

 <b>PHILIPPINE RATING SERVICES CORPORATION</b>	<b>RATING REPORT</b>
	<b>DOUBLEDRAGON CORPORATION</b>

**Date:** October 23, 2024  
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### ISSUE CREDIT RATING FOR DOUBLEDRAGON'S PROPOSED BOND ISSUANCE

Base Amount	Oversubscription Option	Tenor	Interest	Assigned Rating and Outlook
P5.0 billion	P5.0 billion	5.5 years	TBD	PRS Aaa, Stable
<b>Total – P10.0 billion*</b>				

*\*Initial tranche of the Company's new three-year shelf registration Retail Bonds program amounting to P30.0 billion*

**Use of Proceeds:** To further boost the Company's financial position by increasing its cash reserves.

#### **Analysts' Notes:**

(1) DoubleDragon has an outstanding Issue Credit Rating of PRS Aaa, with a Stable Outlook, for its fixed-rate bonds amounting to P15.3 billion and an Issuer Credit Rating of PRS Aaa (corp.), with a Stable Outlook, for its P4.615 billion corporate notes and \$180.0 million of dollar bonds. For details regarding these ratings, please refer to PhilRatings' rating reports for DoubleDragon, dated June 13, 2024 and September 5, 2024.

(2) This report is an updated version of the last rating report dated September 5, 2024. The updates made were mainly in relation to the Company's operations, as well as the major economic developments, since the last rating report was released. The analysis in this report considered the new set of projections that took into account the first tranche of up to P10.0 billion, under the Company's new P30.0 billion three-year shelf registration Retail Bonds program.

#### **Rating and Outlook Definition:**

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

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

## RATIONALE

The rating and Outlook assigned take into account the following key considerations:

1. Clearly-defined and well-executed growth strategy

Since it began operations in 2010, DoubleDragon has successfully expanded its investment property portfolio to over 1.3 million square meters (sq m) as of end-March 2024. Its diversified asset portfolio consists of provincial community malls in Luzon, Visayas, and Mindanao, office buildings in Metro Manila, as well as hotels and warehouse complexes around the country.

Having met its target of 1.2 million sq m of completed gross floor area (GFA) in 2021, DoubleDragon has set a new target of increasing its portfolio to 2.4 million sq m of GFA by 2030, spread across its four core business segments: 30% in retail, 15% in office, 20% in hospitality, and 35% in industrial leasing. To achieve these targets, the Company aims to grow its hospitality and industrial leasing segments.

DoubleDragon envisions Hotel101 to have one million rooms, operating in over 100 countries worldwide. As an initial step in relation to this long-term goal, Hotel101 has identified the first 25 priority countries for its expansion. For its industrial segment, DoubleDragon targets to operate one CentralHub complex in each of the 82 provinces of the Philippines. At present, CentralHub continues to build up its industrial leasing portfolio, as it prepares to undertake the first Philippine Industrial REIT initial public offering (IPO). DoubleDragon hopes to file the IPO documents with the securities regulators as soon as the REIT capitalization rates<sup>1</sup> go back to the 5-6% levels; DoubleDragon expects such to happen in the first quarter of 2025.

2. The Company's experienced management and its ability to form solid alliances with industry-recognized partners

Mr. Edgar Sia II is the Chairman and Chief Executive Officer (CEO) of DoubleDragon, and Mr. Tony Tan Caktiong is a Director and Co-Chairman of the Company. The two are among the most successful fast food chain entrepreneurs in the country. PhilRatings notes that DoubleDragon has greatly benefited from Mr. Sia and Mr. Tan Caktiong's experience in successfully growing their businesses. Even with its smaller size and relatively shorter track record of 13 years in the highly-competitive property development industry, the Company has been able to pursue and implement its growth strategy and set up a good platform—which will serve as a springboard for future expansion and growth, going forward.

At present, DoubleDragon operates its retail leasing segment primarily through its subsidiary, CityMall Commercial Centers Inc. (CMCCI), which is 66% owned by the Company and 34% owned by SM Investments Corp. (SMIC). As of September 30, 2024, the Company had 43 operational CityMalls, seven under construction, and 14 under development.

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<sup>1</sup> The capitalization rate is the ratio of a REIT's net operating income over its asset value. It is a metric used by investors to determine a REIT's profitability as well as to compare its valuation with other REITs. Colliers, a diversified professional services and investment management company, estimated that the capitalization rates for industrial properties in Manila ranged from 8-10% in the second quarter of 2023.

In April 2024, DoubleDragon subsidiary Hotel101 Global Pte. Ltd. (Hotel101 Global) entered into a definitive merger agreement with JVSPAC Acquisition Corporation. The combined entity is expected to be publicly listed in the US-based stock market exchange NASDAQ<sup>2</sup> under the ticker symbol 'HBNB'. With the transaction, HBNB will become a majority-owned subsidiary of DoubleDragon and the first ever Filipino majority-owned subsidiary to list via special purpose acquisition company (SPAC)<sup>3</sup> in the US Stock Exchange. The business merger and listing are expected to be completed by the second half of 2024 (2H 2024). The listing, the first for a Philippine company, provides the company with access to public funds and will help accelerate its global expansion plans. The merger between Hotel101 Global and JVSPAC Acquisition Corporation is expected to result in Hotel101 Global having an equity value of \$2.3 billion.

JVSPAC Acquisition Corp. is a blank check company<sup>4</sup> led by its Chairman and Chief Executive Officer(CEO) Albert Wong, who has been the CEO and Director of Kingsway Group Holdings, the sole distributor of Lamborghini in Hongkong, Macau and Guangzhou. Kingsway is also the lone distributor of Koenigsegg Automotive, Rimac Automobili and Bugatti Automobiles for China, including Hongkong and Macau.

3. Conservative financial position considering the capital-intensive nature of the Company's businesses

The Company has maintained a conservative capitalization structure, with debt-to-capitalization ratio hovering at 40-42% in the last three years. Debt-to-equity (DE) ratio stood at 0.8x as of end-June 2024. DE ratio will remain more than acceptable, at less than 1.0x over the projected period.

From 2025 onwards, DoubleDragon's portfolio will already be all fully completed and fully built up, while requirements for further substantial capital expenditure will no longer be needed in the near term. DoubleDragon's capital-raising activities moving forward will be intended to boost its financial position by strengthening its cash levels.

4. Expectations of improved operating cashflow, backed by increasing rental income

DoubleDragon sees the growth of its recurring income stream across four property pillars -- retail, office, industrial, and hospitality -- as one of its key business strategies. Overall, cash flows from operating activities are expected to improve on account of higher recurring income from its leasing operations. DoubleDragon expects its completed projects to generate ample revenues as they become mature assets by 2025.

Considering the projected positive operating cash flows, along with the planned bond issuances from the Company's new three-year shelf registration Retail Bonds program, cash and cash equivalents is seen to build up over the projected period. . As such, DoubleDragon's cash reserves and operating cash flows will be sufficient to fund the Company's operating and financing needs in the subsequent years.

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<sup>2</sup> National Association of Security Dealers Automated Quotations or NASDAQ is a U.S.-based stock market exchange, and the second-largest stock exchange by market cap globally.

<sup>3</sup> A SPAC is a company without commercial operations, and is formed strictly to raise capital through an initial public offering for the purpose of acquiring or merging with an existing company.

<sup>4</sup> A blank check company is a publicly-traded, developmental stage company that has no established business plan. It may be used to gather funds as a startup or, more likely, it has the intent to merge or acquire another business entity.

## BUSINESS PROFILE

### Company Background

DoubleDragon Corporation, formerly known as DoubleDragon Properties Corp., was a company founded by Edgar “Injap” Sia II in December 2009 to primarily engage in the business of real estate development and other real estate-related business ventures. DoubleDragon started commercial operations in November 2010. The Company, therefore, has been in operation for over 13 years.

