PhilRatings PHILIPPINE RATING SERVICES CORPORATION

CREDIT RATING REPORT

ARTHALAND CORPORATION

Date: June 27, 2024
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Outstanding Issuance:

Tranche	Issue	Interest Rate	Issue Date	Maturity Date (Tenor)	Assigned Rating and Outlook
First	₱3.00 billion	6.3517%	February 06, 2020	February 6, 2025 (5 years)	PRS Aa Stable Outlook
Second	₱1.60 billion	8.0000%	December 22, 2022	December 22, 2027 (5 years)	
	₱1.40 billion	8.7557%	December 22, 2022	December 22, 2029 (7 years)	
Total of ₱6.0 billion Fixed Rate ASEAN Green Bonds from 3-year Shelf Registration					

RATING RATIONALE

PhilRatings considered the following key factors in assigning the rating and Outlook:

1. **Good reputation and experience in developing premium green certified buildings**

Arthaland Corporation (ALCO, the Company) focuses on creating sustainable premium projects with master-planned designs. The Company differentiates itself from its peers with its buildings being multi-certified both locally and internationally in relation to 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). All the Company's on-going projects are registered and on-track to achieve certification under the above programs.

The COVID-19 pandemic, along with growing support for climate action, has gradually been transforming the real estate landscape. Consumers, whether tenants or homebuyers, have started to put more value on health, wellness, and safety. As a result, open spaces and sustainable or green buildings are becoming more attractive to buyers. ALCO has positioned itself as one of the leading green developers in the Philippines. The Company's portfolio of multi-certified projects, combined with its unique distinction of being the only real estate developer in the country with a 100% certified sustainable residential and commercial portfolio, provides ALCO with a competitive advantage over its peers.

2. Ability to grow and compete in its chosen segment, despite the presence of larger, more established competitors

ALCO has laid out a three-tier timeline for their plans in the medium- and long-term. The first tier (2009-2018) was the Company's brand introduction. The second tier (2018-2024) covers building the Company's portfolio and improving its brand traction, while keeping revenue momentum. In the third tier (2024-2030), the Company plans to build a steady pipeline of projects and have a steady revenue stream. ALCO is currently in the last year of its second tier with a target of increasing the Company's gross floor area (GFA) to approximately 456,019 square meters (sqm).

The Company has a good track record in terms of meeting project schedules, despite the challenges posed by the COVID-19 pandemic. In 2022, the Cebu Exchange and Savya Financial Center were completed. The North Tower of Savya Financial Center was handed over a month past the pre-pandemic target turnover date, while the South Tower was completed in December 2022, in line with the pre-pandemic schedule.

Although most of ALCO's developments cater to the luxury and upscale market segments, the Company intends to strengthen its portfolio by venturing into the broader midscale market segment. In September 2022, ALCO launched the first tower of Una Apartments (Una Apartments 1), the Company's flagship project that will cater to the mid-market segment. According to management, Una Apartments 1 received warm reception from the market and was fully sold within one year from launch. Given the higher-than-expected demand for mid-scale residential condominiums and following the success of Una Apartments 1, ALCO launched the second tower of Una Apartments (Una Apartments 2) in November 2023. The second tower likewise received good reception and was 60% sold by way of executed reservation sales contracts and letters of intent as of February 2024.

3. **Improved and manageable leverage position**

From 2021 to 2022, loans and bonds payable grew by 7.8% to ₱17.7 billion, while total equity grew by 9.1% to ₱12.1 billion. As a result, ALCO's debt-to-equity (DE) ratio remained flat at 1.5x as of end-2022. As of end-2023, the Company's loans and bonds payable declined to ₱17.1 billion while equity grew further to ₱13.1 billion. This led to an improvement in DE ratio to 1.3x, as of end-2023. The Company's leverage position is seen to continuously improve over the projected period.

In 2022, current ratio was more than satisfactory at 2.4x, higher than the 1.8x recorded in end-2021. Such improvement was attributed to the reduced current liabilities driven by the repayment of loans. The current ratio posted a minimal decline and stood at 2.3x as of end-2023. Moreover, the Company recorded a positive net operating cash flow in 2023 amounting to ₱499.2 million, a turnaround from the net operating cash outflow recorded in the past years.

4. Significant revenue and net income growth

In 2022, ALCO's total revenues amounted to ₱2.92 billion, marginally lower compared with the ₱2.97 billion revenue recorded in 2021. During this period, the substantial revenue recognized from Lucima amounting to ₱917.7 million was offset by the decrease in sales recognized from Savya and Cebu Exchange, which were both completed in 2022. Net income also declined to ₱873 million in 2022 from ₱1.12 billion in 2021, primarily due to a decline in consolidated gross margin due to the lower contribution from Cebu Exchange and Savya which had higher gross profit margins compared to Lucima. Operating expenses also increased in 2022 due to real estate taxes and related operating expenses from completed projects, Cebu Exchange and Savya, and the resumption in hiring of personnel that was put on hold during the pandemic.

Both net income and real estate revenues were on a downtrend from 2019 to 2022 largely due to the longer timeline for decision-making of its buyers due to uncertainties from the pandemic. Nonetheless, in 2023, the Company rebounded and recorded significant improvements in net income and total real estate revenues of 59.1% and 127.2%, respectively, as sales that had been in the pipeline during the pandemic were closed in 2023. The increase in real estate revenues was largely attributed to the strong sales of Savya Financial Center and Cebu Exchange office units, Lucima and Eluria's residential units, and Sevina Park's commercial lots. Such top-line growth, coupled with the controlled level of costs and expenses, led to the improvement in net income in 2023. Total real estate revenues and net income in 2023 amounted to ₱6.6 billion and ₱1.4 billion, respectively.

The Company's gross profit margin (GPM) and operating profit margin (NPM) in 2023 likewise improved to 40.9% and 20.5%, respectively. It is worth noting, however, that ALCO's NPM in 2023 declined to 20.9%, lower than the 29.9% NPM reported in 2022. The decline was largely attributed to the Company's strategic decision to grow its recurring revenues from leasing operations by retaining approximately 16,000 sqm of office and retail units in Cebu Exchange. This was implemented in two stages, i.e., approximately 10,500 sqm in 2022 and 5,500 sqm in 2023. As a result, the Company recognized a higher gain on change in fair value of investment properties in 2022 compared to 2023.

BUSINESS REVIEW

Company Profile

ALCO is a publicly-listed premium real estate developer focused on building sustainable boutique developments, including environmentally sustainable residential and commercial properties. Following its reorganization in 2007, the Company began its operations in 2009 and pioneered the development of properties that adhere to global and national standards for green and sustainable real estate properties. All of the Company's projects are multiple-certified both locally, with the PHILGBC's BERDE, and internationally, with USGBC's LEED, IFC's EDGE, and IWBI's WELL. ALCO is also the only real estate developer in the country with a 100% certified sustainable residential and commercial portfolio.

Ownership

As of end-2023, CPG Holdings, Inc. (CPG), the investment vehicle of the Po Family, remained as the largest shareholder of ALCO, with a 40.3% ownership of ALCO's total issued and outstanding shares. CPG is an affiliate of Century Pacific Food, Inc. (CNPF), a publicly-listed food manufacturer. CPG and CNPF are both majority-owned subsidiaries of Century Pacific Group Inc., a company with business interests in food manufacturing, real estate development, and restaurant operations. Century Pacific Group Inc. was founded by Ricardo S. Po, Sr. in 1978 and was the pioneer in the tuna canning business in the Philippines, which has been carried out by CNPF since 2014. Some of its brands are: Century Tuna, 555, Argentina, and Birch Tree. Restaurant operations include Shakey's and Peri-Peri. CPG similarly gives importance to sustainability in its operations and adheres to global regulations for the preservation of its resources.

The second major stockholder is American Orient Capital Holdings 1, Inc. (AOCH1), with a 26.02% ownership of total issued and outstanding shares of ALCO as of end-2023. AOCH1 is an investment company wholly-owned by Mr. Jaime C. Gonzáles, Vice-Chairman and President of ALCO. It is part of the American Orient (AO) Capital Partners Group, which offers financial advisory services in the Asia-Pacific region.

Management

Ernest K. Cuyegkeng is the Chairman of the Board of ALCO since 2016, and holds a non-executive position in the Company. He is a graduate of De La Salle University with degrees in B.A. Economics and B.S. Business

Administration. He also has a Master's Degree in Business Administration from Columbia Graduate School of Business. He holds positions in various companies, including: President and Director of Phelps Dodge Philippines International, and a Director of Seven Seas Resorts & Leisure, Prople, KSA Realty, TO Insurance, Sumifru Singapore and Sumifru Philippines.

Jaime C. González is the Vice Chairman and President of ALCO since 2017. He holds degrees in B.A. Economics (cum laude) and B.S. Commerce (cum laude) from De La Salle University in Manila and has a master's degree from the Harvard Business School. Mr. González spearheaded the transition of ALCO in 2008 and envisioned the company's direction. He is the founder, Chairman and Chief Executive Officer of AO Capital Partners, a financial and investment advisory firm. He is also a current member of the Board of Directors of several other companies and is Chairman of IP E-Game Ventures, which is involved in information technology and new media, retail/food and beverage, natural resources, and real estate and resort development.

Cornelio S. Mapa, Jr. is ALCO's Treasurer and Executive Vice President. He earned his Bachelor's Degree in Economics and International Finance from New York University, and his Master's Degree in Business Administration from the International Institute for Management Development in Lausanne, Switzerland. Before his appointment in ALCO, Mr. Mapa held a variety of senior executive positions within the Gokongwei Group. His last position was Senior Vice President for Investments and New Builds of JG Summit Holdings, and Executive Vice President for Corporate Strategy of Universal Robina Corporation.

Marivic S. Victoria is the Company's Chief Finance Officer (CFO). She was appointed upon the retirement of Mr. Ferdinand A. Constantino on September 30, 2022. Ms. Victoria has more than 25 years of experience in Finance, Controllership, Audit and Taxation in various industries like real estate, real estate financing asset and portfolio management. She started her career in SGV and Company and was the Treasurer and CFO of the Philippine office of Capmark Financial Group and Elite Union Group prior to her appointment as CFO of ALCO. She is a Certified Public Accountant and earned her Master's Degree in Business Administration from the joint program of Ateneo de Manila University and Regis University. She also attended the Executive Development Program of the Wharton School.

