

 PHILIPPINE RATING SERVICES CORPORATION	RATING REPORT
	MEGAWIDE CONSTRUCTION CORPORATION

Date: May 3, 2024
Analyst/s: Aline Lei A. Abon
 Patrisha Mae P. Concepcion

5th Floor ALGO Center
 162 L.P. Leviste St., Salcedo Village
 Makati City, Metro Manila
 1227 PHILIPPINES

(632) 8812 3210
 (632) 8812 3215
 www.philratings.com.ph

NEW ISSUE CREDIT RATING

Amount	Tenor	Assigned Rating and Outlook
Base Offer of ₱4.0 Billion Fixed-Rate Bonds, with an Oversubscription Option of up to ₱1.0 Billion	3, 5 and 7 years	PRS Aa Stable Outlook
Total: up to ₱5.0 Billion		

Use of Proceeds: Proceeds of the base offer will be used to refinance the Company's existing debt obligations and for other general corporate purposes, while the oversubscription option proceeds will include business development opportunities.

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

A **Stable Outlook** is assigned when a rating is likely to be maintained or to remain unchanged in the next 12 months.

MONITORING

Outstanding Issuances		Maturity Date	Assigned Rating and Outlook
₱1.6 Billion	Series A	February 17, 2026	PRS Aa Stable Outlook
₱2.4 Billion	Series B	August 17, 2027	
Total: ₱4.0 Billion			

RATIONALE

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

- Solid experience in the construction industry, along with vertically integrated operations, that are seen to complement the government's infrastructure projects**
 Megawide Construction Corporation (Megawide or the Company) has built a solid reputation as one of the top companies in the Philippine construction sector.

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

Historically, Megawide won four different projects across different administrations. These are the Public School Infrastructure Project in 2012, Mactan Cebu International Airport (MCIA) in 2014, Parañaque Integrated Terminal Exchange (PITx) in 2015, and the Clark International Airport (CIA) in 2018. This track record offers the Company an edge and displays its familiarity with government processes when it participates in bidding for future projects. Given Megawide's track record with government partnerships under changing leaderships and its ability to undertake different kinds of projects, Megawide believes it is in a good position to secure big ticket projects in the infrastructure space.

As of report writing date, Megawide together with its Japanese partners Tokyu Construction and Tobishima Corp., officially signed Contract Package (CP-104) of the Metro Manila Subway Project, with an aggregate contract value of ₱17.75 billion. Such includes the construction of underground stations in Ortigas North and South, as well as the tunnels connecting these two locations. This project is seen to facilitate Megawide's diversification into railway systems.

2. Notable expansion projects in recent years, with the aim of diversifying into less cyclical sources of revenues

The Company sees various opportunities in private domestic real estate construction, public infrastructure projects, and transport-oriented developments, specifically in terms of fasttracking and participating in the country's infrastructure modernization through the government's initiative under its "Build Better More" (BBM) program.

Megawide also aims to strengthen its portfolio towards more responsive, scalable, and higher growth segments. At the same time, it plans to replicate its transformative value-creation model in other sectors, particularly in transport, social, property development, and digital infrastructure spaces, by modernizing and innovating systems and structures that will help jumpstart the Philippines' recovery in the "new normal".

Some of Megawide's ongoing projects include the CP-104 of the Metro Manila Subway Project and the redevelopment of Carbon Market in Cebu. In addition, Megawide purchased a 100% stake in PH1 World Developers, Inc. (PH1) from one of its major shareholders, Citicore Holdings Investment, Inc. (CHII). The Company expects to generate more stable revenues, with long-term project visibility and availability from PH1's pipeline of vertical and horizontal developments. Such include: My Enso Lofts in Timog, Quezon City, and Modan Lofts in Pasig and Taytay, Rizal, among others.

3. Favorable industry outlook and opportunities, backed by the government's infrastructure projects

The construction industry remains bullish as it is expected to sustain growth, driven by the government's infrastructure program. Despite a significant decline during the COVID-19 pandemic, the said sector remains as a key contributor to the country's economic growth. In the

third quarter of 2023 (3Q2023), construction continued to be one of the main contributors with its 14.0% input to the overall 5.9% GDP growth. The Department of Trade and Industry (DTI) Assistant Secretary and Construction Industry Authority of the Philippines (CIAP) alternate Chairperson Agaton Uvero said that the government's BBM program will support the projected economic growth expansion of 6.0% in 2024.

Moving forward, the construction industry in the Philippines will be mainly driven by the government's focus on the development of transport and energy infrastructure, as well as affordable housing.

Oxford Economics and Aon said that the Philippines is expected to be among the fastest growing construction markets over the next 15 years. The government's push for Public-Private Partnership (PPP) for infrastructure development, coupled with rising population and rapid urbanization, are seen to boost construction growth in the country.

4. Rebound in earnings, albeit with easing margins attributed to a strategic approach

Supported by the divestment of its airport asset, Megawide registered a consolidated net income of ₱2.8 billion in 2022. Bottom line recovered from the ₱893.2 million net loss posted in 2021. Turnaround was mainly on account of the ₱6.6 billion one-off gain from the sale of its airport stake.

In 2023, the Company booked a net profit of ₱269.2 million—which all came from continuing operations, i.e., construction, landport and the newly-acquired real estate operations. While considerably smaller given the absence of the one-time gain from the airport transaction in the previous year, this is a reversal from the ₱1.9 billion net loss from continuing operations (construction and landport) in 2022. Bottom line rallied mainly owing to the 24.4% growth to ₱18.1 billion in construction revenues, which accounted for 97.3% of total revenues.

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

5. Improved leverage levels

Consolidated debt to equity ratio significantly improved, from 2.6x as of end-2021 to 1.4x as of end-2022. This was brought about by the 43.9% dip in interest-bearing loans and borrowings to ₱27.8 billion, largely due to the derecognition of the non-current portion of the airport segment's debt which amounted to ₱25.8 billion. Total equity also inched up by 2.4% to ₱19.7 billion, backed by the improvement in retained earnings.

As of end-2023, debt to equity ratio increased to 1.8x, driven by the 10.2% growth in interest-bearing debt and the 13.9% decrease in equity. While still elevated, leverage levels are better

compared to historical (2018–2021). Manageable leverage levels are expected in the future, supported by the direction to retire debts and the continued plowback of earnings.

BUSINESS REVIEW

Company Profile

Incorporated on July 28, 2004, Megawide is one of the country's most rapidly growing infrastructure conglomerates, with a portfolio in engineering, procurement and construction (EPC), airport and landport infrastructure, and property development. The Company's construction and engineering solutions integrate its comprehensive EPC capabilities with innovative construction solution technologies such as precast, formworks, concrete batching, and specialized logistics systems.

The engineering firm mainly expanded its business by creating a strong partnership with the Philippine government through its participation in Public Private Partnership (PPP) programs, which began with the School Infrastructure Project Phases 1 and 2.

Megawide, together with GMR Infrastructure (Singapore) Pte. Limited (GISPL) and GMR Infrastructure Limited (GIL), incorporated GMR Megawide Cebu Airport Corporation (GMCAC) for the construction, development, operation and maintenance of Mactan Cebu International Airport. Such was in accordance with the Concession Agreement (CA) between GMCAC and the Department of Transportation (DOTr) on April 21, 2014.

In December 2022, Megawide and GMR Airports International BV (GAIBV) executed a Share Subscription and Transfer Agreement with Aboitiz InfraCapital, Inc. (AIC), for AIC to acquire shares in GMCAC, the developer and operator of the Mactan Cebu International Airport (MCIA).

The joint-venture partners for the 25-year Concession Agreement to develop, operate, and maintain MCIA—Megawide and GAIBV—agreed to sell down their existing stakes in GMCAC to accommodate the entry of AIC. The agreement involves GMCAC's issuance of primary shares and the transfer of secondary shares from Megawide and GAIBV to AIC, which will result in the latter owning 33 and 1/3% minus 1 share stake in GMCAC.

Simultaneously, the transaction likewise involves the issuance by Megawide and GAIBV of Exchangeable Notes, which will mature on October 30, 2024 and are expected to be exchanged by AIC for the remaining 66 and 2/3% plus 1 share of GMCAC's outstanding capital stock.

In addition, Megawide and the then WM Property Management, Inc. (WMPMI) (*now called Megawide Terminals, Inc.*) entered into a joint venture (JV) agreement to form MWM Terminal, Inc. (MWMTI) to develop and operate the Parañaque Integrated Terminal Exchange (PITx) project. Such was also in accordance with the CA with DOTr on April 24, 2015. These aforementioned projects furthered Megawide's involvement in PPP.

