proceed with its scheduled pre-pandemic turnover date in December 2022. Lucima, which was launched in July 2021, will be the first multi-certified, sustainable residential condominium in Cebu City. It is a 37-storey condominium building located in the Cebu Business Park and will add 28,063 sqm of GFA once completed. The company's first residential project to cater to the broader mid-scale market, Una Apartments, also launched in September 2022 and is scheduled for completion by the fourth quarter of 2026. This project offers a mix of studio and one-bedroom units and will have a gross floor area of approximately 16,300 sqm.

As of end-June 2022, total debt was at P14.4 billion. This was lower by 12.5% from P16.4 billion as of end-2021, primarily caused by the 15.2% drop in loans payable due to net repayments for the period. Considering the capital-intensive nature of ALCO, debt to equity ratio was more than satisfactory. Debt to equity ratio was reduced to 1.2x as of end-June 2022, from 1.5x as of end-2021. Debt to equity ratio has not gone beyond 1.5x, the Company's target maximum debt-to-equity ratio. Total debt to capitalization ratio also improved to 54.5% as of end-June 2022, compared with 59.8% as of end-2021.

In 2021, real estate revenues declined by 10.0% to P3.0 billion. On the other hand, net income declined at a slower pace of 4.6% in 2021 to P1.1 billion, with net profit margin improving to 37.5% from 35.4% in 2020.

Real estate revenues in the first half of 2022 (1H2022) were lower by 10.7% to P1.1 billion from P1.2 billion in the 1H2021. This was driven by the lower revenues booked for Cebu Exchange given the marginal movement of its percentage of completion, as the project was close to being finished. On the other hand, ALCO recognized a net gain of P1.1 billion from the change in fair value of investment properties. As a result, net income rose by 10.4% to P796 million in 1H2022. This translated to a net profit margin of 71.6%, improving from 58.0% in 1H2021.

The Philippine economy recorded a Gross Domestic Product (GDP) growth rate of 8.2% and 7.4% in the first and second quarter of 2022 (1Q2022and 2Q2022), respectively. The reopening and recovery of the economy is expected to positively impact the real estate sector. The demand pick-up of residential properties was already seen in early 2022. In Bangko Sentral ng Pilipinas' (BSP) Residential Real Estate Price Index (RREPI), the nationwide residential property prices grew by 5.6% and 2.6% year-on-year in 1Q2022 & 2Q2022, respectively. This was a significant improvement from a contraction in both periods in 2021. While increasing interest rates and inflation present significant headwinds, the inflow of overseas Filipino (OF) remittances is expected to be a key driver for the demand for residential horizontal units.