PhilRatings PHILIPPINE RATING SERVICES CORPORATION *The Pioneer Domestic Credit Rating Agency*	**RATING NEWS** **May 3, 2024**

Megawide's Planned Bond Issue Receives Very Strong Credit Rating

Philippine Rating Services Corporation (PhilRatings) has assigned an Issue Credit Rating of **PRS Aa**, with a **Stable Outlook**, to Megawide Construction Corporation's (Megawide) proposed bond issue of ₱4.0 billion, with an oversubscription offer of up to ₱1.0 billion. Proceeds from the base offer will be used to refinance the Company's existing debt obligations and for other general corporate purposes, while the oversubscription allotment will include business development opportunities.

PhilRatings also maintained its Issue Credit Rating of **PRS Aa**, with a Stable Outlook, for the Company's outstanding rated bonds of ₱4.0 billion.

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. A **Stable Outlook**, on the other hand, indicates that the assigned rating is likely to be maintained or to remain unchanged in the next 12 months.

The assigned ratings took into account: (1) Megawide's solid experience in the construction industry, along with vertically integrated operations, that are seen to complement the government's infrastructure projects; (2) its notable expansion projects in recent years, with the aim of diversifying into less cyclical sources of revenues; (3) the favorable industry outlook and opportunities, backed by the government's infrastructure projects; (4) the rebound in the Company's earnings, albeit with easing margins attributed to a strategic approach; and (5) its improved leverage levels.

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 Megawide and may change the ratings at any time, should circumstances warrant a change.

Megawide has built a solid reputation as one of the top companies in the Philippine construction sector. It has an AAAA Contractor's License from the Philippine Contractors Association Board (PCAB). This is the highest classification and category for a construction company, which qualifies Megawide to bid for private projects with no limits on contract value. Likewise, Megawide obtained a Large B classification for government registration, which allows the Company to participate in large infrastructure projects, such as highways, roads and bridges, piers, airports, railroads, waterworks and power plants.

Historically, Megawide won four different projects across different administrations. Given Megawide's track record with government partnerships under changing leaderships and its ability to undertake different kinds of projects, Megawide believes it is in a good position to secure big-ticket projects in the infrastructure space.

As of report writing date, Megawide, together with its Japanese partners Tokyu Construction and Tobishima Corp., officially signed Contract Package (CP-104) of the Metro Manila Subway Project, with an aggregate contract value of ₱17.75 billion. Such includes the construction of underground stations in

Ortigas North and South, as well as the tunnels connecting these two locations. This project is seen to facilitate Megawide's diversification into railway systems.

The Company sees various opportunities in private domestic real estate construction, public infrastructure projects, and transport-oriented developments, specifically in terms of fast-tracking and participating in the country's infrastructure modernization through the government's initiative under its "Build Better More" (BBM) program. It also aims to strengthen its portfolio towards more responsive, scalable, and higher growth segments.

One notable project of the Company is the ongoing redevelopment of Carbon Market in Cebu, which aims to provide a prototype for public market renewal across the country. In addition, Megawide purchased a 100% stake in PH1 World Developers, Inc. (PH1) from one of its major shareholders, Citicore Holdings Investment, Inc. (CHII). The Company expects to generate more stable revenues, long-term project visibility, and order book availability from PH1's pipeline. Such include: My Enso Lofts in Timog, Quezon City, and Modan Lofts in Pasig and Taytay, Rizal, as well as Northscapes and Southscapes in San Jose del Monte, Bulacan and Trece Martires, Cavite, respectively, among others.

Megawide registered a consolidated net income of ₱2.8 billion in 2022, buoyed by the gain from its divestment of its airport asset. In 2023, it booked a net profit of ₱269.2 million—which all came from continuing operations, i.e., construction, landport and the newly-acquired real estate operations. While considerably smaller given the absence of the ₱6.6 billion one-off gain from the sale of its airport stake in the previous year, this is a reversal from the ₱1.9 billion net loss incurred from comparable continuing operations (construction and landport) in 2022. Bottom line rallied mainly owing to the 24.4% growth in construction revenues to ₱18.1 billion, which accounted for 97.3% of total revenues.

PhilRatings noted, however, that gross margins from continuing operations (i.e., excluding airport operations) had been easing, from 17.0% in 2020 to 11.7% in 2023. According to Megawide, this was the outcome of the Company's calculated strategy to secure longer-term, higher-value, and big-ticket projects that provide more revenue predictability, as well as the impact of reportedly industry-wide low office occupancy affecting landport operations. Going forward, Megawide expects to stabilize this downtrend in margins, as it focuses on higher margin businesses, which include the newly-acquired property development arm, external market penetration of its Pre-Cast and Construction Solutions (PCS) unit, and improvement in landport operations.

Regarding its leverage levels, consolidated debt-to-equity (DE) ratio significantly improved, from 2.6x as of end-2021 to 1.4x as of end-2022. This was brought about by the 43.9% reduction in interest-bearing loans and borrowings to ₱27.8 billion, largely due to the derecognition of the airport segment's debt. Total equity also inched up by 2.4% to ₱19.7 billion, shored up by the improvement in retained earnings. As of end-2023, DE ratio increased to 1.8x, driven by the 10.2% growth in interest-bearing debt and the 13.9% decrease in equity. While still elevated, leverage levels are significantly more comfortable compared with the period 2018-2021. Manageable leverage levels are expected in the future, supported by the direction to retire debts and the continued plowback of earnings.

The construction industry remains bullish as it is expected to sustain growth, driven by the government's infrastructure program. Despite a significant decline during the COVID-19 pandemic, the said sector remains as a key contributor to the country's economic growth. In the third quarter of 2023 (3Q2023), construction continued to be one of the main contributors with its 14.0% input to the overall 5.9% GDP growth. The Department of Trade and Industry (DTI) Assistant Secretary and Construction Industry

Authority of the Philippines (CIAP) alternate Chairperson Agaton Uvero said that the government's BBM program will support the projected economic growth expansion of 6.0% in 2024.

Moving forward, the construction industry in the Philippines will be mainly driven by the government's focus on the development of transport and energy infrastructure, as well as affordable housing—sectors which Megawide intends to increase its presence in.