Operations

Revenues of Business Segments

(In Million Pesos)	2021	% of Total	2022	% of Total	2023	% of Total
Construction	14,328	95.25%	14,538	98.26%	18,142	97.34%
Landport	715	4.75%	258	3.42%	348	1.87%
Real Estate	-	-	-	-	149	0.79%
Total Revenues	15,046	100.00%	14,842	100.00%	18,638	100.00%

(In Million Pesos)	2021	2022	2023
Discontinued Operations (Airport Segment)	599	1,839	-

Net Profit (Loss) of Business Segments

(In Million Pesos)	2021	2022	2023
Construction	352	2,291	435
Landport	78	(242)	(204)
Real Estate	-	-	(57)
Net profit	430	2,049	174

(In Million Pesos)	2021	2022	2023
Discontinued Operations (Airport Segment)	(1,372)	4,705	-

Construction Operations

Megawide has been operating for more than two decades and has built a solid reputation as one of the top companies in the Philippine construction sector. The Company also offers fully integrated EPC services, utilizing modern building and engineering technologies. Megawide is reportedly the first to use advanced, modern and comprehensive European building systems that reduce construction time and allow for quicker project turnover.

Megawide has an AAAA Contractor's License from PCAB. This is the highest classification and category for a construction company, which qualifies Megawide to bid for private projects with no limits on contract value. Likewise, Megawide obtained a Large B classification for government registration which allows the Company to participate in large infrastructure projects such as highways, roads and bridges, piers, airports, railroads, waterworks and power plants.

The Company's order book was at ₱43.1 billion as of December 31, 2023. Such was composed of 59.0% office, commercial and industrial projects, 28.0% residential projects, and 13.0% infrastructure projects and facilities.

Megawide's main revenue driver is its construction business, which comprised 97.3% of total revenues in 2023. The revenues of the construction business are mainly driven by contract revenues, which accounted for more than 91.5% of total construction revenues.

Ongoing Projects

The following table lists the Company's existing projects, with respective percentage completion of each as of December 31, 2023:

Project Name	Completion Rate	Target Completion Date
Urban Deca Ortigas	97%	April 2024
University Tower 5	61%	December 2024
Proposed 4-Storey Economic Residential Condominium (Plumera)	30%	September 2025
Gentry Manor	84%	June 2024
The CornerHouse Project	99%	April 2024
Urban Deca Cubao	70%	December 2024
Aglipay Sewage Treatment Plant	76%	April 2025
Suncity A	85%	June 2024
Suncity B	81%	October 2025
Ascott DD Meridian Park Manila	71%	July 2024
Double Dragon Meridian Tower	68%	July 2024
Hotel 101	5%	September 2026
Landers Aseana	10%	March 2025
One Lancaster Park	0%	Ongoing Negotiation
Clark Global City Myung Dang	3%	October 2024
Modan Lofts Ortigas Hills	0%	Ongoing Negotiation
Lumbangan Solar Power	91%	May 2024
CP-104 Manila Subway	13%	August 2030
Malolos-Clark Railway Project (MCRP)	37%	December 2026
My Enso Lofts	11%	January 2027
Northscapes SJDM	0%	December 2024
Southscapes Trece Martires	0%	November 2025

CP-104 Manila Subway

On May 5, 2022, Megawide, together with its JV partners from Japan, Tokyu Construction and Tobishima Corporation, officially signed CP-104 of the Metro Manila Subway Project. CP-104 includes the construction of underground stations in Ortigas North and South, as well as the tunnels connecting these two locations. The project has an estimated aggregate contract value of ₱17.75 billion. This project is seen to facilitate Megawide's diversification into railway systems.

Tokyu Construction Co., Ltd. is one of the established Japanese general contractors engaged in commercial, institutional, and residential buildings, as well as civil engineering works for dams, bridges, and transportation systems. Tobishima Corporation is likewise one of Japan's leading general contractors. It is involved in large-scale civil engineering works for hydro-electric power plants, dams, and railroads, with onshore and offshore projects located in Brunei Darussalam, Indonesia, Pakistan, and Myanmar, among others.

PHirst Park Homes, Inc. project

As of end-2023, Megawide secured three new supply-and-build contracts with residential developer PHirst Park Homes, Inc. (PPHI) located in Naic, Cavite; Baliuag, Bulacan; and Tayabas, Quezon – bringing the Company's partnership with PPHI to build close to 19,000 units across 11 locations nationwide.

This project is seen to expand Megawide's precast order book and strengthen its presence in the horizontal housing segment. For more efficiency and faster turnover, the Company also set to build an onsite precast molding and concrete batching plant to manufacture precast housing components for the project.

Cebu Carbon Market Redevelopment

The Company partnered with the local government of Cebu City for the transformation of the oldest and largest farmer's market in the city into a commercial, heritage and cultural district with a multimodal and integrated transport hub. The new market will serve as Cebu City's heritage district and will be composed of a restored Compania Maritima, a refurbished Freedom Park, and a modernized Carbon Market. The joint venture agreement between Megawide and Cebu City was signed on January 11, 2020. Megawide's concession period with Cebu's local government unit is 50 years, renewable to another 25 years upon mutual agreement of both parties

The project will redevelop the Carbon Market into a Multimodal and Integrated Transport Hub in two phases:

Phase 1 involves the rehabilitation of the existing public market, and construction of a new night market and other commercial establishments, transport and ferry terminals, among others. The gross leasable area (GLA) is around 50,000 square meters and is expected to be fully built in 2027. As of report-writing date, the Carbon Market's Interim Market is already operational, with a GLA of 4,000 square meters and an average lease rate of ₱1,200 per square meter per month.

Phase 2 includes a mixed-use development plan which may include hotels, meetings, incentives, conferences and exhibitions (MICE) facilities, and retail spaces, among others, envisioned to transform the property into a Cebu attraction.

As of report writing date, four areas were already operational at the carbon market, while the main public market is still under construction.

According to management, the redevelopment of the Carbon Market Complex in Cebu City is expected to contribute approximately ₱150.0 million in total annual revenues to the Group.

Cebu2World Development, Inc. (Cebu2World) will directly handle the Carbon Market project of Megawide in Cebu City. Incorporated on November 3, 2020, Cebu2World is engaged in dealing, engaging, or otherwise acquiring an interest in land or real estate business, without engaging in real estate investment trusts.

In May 2023, Megawide agreed to sponsor a ₱3-billion loan for its wholly-owned subsidiary, Cebu2World, to finance the carbon market mixed-use development in Cebu City. The Company executed an omnibus loan and security agreement with Cebu2World and lenders Philippine National Bank and Land Bank of the Philippines. Under the agreement, Megawide will act as share security grantor, subordinated security grantor, as well as sponsor for the loan agreement. Meanwhile, Cebu2World is the borrower, mortgagor, grantor and assignor. Megawide also agreed to create a security interest over its present and future shares of stock and its entire ownership interest in Cebu2World for the latter to avail of financing for the carbon market project.

Major Customers

The following table shows the percentage contributed by the Company's major customers to its construction order book as of end-2023:

Customer	Contribution to Order Book (%)
Suntrust Home Developers, Inc. (Suntrust)	50%
8990 Housing Development Corporation	19%
Department of Transportation (MCRP)	12%
Double Dragon Properties Corporation (DD)	8%
Others	11%

Suntrust

Suntrust is a company engaged in real estate development, mass community housing, townhouses and rowhouses development, residential subdivision and other massive horizontal land development. It is a subsidiary of Suncity Group Holdings Limited (Suncity Group), a listed company on The Stock Exchange of Hong Kong Limited, which owns 51% of the outstanding capital stock of Suntrust. Suncity Group is principally engaged in property development in the Guangdong and Anhui Provinces in the People's Republic of China; property leasing in Shenzhen in the People's Republic of China; provision of hotel and integrated resort general consultancy service in Vietnam; and the provision of travel related products and services.

8990 Holdings, Inc. (8990)

8990 is the largest mass housing developer in the Philippines in terms of units licensed under Batas Pambansa (BP) 220 from 2011 to 2013, according to the Housing and Land Use Regulatory Board (HLURB). The company has been developing mass housing projects in high-growth areas across Luzon, Visayas and Mindanao since 2003. 8990's DECA Homes and Urban DECA Homes have also gained a strong reputation in the market, resulting in 8990 garnering numerous awards such as Q Asia Magazine's Best Housing Developer for 2012 to 2013.¹

Double Dragon Properties Corp. (DD)

DD has undertaken several vertical and horizontal developments since it started its commercial operations in April 2010. The Company has established a successful track record of expansion by accumulating an investment property portfolio with a total value of ₱126.2 billion, and a portfolio size of 1.2 million square meters in gross floor area as of December 31, 2022. DD owns the community mall chain brand "CityMall" under its subsidiary CityMall Commercial Centers Inc., and DD Meridian Park and Jollibee Tower, both of which are located in prime properties in Metro Manila.

PhilRatings assigned an issue credit rating of PRS Aaa, with a Stable Outlook, for DD's outstanding ₱15.0 billion bonds. DD was also assigned an issuer credit rating of PRS Aaa (corp.), with a Stable Outlook.