Originally established as Injap Land Corporation, the Company was the Sia family’s initial foray into real estate development. In June 2012, DoubleDragon became a 50-50 joint venture between Injap Investments Inc., the holding company of the Sia family, and Honeystar Holdings Corporation (Honeystar) of the Jollibee Group, the holding company of the Tan and Ang families. Considering that both Mr. Sia and Tony Tan Caktiong, the Head of Honeystar and Founder and Chairman of Jollibee Foods Corporation (JFC), were both born in the Chinese year of the dragon, the Company changed its corporate name to DoubleDragon Properties Corp. in July 2012. In November 2021, the Board changed the Company’s name to its present name as part of its transformation to an investment and holding company.

DoubleDragon’s shares have been listed on the Philippine Stock Exchange (PSE) since April 2014 under the ticker symbol ‘DD’. Originally listed on PSE’s Small, Medium, and Emerging Board (SME Board), it transferred to the PSE Main Board in July 2015. A year after, in July 2016, DoubleDragon likewise listed its P10.0 billion worth of Preferred Shares in the PSE Main Board. As of October 16, 2024, the Company had a market capitalization of P24.15 billion.

PhilRatings notes that its subsidiary DDMP REIT, Inc. (DDMP REIT) is also listed as a Real Estate Investment Trust (REIT) in the PSE. It had a market capitalization of P19.08 billion as of October 16, 2024.

At present, DoubleDragon has over 1.3 million sq m of diversified asset portfolio consisting of provincial community malls in Luzon, Visayas, and Mindanao; office buildings in Metro Manila; hotels in the Philippines and overseas; and warehouse complexes around the country. As of September 30, 2024, the Company had 312.87 hectares (ha) of land bank available for the development of its various projects. Management expects such to be enough for over ten years of development.

DoubleDragon owns and operates the abovementioned leasable properties through its four principal business segments: retail leasing, office leasing, hospitality, and industrial leasing.

The Company’s revenue profile according to operating segments is shown in the next table:

Table 1 DoubleDragon's Revenue Profile for Years 2021 to 2023 and for the latest interim period 6M2024/2023

in millions PhP	2021		2022		2023		6M2023		6M2024	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
Leasing	13,386.15	84.05	11,158.08	78.97	20,678.63	83.58	2,289.07	58.05	2,283.62	35.31
Office	8,700.95	54.63	4,379.35	30.99	11,175.41	45.17	1,272.60	32.27	1,067.92	16.51
Retail	4,582.24	28.77	6,555.87	46.40	9,128.02	36.89	967.00	24.52	1,161.83	17.96
Industrial	102.97	0.65	222.87	1.58	375.20	1.52	49.47	1.25	53.86	0.83
Real Estate Devt.	778.08	4.89	1,573.89	11.14	1,425.35	5.76	658.71	16.70	631.28	9.76
Hospitality	577.93	3.63	478.87	3.39	671.67	2.71	292.88	7.43	406.69	6.29
Others	8,528.29	53.55	4,725.86	33.44	6,888.85	27.84	2,482.36	62.95	3,382.39	52.30
Eliminations	- 7,344.62	- 46.12	- 3,806.39	- 26.94	- 4,922.62	- 19.90	- 1,779.65	- 45.13	- 236.25	- 3.65
<b>Total</b>	<b>15,925.84</b>	<b>100.00</b>	<b>14,130.31</b>	<b>100.00</b>	<b>24,741.88</b>	<b>100.00</b>	<b>3,943.38</b>	<b>100.00</b>	<b>6,467.72</b>	<b>100.00</b>

The leasing and hospitality segments, which provide recurring revenues, are the core pillars of DoubleDragon's growth plans moving forward. Both of these segments will be discussed in detail in the next sections.

Aside from the abovementioned segments, the Company also has a real estate development segment. The real estate development segment is engaged in the development of real estate assets to be held as trading inventory and for sale. This segment was developed as part of DoubleDragon's strategy for its early-stage growth. Once its current inventory is fully sold, the Company will be transitioning out of this segment.

"Others" pertain to the segments engaged in marketing, selling and property management activities.

## Business Segments

### Retail Leasing Segment

DoubleDragon operates its retail leasing segment primarily through its subsidiary, CMCCI, which is 66% owned by the Company and 34% owned by SMIC. SMIC is the holding company of the SM Group, with core investments in Retail, Property, and Banking. As of report-writing date, SMIC had an outstanding Issue Credit Rating of PRS Aaa, with a Stable Outlook, for its outstanding bond issuance of P15.0 billion.

As of September 30, 2024, the Company had 43 operational CityMalls, seven under construction, and 14 under development. All seven CityMalls under construction are expected to open in the second half of 2024.

The Company believes CityMall is the first branded independent community mall chain to focus on the provincial areas in the country. CityMalls are located close to national highways for maximum visibility and exposure. CityMall houses top local fastfood brands such as: Jollibee, Mang Inasal, Chowking, Greenwich, Red Ribbon, and Highlands Coffee, among others. PhilRatings notes that these are brands of Mr. Tan Caktiong's successful fast food portfolio, indicating a strong synergy among the businesses of DoubleDragon's shareholders.

The Company also rolled out cinemas in a number of CityMall locations. As of March 31, 2024, a total of 12 CityMall cinemas were operational. The number was unchanged from end-2023 count.

The Company's agreements with tenants mostly have a term of one to five years, with the exception of some of the larger anchor tenants, whose leases can last for up to 15 years. Kiosks are on annual lease terms, and which are renewable on an annual basis. Majority of the Company's leases are on fixed annual rates, subject to annual escalation clauses.

In addition to CityMall, DoubleDragon's mall portfolio include Dragon8 Mall and Umbria Mall.

Dragon8 Mall, located in Divisoria (Manila), offers approximately 9,800 sq m of leasable space to micro-retailers. Dragon8 Mall is expected to benefit from the upcoming completion of the first segment of the North South Commuter Rail (NSCR) urban rail transit project<sup>5</sup> in 2027.<sup>6</sup> The first segment of the railway, with ten stations, spans 38 kilometers from Malolos City in Bulacan to Tutuban in Manila. Once fully operational, it will reduce travel time between Tutuban and Malolos from over 90 minutes to just 35 minutes.

Umbria Mall in Biñan, Laguna, on the other hand, is a multi-story structure housing specialty shops, casual dining, cafes and deli shops, convenience and drug stores, wellness and beauty centers, and a supermarket.

Overall, DoubleDragon's operational malls had a GFA of approximately 673,033 sq m as of September 30, 2024.

### Office Leasing Segment

At present, the Company derives most of its revenues from its office leasing segment. The Company's office leasing segment primarily consists of two key developments – the DD Meridian Park and the Jollibee Tower.

#### *DD Meridian Park*

DD Meridian Park is a 4.75-ha project positioned as a mini central business district (CBD) in the Bay area given its prime landmark double corner location of EDSA, Roxas Boulevard and Macapagal Avenue in the Bay Area of Pasay City, Metro Manila. DDMP REIT, the subsidiary which owns the DD Meridian Park project, is 46.67%-owned by the Company.

