 PHILIPPINE RATING SERVICES CORPORATION	RATING REPORT
	NLEX CORPORATION

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REGULAR MONITORING FOR THE FOLLOWING OUTSTANDING ISSUANCES

Amount	Tenor	Issue Date	Maturity Date	Interest Rates	Assigned Rating and Outlook
₱4.0 billion*	7 years	July 04, 2018	July 04, 2025	6.6407%	PRS Aaa, Stable
₱2.0 billion*	10 years	July 04, 2018	July 04, 2028	6.9000%	PRS Aaa, Stable
Total Outstanding Issuance – ₱6.0 billion					

*Part of NLEX Corp.'s P25 billion Shelf Registration from 2018 to 2022

Rating 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.

Outlook Definition

A **Stable Outlook** is defined as: "The rating is likely to be maintained or to remain unchanged in the next 12 months."

RATIONALE

A well-managed toll franchise, backed by a robust project pipeline

NLEX Corporation (NLEX Corp.; the Company) benefits from its management's significant expertise in road construction and toll plaza operations. The Company also enjoys strong support from its parent company, Metro Pacific Tollways Corporation (MPTC), the largest private tollway developer and operator in the Philippines and Southeast Asia. MPTC oversees a network of 1,201.3 lane kilometers (km) of highways connecting regional capitals, towns, tourist spots, and special economic zones across the Philippines and the ASEAN region.

NLEX Corp. recently completed several major upgrades. The Meycauayan Interchange improvements, finished in March 2024, enhanced local road access and reduced congestion in Meycauayan, Bulacan. The NLEX-SCTEX Ramp Expansion, completed in April 2024, increased capacity and reduced travel times in Mabiga, Mabalacat, Pampanga. Pavement raising and drainage improvements under the Tulaoc River Bridge in San Simon, Pampanga, were completed in November 2023, ensuring roadway quality. Bridge repairs conducted between Q4 2023 and Q1 2024 extended the lifespan and improved the safety of the Company's toll roads. Additionally, roadway enhancements, including sign standardization, were completed by March 2024 to meet safety standards and improve customer satisfaction.

In 2024, NLEX Corp. plans to further develop and improve its infrastructure by focusing on expanding road capacity. The Company's three major projects are the Candaba 3rd Viaduct, scheduled to commence operations in December 2024, as well as NLEX Segment 8.2 1-A (Mindanao Avenue to

Quirino Highway) and the NLEX Expansion Project Phase 3, which the Company intends to undertake in 2025. These projects aim to: (1) improve safety, traffic flow, and accessibility; (2) boost trade and commerce in Central Luzon; and (3) manage the expected increase in vehicle traffic.

Strong demand for its toll services, supported by the government's infrastructure push

NLEX Corp. faces no direct competition in central and northern Luzon due to the lack of other toll road operators and functional railways. The only alternative, MacArthur Highway, is often congested and impractical for trucks and long-distance buses. NLEX Corp.'s toll roads offer a more efficient option, particularly for freight vehicles.

In 2023, traffic volumes surpassed 2022 levels due to a recovery in travel demand. The NLEX Connector saw 12,688 daily entries after Section 1's partial opening on August 8, 2023. Despite the tempered traffic growth expected in 2024 and 2025, significant benefits are anticipated from the full opening of the NLEX Connector Road and the Candaba 3rd Viaduct.

In his recent State of the Nation Address (SONA), President Ferdinand Marcos Jr. highlighted the progress and future plans of the Build, Better, More Program, including the construction and upgrading of 12,000 km of roads and over 1,200 bridges. The program has since seen a substantial allocation from the national budget. Infrastructure disbursements under the program amounted to ₱1.42 trillion in 2023 and are projected to reach ₱1.47 trillion in 2024. President Marcos Jr. also signed Executive Order No. 59 (EO 59) on April 30, 2024, to expedite the permitting process for Infrastructure Flagship Projects (IFPs). Future goals of the administration that bode well for the Company include continuing infrastructure improvements and advancing the Mega Bridge Program¹. As of June 2024, the updated National Economic and Development Authority (NEDA) Board-approved list of IFPs comprised 185 projects valued at ₱9.6 trillion. Among these, 72.4% focus on enhancing physical connectivity.