Operations Profile

ALCO's revenue streams are categorized into three operating segments: Real Estate Sales, Leasing Operations, and Project Management Sales. Revenues from real estate sales continued to be the largest source of revenue for the Company. In 2022, real estate sales contributed 88.8% of total revenues. Its contribution expanded to 94.2% of the total in 2023 as ALCO launched new projects and successfully initiated the handover of units to buyers from a number of its residential projects for the period. The share of revenues from leasing operations was a far second at 10.6% of total revenues in 2022. This declined in 2023 to 5.5% of total revenues, given the faster growth of real estate revenues for the period. ALCO intends to increase the share of its leasing operations to total revenues in the long-term. The Company expands its recurring income by retaining office and retail units in its properties to be leased out to tenants.

Table 1. Breakdown of Revenue According to Source

In Php Millions	2021	%	2022	%	2023	%
Real Estate Sales	2,629	88.5%	2,596	88.8%	6,252	94.2%
Leasing Operations	326	11.0%	308	10.6%	366	5.5%
Project Management Sales	18	0.6%	18	0.6%	21	0.3%
Total Real Estate Revenues	2,972	100.0%	2,923	100.0%	6,639	100.0%

Reservation sales contracts as of September 30, 2023 amounted to ₱24.6 billion, significantly higher by 61.3% compared with the ₱15.2 billion a year ago. Similar to previous years, 83.3% of the total sales contracts were made to Filipinos, both domestic (80.7%) and overseas (2.5%). Approximately 16.7% or ₱4.1 billion were made to other nationalities.

Figure 1. Arthaland Corporation's Three-Tier Plan

Strategies

ALCO has a three-tier plan that presented a road map for the business since the start of its operations in 2009. The Company is aiming to expand its portfolio to "5x in 5 years" during the 2018–2024 period. In this stage, ALCO will focus on portfolio build-up and strengthening its brand name, increasing the Company's GFA to approximately 456,019 sqm. The original GFA target for the "5x in 5 years" was 500,000 sqm, but it was adjusted to 470,000 sqm due to changes in the development plans of projects in the pipeline. Following another change in the line-up of projects, the total target GFA for the "5x in 5 years" was further reduced to 456,019 sqm. While the target GFA went down, ALCO's latest plans show an expected increase in total Gross Development Value (GDV) to ₱75.7 billion from the previous estimate of ₱71.0 billion in 2022. According to management, the ongoing projects plus the projects already launched account for all of the target GFA of ALCO by 2024.

Following the "5x in 5 years" stage is the Next Stage in the three-tier plan. The goal in this tier is to establish a steady pipeline of projects and to increase the Company's recurring revenue stream to 30% of total revenues. In preparation for this phase, ALCO resumed discussions on land acquisition in 2023, which had been previously delayed due to the pandemic. The objective of the land acquisitions is to develop master-planned estates and implement in phases over a period of 10 to 20 years and supplement these with revenues from single and dual tower projects in the near-term thereby creating a steady pipeline of projects beyond the "5x in 5 years" timeframe.

2024 marks the Company's last year in its High Growth Stage and the beginning of the Next Stage in the three-tier plan. For 2024, the Company's strategic focus includes: a) building the inventory pipeline from the acquired properties, b) completing key residential projects, and c) raising permanent capital.

ALCO worked on acquiring three multi-hectare properties (Project Vanilla, Project Olive, and Project SL) and three properties for single/dual residential projects (Project JL, Makati CBD Residential Project 3, Project Teal). These projects and land acquisitions will be discussed in a separate section of the report.

After the completion of the acquisition plans and the negotiations for its land acquisition activities, ALCO intends to complete the master plan and initiate the planning activities for the project launches.

The sales and construction progress from Sevina Park Villas, Lucima, Eluria and Una Apartments are expected to contribute more than 80% of ALCO's revenue in 2024. It is also the Company's strategic direction to strengthen its product offerings to the broader mid-market segment while also maintaining its presence in the upscale or luxury market. Therefore, the completion and sale of these ongoing projects will also be a focus for the Company in 2024. Please refer to the "Projects Under Construction" section for details on these projects.

According to management, ALCO has adjusted its focus to growing its residential portfolio in the medium term. The shift was implemented as the Company continues to evaluate the impact of remote work practices and artificial intelligence on office demand. Nonetheless, ALCO maintains its long-term target of achieving a 30% revenue mix. The Company also intends to secure capital to be used in projects in the pipeline, pursue land acquisition activities, and explore other development opportunities.

Completed Projects

Figure 2. Details of Completed Projects

Project	Location	Gross Development Value (in billion Php)	Gross Floor Area (in square meters [sqm])	Certification/s
ARYA RESIDENCES	BGC, Taguig	8.8	76,284	LEED Gold BERDE 4-star ANZ/PH 3-star WELL Registered
ARTHALAND CENTURY PACIFIC TOWER	BGC, Taguig	11.2	34,295	LEED Platinum BERDE 5-star EDGE Zero Carbon ANZ/PH 5-star WELL Pre-certified WELL Health-Safety Rated
CEBU EXCHANGE	Salinas Drive, Cebu City	12.4	108,564	LEED Gold BERDE 5-star WELL Pre-certified EDGE Advanced WELL Health-Safety Rated
SAVYA FINANCIAL CENTER	Arca South, Taguig City	12.4	59,763	LEED Pre-certified Gold WELL Pre-certified EDGE Advanced (Preliminary) BERDE Registered

Arya Residences

Arya Residences is a residential development with available retail space on the ground floor and is located along McKinley Parkway, Bonifacio Global City (BGC) in Taguig. It was completed in December 2016 and has two towers with total GFA of 76,284 sqm and net saleable area (NSA) of 67,876 sqm. All available residential units in Tower 1 and Tower 2 have been completed and sold out since 2016 at an average price of ₱176,514 per sqm in Tower One and ₱181,972 per sqm in Tower Two at that time. Current prices for these units are much higher at more than ₱300,000 per sqm.

The first tower of Arya Residences was launched in 2010 and received dual certifications of LEED Gold (second to the highest rating of Platinum) and BERDE 4-star (second to the highest rating of 5-stars). In

2020, Arya Residences was awarded the ANZ/PH 3-star rating in PHILGBC's pilot implementation of the ANZ/PH Program.

There are also leasable commercial spaces at Arya Plaza, a canopied al fresco retail area within the development, and these were 100% occupied as of end-September 2023. Of the occupied space, 65.7% of the area was in the food and beverage business, 18.1% was occupied by a salon and makeup studio, and 16.2% by retail establishments.

Arthaland Century Pacific Tower (ACPT)

ACPT is a AAA-grade 30-storey office building located along 5th Avenue in BGC. It was inaugurated in March 2018, and has 34,295 sqm of GFA and 32,016 sqm of net leasable area (NLA). ACPT is registered with the Philippine Economic Zone Authority (PEZA) and was therefore granted tax incentives. PEZA incentives are discussed further in a succeeding section of the report.

ACPT received dual certifications of LEED Platinum and BERDE 5-star, both the highest ratings in the respective green building standards. In September 2019, ACPT was the first in the world to receive the EDGE Zero Carbon Certification by the IFC, the private sector arm of the World Bank. In 2020, ACPT achieved the ANZ/PH 5-star rating or the Net Zero Energy under PHILGBC's Advancing Net Zero pilot program. In the same year, ACPT also received the WELL Health-Safety Rating seal, attesting to its ability to function safely even during the COVID-19 pandemic.

As of end-September 2023, the leasable space owned by ALCO in ACPT was fully occupied. The contracts that expired between 2022 and 2023 were either occupied by a new tenant or renewed by existing tenants. These contracts have an average contract term of 2.5 years.

Of the ALCO-owned floors (excluding ALCO Head Office and Business Center), 41.9% was occupied by a Business Process Outsourcing (BPO) company, 17.4% by Consulting Firms, and the rest by other traditional offices in the Information Technology, Financial, Banking, Insurance, Internet, and Food industries.

Cebu Exchange

Cebu Exchange is ALCO's first project in the Southern Philippines, located at the gateway of the Cebu IT Park. Cebu Exchange is a 38-storey office and retail establishment with a GFA of 108,564 sqm. The office segment has a total of 84,293 sqm NSA, while the retail segment has 4,724 sqm NSA.

The building was designed to be divided into three major sections, namely: the low, mid, and high zones. The low zone caters to BPO and Knowledge Process Outsourcing (KPO) operators which require larger spaces. Each floor in this zone has 5,000 sqm in floor area, which is a preferred layout by such companies. The mid zone is ideal for smaller BPOs, KPOs, and traditional companies. The high zone offers smaller units for local and regional entrepreneurs.

This project is certified LEED Gold, awarded BERDE 5-star certification, and is WELL certified. It already achieved EDGE Advanced certification and is on-track to achieve EDGE Zero Carbon certification. The project was launched in October 2016, and the completion and handover of Phase 1 was made in September 2020 in line with its pre-pandemic schedule. In April 2022, ALCO initiated the handover of Phase 2 of Cebu Exchange, which is also in line with the pre-pandemic target completion date. As of February 2024, Cebu Exchange is 85% taken up.

In 2022, ALCO reclassified 8,059 sqm of office units, 2,628 sqm of retail units, and 36 non-appurtenant parking slots in Cebu Exchange from Real Estate for Sale to Investment Properties to boost recurring revenues from leasing operations in the long term. In 2023, approximately another 5,316 sqm of office units were reclassified to Investment Property.

As of end-February 2024, the retained units for lease in Cebu Exchange had an occupancy rate of 42%. The majority of the leased space was occupied by BPO companies, while the rest of the space was occupied by a software development company and a convenience store.

ALCO expects the occupancy in Cebu Exchange to improve to 70% by end-2024 and 90% in the second half of 2025 (2H2025).