Landport Operations

MWMTI is a joint venture of Megawide and Megawide Terminals, Inc. (MTI), with an agreed equity ratio of 51% and 49%, respectively. As mentioned previously, it was incorporated to develop and implement the PITx project, pursuant to the CA signed with the DOTr on April 24, 2015. PITx was designed to be the first intermodal terminal in the Philippines. On November 5, 2018, the Company inaugurated PITx and subsequently started its operations on November 10, 2018.

¹ <https://www.8990holdings.com/about/awards-3-2/>

The development and implementation of the PITx project is divided into terminal and commercial areas, and related developments therein (the Project Assets). At the end of the concession period on October 17, 2051, MWMTI shall hand over the PITx project and Project Assets to DOTr without any cost. Pursuant to the CA, the Company shall be entitled to collect and receive the concessionaire revenue made up of annual grantor payment (AGP), commercial revenue, and any applicable grantor compensation payments.

PITx, the country's first landport, is a 4.5-hectare development which houses the transport terminal, commercial spaces, and office buildings under a single roof. With a rated capacity of 100,000 passengers daily, PITx offers seamless connections to other modes of transportation from provincial to in-city buses, taxis, jeepneys and UV Express shuttles. It is located along Diosdado Macapagal Blvd., with the proposed link to the LRT Line 1 extension Asia World Station and spur line of the Metro Manila Subway Line 9.

PITx's bus stands have 10 gates and 59 bays. Aside from the bus bays taking center stage, the terminal also has loading and unloading bays for UV Express shuttles and public utility jeepneys. Moreover, premium point-to-point bus operations, such as UBE Express, are offering rides from PITx to the Ninoy Aquino International Airport terminals. At the fourth floor of the PITx terminal, there are 852 parking spaces for different vehicles and motorists.

In addition, the PITx mobile app, which currently provides daily trip schedules and initially offers advanced ticket reservations, enables the PITx team to gather and analyze critical data to better understand commuter behavior. This data can be utilized for similar future developments in other locations.

PITx has retail and office spaces within its terminal area, which are MWMTI's main revenue drivers. On top of the terminal area sits four five-storey towers, with a leasable area of 19,226 square meters each. Retail spaces are available to offer services such as food, medicine, and other grocery items for travelling passengers. Meanwhile, the office towers augment passenger volume and increase foot traffic to provide additional business to the retail tenants.

As of December 31, 2023, the office towers had a leased-out rate of 58% while the commercial area enjoyed an 81% occupancy level, with an average daily foot traffic of 117,000 in the terminal area.

Megawide acknowledged that high office vacancy rates remain a challenge to PITX office leasing. To address such, the Company slowly diversifies its tenant mix to both traditional and non-traditional businesses. These include logistics providers (e.g. Lalamove, UPS), and BPO service providers (e.g. SP Madrid) which take up 57% share to total office space signed up.

In 2024, PITX plans to add six routes, targeting a passenger volume of 40 million. These routes include destinations such as Tuguegarao City; San Carlos City; Dagupan City in Pangasinan; San Pedro and Southwoods in Laguna; and Guimaras. PhilRatings notes that the landport has served 127 million passengers from 2019 to 2023 and is anticipating to exceed its target of 150 million passengers this year.

PITX will continue to leverage on its value proposition as the country's first landport, with multi-modal transport options and access to key business districts around Metro Manila. To further boost occupancy, Megawide will continue to anchor its marketing campaign to its strategic location and diverse offerings as its key differentiator. According to management, the general direction for PITX is to preserve a healthy occupancy. As such, existing clients with good standing are prioritized in the renewal of contracts.

Megawide targets to secure longer-term contracts, with stable business models and strong business relationships.

Customers

Contracts of Lease for Office Spaces

MWMTI has existing contracts with companies engaged in POGO. The contracts are for a period of five years with an annual escalation rate of 5.0% on the monthly rent.

Contracts of Lease for Retail/Commercial Spaces

MWMTI has existing contracts with various tenants and concessionaires for a period of one to eight years. The monthly rental rates of some contracts are based on the monthly income of their business while others pay a fixed rate. All contracts have a provision on the payment of security deposit and advance rent. Examples of MWMTI's tenants are Alfamart, Miniso, Bench, Jollibee, Chowking, McDonald's, Mang Inasal, Yellow Cab and Wendy's.

As of December 31, 2023, commercial revenues accounted for 61.0% share of total, while the remaining 39.0% came from ancillary services. Food and Beverage contributed 73.0% to total commercial revenues, while Retail had 27.0%.

Discontinued Operations

Airport Operations

On December 16, 2022, Megawide, together with GMR Airports International B.V. (GAIBV), closed the deal with AboitizInfraCapital Inc. (AIC). AIC acquired GAIBV and Megawide's shares in GMCAC, the airport operator, for an initial ₱9.5 billion covering 33.3% minus one share in GMCAC. After the sale transaction, Megawide's ownership interest in GMCAC was reduced to 33.3% as of December 31, 2022. The remaining ownership interest is classified as Non-current Asset Classified as Held for Sale.

Under the deal, Megawide and GAIBV will then issue ₱15.5 billion worth of exchangeable notes to AIC. When the notes mature in 2024, AIC is expected to trade these for the remaining 66.6% plus one stake in GMCAC. Upon the conversion of exchangeable notes on October 30, 2024, AIC will have 100% ownership of GMCAC.

Originally, GMCAC was incorporated for the purpose of constructing, developing, operating, and maintaining the MCIA, in accordance with the concession agreement executed among GMCAC, DOTr and Mactan-Cebu International Airport Authority (MCIAA).

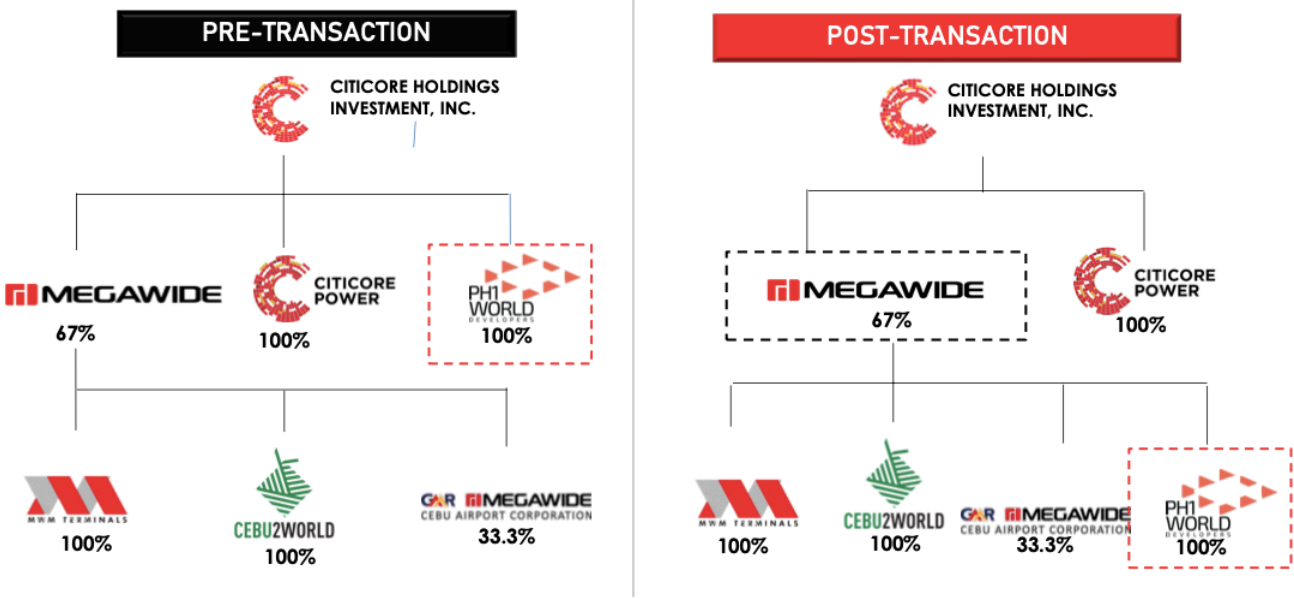
The transaction accelerates the capital recycling of Megawide and enables it to recognize profits upon the sale of GMCAC. Moreover, it will enable the Company to re-engineer its portfolio into more cycle-resilient, scalable, and high-growth segments.

Such allowed Megawide to accelerate the growth of its infrastructure development portfolio, which includes the company's foray into rail transport, such as MCRP and the Metro Manila Subway Project. It also enables Megawide to pursue projects in relation to social infrastructure and urban renewal, specifically in the affordable housing space and the Carbon market modernization project, respectively.

This also provides Megawide with capital to pursue the expansion of its transport-centric development (TCD) portfolio, where the target is to develop ten locations within three to five years, with PITx at the center, and support the foray into digital infrastructure.

Acquisition of PH1

In July 2023, Megawide purchased a 100% stake in PH1 from CHII for a total consideration of ₱5.2 billion.