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<sup>5</sup> The NSCR project is a 147-kilometer rail line, with 37 stations, stretching from Clark, Pampanga to Calamba, Laguna. Once fully operational, it will shorten travel time between these areas to less than two hours. The project, which has a total of three segments, is expected to commence full operations in 2028. (Source: <https://newsinfo.inquirer.net/1913156/pnr-laguna-to-pampanga-north-south-commuter-railway-done-in-2028>)

<sup>6</sup> <https://www.bworldonline.com/economy/2023/12/12/563209/north-south-rail-expected-to-start-operating-in-2027-dotr/>

The project consists of four phases:

Table 2 Four Phases of DD Meridian Park Project

Phase	Buildings	Description	Construction Progress	Gross Floor Area (sq m)
Phase 1	DoubleDragon Plaza (Towers 1-4)	Commercial and Office building	Completed in 2018	188,297.38
Phase 2	DoubleDragon Center East	Office Building	Completed in 2019	21,136.01
	DoubleDragon Center West	Office Building		24,628.80
Phase 3	Ascott-DD Meridian Park	Ascott-branded Serviced Residence	Completed in 2023	-
Phase 4	DoubleDragon Tower	Commercial and Office Building	Completed in 2021	53,492.21

PhilRatings notes that aside from the buildings mentioned above, the Company is also currently constructing DD Meridian Tower within the DD Meridian Park. DD Meridian Tower is an 11-storey office building comprising of eight floors dedicated to corporate offices, with a commercial component in the ground and upper ground levels. It is being developed by DD Meridian Tower Corp. which is 51% owned by DoubleDragon. DD Meridian Tower is expected to be completed in the second half of 2024.

According to the Company, Ascott-DD Meridian Park, DD Meridian Tower, and DoubleDragon Tower are potential assets to be infused into DDMP REIT when interest rates stabilize.

During his State of the Nation Address (SONA) on July 22, 2024, President Ferdinand R. Marcos Jr.'s announced a ban on all Philippine Offshore Gaming Operators (POGO) by end-2024. **(Analysts' Note: Please see the industry section for more details regarding this matter).** DoubleDragon's management, however, does not expect the ban to have a material impact on the Company POGOs comprised only 5% of DoubleDragon's leasing portfolio. A bigger threat to the Philippines, management believes, would be the negative impact on the Business Process Outsourcing (BPO) call center industry from the growing use of artificial intelligence (AI) and the possible victory of Donald J. Trump in the coming US Presidential election. Moreover, considering that DD Meridian Park is located in a prime location, which is also considered as the Central Business District (CBD) within the Bay Area, management is optimistic that the property will continue to benefit from higher occupancy and foot traffic over the long term versus all the other surrounding office buildings.

### *Jollibee Tower*

Jollibee Tower is a 41-storey commercial and office tower situated in the Ortigas CBD in Metro Manila. The building has 67,426.71 sq m of GFA. It is a joint venture between the Company and JFC, with the latter as the building's anchor tenant. While Jollibee Tower was completed in 2019, the move of Jollibee Foods Corporation (Jollibee) in the building was delayed due to the pandemic. Handover of the space was made to Jollibee this year, now that the latter has reverted to its pre-pandemic operations.

In total, DoubleDragon's operational office buildings had a GFA of approximately 361,089.64 sq m as of September 30, 2024.

### Hospitality Segment

DoubleDragon’s hospitality segment is operated through its 70%-owned subsidiary, Hotel of Asia, Inc. (HOA), and its wholly-owned subsidiary, DDPC Worldwide Pte. Ltd. (DDPC Worldwide).

The Company’s domestic hotel operations, including that of the Company’s own three-star hotel brand, Hotel101, are managed by HOA. DoubleDragon’s international hotel operations, on the other hand, are managed by Hotel101 Global Pte. Ltd. (Hotel101 Global). Hotel101 Global is jointly owned by HOA and DDPC Worldwide.

The Hotel101 concept allows DoubleDragon to generate revenues twice: first, from the preselling of rooms, followed by long-term recurring revenues from hotel operations after the project is constructed. Over the long-term, Hotel101 rooms will be owned and capitalized by the unit owners, similar to a closed-loop AirBNB. Recovery of DoubleDragon’s investment, plus a significant margin, is made once the units are sold (historically, sales are made prior to the start of hotel operations). According to the Company, the project cost for a Hotel101 project is fully recovered when 45-50% of the units are sold. As part of their purchase, unit owners also sign a compulsory 50-year management contract with Hotel101, which provides long-term cashflows from the hotels.

CSI Hotels, Inc., a 50%-owned subsidiary of HOA, is the Philippines’ master franchisee of the Jinjiang Inn brand. Jinjiang Inn primarily targets Chinese tourists.

HOA likewise operates Injap Tower, a 21-storey condotel located in Iloilo City.

Hotel 101 Management Corporation, a wholly owned subsidiary of HOA, operates and manages all of the Company’s hotel properties.

As of end-September 2024, the hospitality segment had six operational hotels and condotels with 1,482 rooms.

*Table 3 Hotel101 Operational Developments*

<b>Operational Developments</b>	<b>Rooms</b>
Hotel101- Fort	606
Hotel101 - Manila	518
JinJiang Inn - Ortigas	95
JinJiang Inn - Makati	59
JinJiang Inn - Boracay Station 1	10
Injap Tower	194
<b>TOTAL</b>	<b>1,482</b>

On July 16, 2024, the Securities and Exchange Commission (SEC) issued a memorandum circular to regulate the sale of properties with rental pool agreements, in line with the rising trend of real estate developers offering potential investment returns and additional income by renting out properties. Considering Hotel101’s business concept, it is subject to the abovementioned newly issued rules. According to management, the Company welcomes this development. Management also pointed out that DoubleDragon has been collaborating with the SEC in crafting the guidelines for the memorandum circular, even prior to the latter’s issuance. The Company expects Hotel101, under the memorandum circular, to be among the first to register with the SEC. Considering that Hotel101 is one of the larger players in the condotel space, the Company sees this development as favorable, over the long-term period.

DoubleDragon is undertaking major milestones in expanding its hotel operations abroad. In April 2024, an agreement was signed among Hotel101 Global, engineering firms Kamita Sekkei and Technocrew, and contractor Iwata Chizaki Inc., to develop a 9,000-sq m parcel of land in Hokkaido Prefecture as Hotel101 – Niseko. The project will add 482 rooms to the Company’s hotel portfolio. On August 9, 2024, Hotel101 – Niseko officially received its Comprehensive Assessment System for Built Environment Efficiency (CASBEE) certification, making it the first CASBEE-certified project in Niseko, Hokkaido Japan. CASBEE is Japan’s authoritative framework for evaluating the environmental performance of buildings. The structure of Hotel101 – Niseko is designed to promote sustainability through green-inspired architecture and the use of technology that supports efficient and eco-friendly operations. The project, which is expected to be finished in 2026, had its groundbreaking event in August 2023.

In addition, DoubleDragon also completed the acquisition of a 6,593-sq m of commercial land in Madrid, Spain in October 2023. The property, which is to be developed as Hotel101 – Madrid, will add 680 rooms to the hotel portfolio. The project, which is anticipated to be finished by the last quarter of 2025, held its groundbreaking ceremony in March 2024.

One development that may bode well for the said project is the Golden Visa Program of the Spanish government. Through the program, foreign nationals who invest a minimum of 500,000 euros (or about \$550,000) in Spain can apply for an investor visa. Once granted, applicants and their families gain residency plus visa-free access to Europe’s Schengen area. The minimum required investment is equivalent to three units in Hotel101 – Madrid or approximately \$620,400. In addition, Hotel101 – Madrid will be within the proposed route of the planned F1 Madrid Grand Prix beginning in 2026.<sup>7</sup>

In April 2024, however, Spain’s ministers agreed to end the Golden Visa Program. Spain’s move to scrap the Golden Visa Program came amid increasing pressure from its own citizens resulting from lack of residential supply and rising property prices, fueled by escalating demand for real estate.<sup>8</sup> According to management, since the announcement to end the Golden Visa Program, there was even greater demand for units in Hotel101 – Madrid. Management also highlighted that the change in the program entails changing the law, and hence may take some time to complete. Management also disclosed that there is a large number of clients buying purely for investment, and not for golden visas, since the Company believes that the potential capital appreciation and returns of the project are very attractive. Nonetheless, it should be noted that the application to the Golden Visa program is optional to unit buyers.