Savya Financial Center

Savya Financial Center is located in Arca South, Taguig City. It is a two-tower grade-A mid-rise office condominium development with a retail component. Its two towers, the North Tower and the South Tower, have a total GFA of 59,763 sqm. There is a total of 47,677 sqm NLA of office space, and approximately 1,400 sqm NLA of retail space. This project is pre-certified LEED Gold, and achieved EDGE Advanced preliminary certification. It is on-track to achieve BERDE, EDGE Zero Carbon, and WELL certifications.[1]

The demand for office space in the area is expected to grow due to the property's direct access to major roads like C-5 and the Skyway. Arca South is also expected to benefit from the Metro Manila Subway Project, which will have one of its stations inside Arca South itself. [2]

Savya Financial Center was launched in February 2019. The North and South Towers were completed in the 1Q2022 and 4Q2022, respectively. The handover of the units in the North Tower was initiated in January 2022. The South Tower was inaugurated in October 2022 by President Ferdinand Marcos, Jr.

In 2023, there was a notable increase in the sales reservation from Savya. According to the management, such was attributed to the completion of the North and South Towers, as well as the news regarding the integration of Arca South on and off ramps into the 32.66-km-long Skyway Stage 4. The infrastructure, which is set to start construction in 2024, will enable seamless access from the Skyway to Arca South. Savya was approximately 84% sold as of end-February 2024, a significant improvement from roughly 48% in 2022.

[1] https://arthaland.com/news/savya-financial-center-fetes-investors-to-celebrate-the-appointment-of-cbre-as-leasing-advisor

[2] The Metro Manila Subway is a 33-kilometer underground rail that will connect Valenzuela City to NAIA 3, spanning seven cities, municipalities, and three business districts. It will also connect to the MRT-3, the LRT-2, and the Philippine National Railway lines.

Projects Under Construction

Figure 3. Details of Projects Under Construction

Project		Location	GDV (in billion Php)	GFA (in sqm)	% of Completion	Target Turnover Date	Certification/s
SEVINA PARK	Courtyard Hall	Binan, Laguna	20.6	3,418	100%	2019	
	Sevina Park Villas			17,217	Tranch 1 - 93.9%	September 2022	LEED v4 Platinum for Neighborhood Development LEED Platinum for Homes (4BR model unit) Vying for LEED Homes (4BR Villas) Vying for EDGE (All villa)
					Tranch 2 - 91.7% (B1 & B2); 59.5% (B3 & B)	December 2025	
					Tranch 3 - construction to start in 2025	December 2026	
	Una Apartments Tower 1			16,316	Undergoing site development	October 2026	LEED Registered EDGE Registered WELL Registered
	Una Apartments Tower 2			19,192	Construction contracts are yet to be awarded	4Q2024	-
	Commercial Lots			25,825	100%	1Q2023	-
LUCIMA		Cebu Business Park, Cebu City	4.9	28,063	60.70%	September 2024	LEED Pre-certified Gold BERDE: On-track for 4-Star WELL Registered EDGE Registered
ELURIA		Rada Street, Makati City	5.3	14,656	9.70%	October 2025	LEED Pre-certified Gold BERDE: On-track for 4-Star WELL Registered EDGE Registered
Makati CBD Residential Project 1		Makati City	-	15,313	Undergoing lot partitioning	2029	-

*Sevina Park Apartment's remaining four towers for launch has an estimated GFA of 51,426 sqm

Sevina Park

ALCO acquired an 8.1-hectare property in Biñan, Laguna through its subsidiary Cazneau, Inc. (Cazneau). This property is currently under development as Sevina Park. Sevina Park is the Company's first mixed-use community, with residential and commercial spaces accounting for a total GFA of 134,394 sqm. Sevina Park is composed of several components including the Sevina Park Villas, Una Apartments, Sevina Park Arcades and Courtyard Hall which shall be developed in phases as discussed below.

The integrated green project has achieved LEED Platinum certification under the Neighborhood Development category, LEED Platinum for Homes (4-bedroom model units for Sevina Park Villas), LEED Gold for Homes (all 4-bedroom units for Sevina Park Villas), and EDGE Advanced for all units in Sevina Park Villas.

Sevina Park Villas

The first phase of Sevina Park includes the development of the Sevina Park Villas, which was launched in June 2019 with a GFA of 17,217 sqm and NSA of 17,036 sqm. Within the estate will be townhouse villas ranging from two to four-bedrooms. There will be a total of 108 villas, 77 of which were already sold as of end-February 2024. The first tranche of the Sevina Park Villas consisted of 43 units. It was 96.12% complete as of end-February 2024. The second and third tranches are expected to be completed in December 2025 and December 2026, respectively.

Courtyard Hall

The Courtyard Hall is also part of the initial development of Sevina Park. It is a two-story dormitory building adjacent to the De La Salle University (DLSU) Laguna Campus. It has a GFA of 3,418 sqm and an NLA of 2,091 sqm. It was completed in 2019.

Due to the increased land value and heightened interest from buyers in the area, primarily brought about by the completion of the Cavite Laguna Expressway (CALAX), Courtyard Hall will be re-developed as the site for the last residential tower of Una Apartments. ALCO believes that this decision will result in a higher NSA and allow for greater value from the project. Operations, on the other hand, will continue until the end of 2026 and will be developed as part of the Una Apartments by 2Q2027.

As of end-September 2023, the dormitory was 87% occupied. In 2023, Cazneau entered into a new Memorandum of Agreement (MOA) with DLSU for the occupancy of Courtyard Hall starting from September 1, 2023 to August 31, 2024.

At its full occupancy, Courtyard Hall is expected to generate ₱20 million in leasing revenue. Such is equivalent to 6.5% of the Company's total leasing revenues, hence, its re-development will not have a significant effect on ALCO's leasing operations.

Una Apartments

Una Apartments is an 86,934 sqm development in Sevina Park. The development consists of multiple mid-rise residential buildings, at least three of which are intended to cater to the broader middle market (midscale), while the rest are targeted towards the upper middle income (upscale) market.

In 2022, ALCO launched the first tower of Una Apartments, the Company's flagship project that will cater to the broader mid-market segment. Such is in line with the Company's strategic direction to strengthen product offerings to the mid-scale market. Tower 1 of the Una Apartments is a vertical residential development offering a mix of studio and one-bedroom units. It has a GFA of approximately 16,316 sqm and a total of 392 units, priced between ₱4.2 million to ₱8.9 million. Tower 1 of the Una Apartments was launched in September 2022. The project received a very strong market reception and was 100% sold within the first 10 months from its launch.[3] The construction commenced in 4Q2023 and is scheduled for completion by October 2026.

Following the success of the first Una Apartments tower and given the higher-than-expected demand for mid-scale residential condominiums, the planned launch of the first upscale tower in 2Q2023 was pushed back to 2Q2025. Moreover, ALCO opted to launch the second tower of the mid-scale Una Apartments instead.

ALCO launched the second tower of Una Apartments (Una Apartments 2) in November 2023. The second tower likewise received a warm reception and was 50% sold within two months of its launch. As of February 2024, 60% of the total NSA has been taken up through the execution of reservation sales contracts and letter of intent.

The reservation sales for the two towers are not yet included in the sales revenues for 2023 given financial reporting standards which require the completion of foundation work for initial revenue recognition. The initial revenue is expected to be recognized in 2024 for Tower 1 and in 2025 for Tower 2.

Una Apartments fits the lending parameters of the BALAI BERDE program of the National Home Mortgage Financing Corporation (NHMFC). The BALAI BERDE program was formed to incentivize developers in building green, sustainable, and affordable housing. The program provides up to 30-year housing loans at a preferential fixed rate of as low as 4.5% per annum (pa) on the condition that the purchased units have obtained EDGE certification and the loan amount does not exceed ₱6 million.

Sevina Park Arcades

Commercial lots for sale and retail spaces for lease will be allotted within the township. The strategic location of the development makes it an ideal space for coffee shops, quick service restaurants, clinics, convenience stores, and small grocery marts.[4] In December 2022, two of the four commercial lots were sold. The remaining two lots were sold in February 2023. As of 1Q2024, ALCO has a total of 5,500 sqm of commercial lots for in Sevina Park Arcades for its own development.

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[3] https://business.inquirer.net/414624/100-of-una-apartments-sold-in-the-first-ten-months

[4] https://kmcmaggroup.com/for-lease/sevina-park/

Lucima

Lucima is another project in Cebu City. It is a 37-storey luxury condominium building located in the Cebu Business Park in a prime location right across the Ayala Center Mall. The project was launched in July 2021 and will be the first premier, multi-certified, sustainable residential condominium in Cebu City. . This will contribute a total GFA of 28,063 sqm and NSA of 21,927 sqm. There will be a total of 265 condominium units, 206 (78%) of which were already sold as of February 2024. According to ALCO, this project continued to enjoy warm market reception. The Company is expecting Lucima to be 100% sold by the end of 2024.

Lucima's structural top-off was held in 3Q2023. As of February 2024, the construction for Lucima was 73.1% complete, and the Company's expected turnover date was unchanged at September 2024. As of end-September 2023, it contributed about ₱1.0 billion of ₱4.4 billion consolidated revenues.

Lucima is LEED pre-certified Gold, on-track for BERDE 4-Star certification, and is on track to achieve EDGE Zero Carbon certification and WELL certification.

Eluria

Eluria is a sustainable luxury residential development in Legazpi Village in Makati, walking distance from Greenbelt Mall. Eluria is ALCO's pioneer development in Makati. It will be a low-density, multi-certified, ultra-luxury development that will offer spacious designer homes with personalized white-glove service. Eluria will offer 37 residential units, with a maximum of two apartments per floor and elevators that lead into the residents' personal lobbies. It will have a total GFA of approximately 14,656 sqm and NSA of 11,729 sqm.

Eluria was initially set to launch in 1Q2021 but was moved to November 2022 due to (1 delay in release of License to Sell; (2) significant movements in construction costs and subsequent cost studies required following the Russia-Ukraine war; and (3) corresponding upward adjustments in selling prices and subsequent pricing studies for ultra-luxury units in Makati.