Sustained revenue growth, with healthy margins

NLEX Corp. saw its toll revenues climb to ₱21.5 billion in 2023, marking a 19% increase year-on-year (YoY), driven by higher traffic and overdue toll rate adjustments. This revenue boost led to a 25.1% rise in net income, from ₱8 billion in 2022 to ₱10 billion in 2023. The foregoing translated to a higher net profit margin of 46.3% and a return on average assets (ROAA) of 12.1%. In the first six months of 2024 (6M2024), revenues continued to grow, increasing by 19.5% compared with the same period in 2023. Net income for 6M2024 rose by 23.9% to ₱5.6 billion, maintaining a healthy net profit margin of 45.2% and a ROAA of 11.9%.

Strong cash flows backed by sustained earnings

In 2023, the Company reported net cash flows from operating activities of ₱12.6 billion, a 36.5% increase from the previous year, primarily driven by higher toll revenues. Despite facing increased operating costs, concession fees, and other expenses, this growth reflects the Company's strong revenue generation from its toll roads. In 6M2024, the Company continued to perform well, with net cash flows from operating activities totaling ₱6.5 billion, a 25.6% increase from the same period in 2023. This growth was also driven by higher toll revenues.

¹ The program aims to build 12 bridges to link islands and regions divided by water.

BUSINESS PROFILE

Company Background

NLEX Corp, founded in 1997, focuses primarily on construction and contracting activities related to tollways, their facilities, interchanges, and associated works. This includes the operation and upkeep of these assets, as well as undertaking projects involving roads, bridges, buildings, and various structures. NLEX Corp. is a subsidiary of MPTC, the largest private tollway developer and operator in the Philippines and Southeast Asia.

NLEX Corp. obtained the concession for NLEX through a Supplemental Toll Operation Agreement (STOA) with the Philippine National Construction Corporation (PNCC) in April 1998. Since then, the Company has expanded its operations by entering a Business Agreement in October 2015 to maintain, operate, and manage SCTEX, a toll road owned by the Bases Conversion and Development Authority (BCDA). SCTEX commenced commercial operations in 2008 and is pivotal in Central Luzon's development into a premier logistics hub in the Asia Pacific region, integrating economic activities across Subic Bay Freeport, Clark Freeport Zone, and Central Techno Park (Tarlac).

CONCESSIONS²

Analysts' Note: Kindly refer to Annex A to view the latest road map of the existing, ongoing, and planned projects of the Company in relation to its concessions.

Currently, NLEX Corp. holds the concessions for the NLEX, the SCTEX, and the NLEX Connector Road.

Manila-North Expressway Project (MNEP; The NLEX Project)³

Concession period: April 1998 to December 2037

In April 1998, NLEX Corp. (then known as Manila North Tollways Corporation) received the concession to rehabilitate, modernize, expand, and operate NLEX, including the installation of a suitable toll collection system, known as the MNEP.

The MNEP consists of three phases as follows:

- 1. Phase I** - Rehabilitation and expansion of approximately 84 km of the existing NLEX and an 8.5 km stretch of a Greenfield expressway that connects Tupo in Hermosa, Bataan to Subic (Segment 7)
- 2. Phase II** - Construction of the northern parts of the 17 km circumferential road C-5 which connects the current C-5 expressway to the NLEX and the 5.85 km road from McArthur Highway to Letre
- 3. Phase III** - Construction of the 57 km Subic arm of the NLEX to Subic Expressway

The NLEX spans 105 km or 598 lane km, accommodating an average of 323,791 vehicles daily as of the end of 2023. NLEX Corp. has managed the expressway since February 2005, following the completion of its rehabilitation under Phase I of the NLEX Project.

In October 2008, the Toll Regulatory Board (TRB) extended NLEX Corp.'s concession period to December 31, 2037, in view of the development of Segment 8.1, the 2.7 km NLEX-Mindanao Avenue Link under Phase II. Segment 8.1 opened on June 5, 2010, providing an alternative route to NLEX from Mindanao Avenue, bypassing the Balintawak Toll Plaza. Segment 8.2, on the other hand, will be an 11.5 km expressway linking C-5 Road and Commonwealth Avenue to NLEX. It will follow an eastward route from Segment 8.1 along Republic Avenue before it turns to Luzon Avenue and ends at CP Garcia

² <https://nlex.com.ph/wp-content/uploads/2024/04/2023-Annual-Report.pdf>
<https://nlex.com.ph/wp-content/uploads/2024/05/NLEX-Corporation-SEC-Form-17-Q-1Q-2024.pdf>
<https://nlex.com.ph/concessions/>

³ <https://trb.gov.ph/index.php/toll-road-projects/north-luzon-expressway>

Avenue. The project is targeted to start construction in the last quarter of 2024 according to management.

Also a portion of Phase II is Segment 9 or Karuhatan Interchange, a 2.4 km expressway that connects NLEX to MacArthur Highway in Valenzuela City. Segment 9 opened on March 19, 2015.