On September 26, 2024, DoubleDragon announced that the first batch of Hotel101 – Madrid unit owners were issued their Golden Visas by the Government of Spain. According to the Company, this was just after six months and 16 days from their purchase of Hotel101 – Madrid units. Hotel101 Global CEO Hannah Yulo-Luccini claims the project attracted international real estate investors, as it provides an opportunity to participate in Spain’s growing hotel industry, particularly in Madrid. Hotel101 – Madrid is expected to be completed by the end-2025.

DoubleDragon also has plans to expand to the United States with the development of Hotel101 – Los Angeles, and which will add 622 rooms to the Company’s hotel portfolio. As of report writing, the project is at the permitting and entitlement stage.

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<sup>7</sup> <https://business.inquirer.net/438506/biz-buzz-doubledragon-golden-visa-deadline-nears>

<sup>8</sup> <https://bilyonaryo.com/2024/04/11/what-headwind-tan-caktiong-sia-expect-robust-sales-for-madrid-hotel-despite-golden-visa-programs-end/business/>

Over the long-term, DoubleDragon aims to cap the revenue contribution from each country. This aims to geographically diversify the Company’s revenue sources, taking into account the volatility of the world economy.

*Table 4 Ongoing Projects under the Hospitality Segment*

	Lot Area (ha)	Rooms	Start	Finish
<b>Ongoing Developments</b>				
Ascott-DD Meridian Park Manila	<i>n/a</i>	349	2018	1H 2025
Hotel101 - Davao	0.54	519	2018	2H 2024
Hotel101 - Cebu	0.26	548	2021	1H 2025
Hotel101 - Niseko	0.89	482	2023	2H 2026
Hotel101 - Madrid	0.66	680	2023	2H 2025
Hotel101 - Libis	0.26	702	2024	2H 2026
<b>TOTAL</b>		<b>3,280</b>		

Among the Company’s ongoing projects under the Hospitality segment, Hotel101 – Davao is set to be completed within 2024. For Ascott-DD Meridian Park, while the target finish date is 1H 2025, management clarified that the project remains on track to be finished within the year. Its target opening will be in 1H 2025.

In April 2024, DoubleDragon entered into a definitive merger agreement between its subsidiary Hotel101 Global and JVSPAC Acquisition Corporation. The combined entity is expected to be publicly listed on the US-based stock market NASDAQ<sup>9</sup> under the ticker symbol “HBNB”. Upon completion of the proposed business combination transaction, HBNB will become a majority-owned subsidiary of DoubleDragon and the first ever Filipino majority-owned subsidiary to list via special purpose acquisition company (SPAC) in the US Stock Exchange. The business merger and listing are expected to be completed by the second half of 2024, following regulatory and shareholder approvals and other customary closing conditions. According to management, the listing application is tentatively scheduled to be filed by November 2024 with actual listing date expected before the end of the year.

On October 10, 2024, the Company conducted the topping-off ceremony of Hotel101 – Cebu. Situated along the Cebu Mactan Airport Terminal Road near Mactan Marina Mall, the project aims to be the largest airport hotel in the Visayas and Mindanao region. The project was 100% sold, even prior its expected completion in 1H 2025.

By 2026, DoubleDragon is targeting to build its condotel in 25 different countries. At present, the Company has a presence in four countries (Philippines, Japan, Spain, and United States) and has ongoing discussions with potential joint venture or licensing partners in several countries. The expansion of Hotel101 Global is expected to ramp up once the Company completes its NASDAQ listing by 2H 2024.

DoubleDragon aims to substantially grow its hotel rooms, backed by the continued expansion of Hotel 101, both locally and internationally.

<sup>9</sup> National Association of Security Dealers Automated Quotations or NASDAQ is a U.S.-based stock market exchange, and the second-largest stock exchange by market cap globally.

## Industrial Leasing Segment

DoubleDragon carries out its industrial leasing business through subsidiary CentralHub Industrial Centers Inc. (CHICI). As of July 31, 2024, DoubleDragon owned 60.9% of CHICI, while 39.1% was held by Jollibee Foods Corporation (JFC) and its wholly owned subsidiary Zenith Foods Corporation (ZFC). Moving forward, the partnership's goal is to make CentralHub the first industrial real estate investment trust (REIT) in the Philippines. The Company is currently waiting for capitalization rates to go down to 5-6% levels before pushing through with its REIT offering. DoubleDragon hopes to file the IPO documents with the securities regulators as soon as the REIT capitalization rates go back to the 5-6% levels; DoubleDragon expects such to happen in the first quarter of 2025.

As of September 30, 2024, DoubleDragon owned ten industrial sites covering 60.6 ha of prime industrial land. Six of the CentralHub sites are currently operational.

*Table 5 Operational CentralHub Sites*

<b>Operational Industrial Centers</b>	<b>Gross Floor Area (sq m)</b>
CentralHub - Tarlac (Phase 1 - 3)	25,298
CentralHub - Capiz	4,407
CentralHub - Camelray, Laguna 1 - 2	70,286
CentralHub – Santolan, Pasig	8,752
CentralHub - Danao	27,212
CentralHub - Tarlac (Phase 4)	5,599
<b>TOTAL</b>	<b>141,554</b>

Each hub contains modern standardized multi-use warehouses which are expected to fulfill the requirements of the top fast-moving consumer goods (FMCG) companies, retailers, fast food brands, cold storage providers, logistics operators, and e-commerce companies alike. The lease agreements cover five to ten years of lease term, thus providing long-term cashflows for the Company. DoubleDragon, through CHICI, currently has plans for development of more CentralHub industrial centers and intends to acquire additional sites that are strategically located across Luzon, Visayas, and Mindanao.

*Table 6 Ongoing and Prospective Developments under the Industrial Leasing Segment*

	<b>Lot Area (ha)</b>	<b>Start</b>	<b>Finish</b>
<b>Ongoing Developments</b>			
CentralHub - Sta. Barbara, Iloilo	3.86	1H 2021	2H 2024
CentralHub - Silay Negros 1 & 2	10.06	2H 2023	2H 2025
<b>Proposed Developments</b>			
CentralHub - Davao	4.04	1H 2025	2H 2025
CentralHub - Surigao	6.41	2H 2025	1H 2026

According to management, CentralHub - Sta. Barbara, Iloilo is on track to completed in 2024.

## **Management and Ownership**

PhilRatings notes that there were no changes in the composition of the Company's major shareholders, principal officers, and senior management since the last rating review.

The Company's two principal shareholders are Injap Investments Inc., controlled by the Sia family, and Honeystar Holdings Corp., controlled by the Tan and Ang families. The latter also controls JFC, the largest fast food company in the Philippines. As of June 30, 2024, Injap Investments Inc. and Honeystar Holdings Corp. each owned 35.18% of DoubleDragon's common shares.

Mr. Edgar Sia II is the Chairman and CEO of DoubleDragon, and Mr. Tony Tan Caktiong is a Director and Co-Chairman of the Company. The two are among the Philippines' most successful fast food chain entrepreneurs in the country.

PhilRatings notes that DoubleDragon has likewise benefited from the established track record and success of Mr. Sia and Mr. Tan Caktiong in the fast food industry since the Company started commercial operations in November 2010. Even with its relatively short track record of 13 years in the highly-competitive property development industry, the Company has been able to pursue and implement its growth strategy and create a good platform for growth, and which is seen to serve as a springboard for further expansion, moving forward.

DoubleDragon's partnership with established market players, such as the SM Group, is seen as a positive indicator in terms of its future prospects, and its management's ability to execute the Company's growth strategy.