As of end-February 2024, 12 out of the 37 units were sold. The Company expects Eluria to achieve structural top-off by September 2024 and to initiate the handover by October 2025. ALCO also expected Eluria to be 100% sold by 2025.

Eluria is LEED Pre-certified Gold, on-track for BERDE 4-Star certification and is also EDGE and WELL registered.

Makati CBD Residential Project 1

Makati CBD Residential Project 1 (Makati CBD 1) will be developed into a high-end residential condominium to cater to the luxury segment on Arnaiz Avenue in Legazpi Village, Makati City. The Company acquired 47.4% undivided interest in the 2,018 sqm property and is currently working on the partitioning of the property so that it will own 100% of approximately 957 sqm of the property.

In its earlier business plans, Makati CBD 1 was expected to be launched in 4Q2023. Due to a change in the project lineup, however, the Company has evaluated the possibility of selling the said property to avoid the cannibalization of sales between Makati CBD 1 and Makati CBD Residential Project 3 (Makati CBD 3), a project which is similar to Makati CBD 1 in terms of product offering and target market. In the latest update from the management, the Makati CBD 1 property will no longer be sold. Instead, it will replace Makati CBD 3 and will be developed in the near term. This decision was made due to a significant development in the partitioning of Makati CBD 1 while the negotiations on land valuation for Makati CBD 3 have taken longer. ALCO targets to complete the land partition and planning for Makati CBD 1 in 2025.

This project is expected to contribute to the Company's revenues in 2026.

Land bank

As of September 2023, ALCO had 500,919 sqm in available land bank for further development as detailed in the next table.

Table 2. Existing Landbank

Location	Area (in sqm)	Land Use Type	Acquisition Cost	Latest Appraised Value
Laguna and Tagaytay properties (UPHI)	331,769	Investment property	149,816,377	829,421,711
Batangas and Tagaytay properties (ALCO)	103,062	Investment property	45,019,935	216,921,500
Laguna property (Cazneau)	9,135	Investment property	35,099,623	388,290,000
Laguna property (Courtyard Hall - Land)	4,000	Investment property	15,368,720	231,480,000
Laguna property (Cazneau)	51,996	Real Estate for Sale	199,778,167	No appraisal since real estate for sale
Arnaiz Avenue, Makati City	957	Real Estate for Sale	372,266,387	No appraisal since real estate for sale
Total	500,919		817,349,209	

Table 3. Land Banking Activities

Project	Location	Type of Development	GDV (in billion Php)	Lot size (in sqm)	GFA (in sqm)	Target Launch date	Target Completion
Project Vanilla (formerly Midtown)	Southern Philippines	Residential	47.5	25,379	200,158	4Q2025	3Q2038
Project Olive	Metro Manila	Residential	101.7	36,321	254,979	2Q2025	1Q2043
Project Teal	Northern Metro Manila	Residential	Not available	3,700	52,000	2Q2025	Not available

In the previous credit rating review, ALCO had five land acquisitions in the pipeline. The five projects had a combined lot size of 505,000 sqm. Due to the termination of Project JL, SL, and Makati CBD 3 (discussed below), however, the total lot size involved in land banking activities dropped to 65,400 sqm. It is also noteworthy that the discussion about Project Moris, an 850,000 sqm mixed-use community, was also terminated in 2022. Project Moris was also terminated due to a difference in valuation expectations between the parties.

The successful completion of the Company's land acquisition and development strategy will be a key success factor in the Company's growth beyond "5x in 5 years".

Future Projects

Project Olive

Project Olive is a 36,300 sqm property located at the heart of one of the prime CBDs in Metro Manila. Project Olive is a master-planned residential community with 12 residential towers. The development of this property spans over 15 years and is expected to benefit from the new transportation infrastructure to be built in the coming years. The first of the 12 towers is expected to be launched within 2025. Project Olive will contribute a total of 254,979 sqm to ALCO's total GFA. The Company is in the final phase of the land acquisition process for this project.

Project Vanilla (Midtown)

Project Vanilla was formerly disclosed as Project Midtown. The 25,400 sqm property is located in one of the prime CBDs in southern Philippines. The land acquisition for the property was initially stretched from 2024 to 2028. In 2023, the Company accelerated the land acquisition program for this property. ALCO aims to secure the property by 3Q2024 and initiate the launch of the first of the six residential towers in 2025. Project Vanilla is projected to contribute 200,000 sqm of GFA to the Company's portfolio. The project is also expected to further expand the Company's presence in the broader midscale market segment.

Makati CBD Residential Project 3

The Company continues to be in discussions with the landowner for the Makati CBD 3, a residential condominium tower on approximately 1,000 sqm of property. This project is expected to have a GFA of around 15,800 sqm and will offer 67 units inclusive of the retail unit on the ground floor. The project will cater to the luxury market segment and is expected to launch in 4Q2024.

In the latest update from the management, Makati CBD 3 was removed from ALCO’s latest project pipeline. As such, the allocation of Makati CBD 3 from the proceeds of the second tranche of the ASEAN Green Bonds was reallocated to Project Olive and Project Vanilla.

Project SL

Project SL was envisioned to be a sustainable residential community situated in a 45-hectare land in southern Metro Manila. In 3Q2023, however, the Company terminated the discussions due to the landowner’s shift in its strategic direction.

Project JL

Similarly, the negotiation for Project JL was terminated in 2023. Project JL is a 3,700 sqm property intended for the development of a two-tower residential condominium that will cater to the broader midscale market segment. According to the management, the termination was also due to a change in the landowner’s objectives for the property.

Distribution of Tranche 2 Bond Proceeds

In the 4Q2023 Use of Proceeds Report for ALCO’s ASEAN Green Bonds, the Company disclosed that out of the ₱2.9 billion actual net proceeds from Tranche 2 of ASEAN Green Bonds (T2), 92.4% or ₱2.7 billion has not been disbursed. Apart from the terminated Project JL, ALCO has also not disbursed any of the allocated funds for Makati CBD 1, Makati CBD 3, and Project Vanilla (Midtown).

In February 2024, the Company announced the reallocation of the use of proceeds of the Green Bonds T2. Specifically, the portions of the proceeds originally allocated to Makati CBD 3 and the terminated Project JL were reallocated to Project Olive. Furthermore, the allocation for the Makati CBD 1 was reduced to ₱226 million from ₱600 million due to its lower CAPEX requirement.

Table 4. Reallocation of Use of Proceed of the ASEAN Green Bonds Tranche 2

(in millions)	Actual Net Proceeds	Actual Disbursement as of 12/31/2023	Approved Proposed Reallocation
Makati CBD 1	₱600	₱0	₱226
Makati CBD 3	₱450	₱0	₱0
Project JL	₱500	₱0	₱0
Project Midtown	₱1,000	₱0	₱1,120
ACPT Loan and Others	₱399	₱225	₱225
Olive	-	-	₱1,378
Total	**₱2,949**	**₱225**	**₱2,949**

Environmental, Social and Governmental (ESG) Framework

ALCO incorporates sustainability into its development efforts. The Company seeks third-party certification, both locally and internationally, such as the IFC's EDGE Zero Carbon rating system and the Net Zero Carbon Alliance, to ensure the credibility of its sustainability claims. To obtain EDGE Zero Carbon certification, a project must initially achieve the minimum level of efficiency savings across three categories: 40% in energy, 20% in water, and 20% in materials. In order to achieve this, the architectural and engineering designs of the Company's buildings should be built in a way that will minimize reliance on energy consumption. For example, the Company's facade is designed to allow natural light to enter, thereby reducing the need for artificial lighting. Subsequently, the project must source 100% of its energy requirements from a renewable energy source to achieve EDGE Zero Carbon certification.

As of end-2023, ALCO's operational projects achieved 59% energy savings and 54% water savings, an increase from 54% and 45%, respectively, in 2021.[5] In compliance with requirements for EDGE Zero Certification, the Company will shift to renewable energy sources for its projects. As of end-2022, the Company sourced 63% of its energy from renewable sources, an improvement from 46% in 2021.

Moreover, ALCO is the first real estate developer in Asia to sign the World Green Building Council's Net Zero Carbon Buildings Commitment. In 2020, the Company pledged to achieve net zero emissions in its operational developments by 2030. This is well ahead of the global goal of reaching net zero emissions by 2050.

In terms of social responsibility, ALCO contributes to the community by building sustainable socialized homes and schools. In 2022, the Company started the rehabilitation of an elementary building in Cebu City. In October 2023, ALCO inaugurated this as the first school building in the country certified by the IFC of the World Bank as EDGE Advanced. In 2022, ALCO also started an activity called "Healthy Hauls" in partnership with Rural Rising.[6] In 2023, through this program, ALCO was able to salvage a remarkable 26 metric tons of overproduced fruits and vegetables from Filipino farmers.[7] These fruits and vegetables were distributed to ACPT's employees and tenants at a fraction of the market price. This program not only helps farmers avoid losses but also helps reduce the food waste that will go to landfills.