PH1 is a real estate company that envisions to “disrupt” local property development conventions in design, technology, and customer service. Having constructed multiple projects for various leading property developers, Megawide believes it has identified the gaps and the end-user needs of the real estate market. PhilRatings notes that PH1 targets the affordable and middle-income markets.

Megawide sees the acquisition as a means to accelerate growth momentum, with the expectation to improve margins and price appreciation upside associated with property development. Such is in line with Megawide’s strategy towards strengthening its portfolio by engaging in more cycle-resilient, scalable, and higher growth segments. The transaction is also seen to enhance Megawide’s order book quality, as this reduces counterparty risks from external clients, and turn in more efficient operations as project management is streamlined.

Moreover, the Company expects to generate more stable revenues, with long-term project visibility and availability from PH1’s pipeline of vertical and horizontal developments. Currently, PH1 has three ongoing projects, namely: Northscapes San Jose Del Monte in Bulacan, Modan Lofts in Quezon City, and Modan Lofts Ortigas Hills in Taytay. These have a total sales value of ₱20.0 billion. Moreover, there are two pipeline projects which are located in Cavite and Cebu.

Megawide plans to list its newly acquired property unit PH1 in the Philippine Stock Exchange (PSE) in 2025.

Moving forward, PH1 aims to upsize its pipeline and launch two horizontal projects annually in the next five years. It currently has ongoing negotiations to secure land in Bulacan, Cavite and Batangas. According to management, PH1 is looking at 200 hectares for its pipeline of horizontal projects.

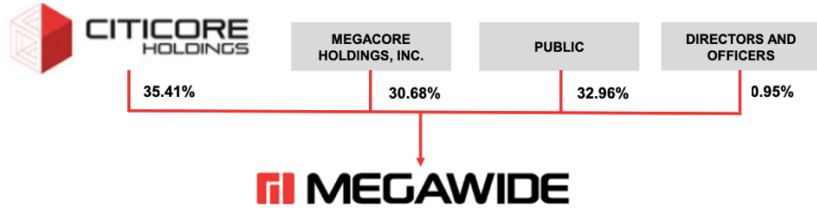
Data Center²

On February 28, 2023, Megawide signed a shareholders’ agreement with Evolution Data Centres Pte Ltd. (EDC) to design, build, and operate a data center. Headquartered in Singapore, EDC was founded in 2021 with the strategic vision to become the next-generation, leading pan-Asian data center platform, delivering digital infrastructure, reliably and sustainably, into high growth markets.

Together, the companies will be responsible for the construction of a 69-megawatt colocation data center in the Philippines. Phase one of the project is set to cover a 23-megawatt deployment, spread over five years inside a four-hectare property in Cavite. The data center’s estimated cost is roughly ₱16.5 billion for phase one.

The development carries significance for Megawide, with the Company resolving to widen its reach in digital infrastructure. The Company recognized the increasingly digitalized environment which both enterprises and consumers inhabit.

Ownership and Management



As of March 31, 2024, the major owners of Megawide are CHII and Megacore Holdings, Inc. (Megacore), which owned 35.41% and 30.68% of the Company’s shares, respectively. Citicore and Megacore are both owned by Mr. Edgar B. Saavedra.

CHII was incorporated on December 3, 2011 and operates primarily as a holding company with ownership interests in Megawide and other affiliates. On the other hand, Megacore was incorporated on July 20, 2017 and was primarily organized to invest in or purchase or otherwise acquire and own, hold, use, sell, assign, transfer, mortgage, pledge, exchange or otherwise dispose real or personal property including shares of stocks, subscriptions, bonds, debentures, evidences of indebtedness and any securities of any corporations.

Mr. Edgar B. Saavedra and the other executives are the key decision makers of Megawide. In relation to this, the Company is continuously hiring experts to further strengthen and professionalize its organizational and management structure. Megawide continues to bolster its management positions to spread out responsibilities.

Edgar B. Saavedra is one of the co-founders of Megawide, and serves as the Chairman of the Board, Chief Executive Officer (CEO) and President of Megawide. He has more than 20 years of engineering experience. He is concurrently the Chairman and President of CHII and Megawide Land, Inc. He is also the Chairman of PH1 and a Director of GMCAC. Mr. Saavedra received his Bachelor’s degree in Engineering from De La

² <https://megawide.com.ph/going-digital-megawide-to-build-philippine-data-center-with-singapore-based-evolution-data-centers/>

Salle University. After obtaining his license as a Civil Engineer, he pursued special studies in Foundation Formworks in Germany, through the Philippine Institute of Civil Engineers.

Manuel Louie B. Ferrer serves as the Vice-Chairman of the Board and Executive Director of Infrastructure Development. He is concurrently the Vice-Chairman of PH1. He also serves as a Director of GMCAC, MWMTI, and other related parties. He previously served as President of MWMTI. Mr. Ferrer obtained his degree in Industrial Design in 1996 from De La Salle University.

On April 16, 2024, Jez G. dela Cruz was appointed as the Group Chief Finance Officer (CFO). He is concurrently the Treasurer of Citicore Renewable Energy REIT Corporation. Prior to joining Megawide, he was a M&A Senior Associate of BPI Capital Corporation, as well as Financial Planning and Analysis Manager of San Miguel Brewing International. Mr. dela Cruz obtained his Master of Business Administration degree from Asian Institute of Management.

On January 16, 2024, Ramon H. Diaz retired as Megawide's Group CFO. He, however, remained as a Director of CHII, MWMTI, and other related parties. Prior to his stint in Megawide, Mr. Diaz was the President and Chief Operating Officer of Metro Pacific Zamboanga Hospital Corporation. He also served as CFO of PT Internux (Indonesia), East Manila Hospitals Managers Corporation, Mt. Kitanglad Agri Services, Inc., and Actron Industries Inc. Mr. Diaz obtained his Bachelor of Science in Commerce, Major in Accounting degree from the University of San Carlos, and his Masters of Business Management degree from Asian Institute of Management, as a scholar of the Ford Motor Company.

Strategy

The Company sees various opportunities in private domestic real estate construction, public infrastructure projects, and transport-oriented developments, specifically in terms of addressing and improving the infrastructure development in the country through the government's initiative under its BBM program. Specifically, the Company is keen on the following business strategies: (1) expand its business into other segments, including but not limited to public infrastructure developments; (2) actively pursue value-accretive transport-oriented projects in the government pipeline; (3) capitalize on its fully-integrated EPC advantages; (4) leverage organizational competence and flexibility; and (5) constantly improve productivity and enhance operational efficiency in its on-going and future projects.

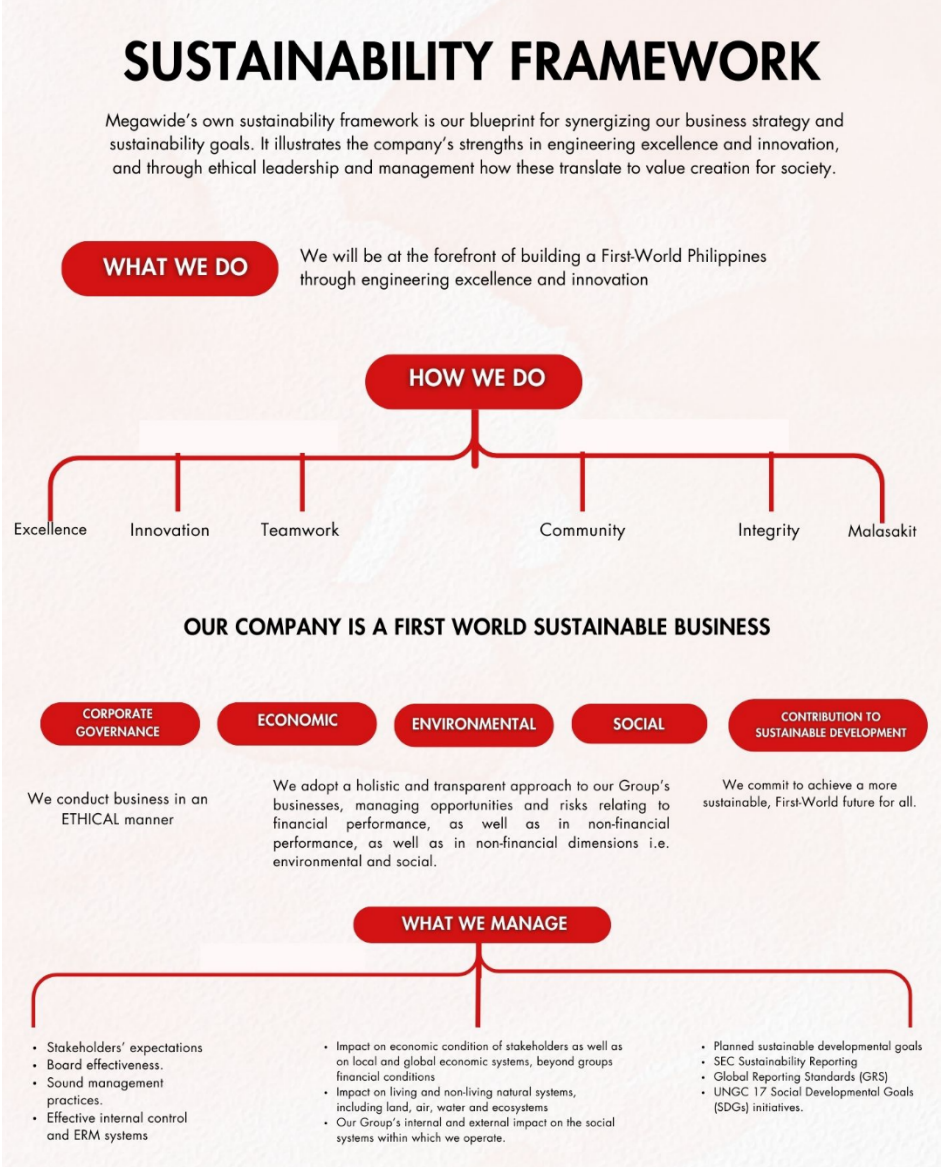
Megawide is strengthening its portfolio towards more responsive, scalable, and higher growth segments. At the same time, it plans to replicate its transformative value-creation model in other sectors, particularly in transport, social, property development, and digital infrastructure spaces, by modernizing and innovating systems and structures that will help jumpstart the Philippines' recovery in the "new normal".