While Mr. Sia's and Mr. Tan Caktiong's experience is largely in the fast food sector, growth in this industry is also mainly anchored on finding suitable property locations that will allow their companies to tap a bigger portion of the fast food market. Serving the consumer market via fast food outlets should provide meaningful insights that can be mined, and which may prove helpful for property development projects going forward.

As of July 31, 2024, the Group had 616 (of which 222 were with the Parent) organic employees. DoubleDragon had no collective bargaining agreements (CBAs), with no organized labor organizations in the company. DoubleDragon has not experienced any disruptive labor disputes, strikes or threats of strikes, and management believes that DoubleDragon's relationship with its employees is satisfactory, in general.

## **Strategy**

DoubleDragon identified four major business strategies: (1) expanding nationwide in order to grow its recurring income stream across four property pillars – retail, office, industrial, and hospitality; (2) identifying industry shifts and capitalizing on real estate segments where it can be a leading player; (3) focusing on building recurring revenue based on a foundation of appreciating assets and operating a capital efficient business model; and (4) maintaining a strong balance sheet, prudent risk and capital management and good governance.

Since it began operations in 2010, DoubleDragon has successfully expanded its investment property portfolio to over 1.3 million sq m as of end-March 2024. Its diversified asset portfolio consists of provincial community malls in Luzon, Visayas, and Mindanao, office buildings in Metro Manila, as well as hotels and warehouse complexes around the country. DoubleDragon expects its existing portfolio to become mature assets, contributing optimum levels of revenues and income to the Company by 2025.

Having met its target of 1.2 million sq m of completed GFA in 2021, DoubleDragon has set a new target of increasing its portfolio to 2.4 million sq m of GFA by 2030, spread across its four core business segments: 30% in retail, 15% in office, 20% in hospitality, and 35% in industrial leasing. To achieve these targets, the Company aims to grow its hospitality and industrial leasing segments.

Over the long-term, DoubleDragon envisions Hotel101 to have one million rooms, operating in over 100 countries worldwide. As an initial step in this long-term goal, Hotel101 has identified the first 25 priority countries for its expansion: the Philippines, Japan, Spain, the U.S., United Kingdom, the U.A.E., India, China, Thailand, Malaysia, Vietnam, Indonesia, Singapore, Cambodia, Bangladesh, Mexico, South Korea, Australia, Canada, Switzerland, Turkey, Italy, Germany, France, and Saudi Arabia.

For its industrial segment, DoubleDragon aims to make CentralHub one of the largest landlords of industrial warehouse complexes in Luzon, Visayas and Mindanao. At present, CentralHub continues to build up its industrial leasing portfolio, as it prepares to undertake the first Philippine Industrial REIT initial public offering (IPO). Over the long-term, DoubleDragon targets to operate one CentralHub complex in each of the 82 provinces of the Philippines.

## ESG Report

### *Environmental*

Two of the Company's office buildings – DoubleDragon Plaza and Jollibee Tower – were designed and built with energy efficient features. DoubleDragon Plaza received its Leadership in Energy and Environmental Design (LEED)<sup>10</sup> Gold Certification in June 2019. Jollibee Tower, on the other hand, is pre-certified for a Gold LEED certification. To receive the certification, Jollibee Tower must satisfy certain prerequisites and earn sufficient points.

CityMall utilizes eco-friendly devices and systems such as: solar power, LED lights, optimal natural lighting, modern waste treatment facilities, rainwater harvesting systems, and the use of green fans to further boost cooling efficiency.

In April 2024, Hotel101 Global -- in partnership with engineering firms Kamita Sekkei and Technocrew, and the contractor of Hotel101-Niseko Iwata Chizaki Inc. -- signed its commitment for the creation of an environmentally-forward Hotel101-Niseko. On August 9, 2024, the latter officially became the first hotel in Niseko, Hokkaido Japan to secure a CASBEE certification.

### *Social*

In terms of employee management, the Company is fully compliant with mandatory employee benefits required by law. It also provides additional benefits based on industry standards to provide employees not only with the necessary proper care, but also for the Company to be a competitive employer for the years to come. DoubleDragon is likewise fully compliant with minimum wage and other labor standards.

The Company recognizes that training and education form an important part in the development of employee skills and supports career development. As such, DoubleDragon dedicated eight hours for the

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<sup>10</sup> A green building certification program developed by the U.S. Green Building Council which evaluates environmental performance to provide a definitive standard for green buildings

formal training of each employee in 2023. Aside from formal training, informal training sessions are continuously administered by the Human Resources Department throughout the year. Each department also holds its own informal training sessions, to further familiarize their members on the responsibilities of their respective positions. Selected key employees are also sent out for training and seminars to update their knowledge.

DoubleDragon promotes equal employment opportunity to applicants, without discrimination on the basis of race, sex, religion, gender orientation, or other personal characteristics. It also ensures compliance with Philippine labor laws related to diversity, including policies against discrimination and harassment, and unfair treatment in the workplace.

### *Governance*

The Company has existing policies against corruption. The policies are implemented through specific prohibition statements incorporated in the Company's Code of Conduct and in all contracts, particularly the supply and delivery of goods and services. DoubleDragon includes a discussion of the Anti-Corruption Policies of the Company during on the job orientation, and during the annual general assembly where material company policies are reintroduced to all employees.

## **INDUSTRY<sup>11</sup>**

### **Metro Manila Property Market**

#### 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, 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 6M2024, Colliers recorded the completion of 4,170 units. It expects the addition of 7,100 units for the remainder of 2024, with the Bay Area likely contributing nearly 80% of the new supply.

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<sup>11</sup> Sources: Colliers Philippines Market Reports – 1Q2024  
JLL Philippines 1Q24 Property Market Dynamics

Vacancy rose further to 17.2% in Q2 2024, from 17% in the previous quarter. A higher vacancy was recorded in the Bay Area due to the substantial new supply in the secondary market that heavily relied on POGO demand from 2017 to 2019. In his recent State of the Nation Address (SONA) on July 22, 2024, President Marcos, Jr. announced the ban of POGOs. The President's directive prevents the establishment of new POGOs and orders the existing POGOs to wind down and cease operation by the end of the year.<sup>12</sup> Given the President's announcement, Colliers expects the increase of vacancy and the correction of rents and prices in the Bay Area.

Due to higher vacancy, residential rent and prices increased at a slower pace in Q2 2024. Rent and prices increased by 0.2% and 0.5% respectively. Colliers sees elevated vacancy, as well as the substantial completion of new units, to continue tempering rent and prices over the next 12 to 18 months.

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

Colliers recorded a net absorption of 172,800 sq m in office space in 6M2024, up by 26% from the 137,000 sq m of net take-up a year ago. 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 6M2024, there was a total of 166,900 sq m of completed office space in Metro Manila, higher than the 129,400 sq m of space completed a year ago. Meanwhile, transaction volume in 6M2024 went up by 53% from a year ago, with traditional firms accounting for 56% of the total transactions. This was followed by outsourcing companies at 28% and POGOs at 16%. Bulk of the recorded deals were for expansions and relocations. Colliers believe that the recent pronouncement of the President on banning POGOs will adversely impact Metro Manila's office market, reversing its positive momentum in the first half of the year.

Considering the abovementioned, the vacancy rate in 6M2024 reached 18.3%, an improvement from the 19% in the first quarter. Such was due to sustained transactions and slowdown of space surrenders. The vacancy rate, however, is seen to go up to 22.2% by the end of 2024 due to the POGO ban. In 2024, Colliers expects new supply to reach 494,700 sq m, lower than its earlier forecast of 553,300 sq m, as developers continue to be cautious of the market's prevailing high vacancy. Nearly half of the new supply will primarily come from the Bay Area, Quezon City and Makati Fringe areas.