Offering another access point to and from NLEX under Phase II of MNEP is Segment 10. It is an all-elevated 5.6 km expressway from MacArthur Highway in Valenzuela to C-3 Road in Caloocan City. Its construction began on April 28, 2014, under a contract with Leighton Contractors Asia Ltd (LCAL). It was completed on February 28, 2019, and opened to the public on March 1, 2019.

In April 2017, TRB granted NLEX Corp. approval to proceed with the R-10 Section of Segment 10, a 2.6 km elevated ramp linking C-3 Road to R-10, providing direct access to the Manila Port area. This section opened on June 15, 2020.

On February 19, 2021, NLEX Corp. opened the expanded section of NLEX Segment 7 or SFEX following completion of the SFEX Capacity Expansion Project, aimed at increasing the carriageway capacity between Brgy. Tipo in Bataan and the Subic Bay Metropolitan Area.

As of October 2024, pre-construction activities are underway for the remaining portion of Phase II of the NLEX Project, while Phase III of the Manila-North Expressway Project (MNEP) has not yet commenced.

Subic-Clark-Tarlac Expressway (SCTEX)⁴

Concession period: October 2015 to October 2043

The SCTEX spans 93.77 km as a four-lane divided highway, running through the provinces of Bataan, Pampanga, and Tarlac. Completed by the BCDA in 2008 with financing from the Japan Bank of International Cooperation, SCTEX was established to connect economic zones in Subic and Clark.

In October 2009, BCDA initiated a competitive bidding process to select a private sector partner for SCTEX's management, operation, and maintenance. NLEX Corp. participated and was awarded the SCTEX Concession in June 2010. Following extensive commercial negotiations and regulatory approvals, NLEX Corp. assumed control of SCTEX toll facilities on October 27, 2015.

In 2016, NLEX Corp. fully integrated SCTEX toll operations with NLEX, enhancing connectivity between the expressways by reconfiguring toll barriers and implementing a unified toll collection system. By end-2023, SCTEX was accommodating an average of 78,600 vehicle entries daily.

NLEX-South Luzon Expressway (SLEX) Connector Road Project (NLEX-SLEX Connector Road)

Concession period: December 2021 to December 2058

The NLEX Connector Road Project involves constructing an 8 km elevated toll expressway over the Philippine National Railways' (PNR) right-of-way, starting from C-3 Road/5th Avenue in Caloocan City to the Polytechnic University of the Philippines (PUP) in Sta. Mesa, Manila.

Signed on November 23, 2016, the Connector Road Concession Agreement between NLEX Corp. and the Department of Public Works and Highways (DPWH) initiated the project. The Connector Road is divided into two sections – the España Section (Section 1) and the Sta. Mesa Section (Section 2).

Section 1 spans 5.15 km from Caloocan City to España Blvd. in Sampaloc, Manila. It was completed and opened on March 29, 2023. Section 2, covering 2.85 km from España Blvd. to PUP in Sta. Mesa,

⁴ <https://trb.gov.ph/index.php/toll-road-projects/subic-clark-tarlac-expressway>

had its Commercially Operable Portion (1.84 km) opened on October 28, 2023. Its construction is ongoing and 87.13% completed as of June 30, 2024. The project's full completion depends on linking Section 2 to the Metro Manila Skyway Stage 3 (MMSS3) via an interconnection structure that will be built by San Miguel Corporation (SMC). The Company has ongoing discussions with the latter to finalize the construction timeline for the interconnection structure. According to management, SMC's commitment primarily depends on DPWH providing the necessary right of way.

Ownership⁵

As of April 2024, MPTC directly owns 70.78% of NLEX Corp. Other shareholders of the Company include BDO Unibank, Inc. (BDO) with a 15.6% ownership stake, EGIS Investments Partners Philippines Inc. (EIPPI) with 10.16%, and the national government with 3.46%.

Figure 1: Corporate Family Tree



MPTC is the largest private sector tollway developer and operator in the Philippines and Southeast Asia, with significant infrastructure investments in Vietnam and Indonesia. MPTC manages a network of 1,201.3 lane km of highways that link regional capitals, towns, tourist spots, and special economic zones across the Philippines and the ASEAN region.

In the Philippines, MPTC operates and maintains 253 km of expressways, with an additional 32 km currently under development. Its toll network includes the NLEX (105 km), SCTEX (94 km), Cavite Expressway (CAVITEX; 14 km), CAVITEX C-5 Link Expressway (4 km), Cavite-Laguna Expressway (CALAX; 18 km), Cebu-Cordova Link Expressway (CCLEX; 9 km), and the NLEX Connector Road (8 km).