Sustainability Framework

To Megawide, sustainability is about building structures that last—cascading quality of life for generations to come. With focus on strengthening environmental, social, and governance (ESG) sustainability, the Company has put in place systems that will guide its environmental and social impacts, anchored on sound corporate governance practices to ensure compliance and adherence to global standards.

Megawide pioneered Sustainability Reporting within its industry, with its maiden Sustainability Report published in 2018. This was consistently enhanced over the years to better capture its efforts along five areas: Economic, Environmental, Social, Corporate Governance, and Contribution to Sustainable Development.

Illustrated in the next diagram is the Company’s Sustainability Framework, which serves as its blueprint for synergizing its business platforms with its sustainability goals:



Megawide’s business units take guidance and direction from this framework and align their projects and programs with these sustainability commitments.

As a benchmark, Megawide abides by the sustainability reporting requirements of the Security and Exchange Commission (SEC) as well as the Global Reporting Initiative (GRI) Standards. A materiality assessment was first conducted in 2018 to identify critical topics that are most relevant to the Company’s business and stakeholders, which included an engagement process with internal and external stakeholders to understand their issues and concerns.

For 2023, Megawide conducted an updated Materiality Assessment to align with the first two inaugural IFRS Sustainability Disclosure Standards, specifically IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related Disclosures.

Legal Issues

Alleged Anti-Dummy Law³ Violation⁴

In October 2021, the Department of Justice (DOJ) indicted top officials of GMCAC for allegedly violating the Anti-Dummy Law. The case stemmed from a complaint filed by Atty. Larry Iguidez, Jr. with the National Bureau of Investigation (NBI) in September 2020, claiming that foreigners were controlling GMCAC and operating MCIA. According to the DOJ, GMCAC is considered a public utility corporation, and its management, control and operation should be reserved for Filipino citizens. Megawide maintained that its officials did not violate any law.

The Megawide respondents also filed a motion to quash the case, citing the newly signed Republic Act No. 11659 or the Amended Public Service Act. The amended law excludes airports from the definition of a public utility, which means they are no longer subject to the 40% foreign ownership cap.

Megawide views the issue as more of a political harassment that is said to have started when the Company pursued the \$2 billion proposal to modernize NAIA. At the height of the alleged anti-dummy law violation, the Manila International Airport Authority (MIAA) revoked the original proponent status awarded to Megawide and its foreign partner GMR for the NAIA rehabilitation project.

On June 27, 2022, the Regional Trial Court of Lapu-Lapu City issued the Omnibus Order dated June 14, 2022 dismissing the criminal case against Directors and Officers of Megawide in their capacity as directors of GMCAC for the alleged violation of the Anti-Dummy Law.

Alleged Anti-Graft and Corrupt Practices Act⁵ Violation

In November 2021, top officials of Megawide received a copy of the Office of the Ombudsman's Joint Resolution indicting them for violation of Anti-Graft and Corrupt Practices Act. Such case concerns the same factual backdrop as the supposed violation of the Anti-Dummy Law in relation to GMCAC's operation and management of MCIA. The Megawide respondents filed a Motion for Partial Reconsideration and/or Reinvestigation and a Motion to Dismiss on the ground of lack of probable cause in November 2021 and April 2022, respectively. On April 30, 2022, the Office of the Ombudsman through a Joint Order denied the Motion for Partial Reconsideration and/or Reinvestigation. Thus, a Petition of Certiorari for the issuance of temporary restraining order and/or writ of preliminary injunction was filed before the Supreme Court. This was granted on December 6, 2023. Hence, the Joint Resolution and Joint Order were reversed and set aside, and the criminal complaint for the alleged violation of Anti-Graft and Corrupt Practices Act against the top officials of Megawide was dismissed.

³ The Anti-Dummy Law is a criminal statute that penalizes individuals who violate foreign equity restrictions and evade nationalization laws in regulated districts. It prohibits using a proxy arrangement to accomplish a transaction not allowed under Philippine laws.

⁴ <https://www.rappler.com/nation/doj-indicts-megawide-gmr-officials-over-anti-dummy-law/>
<https://business.inquirer.net/335103/megawide-seeks-dismissal-of-criminal-complaint-says-officials-not-allowed-to-present-defense-before-arrest-warrants-ordered>
<https://www.bworldonline.com/corporate/2022/03/29/438717/megawide-officers-file-motion-to-quash-anti-dummy-case/>

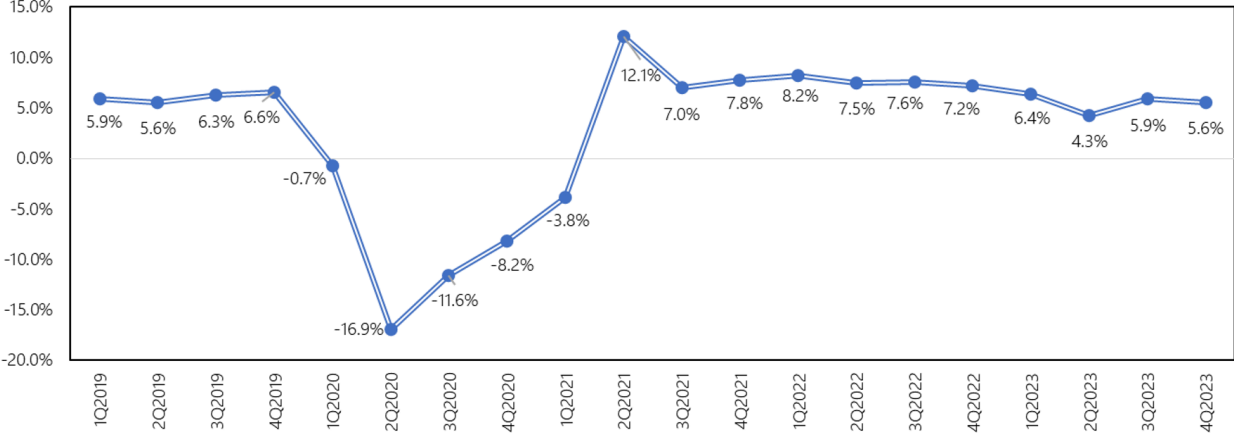
⁵ The Anti-Graft and Corrupt Practices Act is a policy in line with the principle that a public office is a public trust, to repress certain acts of public officers and private persons alike which constitute graft or corrupt practices or which may lead thereto.

Complaint Against the Redevelopment of the Carbon Market Complex in Cebu City

Carbonhanong Alyansa along sa Reporma ug Bahandianong Ogma sa mga Nanginabuhì filed a complaint seeking to nullify the JV Agreement signed by local government of Cebu City and Megawide for the redevelopment of the Carbon Market Complex in Cebu City. The plaintiffs argued that the JV Agreement violates various laws and pray for ancillary remedies including a temporary restraining order. As of report writing date, the presentation of evidence for the plaintiff and public defendants has been completed. Megawide is set to present its evidence on June 21, 2024.

ECONOMY

Historical Gross Domestic Product (GDP) Growth Rates



2023

The Philippine economy grew by 5.5% in 2023.⁶ This was slower compared with the 7.6% growth in 2022 and short of the government’s growth target of 6.0%–7.0%.

Agriculture, Forestry, and Fishing grew by 1.2%, an improvement from the 0.5% growth in 2022. The Services and Industry sectors, on the other hand, recorded slower growths compared to 2022, expanding in 2023 by 7.2% and 3.6%, respectively.