In the second quarter of 2024, Colliers noted a marginal increase of 0.9% in rent compared with the previous quarter. Rent is projected to remain stable by the end of 2024 due to an expected increase in lease surrenders, subdued take-up from outsourcing firms and the potential impact of the POGO ban on the office market.

Provincial office transactions jumped by 39% to 122,300 sq m, from 88,000 sq m in the same period in 2023. Cebu accounted for more than a third of the total transactions, followed by Pampanga, Iloilo, and

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<sup>12</sup> <https://www.asgam.com/index.php/2024/07/22/philippine-president-marcos-bans-all-pogos-with-immediate-effect/>

Davao. 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 sq m. 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 Q4 2023 to Q1 2024, Colliers recorded the completion of regional and super regional malls which added 281,000 sq m of new retail space across Metro Manila.<sup>13</sup> In Q2 2024, according to JLL Philippines, a professional services firm specializing in real estate and investment management, the addition of a level in a shopping mall in Taguig and Quezon City further increased the market’s leasable space by 26,300 sq m. Existing supply is expected to increase further with the anticipated 123,000 sq m of retail space in the rest of 2024.

Retail vacancy, according to JLL, fell to 6.3% in Q2 2024 from 6.5% in the previous quarter. This was due to continued store openings from newly opened malls, combined with introduced supply with high occupancy rates. Colliers projects vacancy to reach 17% in 2024, with the completion of about 338,900 sq m of new supply. From 2024 to 2026, annual completion is estimated at 162,300 sq m 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.

### Hospitality

In Q2 2024, JLL recorded an addition of 1,461 rooms in the hospitality segment, majority of which came from Quezon City. Some delays in developments pushed the forecast annual supply to 2,149 rooms for the rest of 2024. While increased supply may challenge occupancy levels, the sustained growth in foreign arrivals is seen to support the segment. Makati City, Pasay City, and Manila City contributed the largest share of existing hospitality stock. Similarly, Makati City accounted for the majority of expected supply from 2024 to 2027.

Data from the Department of Tourism (DOT) showed that foreign arrivals in 2023 reached 5.4 million, higher than the target of 4.8 million arrivals. In 6M2024, the Philippines received around 3.2 million international visitors, 19.9% higher than the arrivals received by the country in the same period in 2023. In 2024, the government set a baseline target of 7.7 million arrivals in the country.<sup>14</sup>

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<sup>13</sup> Regional malls have a gross leasable area of between 50,000 sqm to 99,999 sqm; Super regional malls above 100,000 sqm.

<sup>14</sup> [https://beta.tourism.gov.ph/news\\_and\\_updates/the-philippines-records-1-2m-international-tourists-in-first-two-months-of-2024/](https://beta.tourism.gov.ph/news_and_updates/the-philippines-records-1-2m-international-tourists-in-first-two-months-of-2024/)

Hotel occupancy in Metro Manila fell to 76.9% quarter-on-quarter in Q2 2024, as demand dipped during the lean season. Leisure demand drove occupancy rates on weekends, while corporate bookings were higher on weekdays.

The average daily rate of rooms grew by 0.4% in Q2 2024 to P7,954 per room per night. Operators gradually increased room rates in line with increasing tourism indicators such as visitor arrivals.

### Industrial<sup>15</sup>

In 6M2024, food and beverage (F&B) establishments, semiconductor firms, and machinery manufacturers took up industrial space. Aside from these, Colliers is also seeing distribution centers for community marts likely driving the demand.

Industrial vacancy in the CALABA<sup>16</sup> region in 6M2024 increased to 7%, from 5.5% in end-2023. Colliers attributes such to the additional industrial space delivered in Laguna and Batangas. Non-renewals and pre-terminations from logistics firms were also seen, indicating a softening demand from the e-commerce sector as compared with the pandemic period. Nonetheless, vacancy is seen to improve in the second half of the year as many fast-moving consumer goods (FMCG) firms tend to expand particularly during the holiday season.

In the next two years, Colliers expects the delivery of around 700 ha of new industrial space in Southern and Central Luzon. Among the industrial parks likely to be completed in the CALABA region are Filinvest Innovation Park – Ciudad de Calamba in Laguna and Batangas Technopark.

The demand for industrial space will likely be supported, in particular, by manufacturing firms planning to expand their operations in the country.

## **ECONOMY**

### **Gross Domestic Product (GDP)**<sup>17</sup>

The Philippines' full-year GDP growth in 2023 was at 5.6%. The industries that contributed the most to the annual growth were: Wholesale and retail trade, repair of motor vehicles and motorcycles (5.5%); Financial and insurance activities (8.9%); and Construction (8.8%). The GDP growth in 2023 was behind the government's target GDP growth of 6% to 7% for the year.

All major economic sectors posted full-year increases, as follows: Agriculture, forestry, and fishing (1.2% year-on-year <YoY> and 1.4% in the fourth quarter 2023 <Q4 2023>); Industry (3.6% YoY and 3.2% in Q4 2023); and Services (7.2% YoY and 7.4% in Q4 2023).

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<sup>15</sup> <https://bilyonaryo.com/2024/03/16/invest-where-demand-booms-industrial-market-surges-ahead-offices-struggle-to-catch-up/property/>

<sup>16</sup> Cavite, Laguna, and Batangas

<sup>17</sup> Sources: <https://www.psa.gov.ph/content/gdp-expands-57-percent-first-quarter-2024>

<https://mbc.com.ph/2024/05/09/gdp-insights-mbc-economy-2024-may/>

<https://asia.nikkei.com/Economy/Philippines-cuts-growth-target-for-2024-raises-deficit-ceilings>

On the demand side, annual growth of Household spending was at 5.6% (5.3% in Q4 2023) while Government spending rose by a minimal 0.4% (-1.8% in Q4 2023) for the year. According to National Economic and Development Authority (NEDA) Secretary Arsenio Balisacan, the latter's slower expansion was intentional, in line with the government's aim to achieve fiscal consolidation. This meant prioritizing the reduction of fiscal deficit and government debt. Data from the Bureau of the Treasury showed an improved debt-to-GDP ratio of 60.2% in 2023, from 60.9% at the end of 2022.

In Q2 2024, GDP expanded by 6.3%, which was higher than the 5.8% growth in 1Q2024, as well as the 4.3% growth in 2Q2023. The main contributors to the quarter's growth were: Construction (16%); Wholesale and retail trade, and repair of motor vehicles and motorcycles (5.8%); and Financial and insurance activities (8.2%). Public construction's large contribution was fueled by the expedited rollout of construction and rehabilitation projects by the government's infrastructure agencies. Among major economic sectors, Industry and services grew by 7.7% and 6.8%, respectively, while Agriculture, Forestry, and Fishing declined by 2.3% due to the effects of the El Niño phenomenon. The significant improvement in the second quarter brings the country's real GDP growth to 6% for 6M2024.

The GDP growth in the first half of the year is on track to match the lower end of the government's target GDP growth at 6% to 7% for 2024. This target, however, was 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.

### Outlook<sup>18</sup>

In general, the growth outlook for the Philippines was on the lower end of the government's target range of 6% to 7%.

The World Bank (WB) upgraded its projected growth for the Philippines in 2024 to 6.0%, from an earlier growth forecast of 5.8%. The forecasted growth in 2025 was also raised to 6.1% from the earlier projection of 5.9%. The upward adjustment was based on the WB's favorable medium-term outlook for the country; with the projected growth to be driven by domestic demand, rooted from a more accommodating monetary policy and sustained public investment. The declining interest rate will be attractive to investors, while lower inflation will boost growth in household incomes. The WB, however, sees downward pressure from the effects of the strong La Niña phenomenon to food security and agricultural output, as well as possible price shocks from geopolitical conflicts, trade restrictions, and climate-related disasters.