FINANCIAL REVIEW

Table 5. Financial Highlights from 2020 to 2023

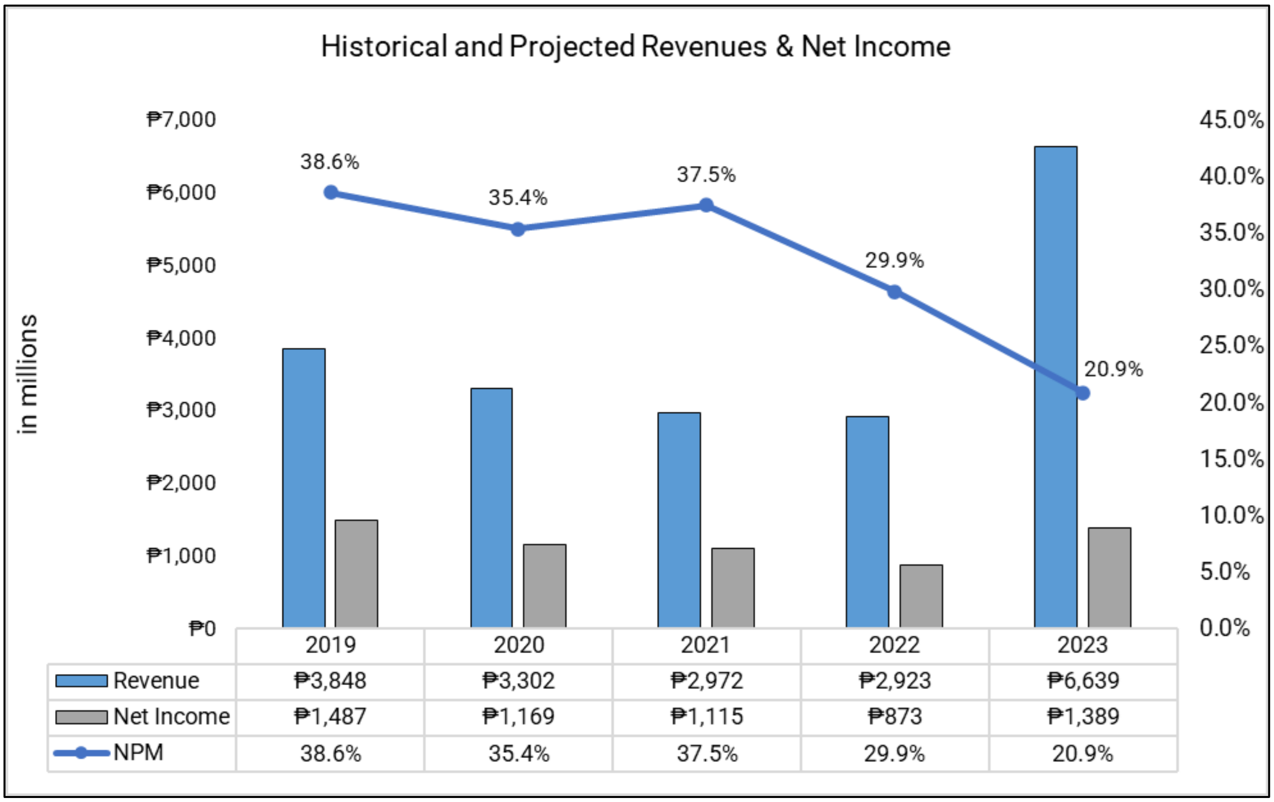
In PhP millions						
Balance Sheet Items	**2020**	**2021**	**2022**	**2023**	**2022 vs 2021**	**2023 vs 2022**
Cash and cash equivalents	941	1,949	4,796	5,605	146%	17%
Total Assets	27,547	34,671	36,393	37,264	5%	2%
Total Debt	12,264	16,403	17,690	0	8%	-100%
Total Liabilities	18,317	23,619	24,332	24,148	3%	-1%
Total Equity	9,230	11,052	12,060	13,116	9%	9%
Income Statement Items	**2020**	**2021**	**2022**	**2023**	**2022 vs 2021**	**2023 vs 2022**
Real Estate Revenues	3,302	2,972	2,923	6,639	-2%	127%
Real Estate Costs and expenses	1,683	1,729	1,804	3,925	4%	118%
Real Estate Gross Profit	1,619	1,243	1,119	2,714	-10%	143%
Operating Expenses	680	738	872	1,351	18%	55%
EBITDA	981	537	290	1,426	-46%	392%
Operating Profit	938	505	247	1,364	-51%	453%
Finance costs	281	278	501	1,020	80%	104%
Net Income	1,169	1,115	873	1,389	-22%	59%
Statement of Cash flows	**2020**	**2021**	**2022**	**2023**	**2022 vs 2021**	**2023 vs 2022**
Net Cash from Operating Activities	(3,022)	(3,193)	(184)	499	-94%	-371%
Net Cash from Investing Activities	(2,579)	(1,160)	2,047	1,409	-277%	-31%
Net Cash from Financing Activities	6,135	5,361	975	(1,104)	-82%	-213%

[5] The Company operations projects for 2023 includes: Arya Residences, Arthaland Century Pacific Tower, Cebu Exchange, and components of Sevina Park such as the Courtyard Hall, the Sales Pavilion, and villa model units.
[6] Rural Rising is a non-profit grassroots movement empowering the rural communities.
[7] Overproduce is usually discarded due to the strict aesthetic standards set by supermarkets and consumers.

Ratios	2020	2021	2022	2023
Net profit margin (%)	35.4	37.5	29.9	20.9
EBITDA Interest Coverage (x)	3.5	1.9	0.6	1.4
Debt Service Coverage (x)	0.2	0.1	0.0	0.2
Current Ratio (x)	2.2	1.8	2.4	2.3
Debt to Equity Ratio (x)	1.3	1.5	1.5	0.0

Profitability

Figure 4. Historical and Projected Revenues and Net Income



2022

Continued decrease in revenue and net income. ALCO's total real estate revenues dropped marginally to ₱2.9 billion in 2022, down by 1.7% compared with the ₱3.0 billion in 2021. In 2022, the Company generated substantial revenue from the initial revenue recognition from Lucima (₱917.7 million) and an increase in revenue from Sevina Park Villas (₱423.4 million). Such increase, however, was offset by ₱834.2 million and ₱539.8 million decline in revenue from Cebu Exchange and Savya Financial Center, respectively. The decline in revenue could be attributed to the completion of these two properties in 2022.

In 2022, Lucima contributed the most to the Company's real estate revenues at 35.4%. Cebu Exchange, which previously contributed the most at 51.5%, now only contributed 20.0% of the total revenue. Sevina Park Villas and Savya Financial Center contributed 27.8% and 16.8% to the total real estate sales, respectively. Despite the improvement in the occupancy rates, leasing revenues declined by 5.3% to ₱308 million in 2022. On the other hand, property management fees improved by 3.3% to ₱18.3 million.

Notwithstanding the decline in real estate revenues, total costs and expenses recorded a slight increase in 2022 from ₱1.7 billion to ₱1.8 billion, resulting in a 10.0% decline in gross income to ₱1.1 billion due to the lower contribution from Cebu Exchange and Savya which have higher gross profit margins. As a result, GPM likewise fell from 41.8% in 2021 to 38.3% in 2022. Moreover, administrative expenses were up, recording a 40.6% increase in 2022. Such was attributed to the real estate taxes and related pre-operating expenses in relation to the completion of Cebu Exchange as well as the continuation of the Company's hiring program which was put on hold during the pandemic. Operating margin was therefore cut by half, dropping from 17.0% in 2021 to 8.4% in 2022.

Finance costs also inched up in 2022 to ₱500.7 million, an 80.2% increase from 2021. Such was attributed to borrowing costs no longer being capitalized due to the substantial completion of Cebu Exchange and Savya Financial Center.[8] Net gain on change in fair value of investment properties, on the other hand, grew by 64.6%, offsetting the increase in finance costs. The increase was driven by the gains from revaluation of ACPT units and recognition of the fair market value of Cebu Exchange units and parking slots reclassified from real estate for sale to investment properties. These properties were revalued at a fair value of ₱1.8 billion from an initial value of ₱844 million. Total non-operating income from gain on change in fair value of investment properties (net of finance costs) and other income hence grew by 61.3% to ₱1.0 billion from ₱622 million in 2022.

The tax expense for the year amounted to ₱376.8 million, a substantial increase from the ₱11.9 million tax expense recorded in 2021. Such was due to the provision for income tax from the gain on change in the fair value of investment properties. Additionally, the tax expense in 2021 was generally lower due to the full effect of the reduced tax rate per the CREATE law[9].

As a result of the foregoing, net income declined by 21.7% to ₱873.1 million in 2022, from ₱1.1 billion in 2021 further resulting to a drop in NPM to 29.9% in 2022 from 37.5% in 2021. Earnings before interest, taxes, depreciation, and amortization (EBITDA) margin dropped to 9.9% from 18.1% mainly due to lower gross profit margins as discussed above. Moreover, EBITDA interest coverage dropped to 0.6x in 2022 from 1.9x in 2021 due to accounting standards which require finance costs related to completed projects to be expensed in the current period. To note, Cebu Exchange and Savya Financial Center, which were completed in 2022, showed a significant increase in current period finance costs following their completion in the same year. Prior to 2022, finance costs for Cebu Exchange and Savya Financial Center were not shown as period costs but were capitalized as part of Real Estate for Sale and charged to Cost of Real Estate Sales.

It is worth noting that as of year-end 2022, the net income and revenue of the Company had been on a continued decline since 2019 as buyers took longer to execute sales contracts due to uncertainties from the pandemic.

2023

Substantial revenue growth and improved net income. The Company's real estate revenues accelerated by 127.2%, reaching ₱6.6 billion in 2023. This translated to almost 2.5x the revenues of ₱2.9 billion reported in 2022. The increase in real estate revenues was largely attributed to the strong sales of Savya Financial Center and Cebu Exchange office units, Lucima and Eluria's residential units, and Sevina Park's commercial lots. Savya recorded revenues of ₱2.4 billion in 2023 or 36.0% of ALCO's total revenue. Its

[8] As per accounting standard, incurred borrowing costs previously capitalized and part of the cost of sales were booked as interest expense for the period.

[9] The Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act is an act that provides tax relief measures to help businesses recover from the effects of the pandemic.

revenue contribution grew from 14.9% in 2022. ALCO also began to recognize the sales from the recently launched project, Eluria, amounting to ₱566.0 million.

Costs and expenses were also up in 2023, in line with the higher sales recognized for the year. Costs and expenses grew from ₱1.8 billion in 2022 to ₱3.9 billion in 2023. Such increase was nevertheless slower compared with the increase in real estate sales, resulting in a gross income amounting to ₱2.7 billion, 142.6% higher compared with the ₱1.1 billion gross income recorded in 2022. This translated to a GPM of 40.9%, up from 38.3% in the previous year.

Selling, marketing, and administrative expenses likewise grew from ₱872.0 million to ₱1.4 billion in 2023. The increase was driven by the commission expenses brought by higher sales and completion rate, advertising expenses, and real property taxes and licenses. Nonetheless, operating profit grew from ₱246.6 million in 2022 to ₱1.4 billion in 2023, owing to the material growth in revenues. Operating profit margin, likewise, significantly improved from 8.4% in 2022 to 20.5% in 2023.