The top contributors to the 2023 growth were wholesale and retail trade, repair of motor vehicles and motorcycles (+5.5%), financial and insurance activities (+8.9%), and construction (+8.8%).

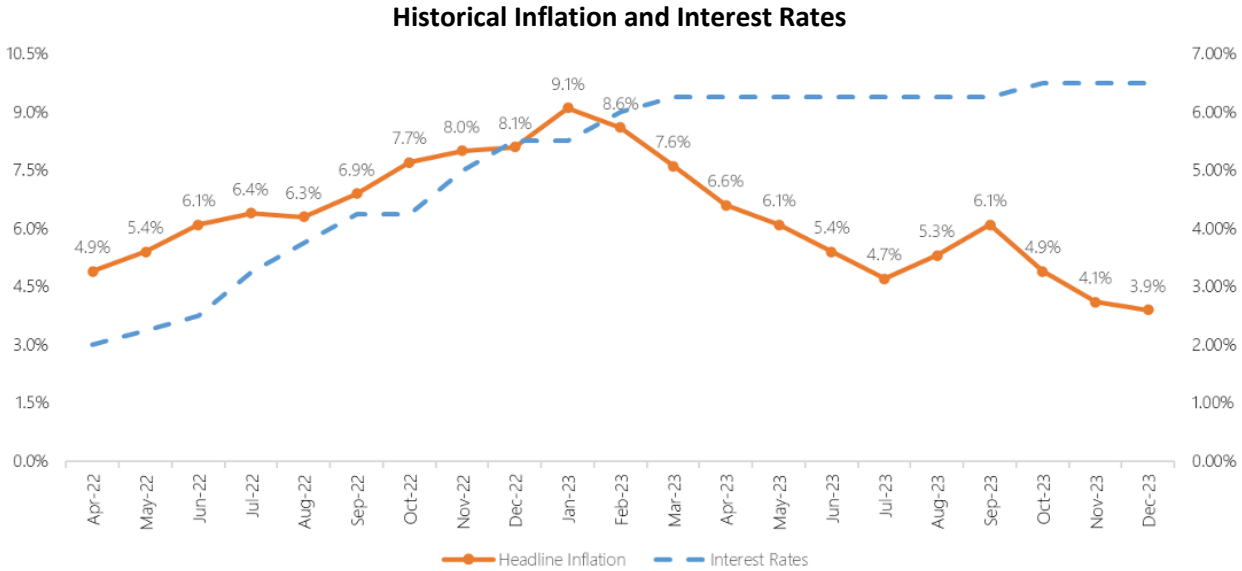
Household Final Consumption Expenditure (HFCE) expanded by 5.6% in 2023, slower compared with 8.3% in 2022. HFCE growth slowed down for seven consecutive quarters, from a growth rate of 10.0% in 1Q2022 to 5.1% in 3Q2023. Household consumption nevertheless recorded a slight uptick to 5.3% in 4Q2023, backed by robust growth in spending for restaurants and hotels, transport, and recreation. In contrast, there was slow growth in food spending, despite the moderation in inflation, due to elevated food prices.

Government Final Consumption Expenditure (GFCE) was relatively flat, recording a 0.4% growth in 2023. This was lower than the 4.9% growth recorded in 2022. Such was attributed to the fiscal consolidation program as well as the absence of election-related spending in 2023.

⁶ <https://www.psa.gov.ph/statistics/national-accounts>

Nonetheless, the country was Southeast Asia’s fastest-growing economy in 2023, surpassing Vietnam and Malaysia which held the top spots in 2021.⁷

Inflation and Interest Rates



After reaching 9.1% in January 2023 (a new all-time high), headline inflation settled at 3.9% in December 2023. This was the slowest since February 2022. This brought the year-to-date average inflation to 6.0%, slightly higher compared to the 5.8% average inflation in 2022. The 2023 average inflation, likewise, remained beyond the government’s 2.0%–4.0% full-year target.

According to National Statistician Dennis S. Mapa, the December inflation was primarily on account of a 1.5% increase in prices for housing, water, electricity, gas, and other fuels, which was slower compared to the 2.5% recorded in November. The rate of increase in prices of food and non-alcoholic beverages also eased from 5.7% in November to 5.4% in December. Food inflation went down to 5.5% from 5.8%. However, rice inflation accelerated to 19.6% from 15.8% in November.

In an effort to curb rising prices, the Bangko Sentral ng Pilipinas (BSP) had aggressively increased the benchmark interest rate from 2.25% in May 2022 to 6.25% in March 2023. The BSP then maintained the policy rate at 6.25%, as inflation continued to decelerate in the first half of 2023 (1H2023). Due to the inflation uptick in August and September, however, the Monetary Board decided to take an off-cycle decision to raise the interest rate by 25 basis points to 6.5% in October 2023. This rate has been kept unchanged to date.

Outlook

The government had trimmed down its GDP growth target for 2024 to 6.0%–7.0%, from 6.5%–7.5%. According to National Economic and Development Authority (NEDA) Secretary Arsenio Balisacan, the revision was prompted by the country’s 2023 performance. The continued slowdown in the global economy is making it difficult for the Philippines, as well as its regional peers, to post faster economic growth. Other challenges include the impact of a prolonged El Niño dry spell on the economy and the high

⁷ <https://www.bloomberg.com/news/articles/2024-01-31/philippine-economy-grows-faster-than-expected-5-6-last-quarter>

interest rate environment that may hurt consumption and investments. Secretary Balisacan also cited that general elections in major economies could lead to political shifts that may disrupt trade and investments.

The Asian Development Bank (ADB) sees the Philippine economy growing by 6.0% in 2024, supported by slowing inflation and improved domestic demand. ADB's growth forecast is faster than the 5.5% GDP growth in 2023, and falls within the lower end of the Marcos administration's GDP target range for the year. ADB expects GDP growth to further pick up to 6.2% in 2025, below the government's recently narrowed down target for next year of 6.5%–7.5%.

Moody's Analytics bumped up its Philippine GDP growth forecast to 5.9%, for both 2024 and 2025, surpassing those of Vietnam and Indonesia to occupy the top spot in the region. The number, however, falls short of the recently-revised government targets.

The government expects average inflation to settle at 3.7% and 3.2% in 2024 and 2025, respectively, which is within its 2.0%–4.0% target range. The private sector also sees inflation settling within the target, albeit forecasts are slightly higher at 4.0% in 2024 and 3.5% in 2025.⁸ Based on latest data from the Philippine Statistics Authority, headline inflation from January to March 2024 averaged 3.3%. Inflation rate further accelerated to 3.7% in March 2024, from 3.4% in February 2024. It marked the second straight month of acceleration amid faster increases in food and transportation costs.

INDUSTRY

Construction

The construction industry remains bullish as it is expected to sustain growth, driven by the government's infrastructure program. Despite a significant decline during the COVID-19 pandemic, the said sector remains as a key contributor to the country's economic growth. In 3Q2023, construction continues to be one of the main contributors with its 14.0% input to the overall 5.9% GDP growth. DTI Assistant Secretary and CIAP alternate Chairperson Agaton Uvero said that the government's BBM program will support the projected economic growth expansion of 6.0% in 2024.

Moving forward, the construction industry in the Philippines will be mainly driven by the government's focus on the development of transport and energy infrastructure, as well as affordable housing.

Oxford Economics and Aon said that the Philippines is expected to be among the fastest growing construction markets over the next 15 years. The government's push for PPP for infrastructure development, coupled with rising population and rapid urbanization, are seen to boost construction growth in the country.

Infrastructure^{9,10}

The country's infrastructure spending increased to P1.02 trillion in 2022, up by 13.4% from the P895.1 billion spending recorded in 2021. This was also higher than the P979.3 billion infrastructure spending set for 2022. Such was attributed to the higher-than-expected disbursements by the Department of Public Works and Highways (DPWH) and the Department of Transportation (DOTr). Most of the DPWH spending was used for the implementation and payment of regular infrastructure projects, such as the fast-tracked

⁸ https://www.bsp.gov.ph/SitePages/PriceStability/VisualIMPR/MonetaryPolicyReport_November2023.aspx

⁹ <https://www.bworldonline.com/top-stories/2023/03/31/514155/infrastructure-spending-jumps-13-in-2022/>

¹⁰ <https://www.philstar.com/headlines/2024/02/19/2334413/dbm-infrastructure-capital-expenditures-breach-p1-trillion>

implementation of carryover projects and payment of prior years' accounts payables, the adoption of streamlined policies for project implementation, and the processing of documents. Disbursements by the DOTr, on the other hand, went to the Cebu Bus Rapid Transit (BRT) project and other account payables.

The government aims to allocate a yearly minimum, equivalent to 5.0%–6.0% of GDP, for infrastructure spending. In 2022, infrastructure spending accounted for 5.8% of the country's GDP, unchanged from 2021.