The Asian Development Bank (ADB) views household consumption and investment to support the country's growth in 2024. ADB maintained its growth outlook for the Philippines at 6.0% for 2024 and 6.2% for 2025. ADB added that its forecasted growth will be on the back of moderate inflation and monetary easing in the second half of the year. The ASEAN+3 Macroeconomic Research Office (AMRO) likewise maintained its growth forecast for the Philippines at 6.1% in 2024 and 6.3% in 2025. AMRO cited that high government investment spending in 2024, along with services exports, would support growth.

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<sup>18</sup> Sources: <https://www.pna.gov.ph/articles/1235008>

<https://www.gmanetwork.com/news/money/economy/913668/adb-maintains-growth-2024-2025-growth-forecasts-for-philippines/story/>

<https://www.manilatimes.net/2024/10/04/business/top-business/amro-affirms-ph-growth-outlook/1979000>

<https://www.pna.gov.ph/articles/1234602>

The Philippines is seen to be the second-highest gainer in the region following Vietnam, and with its economic expansion notably faster than the projected average regional growth of 4.8% for the year.

On the other hand, the International Monetary Fund (IMF) downgraded its growth outlook for the country by 0.2% to 5.8% in 2024, as it saw the threat of high food prices on private consumption, among others. Moreover, there was a downward adjustment of 0.1% to the growth outlook in 2025 to 6.1%. The IMF Mission Chief and Deputy Division Chief Elif Arbatli-Saxegaard noted, however, that the reduction in projected growth was minimal and that the Philippine economy remains as one of the fastest-growing in the ASEAN region. The IMF identified the following downside risks in its forecast: slowdown in major economies that could disrupt trade and financial flows, commodity price volatility and supply shocks, and an escalation of geopolitical tensions or regional conflicts.

### **Inflation<sup>19</sup>**

Headline inflation for the month of September 2024 decelerated further to 1.9%, from 3.3% in the previous month and 6.2% in September 2023. This was the lowest inflation rate in more than four years, since the 1.6% inflation recorded in May 2020. The main drivers for the slowdown in prices for the month was slower increase in the prices of food and non-alcoholic beverages (1.4% in September from 3.9% in August) and the faster deceleration in transportation prices (-2.4% in September from -0.2% in August).

The slower food inflation was attributed to the decline in the inflation of rice, which posted a 5.7% inflation in September from 14.7% growth in August. Additionally, the price of vegetables, tubers, plantains, cooking bananas and pulses recorded a larger decline of 15.8% for September from a decrease of 4.3% in the previous month.

The year-to-date (YTD) headline inflation for 2024 settled at 3.4%, falling within the government's target range of 2% to 4%.

AMRO trimmed its inflation forecast for the Philippines to 3.3% from 3.6% in 2024, but raised this to 3.1% from 2.9% in 2025. AMRO's chief economist Hoe Ee Khor stated that inflation is well anchored in the region which had shown robust growth. This will give the Bangko Sentral ng Pilipinas (BSP) more flexibility to cut down policy rates. The IMF similarly estimated inflation to average 3.3% in 2024, and slightly lower at 3.0% in 2025. Such will mainly be on account of lower food prices and inflation staying within target.

In August 2024, the Monetary Board implemented a policy rate cut of 25 basis points to 6.25%. This was the first rate cut since November 2020. According to BSP Governor Eli Remolona Jr., the rate cut also considered the possible decision of the US Federal Reserve to cut its own rates in the near term. On September 18, 2024, the Federal Reserve reduced its key interest rates by 50 basis points.<sup>20</sup> Governor Remolona added that public demand remained firm despite the more restricted financial conditions in the earlier months, and unemployment rate also declined. Data from the National Economic Development Authority (NEDA) showed a lower unemployment rate of 3.1% for June 2024, versus 4.5% in June 2023.

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<sup>19</sup> Sources: <https://psa.gov.ph/content/summary-inflation-report-consumer-price-index-2018100-september-2024>  
<https://www.bsp.gov.ph/SitePages/MediaAndResearch/MediaDisp.aspx?ItemId=7212>  
<https://www.pna.gov.ph/articles/1234602>  
<https://qa.philstar.com/headlines/2024/06/22/2364687/president-marcos-formalizes-rice-tariff-cut-through-eo-62>  
<https://neda.gov.ph/ph-unemployment-drops-to-3-1-percent-in-june-govt-ramps-up-efforts-for-high-quality-job-generation-neda/>

<sup>20</sup> <https://www.federalreserve.gov/newsevents/pressreleases/monetary20240918a.htm>

Governor Remolona believes that alongside the easing price pressures, public investment and improved employment conditions will bolster economic activity.

For the rest of the year, the BSP anticipates easing pressure on prices following the mandated reduction on import tariffs, including rice tariffs which notably dropped to 15% from 35% until 2028. The BSP nonetheless remains vigilant against lingering upward pressures on prices.

### Foreign Exchange<sup>21</sup>

The Philippine Peso depreciated against the US Dollar in the first week of October 2024, from a strong position in mid-September 2024. The currency closed at P57:US\$1 on October 10, 2024, from P55:US\$1 on September 20, 2024. The earlier strengthening of the peso was attributed to the general weakening of the US Dollar after the US Federal Reserve effected an interest rate cut of 50 basis points on September 18, 2024. On the other hand, the peso weakened ahead of the expected increase in US inflation, and which may possibly influence the decision of the US Federal Reserve in its next policy meeting.

## FINANCIAL PROFILE

*Analysts' Note: The analysis in this report considered the new set of projections that took into account the first tranche of up to P10.0 billion, under the Company's proposed P30.0 billion three-year shelf registration Retail Bonds program. Compared with the last projections provided to PhilRatings in June 2024, the projections for this rating exercise covered a longer period of up to 2030, considering the 5.5 years tenor of the P10.0 billion first tranche under the proposed P30.0 billion Retail Bonds program. PhilRatings also notes that while projected cash balance for this rating exercise is higher, forecast Balance Sheet and Cash Flow Statements are relatively unchanged from the last projections in June 2024.*

### Profitability

#### 2023

Revenues soared by 75.1% to P24.7 billion, supported by growth in both core revenues and unrealized gain from change in FV of investment property. The latter considerably grew by 120.2% to P16.5 billion.

Other revenues soared by 119.5% to P2.9 billion, due to higher interest charges and other charges to tenants. Similarly, hotel revenues posted a significant hike of 40.3% to P671.7 million on account of higher hotel occupancy and the opening of Hotel101-Fort.

The increases made up for the decline in real estate sales (-11.9% to P1.4 billion) and rent income (-5.2% to P3.1 billion). With most projects' construction near completion during the year, the pace of revenue recognition (under percentage of completion of projects) was slower in 2023. The lower rental revenue was due to concessions and rental discounts given by the Company.

The higher revenues led to a 23.3% increase in net income to P15.9 billion. Bottom line recovered, despite the 11.3% hike in costs and expenses as well as income tax expense of P2.2 billion. The increase in costs and expenses was mainly attributable to higher G&A expenses (+17.3% to P3.1 billion) and interest

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<sup>21</sup> Sources: <https://beta.pna.gov.ph/articles/1235260>  
<https://manilastandard.net/business/314508772/ph-stocks-peso-fall-ahead-of-us-inflation-report.html>

expense (+16.5% to P2.3 billion). The growth in G&A expenses came from utilities, outsourced sources, and hotel operation expenses (in line with higher occupancy). The rise in interest expense was attributable to lower capitalization rate for borrowing cost and generally higher interest rates.

Return on average assets (ROAA) improved to 9.4%, from 8.7% in 2022. Pre-income tax profit margin similarly went up to 73.4%, from 58.1% in 2022.