A notable increase in finance costs was also seen in 2023. Finance costs grew to ₱1.0 billion in 2023, up by 103.8% compared with ₱500.7 million in 2022. Such increase was associated with the interest expense of the Company's second tranche of ASEAN Green Bonds and the borrowing costs no longer being capitalized for completed projects. Moreover, a 32.2% decline in the gain on change in fair value of investment was recorded over the period. The decline was largely attributed to the Company's strategic decision to grow its recurring revenues from leasing operations by retaining approximately 16,000 sqm of office and retail units in Cebu Exchange. This was implemented in two stages, i.e., approximately 10,500 sqm in 2022 and 5,500 sqm in 2023. As a result, the Company recognized a higher gain on change in fair value of investment properties in 2022 compared to 2023.

Net income increased by 59.1% to ₱1.4 billion in 2023, driven by the significant improvement in the topline. NPM, however, was lower at 20.9% compared with 29.9% in 2022, primarily due to decline in gain on change in fair value of investment properties as discussed above.

On the other hand, EBITDA interest coverage was adequate and showed a significant improvement from 0.6x in 2022 to 1.4x in 2023. The increase in the EBITDA interest coverage was attributed to the significant increase in the gross income in 2023.

Projected Period

The Company's real estate revenues and net income are seen to be on an uptrend over the projected period between 2024 to 2025 supported by new projects in the pipeline. Margin profile, however, may change on account of the sell out of high margin projects.

The revenue contribution of ALCO's residential projects relative to recurring income from leasing operations is expected to be similar to historical levels.

Cash Flow and Liquidity

2022

Improved cash position. Net cash from operating activities remained negative at ₱183.9 million in 2022. Nonetheless, this was an improvement from the ₱3.2 billion net cash outflow from operations in 2021. Net cash from operations before interest and taxes recorded an inflow amounting to ₱973.4 million from an outflow of ₱2.0 billion in 2021. Such improvement was primarily driven by the decrease in contract assets[10] brought about by the additional billings under the Contracts to Sell (CTS) for Cebu Exchange and Savya following the start of handover of these projects in 2022.

In 2022, the Company's money market placements were partially terminated to be used for loan repayments and project development costs. Consequently, the proceeds from the disposal of financial assets at fair value through profit or loss (FVPL) surged from ₱5.7 billion in 2021 to ₱10.1 billion in 2022. This led to ALCO generating a cash inflow from investing activities totaling ₱2.0 billion in 2022.

Despite the ₱3.0 billion proceeds from Tranche 2 of ASEAN Green Bonds, cash provided by financing activities dropped significantly from ₱5.36 billion to ₱975.0 million in 2022. Such decline was driven by the repayment of a subsidiary's term loan and CTS loans. Nevertheless, cash and cash equivalents grew by 146.1%, from ₱1.9 billion as of end-2021 to ₱4.8 billion as of end-2022, primarily owing to the net effect of the Company's investing activities.

Current ratio increased and remained more than satisfactory at 2.4x as of end-2022, an improvement from 1.8x as of end-2021. The improvement was attributed to the reduced current liabilities from the repayment of loans for the period. Acid test ratio likewise climbed from 0.6x as of end-2021 to 0.9x as of end-2022.

2023

Positive operating cashflows. In 2023, the Company generated positive net cashflow from operating activities which amounted to ₱499.2 million in 2023. Such was a turnaround from the net cash outflow of ₱183.9 million in 2022. The positive operating cash flow was driven by increased earnings for the period and improved collections.

Investing activities continued to generate positive cashflows for the Company, albeit significantly lower compared to the previous year. Net cash provided by investing activities dropped from ₱2.0 billion in 2022 to ₱1.4 billion in 2023. Such was driven by the lower net proceeds from the addition/disposal of financial assets at FVPL, from ₱2.2 billion in 2022 to ₱1.4 billion in 2023.

In 2023, net cash from financing activities resulted in an outflow amounting to ₱1.1 billion, as ALCO paid off its obligations and distributed dividends. The Company's maturing debt obligations were settled through a mix of refinancing and internally generated funds.

As of end-2023, cash and cash equivalents stood at ₱5.6 billion, higher by 16.9% from end-2022. Current assets, however, declined by 3.8% to ₱23.6 billion, driven by the decrease in financial assets at FVPL and real estate for sale. The lower financial assets at FVPL in 2023 was due to the termination of money market placements, while the lower real estate for sale were on account of the higher sales and the reclassification of Cebu Exchange office and parking units to investment properties. Meanwhile, current liabilities remained flat at ₱10.2 billion in 2023. As a result, current ratio marginally declined to 2.3x compared to 2.4x as of end-2022.

Projected Period

The Company's generated cash over the projected period will be used primarily on construction costs for future project launches, as well as for the payment of its maturing obligations.

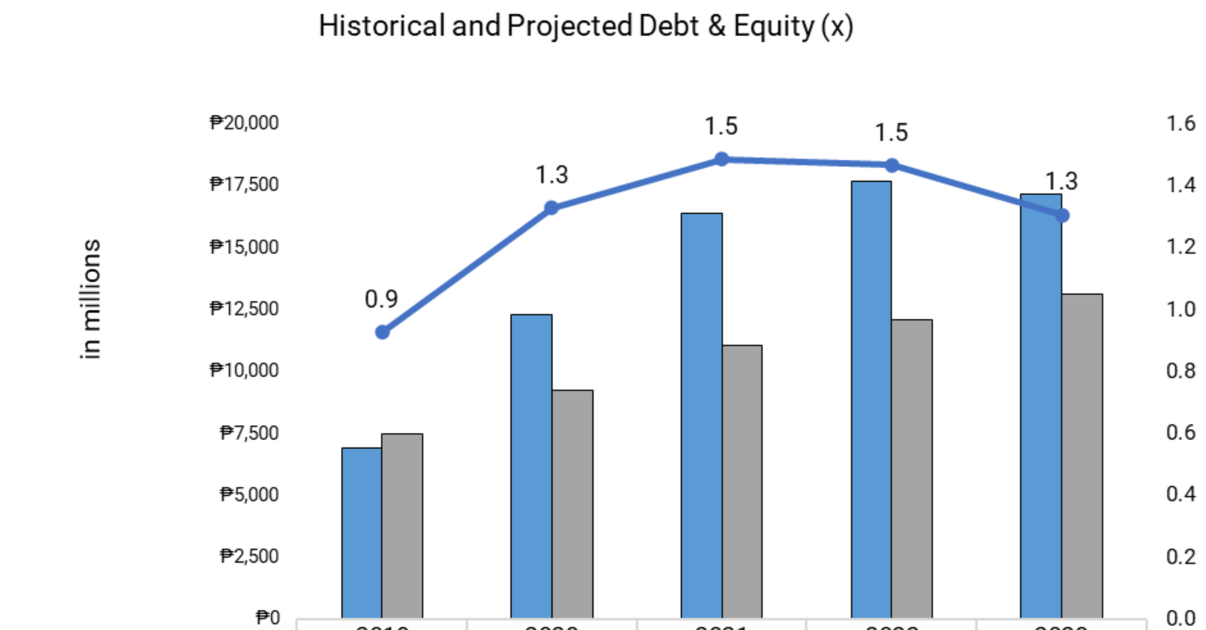
In 2025, the first tranche of the ASEAN Green Bonds amounting to ₱3.0 billion will mature. The Company is seen to have funds allocated to settle this upon maturity.

[10] Decrease in contract assets pertains to the additional billed receivables during the year under the agreed payment terms with the buyers under the Contract to Sell agreements.

Current ratio is expected to remain more than sufficient over the projected period.

Capital Structure

Figure 5. Historical and Projected Debt and Equity



	2019	2020	2021	2022	2023
Total Debt	₱6,925	₱12,264	₱16,403	₱17,690	₱17,128
Stockholders' Equity	₱7,475	₱9,230	₱11,052	₱12,060	₱13,116
Debt-to-Equity	0.9	1.3	1.5	1.5	1.3

<u>Elevated but manageable leverage position.</u> Total assets stood at ₱37.3 billion as of end-2023, up by 2.4% compared with the ₱36.4 billion assets recorded as of end-2022. Such was mainly on account of the increase in investment properties, which grew by 16.9% to ₱13.2 billion in 2023. This was largely due to the reclassification of office units and parking slots at Cebu Exchange from real estate for sale to investment properties at their fair values.

As of end-2023, total liabilities were relatively unchanged at ₱24.1 billion while total loans and bonds payable declined marginally to ₱17.1 billion, from ₱17.7 billion in 2022. Of this amount, 65.3% was comprised of loans payable and the balance of 34.7% was the ASEAN Green Bonds issued by the Company in 2020 and 2022. Of the total loans payable, 46.9% were classified as current while the remaining 53.1% were long-term loans.

Total equity grew by 8.8% to ₱13.1 billion, due to the ₱635.2 million additional retained earnings for the period and higher share in net income and additional preferred share subscriptions from non-controlling shareholders of Bhavya Properties, Inc. and Savya Land Development Corporation. Due to the aforementioned, DE ratio improved from 1.5x as of end-2022 to 1.3x as of end-2023.

Projected Period

Total debt and total assets are seen to fluctuate over the projected period. The former will be driven by the net proceeds and repayments to obligations, while the latter will be on account of the completion of additional inventory and cash movements for the period. Meanwhile, total equity is seen to consistently grow over the period, supported by the constant plowback of earnings. As such, the Company's DE ratio is seen to continuously improve.

Moreover, a substantial portion of the Company's CAPEX will be allocated to the land acquisition of the projects in the pipeline and development cost of recently launched projects.