It also has toll road investments in PT Nusantara, an Indonesian infrastructure company that operates toll roads, ports, water, and energy generation and distribution. On October 11, 2023, PT Jakarta Metro Ekspresway (JMEX), an Indonesian majority-owned indirect subsidiary of MPTC, entered into a joint venture with PT Adhi Karya (ADHI) and PT Acset Indonusa (Acset). They signed a concession agreement with the Indonesian government to develop the Jakarta Outer Ring Road (JORR) Elevated Cikunir – Ulujami Project (JORR E). JMEX is 85% owned by PT Marga Metro Nusantara, a majority-owned indirect subsidiary of MPTC, while ADHI and Acset hold 10% and 5% stakes, respectively.

In Vietnam, the Company invested in CII Bridges & Roads Investment Joint Stock Company (CII B&R) which engages in construction, development, and operations of urban infrastructure. It oversees projects such as the Hanoi Highway Expansion Phase 2 and the Rach Mieu Bridge. MPTC, however, aims to divest its 44.9% stake in CII B&R for at least ₱4 billion. It targets to transfer its shares in CII B&R to a local entity in Vietnam and is hopeful that the transaction will be finalized this year. The

⁵ <https://www.mpic.com.ph/wp-content/uploads/2024/04/MPIC-IR-2023.pdf>
<https://nlex.com.ph/wp-content/uploads/2024/05/NLEX-Corporation-SEC-Form-17-Q-1Q-2024.pdf>
<https://www.philstar.com/business/2024/03/11/2339552/mpic-sell-stake-vietnam-firm>
<https://www.mpic.com.ph/wp-content/uploads/2024/03/MPIC-17C-Results-of-the-March-2024-Board-Meeting-filed-06-March-2024.pdf>
https://www.bworldonline.com/corporate/2024/02/27/577982/mpic-public-listing-for-toll-road-firm-with-smc-possible-this-year/#google_vignette

divestment is part of the Company’s efforts to streamline its business ahead of a potential merger with SMC’s toll road operations. Negotiations between tycoons Mr. Manuel V. Pangilinan, Chairman, President, and CEO of Metro Pacific Investments Corporation (MPIC), and Mr. Ramon S. Ang, Director of MPIC and Vice Chairman of SMC, are ongoing. They are eyeing collaborative projects such as elevated toll roads along Katipunan Avenue and EDSA.

In 2023, MPTC’s toll revenues rose by 19% to ₱27.2 billion, driven by toll rate hikes and increased traffic in the Philippines and Indonesia. Core net income, however, saw only a 2% increase to ₱5.8 billion, as revenue growth was offset by higher concession amortization for newly opened roads and financing costs associated with the acquisition of the Jakarta-Cikampek Elevated Toll Road (Japex).

MPTC is the toll road arm of MPIC, which is an infrastructure investment and management company. MPIC's portfolio is diverse, including sectors such as power distribution, water utilities, toll roads, light rail, healthcare, real estate, and agriculture. Since its establishment and Securities and Exchange Commission (SEC) registration in 2006, MPIC has expanded to become a major private investor in public infrastructure and sustainable development in the Philippines.

Figure 2: MPIC Asset Portfolio



MPIC's consolidated reported net income increased by 90%, from ₱10.5 billion in 2022 to a record high of ₱19.9 billion in 2023. This growth was attributable to improved financial and operational performance across MPIC's portfolio, resulting in a 29% increase in operational contribution to a record high of ₱24.5 billion. Key drivers included the strong performance of the company’s power generation segment and increased water tariffs in its water concession business.

Among MPIC's core segments, Power had the largest contribution to the company’s net operating income at ₱15.2 billion, representing 62% of the total. Toll Roads and Water, on the other hand, contributed ₱5.8 billion and ₱4.4 billion, respectively.

MPIC’s core net income also showed substantial growth, climbing 38% from ₱14.2 billion in 2022 to ₱19.5 billion in 2023.

In April 2023, MPIC announced its decision to voluntarily delist its shares from the Philippine Stock Exchange (PSE), citing a desire to reduce scrutiny from the media and the investing public. The PSE subsequently approved MPIC’s Petition for Voluntary Delisting on September 29, 2023, with the delisting taking effect on October 9, 2023.

According to Mr. Pangilinan, this decision signifies a strategic shift aimed at increasing operational flexibility. By delisting, MPIC intends to make decisions that prioritize its subsidiaries' and

communities' interests without being swayed by market pressures or short-term shareholder concerns. He further noted that privatization also strengthens partnerships, defines a more focused growth path, and potentially paves the way for future public listings of MPIC's business units. In light of this, MPIC is hoping to complete and publicly list its planned joint venture with SMC within the year.