As of end-November 2023, infrastructure spending amounted to P1.02 trillion. This was higher compared to the P861.8 billion spending recorded in the same period in 2022. The capital outlays were driven by the disbursements made by the DPWH to fund several priority projects which encompass the construction, rehabilitation, renovation, repair, and enhancement activities related to roads, bridges, and flood control structures. Furthermore, the implementation of various foreign-assisted rail transport projects of DOTr also made notable contributions to the 11-month infrastructure spending.

For 2024, a total of P1.51 trillion was allocated for infrastructure development. Such is higher than the P1.33 trillion budget for 2023 and accounts for 5.5% of the country's projected 2024 GDP.

Transportation¹¹

As part of President Ferdinand Marcos Jr.'s "Build Better More" program, the DOTr budget for 2024 is set to double from ₱106 billion in 2023 to ₱214.3 billion. The transportation sector is one of the ten priority sectors identified under the 2024 national budget, placing sixth in terms of amount allocated. DOTr will receive about 3.7% of the entire nation's budget.

The DOTr's rail transport program, had the largest allocation of ₱163.7 billion for 2024. Meanwhile, the other sectors will get a comparatively small cut. The land public transportation program will receive the next largest amount at ₱6.4 billion, followed by the aviation infrastructure program at ₱6.1 billion. The motor vehicle regulatory program is at ₱2 billion, and the maritime infrastructure program at ₱988 million. Given the data, the budget for rail alone is more than ten times the allocations for road, aviation, and maritime combined.

The transportation budget in 2024 is tilted heavily towards rail infrastructure mainly due to the NSCR and the Metro Manila Subway. Commencing partial operations in 2027, the NSCR aims to cut travel time from Clark to Calamba to two hours. Its total cost is ₱628.42 billion, which is financed in part by the Japan International Cooperation Agency and the Asian Development Bank. Originally set to start partial operations by 2022, the Metro Manila Subway's first three stations will be ready by 2027, according to Marcos. Once completed, it will stretch from Valenzuela City to Parañaque City, cutting travel time from Quezon City to the Ninoy Aquino International Airport (NAIA) to 35 minutes.

Real Estate¹²

Residential

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

¹¹ <https://www.rappler.com/business/transportation-budget-2024-programs-railways-infrastructure/>

¹² Colliers Philippines Market Reports – Q4 2023

In 2023, there was a recorded delivery of 3,540 units, lower than the initial estimate of 4,920 units, due to construction delays. The forecast condominium completion in 2024 will recover with the delivery of 11,290 units, and which will be the largest since 2018. The Bay Area is seen to likely account for more than 60% of new supply for the year.

The Metro Manila residential take up in 2023 was about 23,400 condominium units in the pre selling market, higher than the 21,600 units sold in 2022. The affordable to lower mid income segments accounted for 57% of total take up in 2023.

Launches of pre-selling condominium units in 2023 was down by 4% from a year ago. Colliers attributed such to the cautious stance of developers in terms of residential launches, owing to the still sizable number of RFO units in Metro Manila. The remaining inventory life of the RFO units were estimated at 3.2 years.

Vacancy rates improved to 16.8% as of end-2023, from 17.1% in the previous quarter, mainly driven by returning expatriates and employees who are starting to return to the office and are looking for rental units in the prime business districts. Vacancy in 2024, however, is estimated to rise to 17.7% with the delivery of new units.

Rental rates increased by 3.5% in 2023 due to the mentioned demand from returning expatriates and employees. Rental corrections in these business hubs were starting to decelerate to between 6% and 14% as of end-2023, from 11% and 15% rental discounts in 2022 (compared to pre-pandemic rates). In 2024, rents and prices are seen to grow albeit at a slower pace. Colliers attributed the slower increase to elevated vacancy, given the new and substantial number of RFO units in the secondary market.

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 performed better than anticipated for full-year 2023. While pre-termination of lease contracts remained elevated, there was higher demand for office space from traditional firms. Office space deals in Metro Manila went up by 37% from a year ago. This was led by traditional firms which accounted for 46% of the total transactions in 2023. Outsourcing firms and POGOs took up 34% and 20% of office space transactions, respectively. The office take-up in 2023 was supported mostly by expansions and relocations. In 2024, net absorption is seen to gradually improve given the continued inquiries for new setups, expansions, and relocations within and outside the capital region.

As of end-2023, office vacancy reached 19.3%, lower than the projected rate of 21.2% for the year. This was primarily due to lesser office space completions than anticipated. New office space completions in 2023 totaled 611,700 sqm, which was lower than the additional 736,100 sqm of new space in 2022.

Additional supply of office space in 2024 is expected to reach 598,300 sqm, nearly half of which will be coming from the Bay Area, Quezon City and Alabang. The annual delivery of new supply from 2024 to 2026, however, is forecast to be lower than the annual completions from 2020 to 2022 as developers remain cautious of their portfolio vacancies.

In 2024, vacancy is expected to inch higher at 19.6% due to low pre-commitment levels in upcoming buildings, new completions, and expected surrenders from non-renewals of pre-pandemic leases.

Average rents in Metro Manila dropped by 0.4% in 2023, but recorded a 0.5% increase quarter-on-quarter (QoQ). In 2024, Colliers estimated rents to marginally rise by 2.5% after posting a cumulative decline of 38% from 2020 to 2023.

In 2023, there was 36% higher office space transactions in green buildings with LEED, EDGE, WELL and BERDE certifications or pre-certifications.¹³ Colliers recommends that developers incorporate green features into their portfolio given the heightened importance of sustainability in the office requirements of occupiers.

The flexible workspace market, likewise, grew to 16.7% from 11.9% in 2022. This is seen to continue, with increasing inquiries from potential occupiers. Colliers encouraged landlords to offer non-traditional leases (i.e. flexible workspace scheme) in their office buildings to capture this demand.

Retail

Two new shopping malls opened in Makati City and Parañaque City in 2023, adding 34,000 sqm and 30,000 sqm of retail space to the existing stock, respectively. The year ended with a total of 7 million sqm of retail stock. Additional 160,000 sqm of retail space is expected to open in 2024 in Quezon City, Parañaque City, Taguig City, and Muntinlupa City. Such may further push up vacancies in the medium term.

Quezon City continued to house majority of Metro Manila retail space as of end-2023. Future supply going online in 2024-2026 are mostly concentrated in Quezon City and Taguig City.

Metro Manila vacancy rate went up to 6.8% in 4Q2023, attributable to newly introduced shopping malls which opened with high vacancy. Vacancy of existing malls before 4Q2023 contracted to 5.7%, as store openings increased during the holiday season.

Hospitality

Foreign arrivals in 2023 exceeded the target of the government for the year. Data from the Department of Tourism showed foreign arrivals in the country reached 5.45 million in 2023, breaching the target of 4.8 million for the year and the 2.65 million recorded in 2022. The foreign arrivals in 2023 was equivalent to 66% of the all-time high of 8.26 million arrivals in 2019. Largely because of the foregoing, there was an overall improvement in occupancies and average daily rates in Metro Manila in 2023.

Average hotel occupancies in Metro Manila reached 65% in 2H2023, up from 61% in the first half of the year. This was driven by holiday-induced spending and the surge in foreign arrivals in 4Q2023. Hotel occupancies are foreseen to improve to 68% with the expected inflow of tourists despite the substantial completion of hotel rooms in Metro Manila.

On the other hand, actual completion of new supply was lower in 2023 than the initial estimate due to construction delays. In 2024, however, the expected new supply will reach an all-time high of 5,120 new hotel rooms after the completion of projects that had pushed-back construction schedules.

¹³ LEED - Leadership in Energy and Environmental Design; EDGE - Excellence in Design for Greater Efficiencies; WELL – WELL Building Standard; BERDE - Building for Ecologically Responsible Design Excellence

The average daily rate of rooms grew by 10.4% in 2023, higher than the forecast of 6%. The annual growth was driven by the sustained demand for leisure and in-person corporate events. In 2024, room rates are projected to increase, albeit lower, at 6%. This will be attributed to the expected substantial completion of new rooms that is foreseen to temper the increase in daily rates.

FINANCIAL REVIEW

Analysts' Note: PhilRatings' calculation of certain financial metrics may differ from that of the Company.

Profitability

2022 vs. 2021

Analysts' Note: Following the sale of shares from GMCAC and GMI in 2022, Megawide presented its airport and airport merchandising segments as part of discontinued operations. The construction and landport segments made up the Company's continuing operations.

Recovering from the ₱893.2 million net loss it posted in 2021, Megawide booked a net income of ₱2.8 billion in 2022. Turnaround was largely driven by the one-off gains from the airport transaction. The Company recorded a total of ₱6.6 billion in gain on deconsolidation of subsidiaries.