1Q2024 vs 1Q2023

In the first quarter of 2024 (1Q2024), ALCO's total real estate revenues grew by 17.7% to ₱983.5 million, from ₱835.4 million in the same period of 2023. The revenues of Eluria and the initial revenue recognition of the first tower of Una Apartments were the primary drivers of the top-line growth. The combined cost of sales and services and operating expenses, however, grew faster in 1Q2024. Such was due to: (1) higher contribution from residential projects in 1Q2024 which had lower gross profit margins compared to the gross profit margins from the sale of office and commercial lots in 1Q2023, (2) higher personnel costs, and (3) higher operating expenses for finished projects including Cebu Exchange and Savya. Gross profit margin, therefore, dropped from 51.6% in 1Q2023 to 37.4% in 1Q2024. This movement in revenues and cost and expenses also resulted to a 13.3% decline in net income from ₱142.1 million in 1Q2023 to ₱123.2 million in 1Q2024. NPM for the period was also lower at 12.5%, from 17.0% in the same period of the previous year.

Current assets for the period remained relatively flat at ₱23.8 billion. Current liabilities, on the other hand, grew by 20.4% to ₱12.2 billion. Current ratio declined but remained more than ample at 1.9x, as of end-March 2024. Moreover, cash and cash equivalents increased to ₱5.7 billion driven by the Company's financing activities.

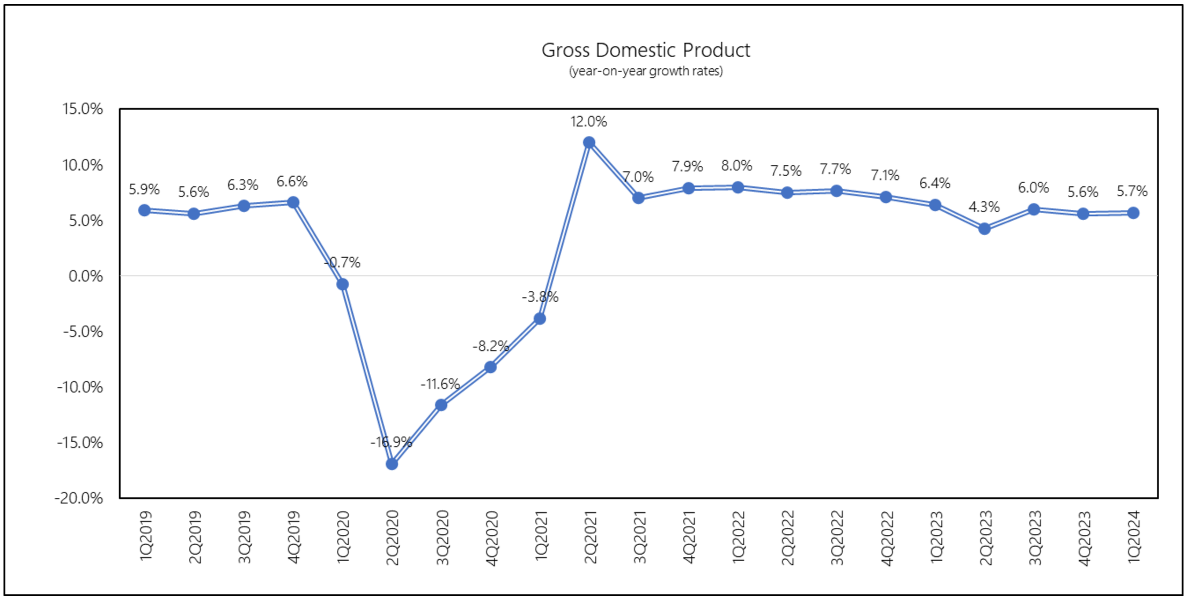
ALCO's total loans and bonds payable increased to ₱18.2 billion in 1Q2024 attributed to the additional loan drawdown from its bank facilities. Meanwhile, total equity declined to ₱12.4 billion. The decline in equity was also attributed to one-time adjustment to retained earnings as a result of the implementation of new accounting policies relating to the non-capitalization of borrowing costs and exclusion of land in the calculation of percentage of completion and payment of dividends to ALCO's common and preferred shareholders and holders of non-controlling interest in its subsidiaries. DE ratio inched up to 1.5x as of end-March 2024.

Financial Flexibility

As of December 31, 2023, the Company had a significant amount of available credit lines which the Company could tap should the need arise. ALCO is also a publicly-listed company with a market capitalization amounting to ₱2.6 billion as of April 16, 2024.

ECONOMY

Figure 6. Historical Gross Domestic Product (YoY)



2023

In 2023, the Philippine economy grew by 5.6%. This is slower compared with the 7.6% growth in 2022 and short of the government's growth target of 6.0% to 7.0%.

Agriculture, forestry, and fishing grew by 1.5%, a significant improvement from the minimal growth in 2022 at 0.5%. The Industry and Services sectors, on the other hand, recorded slower growth compared to 2022, expanding in 2023 by 7.2% and 3.6%, respectively.

The top contributors to the 2023 growth are wholesale and retail trade; repair of motor vehicles and motorcycles, financial and insurance activities, and construction which expanded by 5.5%, 8.9%, and 8.8%, respectively.

Household final consumption expenditure ("HFCE") expanded by 5.6% in 2023, slower compared with 8.3% in 2022. HFCE growth slowed down for seven consecutive quarters, from a growth rate of 10.0% in 1Q2022 to 5.1% in 3Q2023. Household consumption, however, recorded a slight uptick to 5.3% in 4Q2023 backed by robust growth in spending for restaurants and hotels, transport, and recreation. Contrarily, there has been slow growth in food spending due to elevated food prices, despite recent moderation in inflation.

GFCE was relatively flat, recording a 0.4% growth in 2023. This was much lower than the growth recorded in 2022 and the preceding quarter which were at 4.9% and 6.7%, respectively. Such was attributed to the fiscal consolidation program as well as the absence of election-related spending in 2023.

Nonetheless, the country was Southeast Asia's fastest-growing economy in 2023, surpassing Vietnam and Malaysia which held the top spots in 2021.[11]

1Q2024

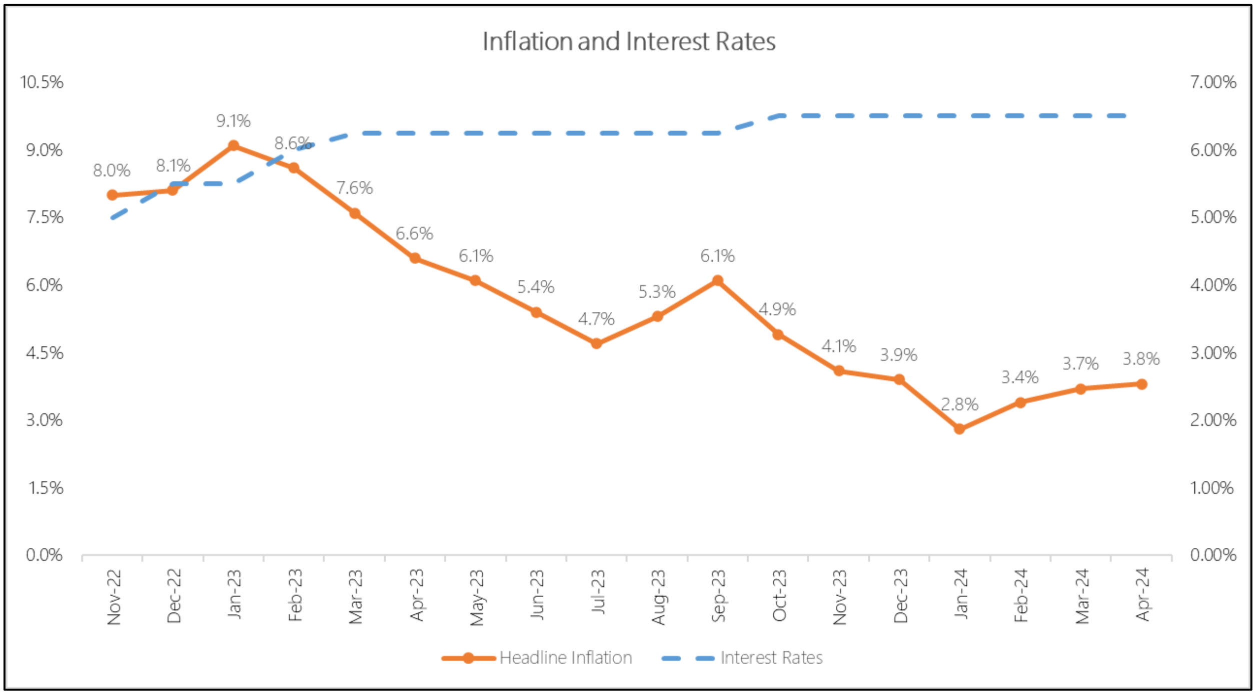
[11] https://www.bloomberg.com/news/articles/2024-01-31/philippine-economy-grows-faster-than-expected-5-6-last-quarter

In 1Q2024, GDP expanded by 5.7%, and which was higher than the 5.6% growth in the last quarter of 2023. The main contributors to the quarter's growth were: Financial and insurance activities (10%); Wholesale and retail trade, repair of motor vehicles and motorcycles (6.4%); and Manufacturing (4.5%).

The growth in the first quarter, however, was lower than economists' estimate of 5.9%. Despite the slower growth for the quarter, NEDA Secretary Arsenio Balisacan still sees the country in a good position relative to its regional peers. The government's target GDP growth for 2024 was set at 6% to 7%, adjusted downwards from its earlier projected growth of 6.5% to 7.5%. The main drivers for the downward adjustment were high inflation and an anticipated slowdown in the global economy.

Inflation and Interest Rates[12]

Figure 7. Historical Headline Inflation and Interest Rates



Inflation rate for the month of April 2024 inched up to 3.8%, from the 3.7% inflation recorded in March. This posted the third consecutive increase for the year, mainly driven by the prices of food and non-alcoholic beverages (6% in April from 5.6% in March) and transportation (2.6% in April from 2.1% in March). The year-to-date inflation rate for the first four months in 2024 stood at 3.4%. While still within the government's target, this was nearing the higher end of the range.