Management⁶

Since the last rating review, there have been a few changes to the Company's directors and principal officers. Mr. Pangilinan remains to be the Chairman of the Board and Mr. J. Luigi L. Bautista continues to serve as the President, General Manager, and Chief Executive Officer (CEO) of NLEX Corp.

On June 19, 2023, Mr. Raul L. Ignacio resigned as a member of the Board of Directors, and Mr. Rodrigo E. Franco stepped down from the Executive, Nomination, and Remuneration Committees. That same day, Mr. Rogelio L. Singson was elected as a member of the Board to complete Mr. Ignacio's term and as a member of the Executive, Nomination, and Remuneration Committees to fill Mr. Franco's positions. Mr. Singson was also named President and CEO of MPTC in June 2023, succeeding Mr. Franco. Mr. Singson previously held various leadership roles within the MVP Group and served as Secretary of the DPWH from 2010 to 2016.

On July 21, 2023, Atty. Catherine L. Fong was elected Director and First Vice Chairman of NLEX Corp. She has nearly 20 years' worth of experience in public-private partnerships (PPP). Since July 2022, she has been serving as the Undersecretary for Privatization and Corporate Affairs at the Department of Finance (DOF), focusing on improving PPPs. Previously, she was part of the transaction advisory team at the Asian Development Bank's Office of Public-Private Partnership. She holds a Juris Doctor degree (2004) and an AB Communications degree (1999) from the Ateneo de Manila University. At the Annual General Meeting of NLEX Corp.'s Stockholders held last May 30, 2024, however, Atty. Fong was not re-elected as a Director, and as First Vice-Chairman. At present, the First Vice-Chairman role, reserved for the Republic of the Philippines, is vacant due to the lack of a nominee. Management noted that this does not affect NLEX's governance or operations, as the Chairman or Second Vice Chairman is able to take up the limited functions of the First Vice-Chairman as and when necessary.

On July 26, 2023, Mr. Patrick Viellard resigned as a member of the Board of Directors, including his roles as Second Vice Chairman and a member of the Executive, Audit, and Corporate Governance and Risk Committees. That same day, Mr. Matthieu Ulivieri was elected as a member of the Board to complete Mr. Viellard's term. Additionally, Mr. Ulivieri was appointed as Second Vice Chairman and as a member of the Executive, Audit, and Corporate Governance and Risk Committees to fill Mr. Viellard's previous positions.

Mr. Ulivieri serves as Executive Vice President (VP) and Chief Operating Officer (COO) of Egis Projects Philippines, Inc. (EPPI), the Philippine subsidiary of Egis Projects. Since joining Egis in 2015, he has worked on major projects such as the London M25 motorway and eventually led the company's operations and maintenance (O&M) business line in Asia. Mr. Ulivieri became Egis Regional Director for PPP/O&M in Asia in 2022. He completed his Postgraduate Studies in Sciences and Executive Engineering at Ecole des Mines de Paris.

⁶ https://nlex.com.ph/wp-content/uploads/2023/07/NLEX-Corporation-SEC-form-17-C-Results-of-AGM_.pdf
<https://nlex.com.ph/wp-content/uploads/2023/07/NLEX-Corporation-SEC-17-C-Resignation-and-Election-of-NLEX-Director.pdf>
<https://nlex.com.ph/wp-content/uploads/2024/04/Change-in-Directors-%E2%80%93-NLEX-Corp-SEC-Form-17-C-Resignation-and-Election.pdf>
<https://nlex.com.ph/wp-content/uploads/2023/06/NLEX-Corporation-SEC17-C-Resignation-and-Election-of-Director.pdf>
<https://nlex.com.ph/wp-content/uploads/2024/06/2024-Results-of-Annual-Stockholders-Meeting-NLEX-Corp-SEC-17-C-Results-of-2024-ASM-and-Org-BOD-Meeting.pdf>
<https://context.ph/2023/06/21/former-public-works-chief-rogelio-singson-heads-mptc-as-president-and-ceo/>

On April 1, 2024, Mr. Roberto V. Bontia stepped down from the Board of Directors and the Audit Committee of NLEX Corp. Subsequently, on April 21, 2024, during a special Board meeting, Mr. Emmanuel G. Herbosa was appointed as an Independent Director and an Audit Committee member, filling Mr. Bontia's position for the remainder of his term and until a new successor is elected and qualified.