#### *Interim June 2024*

Revenues rose by 11.3% to P4.4 billion, on the back of increases in rent income, hotel revenues, and Other revenues. Other revenues, which amounted to P1.4 billion, recorded the fastest growth of 42.9%. This was on account of higher cinema revenues, revenues from advertisements/amusement charges, interests, and other charges to tenants.

Rent income, which represented 44.5% of total revenues, marginally grew by 0.3% YoY to P1.95 billion. The increase was due to the combination of rental escalation and new tenants onboarded. Hotel revenues kept its positive performance, increasing by 38.9% to P406.7 million, due to better occupancy rates of hotel properties and additional hotel revenue from the newly opened Hotel101 – Fort.

Net income growth, however, was minimal at 3.1%. Such was due to the 15.5% hike to P2.6 billion in costs and expenses, and the 47.8% jump to P157.7 million in income tax expense. Higher income tax expense was on account of the higher taxable income for the period. The main contributors to the increase in costs and expenses were G&A expenses (+15.5% to P1.0 billion) and interest expense (+19.7% to P912.9 million). Higher G&A expenses was due to the increase in utilities, employee salaries, depreciation, and professional fees. The uptick in interest expense was attributable to lower capitalized borrowing cost for the period.

#### *Projected Period (2024 – 2030)*

DoubleDragon anticipates to generate ample revenues from its 1.3 million sqm of completed projects beginning in 2025. The Company's revenue from leasing income (rent income and hotel revenue) and real estate sales are expected to, generally, show an uptrend over the projected period.

Leasing revenues (hotel revenues and rent income) will show continuous growth over the projected period, largely due to the expansion of Hotel 101. Management also forecasts higher occupancy rates for its operating hotels. Rent income growth, on the other hand, will be supported by new office tenants, as well as additional rentals from operating and new malls. DoubleDragon's long-term goal and growth plan are to increase revenues from recurring lease income (retail, office and industrial) and hospitality operations. Having a strong recurring revenue stream from leasing will further enhance DoubleDragon's credit profile, given higher margins and stability of recurring cashflows.

Similarly, real estate sales are anticipated to post substantial growth over the projected period on account of the completion and expected sale of the Company's residential and Hotel 101 projects.

Profitability is seen to be sustained throughout the projected period. Albeit costs and expenses are forecast to increase at a slightly higher rate compared to revenue growth, operating profit margin will remain high.

## Cashflow and Liquidity

### 2023

Operating cash remained negative. Debt continued to account for bulk of generated cash, with long-term borrowings favoring bond issuances. The latter posted a significant growth of 24.3% to P18.6 billion, as of end-2023. On September 8, 2023, DoubleDragon issued P2.535 billion Series 1A Notes due on March 8, 2025. On the same day, the company also issued P1.08 billion Series 1C Notes due on September 8, 2028. The purpose of the bond issuances is to fund ongoing construction in relation to the operations of Hotel101 and also, for the DoubleDragon Group's centralized funding. Maturing debt was mostly refinanced.

Current ratio slightly dipped to 1.1x, on account of the 24.8% increase to P25.5 billion in current liabilities. The latter was due to the increases of 21.9% and 26.6% in short-term notes payables and accounts payable and other current liabilities, respectively. Short-term notes payables stood at P15.3 billion. Accounts payable and other current liabilities stood at P8.4 billion, as of end-2023.

### Interim June 2024

DoubleDragon ended 6M2024 with a negative operating cash of P1.7 billion. Nonetheless, this was lower than its P3.2 billion negative operating cash in the same period of 2023. The negative operating cash was on account of cash used to reduce accounts payable and pay interest during the period. Net cash used in investing activities amounted to P1.9 billion, up by 63.5% YoY on account of higher additions to investment property. In contrast, the Company generated a net cash of P7.9 billion from its financing activities. Proceeds from the avilment of notes and bonds during the period amounted to P10.9 billion. Such was partially offset by the P2.8 billion payment for notes, loans, and dividends. As a result of the foregoing, cash and cash equivalents increased to P7.3 billion as of end-June 2024, from P2.9 billion as of end-2023.

Current ratio improved to 1.4x of end-June 2024 due to the combined effect of higher cash level and receivables and lower accounts payable and current debt.

### Projected Period (2024 – 2030)

Cash from operating activities is expected to improve over the projected period. From 2025 onwards, DoubleDragon's portfolio will already be all fully completed and fully built up, while requirements for further substantial capital expenditures will no longer be needed in the near term. Moving forward, the capital-raising activities are intended to boost the Company's financial position by strengthening its cash levels.

Considering improved operating cash flows, along with the planned bond issuances from the Company's new three-year shelf registration Retail Bonds program, cash and cash equivalents is seen to build up over the projected period. As such, DoubleDragon is seen to reduce its reliance on financing activities to meet obligations. In the long term, funding for financing and investing needs are projected to primarily come from operating cash and cash reserves.

Current ratio is also expected to improve over the projected period on account of the Company's higher cash reserves, reduced debt reliance, and the maturity of its bonds. Projected current ratio is expected to be higher compared with historical levels.

## Capital Structure

### 2023

Albeit marginal, debt to capitalization continued to improve to 40.1% as of end-2023. The 26.2% increase to P37.4 billion in retained earnings supported the uptrend in equity. Outstanding debt went up by 12.9% to P63.3 billion, mostly on account of the bond issuance on September 8, 2023. DoubleDragon ended the year with DE ratio of 0.7x, and which was unchanged from the previous year.

The long-term agreements of DoubleDragon contain, among other, covenants relating to the maintenance of certain financial ratios, working capital requirements, restrictions on loans and guarantees, disposal of a substantial portion of assets, capital expenditures, significant changes in ownership, payments of dividends and redemption of capital stock. As per its audited financial statements, DoubleDragon was compliant with the covenants of the debt agreements as of end-2023 and end-2022.

### Interim June 2024

Debt to capitalization ratio stood at 43.2% as of end-June 2024, higher than the 40.1% recorded as of end-2023. Total debt and stockholders' equity each recorded increases of over 16%. DE ratio stood at 0.8x, as of end-June 2024.

### Projected Period (2024 – 2030)

Debt levels are expected to increase in the near term. It is, however, expected to decline in the medium term, as the Company's issued bonds mature and as it relies less on debt. Total equity, on the other hand, will be on an upward trend on account of continued plowback of earnings.

DE ratio will remain more than acceptable, at less than 1.0x over the projected period.

## Financial Flexibility

As of end-March 2024, DoubleDragon had P2.2 billion available (unavailed) in credit facilities from various financial institutions. These credit facilities, which were contracted on clean basis, may be accessed by the company for its future funding needs.

Funding may also be raised from the equities market, given that DoubleDragon and DDMP REIT are both listed at the domestic stock exchange. As of October 16, 2024, DoubleDragon had a market capitalization of P24.15 billion while DDMP REIT had P19.08 billion.

On July 16, 2024, DoubleDragon issued its Series C Fixed Rate Bonds in the amount of P6.0 billion. The bonds, with a coupon rate of 8.008%, will mature on January 16, 2028. Following this issuance, on September 20, 2024, the Company issued its P4.0 billion Series D Fixed Rate Bonds Due 2029. The Series D Fixed Rate Bonds, with a similar coupon rate of 8.008%, will mature on September 20, 2029.

Moving forward, the merger between Hotel101 Global and JVSPAC Acquisition Corporation is expected to result in Hotel101 Global having an equity value of \$2.3 billion. The merger will close in the second half of 2024, with Hotel101 Global listing under the ticker 'HBNB'. The NASDAQ listing of Hotel101 Global, the

first for a Philippine company, provides the company with access to public funds and will help accelerate its global expansion plans.