Consolidated revenues (from continuing operations) amounted to ₱14.8 billion, down by 1.3% from the previous year. Revenues from construction operations—which accounted for 98.3% of total revenues—amounted to ₱14.6 billion, marginally up by 1.8%. Megawide reported a slowdown in construction operations in 2022, as certain contracts were under renegotiation in light of increasing raw material prices and interest rates. The Company nevertheless continued to secure new contracts throughout the year, keeping its order book healthy. Landport operations, on the other hand, posted revenues of ₱258.3 million—representing a 63.9% dip from last year. The segment experienced lower occupancy rates attributed to the government's continued crackdown on POGOs.

Direct costs were 3.4% higher at ₱12.9 billion, mainly due to the uptrend in prices of raw materials and services as well as higher labor costs. Gross profit from continuing operations in 2022 therefore amounted to ₱1.9 billion, a 24.5% drop from 2021. This translated to a gross margin of 12.9%, lower than the 16.9% gross margin for the construction and landport segments in 2021.

Offset by other income and expenses, however, Megawide registered a ₱1.9 billion net loss from continuing operations. Such was primarily weighed down by the eightfold jump in impairment losses to ₱1.7 billion. During the year, Megawide provided provisions and write-off on certain projects under contract assets that were deemed to have doubtful recoverability. The Company disclosed that its management decided to discontinue three big projects when, after several attempts to renegotiate, it became apparent that the claims from these projects can no longer be collected. Management decided to terminate the projects to manage the financial impact to the Company. These projects were said to be negatively affected by COVID-19 through suspension of non-essential construction activities, higher input costs and delayed supply chain.

Offsetting the net loss from continuing operations, Megawide posted a ₱4.7 billion net income from discontinued operations. Following the rebound in air travel, the airport business delivered revenues of ₱1.7 billion in 2022, almost triple of what it generated in 2021. Passenger volume more than doubled, although it still fell short of pre-pandemic levels. The airport merchandising segment similarly saw a sixfold leap in its sales to ₱148.2 million. Gross profit amounted to ₱864.9 million, more than four times than last

year's. Other operating expenses, however, grew fourfold to ₱1.9 billion due to repair costs incurred to restore the airport after typhoon Odette—thus resulting in an operating loss. This was offset by recovery from insurance claims of ₱1.0 billion and the recognition of gain on deconsolidation of subsidiaries amounting to ₱6.6 billion, allowing Megawide to book a net profit for the year.

With the reversal in its bottom line, Megawide registered a return on average assets (ROAA) of 3.7% in 2022. It also reported a return on average equity (ROAE) of 14.6%.

2023 vs. 2022

In 2023, Megawide reported a consolidated net income of ₱269.2 million—which all came from continuing operations, i.e., construction, landport and real estate operations. This was a reversal from the ₱1.9 billion net loss from continuing operations (construction and landport) in 2022. Bottom line rallied following a rebound in the construction business, helped out by the initial contribution from the newly-acquired property development arm. Efficient treasury management also led to an improvement in finance income, boosting net profit for the year. Relative to the ₱2.8 billion net income from both continuing and discontinued operations in 2022, however, bottom line was down by 90.5% in 2023. This can be traced to the absence of the ₱6.6 billion one-time gain from the airport transaction in 2022.

Consolidated revenues—of which 97.3% were generated from construction operations—climbed by 25.6% to ₱18.6 billion in 2023. Construction revenues grew by 24.4% to ₱18.1 billion, as a result of steady completion of existing projects. Landport revenues recovered, posting a 34.6% hike to ₱347.8 million, given increasing foot traffic and average passenger spend. Real estate operations contributed ₱148.9 million in revenues.

In line with revenue growth, direct costs increased by 27.4% to ₱16.5 billion. Gross profit consequently improved by 13.6% to ₱2.2 billion, translating to a slightly lower gross margin of 11.7%. PhilRatings noted that gross margin from continuing operations (i.e., excluding airport operations) had been on a decline since 2020, during which it was 17.0%. According to Megawide, this was the outcome of the Company's calculated strategy to secure longer-term, higher-value and big-ticket projects that provide more revenue predictability, as well as the impact of reportedly industry-wide low office occupancy affecting landport operations.

Finance income doubled to ₱1.0 billion, offsetting the increases in finance costs and other operating expenses. Higher finance income was attributed to being able to take advantage of attractive yields amidst the higher interest rate environment. Impairment losses also dipped from ₱1.7 billion in 2022 to ₱35.3 million in 2023. As discussed, in 2022, Megawide provided provisions and write-off on certain projects that were adversely impacted by the pandemic.

As a result of the foregoing, a turnaround in earnings from continuing operations was recorded, from a net loss of ₱1.9 billion in 2022 to a net profit of ₱269.2 million in 2023. Net profit margin for 2023 was 1.4%. ROAA and ROAE were also modest at 0.4% and 1.5%, respectively.

Projected Period

Megawide anticipates an improvement in its profitability going forward, with the construction business remaining as the top contributor. Costs and expenses are seen to be well managed, thereby helping the bottom line. The Company also expects to reverse the downtrend in its gross margins over the past few years, as it focuses on higher margin businesses, which include the newly-acquired property development arm, external market penetration of its PCS unit, and improvement in landport operations.

Cash Flow and Liquidity

2022 vs. 2021

After five years of consistently positive operating cash flows, Megawide recorded ₱2.9 billion in net cash flows used in operating activities in 2022. Operating profit before working capital changes was 3.0% higher at ₱2.9 billion. Higher cash outflows were however recorded primarily in relation to contract assets and trade and other receivables.

Net cash flows from investing activities amounted to ₱5.1 billion, offsetting the negative operating cash flows for the year. Cash mainly came from the proceeds from the sale of investment in the airport segment. Further augmenting funds are the net cash flows from financing activities of ₱7.9 billion, which were mostly from loan availments and additional borrowings during the year.

As such, cash and cash equivalents stood at ₱15.8 billion as of end-2022, considerably higher than the ₱5.8 billion balance a year ago. Liquidity ratios were also better. Current ratio increased from 1.5x as of end-2021 to 2.2x as of end-2022, while acid test ratio moved up from 0.8x to 1.4x. EBITDA interest coverage ratio in 2022 was likewise satisfactory at 2.0x. In addition, as of end-2022, 70.1% of the Company's accounts receivable were current.

2023 vs. 2022

Operating cash flow remained negative in 2023, albeit lower at -₱1.9 billion. Net cash used in investing activities amounted to ₱5.9 billion, largely on account of the ₱5.2 billion spent for the acquisition of PH1. For its financing activities, Megawide also registered a net cash outflow of ₱3.3 billion. Cash was used for repayment of loans, redemption of preferred shares, dividend distribution, and interest payments. Cash and cash equivalents therefore dipped by 69.0%, from ₱15.8 billion as of end-2022 to ₱4.9 billion as of end-2023.

Current ratio fell but remained adequate at 1.3x as of end-2023. Acid test ratio also went down to 0.6x. EBITDA interest coverage ratio slipped to 1.3x.

Projected Period

The Company expects positive operating cash flows moving forward, on the back of continued profitability. Operating cash is seen to be augmented by borrowings to fund investing activities. Megawide also intends to use a mix of refinancing and internally generated cash to settle maturing debt obligations, including its outstanding and proposed bonds.

Capital Structure

2022 vs. 2021

The Company's interest-bearing loans and borrowings dipped by 43.9% to ₱27.8 billion as of end-2022. This was largely due to the derecognition of the non-current portion of the airport segment's interest-bearing loans and borrowings, which amounted to ₱25.8 billion. In contrast, equity inched up by 2.4% to ₱19.7 billion, supported by the improvement in retained earnings. Debt to equity ratio therefore significantly improved, from 2.6x as of end-2021 to 1.4x as of end-2022. This is also the first time since 2017 that debt to equity ratio was below 2.0x.

Megawide ended 2022 with an asset size of ₱66.5 billion, down by 22.0% from ₱85.2 billion as of end-2021. Asset contraction was mainly a result of the sale and deconsolidation of GMCAC.

2023 vs. 2022

Debt to equity ratio increased to 1.8x as of end-2023, given the 10.2% growth in debt levels and the 13.9% decline in equity. Interest-bearing debt went up to ₱30.6 billion, driven by the 43.1% hike to ₱21.0 billion in the current portion. The jump was on account of the availments made to support working capital requirements and the upcoming maturity of corporate notes (and hence reclassification to current). Equity, on the other hand, decreased to ₱16.9 billion due to the redemption of preferred shares amounting to ₱2.6 billion and the declaration of cash dividends amounting to ₱2.4 billion.

Projected Period

Manageable leverage levels are expected over the projected period, supported by the direction to retire debts and the continued plowback of earnings.

Financial Flexibility

As of end-2023, Megawide had available credit facilities from various local banks, which the Company could tap should the need arise. Megawide is also publicly listed in the Philippine Stock Exchange (PSE). Its market capitalization stood at ₱6.0 billion as of April 23, 2024.