Mr. Herbosa served as the President and CEO of the Development Bank of the Philippines (DBP) from March 2019 to January 2023. Prior to joining DBP, he was the President and CEO of the Philippine Export-Import Credit Agency, Executive VP of the Bank of Commerce, and Senior VP of Bank of the Philippine Islands (BPI). He holds a Bachelor of Science degree in Industrial Management Engineering from De La Salle University (1975) and a Master in Business Administration Degree from Wharton School, University of Pennsylvania (1979).

Environmental, Social, and Governance⁷

NLEX Corporation's ESG initiatives follow the MPTC group-wide sustainability framework and focus on five strategic priorities: (1) Drive Product Utilization; (2) Build with Least Disruption; (3) Improve Customer Experience; (4) Drive Decarbonization; and (5) Design for Resilience.

Oversight is provided by an active Board Committee responsible for Corporate Governance, Risk Management, and Sustainability, while a group-wide Sustainability Council coordinates efforts across the MPTC group.

The Company aligns with the Sustainable Development Goals (SDGs), integrating these into its sustainability strategy at the Board level. NLEX Corp. contributes to SDG 3: Good Health and Wellbeing, SDG 9: Industry, Innovation, and Infrastructure, and SDG 11: Sustainable Cities and Communities. By continuously improving the quality of its toll roads and the efficiency of its traffic management system, the Company helps reduce travel time, support local economies, and decrease traffic incidents.

Manila traffic congestion ranks 2nd in the world with an average speed of 19kph. MPTC's toll roads, however, record an average speed of 80kph which translates to a 50% reduction in travel time.

The Company is also actively engaging with various communities by implementing CSR projects that focus on education, livelihood, health, disaster preparedness and response, and environmental initiatives. It specifically targets the sectors directly impacted by its operations.

Environment	Road Safety	Community Development	Youth Empowerment	Community Engagement
Greening the NLEX-SCTEX	KalSaDa Campaign	PUNLA (Paglago at Pag-Unlad ng Pamayanan)	NLEX-SCTEX Basketboys	Pamaskong Handog and Toys for Tots
NLEX Tullahan River Cleanup	Child Road Safety Picture Book	NLEX Community Farm	Women's Basic Jiujitsu	Relief Operations
Tirescape	I Care for Strays		BRAVE (Barangay Responders and Advocates of Violence-free Environment)	
Road to Less Waste	Barangay Security Watch			
	See Clearly, Drive Safely			

⁷ <https://nlex.com.ph/sustainability/>
<https://nlex.com.ph/corporate-governance/>
<https://nlex.com.ph/csr/>

Lastly, NLEX Corp. adheres to implementing rules and regulations that ensure ethical and integrity-driven business practices. The Company views corporate governance as crucial for its long-term growth, profitability, and stakeholder interests. Aiming to go beyond mere compliance, NLEX Corp. is focused on building a strong ethical culture guided by principles of accountability, integrity, fairness, and transparency.

OPERATING HIGHLIGHTS

Traffic Volume and Toll Rates

Total traffic volume in 2023 exceeded that of 2022 due to a sustained recovery in travel demand. The average daily vehicle traffic recorded increases of 13.9%, 5.5%, and 3.9% for NLEX Open System, NLEX Closed System, and SCTEX Closed System, respectively.

Also contributing to the increase in the total traffic volume was the partial opening of Section 1 of NLEX Connector Road on August 8, 2023. The traffic volume in the NLEX Connector Road reached 12,688 daily entries in 2023.

In terms of vehicle class, bulk of the traffic volume on NLEX, SCTEX, and NLEX Connector Road in 2023 came from Class 1 vehicles (light vehicles). This was followed by Class 2 vehicles (buses and small trucks) and then by Class 3 (large trucks) vehicles.

For NLEX, Class 2 vehicles saw the highest growth, with a 16.8% rise in the open system and a 13.3% increase in the closed system in 2023. Similarly, Class 2 vehicles on SCTEX had a 13.1% growth from 2022 to 2023. Conversely, SCTEX's average daily traffic volume for Class 3 vehicles decreased by 7.5%, from 175,370 km in 2022 to 162,144 km in 2023. Such was mainly due to the extended closure of the Pasig-Potrero Bridge from July 16 to September 29 and the government's ban on quarrying activities near the bridge.

The Company anticipates to reap the benefits of the full opening of the NLEX Connector Road in 2024. In 2025, NLEX Corp. is expecting the mid-term elections in May, the opening of the Candaba 3rd Viaduct in December 2024, and the more favorable economic environment, supported by the easing of interest rates, to drive vehicular traffic growth.