The target inflation rate for full-year 2024 was pegged within the range of 2% to 4%. First Metro Investment Corporation (FMIC) and the University of Asia and the Pacific (UA&P) forecast that inflation will settle at 3.8% in 2024. This forecast was based on the slightly lower trend in crude oil prices, while imports and better second half harvests will limit rice price gains. The price of rice notably increased further by 22.6% in January from 19.6% in December 2023. The ASEAN+3 Macroeconomic Research Office (AMRO) also forecasts Philippine inflation at 3.6% in 2024, likewise within the government's target.

[12] *Sources:* https://www.pna.gov.ph/articles/1219055
https://neda.gov.ph/eo-59-to-boost-ph-infra-drive-neda/
https://www.pna.gov.ph/articles/1224898

The Monetary Board left its benchmark rate unchanged at 6.5% in its second monetary meeting for the year in April 2024. This move was widely expected following the increase of inflation in March, prior to the scheduled meeting, that was nearing the tail end of the target. The Bangko Sentral ng Pilipinas (BSP), however, will likely ease policy rates starting August 2024. BSP Governor Eli Remolana, Jr. said that the BSP is less hawkish than before, which means that it could ease or cut rates in the second half of 2024. Governor Remolona believes that the 3.8% inflation rate in April 2024 is a good number, and is actually better than it looks because the number included some positive base effects.

Outlook[13]

Fitch Solutions unit BMI has maintained its economic growth outlook for the Philippines at 6.2% for 2024, banking on the rebound of investments that is expected to continue in 2024. BMI noted that investment growth in the 4Q 2023 was 11.2%, bouncing back from a contraction of 1.4% in the previous period. BMI added that household spending will continue to fuel the economy as it boosts domestic consumption, particularly as the unemployment rate dropped to a decade-low of 3.6% in November 2023. The high inflationary environment, however, is seen by BMI as a risk to consumption for the year.

The International Monetary Fund (IMF), likewise, sees a positive outlook for the Philippines as it upgraded its economic outlook for the country. GDP growth was slightly revised upwards to 6% in 2024 from the October 2023 forecast of 5.9%, amid the stronger rebound in investments and exports. The IMF similarly noted the Philippines' economic growth to be the fastest in the Association of Southeast Asian Nations (ASEAN) region. For 2025, IMF estimated a growth of 6.1%, still the fastest in the region.

INDUSTRY

Philippine Economic Zone Authority (PEZA)[14]

The Philippine Economic Zone Authority (PEZA) aids in the registration of foreign businesses and grants them fiscal and non-fiscal incentives when such operate inside PEZA Special Economic Zones. Some of the fiscal incentives include: Income Tax Holiday or 100% exemption from corporate income tax, 5% Special Tax on Gross Income, and exemption from all national and local taxes. Non-fiscal incentives are simplified import and export procedures, and special non-immigrant visa with multiple entry privileges for non-resident foreign nationals in a PEZA-registered economic zone enterprise. ACPT is registered with PEZA and is entitled to 5% tax on Gross Income Earned (GIE), in lieu of all national and local taxes, and tax and duty-free importation of capital equipment of the registered facilities or activities.

In 2024, PEZA Director General Tereso Panga stated that the agency is taking "an aggressive approach to acquiring investments, cultivating a sound business environment that supports investor growth, championing ease of doing business, and fostering vertical supply and global value chains that align with ASEAN and global partners." PEZA logged a total of P175 billion investment approvals in 2023, up by 10% from its initial approvals target and significantly higher than the P140 billion approved proposals in 2022. The agency is aiming to record P250 billion in proposals by the end of 2024.

Residential

There were tempered launches and take up of preselling condominium units in Metro Manila, partly attributed to still elevated interest and mortgage rates, as well as the large stock of vacant ready-for-occupancy (RFO) units in the capital region. This moved developers to expand outside of Metro Manila,

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[13] *Sources:* https://www.pna.gov.ph/articles/1218079

https://www.philstar.com/business/2024/01/31/2329700/imf-hikes-philippines-2024-growth-target

[14] https://www.philstar.com/business/2022/09/09/2208561/hybrid-work-home-setup-call-centers-it-firms-stays-until-further-notice

with aggressive land banking activities in prime locations of nearby provinces. Colliers observed steady demand for house and lot (H&L) and lot only projects in Pampanga, Bulacan, Cavite, Laguna, and Batangas. The annual average take-up for horizontal projects increased to 29,000 units in 2022 and 2023, up from 28,700 units sold from 2020 to 2021.

Demand in Metro Manila differed in terms of product preferences per sublocation. In the major business districts (CBDs) such as Fort Bonifacio, Makati CBD, Ortigas Center, and Bay Area, the upper mid income to luxury projects dominated in terms of the demand; while in other areas including Mandaluyong, Quezon City, Alabang, and Las Piñas, demand for affordable to lower mid income projects remained strong.

In 1Q2024, there was a recorded delivery of 2,180 units, higher by 80% from the previous quarter. Colliers expects the addition of 9,100 units for the remainder of 2024, with the Bay Area likely contributing nearly 80% of the new supply.

Vacancy rose to 17% in 1Q2024, from 16.8% in the previous quarter, partly due to the sizable amount of RFO units in the market. Higher vacancy is seen to continue towards the end of 2024, reaching 17.7%, given the substantial delivery of new supply.

Due to higher vacancy, residential rent and prices increased at a slower pace in 1Q2024. Rent and prices increased by 0.4% and 0.6% respectively. Colliers sees elevated vacancy, as well as the substantial completion of new units, to continue tempering rent and prices for the rest of the year.

Property developers remained aggressive in developing master-planned projects outside Metro Manila. Colliers believes that the completion of major infrastructure such as the Metro Rail Transit-7 (MRT-7), New Manila International Airport, and North-South Commuter Railway will entice more property firms to locate projects near these areas.

Office

Net take-up of office space in Metro Manila for 1Q2024 tripled compared with the same period last year. Colliers recorded a net absorption of 75,000 sqm in office space, more than triple the 23,000 sqm of net take-up in 1Q 2023. Traditional and outsourcing occupiers remain as stable demand drivers in Metro Manila. The transaction volume recorded in the countryside likewise performed better as outsourcing firms continued to set up shop in the countryside and expand their footprint.

In 1Q2024, there was a total of 96,100 sqm of completed office space in Metro Manila, higher than the 49,000 sqm of space completed a year ago. Meanwhile, transaction volume went up by 88% in the same quarter with traditional firms accounting for 44% of the total transactions. This was followed by outsourcing companies at 33% and Philippine Offshore Gaming Operators (POGOs) at 23%. More than half of the recorded deals were for expansions and new setups.

Considering the abovementioned, the vacancy rate in 1Q2024 inched lower to 19%, from 19.3% in the previous quarter. There was higher demand from traditional firms and POGOs in the Bay Area, and outsourcing firms in Fort Bonifacio and Ortigas CBD. The vacancy rate, however, is seen to go up to 19.6% by the end of 2024 due to new supply and expected surrenders from pre-pandemic leases. In 2024, Colliers expects new supply to reach 553,200 sqm which is lower than its earlier forecast of 598,300 sqm and the completion of 611,700 sqm in 2023. Nearly half of the new supply will come from the Bay Area, Quezon City and Makati Fringe areas.

In 1Q2024, Colliers noted a marginal increase of 0.6% in rent compared with the previous quarter. Rent is projected to improve by 2.5% by the end of 2024, after declining by 38% from 2020 to 2023.

Provincial office transactions jumped by 81% to 51,700 sqm, from 28,500 sqm in 1Q 2023. Cebu accounted for 35% of total transactions, followed by Pampanga (17%), Davao (15%), Iloilo (13%) and Bacolod (12%). While demand for office space in provincial areas increased, Colliers noted that some markets have limited availability of options for outsourcing locators that typically require an area of at least 2,500 sqm. Given such, developers are encouraged to assess their provincial office pipeline and ramp up the construction of projects in identified areas with low availability of options. According to Colliers, these areas include: Bulacan, Cagayan de Oro, Batangas, and Dumaguete.

Retail

Mall developers executed aggressive renovations and total mall redevelopment all over Metro Manila as landlords and retailers attempt to sustain foot traffic and consumer spending amidst the diminishing impact of revenge spending. Colliers expects malls to integrate more activity centers, immersive or experiential spaces, as well as a mix of local and new foreign brands, with retailers offering more refreshed and "instagrammable" spaces to capture the attention of mallgoers.

From 4Q2023 to 1Q2024, Colliers recorded the completion of regional and super regional malls which added 281,000 sqm of new retail space across Metro Manila.[15] Driven by the opening of new malls, retail vacancy went up to 15.5%, from 14.4% in the previous quarter. Colliers projects vacancy to reach 17% in 2024, with the completion of about 338,900 sqm of new supply. From 2024 to 2026, annual completion is estimated at 162,300 sqm of new retail space, with the Bay Area accounting for half of the new leasable mall space.

Makati CBD, Fort Bonifacio, and Ortigas Center continued to record office and residential vacancies lower than the Metro Manila average. Colliers highlights the need for retailers to start locking in physical space in these CBDs, especially with the projected rise in lease rates for the remainder of the year.

The rise of green properties

The COVID-19 pandemic, along with the growing support for climate action, is gradually shaping the real estate landscape, not only in terms of consumer's capacity to buy real estate assets, but also in terms of consumer behavior or perception towards real estate assets. The pandemic has caused consumers to focus more on health, wellness and safety. As a result, open spaces and sustainable and environmental-friendly facilities in general are becoming more attractive. Many companies are looking for sustainable and healthy work environments, as these contribute to increased productivity, health and overall happiness. This will also help build employees' confidence to return to the office. Residential condominium units with huge spaces and offering amenities, such as yoga facilities, swimming pools, basketball courts and fitness and wellness gyms have also become more desirable. The retail sector also incorporates gardens, al fresco dining, and open-air places to adapt to this changing consumer preference. In addition, properties situated in townships were also preferred as these can provide easy access to basic necessities and have large open spaces.

In 2022, the country entered the annual list of top 10 countries with the highest number of certified LEED developments. With 24 projects, the Philippines ranked 10th and is the only one in Southeast Asia to make it to the list.

[15] Regional malls have a gross leasable area of between 50,000 sqm to 99,999 sqm; Super regional malls above 100,000 sqm.