In terms of toll rates, the Company increased fees in 2023 due to the implementation of overdue toll rate adjustments. For 2024 and 2025, further toll rate increases are expected in light of positive developments related to toll rate petitions.

Table 2: Tollway Operating Highlights			
	ACTUAL		% CHANGE
	2022	2023	(except rates)
2023			
NLEX (Open System)			
Average Daily Vehicle Entry			
Class 1	169,683	193,458	14.0
Class 2	28,066	32,769	16.8
Class 3	19,912	21,678	8.9
Rate Per Class (in ₱; VAT Exclusive)			
Class 1	55.5	61.5	6.0
Class 2	138.8	153.6	14.8
Class 3	166.5	184.4	17.9
NLEX (Closed System)			
Average Daily Vehicle Kilometers			
Class 1	4,461,203	4,626,964	3.7
Class 2	666,889	755,245	13.2
Class 3	524,152	578,377	10.3
Rate Per Class (in ₱; VAT Exclusive)			
Class 1	3.3	3.6	0.3
Class 2	8.2	9.1	0.9
Class 3	9.8	10.9	1.1
SCTEX (Closed System)			
Average Daily Vehicle Kilometers			
Class 1	1,773,669	1,844,639	4.0
Class 2	199,840	225,978	13.1
Class 3	175,370	162,144	-7.5
Rate Per Class (in ₱; VAT Exclusive)			
Class 1	4.0	4.6	0.6
Class 2	8.0	9.2	1.2
Class 3	11.9	13.9	2.0
NLEX Connector Road			
Average Daily Vehicle Entry			
Class 1	-	10,069	-
Class 2	-	1,495	-
Class 3	-	1,124	-
Rate Per Class(in ₱; VAT Exclusive)			
Class 1	-	76.8	-
Class 2	-	192.0	-
Class 3	-	268.8	-

**Class 1 – Light Vehicles | Class 2 - Buses & small*

Total traffic volume for NLEX Open System and NLEX Closed System in 6M2024 grew by 4.8% and 1.3%, respectively, YoY. On the other hand, the SCTEX Closed System's traffic volume in 6M2024 declined by 2.2% YoY.

In terms of vehicle class, bulk of the traffic volume on NLEX and SCTEX in 6M2024 came from Class 1 vehicles. This was followed by Class 2 and then by Class 3 vehicles. As for NLEX Connector Road, Class 1 came first, followed by Class 3 and then Class 2 vehicles.

For NLEX, Class 2 vehicles recorded the highest traffic volume growth in 6M2024, with a 6.4% rise in the open system and a 5.2% increase in the closed system. For SCTEX, only Class 2 vehicles posted a higher traffic volume YoY, growing by 0.6% from 6M2023 to 6M2024.

Table 3: Tollway Operating Highlights - Interim			
	6M2023	6M2024	% CHANGE
NLEX (Open System)			
Average Daily Vehicle Entry			
Class 1	193,243	201,870	4.5
Class 2	32,077	34,123	6.4
Class 3	21,631	22,892	5.8
NLEX (Closed System)			
Average Daily Vehicle Kilometers			
Class 1	4,748,596	4,798,749	1.1
Class 2	747,174	785,877	5.2
Class 3	588,893	581,397	-1.3
SCTEX (Closed System)			
Average Daily Vehicle Kilometers			
Class 1	1,958,682	1,916,137	-2.2
Class 2	235,230	236,642	0.6
Class 3	181,973	170,881	-6.1
NLEX Connector Road			
Average Daily Vehicle Entry			
Class 1	-	12,998	-
Class 2	-	2,081	-
Class 3	-	3,016	-

Table 4: Summary of Toll Rate Petitions by the Company as of October 2024			
Filing Date	Petition	TRB Approval Date	Implementation Date
Periodic Toll Rate Adjustments for the NLEX			
Jun. 2012	Periodic toll rate adjustment for NLEX, effective January 01, 2013	Feb. 2019	Mar. 2019 (1st Tranche) Oct. 2020 (2nd Tranche) May 2021 (3rd Tranche) Feb. 2023 (4th Tranche)
Sept. 2014	Periodic toll rate adjustment for NLEX, effective January 01, 2015		
Sept. 2016	Periodic toll rate adjustment for NLEX, effective January 01, 2017	Jul. 2021	Mar. 2022
Sept. 2018	Periodic toll rate adjustment for NLEX, effective January 01, 2019	Feb. 2023	June 2023 (1st Tranche) June 2024 (2nd Tranche)
Sept. 2020	Periodic toll rate adjustment for NLEX, effective January 01, 2021		
Sept. 2022	Periodic toll rate adjustment for NLEX, effective January 01, 2023	Pending	Pending
Sept. 2024	Periodic toll rate adjustment for NLEX, effective January 01, 2025	Pending	Pending
Add-On Toll Rate Petitions for the NLEX			
Jan. 2019	Adjustment of the toll rate for the NLEX Harbor Link	Mar. 2019	Mar. 2019
Jun. 2020	Adjustment of the toll rate for the Segment 10 C3-R10 Section	Aug. 2020	Nov. 2020
Feb. 2021	Adjustment of the toll rate for the NLEX Lane Widening Phase 2	Oct. 2021	May 2022
Periodic Toll Rate Adjustments for the SCTEX			
Sept. 2016	Periodic toll rate adjustment for SCTEX, effective January 01, 2017	Jan. 2022	May 2022
Sept. 2020	Periodic toll rate adjustment for SCTEX, effective January 01, 2021	Apr. 2023	Oct. 2023 (1st Tranche) *2024 (2nd Tranche) *2025 (3rd Tranche)
Sept. 2022	Periodic toll rate adjustment for SCTEX, effective January 01, 2023	Apr. 2023	
Sept. 2023	Periodic toll rate adjustment for SCTEX, effective January 01, 2024	Pending	Pending
Sept. 2024	Periodic toll rate adjustment for SCTEX, effective January 01, 2025	Pending	Pending
Initial Toll Rate for the NLEX-SLEX Connector Road			
Mar. 2023	Implementation of the Fractional Initial Base Toll for Section 1 of the NLEX-SLEX Connector Road Project, effective April 15, 2023	Jul. 2023	Aug. 2023
Nov. 2023	Implementation of the Updated Fractional Initial Base Toll for Section 1 and the Commercially Operable Portion Section 2 of the NLEX-SLEX Connector Road Project, effective December 11, 2023	Jul. 2024	Oct. 2024

*- Final date yet to be announced

According to the STOA for the NLEX, the Company is entitled to request toll rate adjustments every two years based on an agreed formula. In contrast, the SCTEX agreements require toll rate adjustment petitions to be submitted to the TRB annually. Before October 27, 2015, the BCDA filed petitions for toll rate adjustments for 2012, 2013, 2014, and 2016.

In addition to these periodic adjustments, NLEX Corp. may also file petitions for add-on toll rate adjustments to cover costs for recently completed projects.

Updates on Toll Road Enhancement Projects

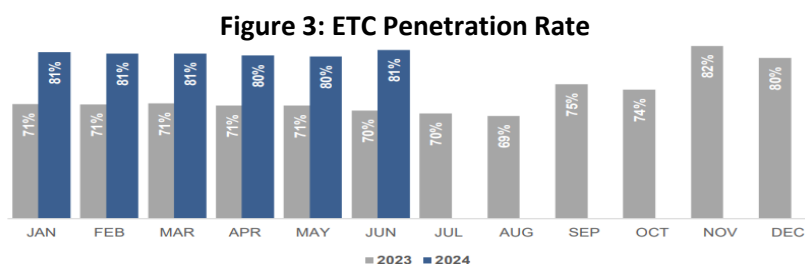
Since the last rating review, several significant enhancements have been completed to improve the Company's toll road infrastructure. Pavement raising and drainage enhancements under the Tulaoc River Bridge in San Simon, Pampanga, were completed in November 2023, ensuring roadway quality and better customer satisfaction. Various bridge repairs undertaken between Q4 2023 and Q1 2024 have extended the lifespan of the bridges and enhanced safety for drivers and passengers. Additionally, the Company completed various roadway enhancements in March 2024 that were mainly related to sign standardization. Such made sure that the road signs are aligned with safety standards to better address customer needs and improve overall satisfaction. The Meycauayan Interchange enhancements, finished in March 2024, improved access to local roads in Meycauayan, Bulacan and helped decongest traffic. Lastly, the NLEX-SCTEX (Mabiga) Ramp Expansion, completed in April 2024, added lanes to increase capacity and enhance travel time for motorists passing through Mabalacat, Pampanga.

In July 2024, Typhoon Carina caused flooding on NLEX due to overflowing waterways. As a response, NLEX activated its crisis management plan, suspended road construction and maintenance works, secured potential hazards (e.g. signages, billboards, and jersey barriers), and deployed personnel for motorist assistance, among others. The Company also cleared road debris, repaired its damaged facilities, and monitored the drainage system in flood-prone areas. Looking ahead, NLEX is looking to explore the development of impounding facilities and the possibility of repurposing vacant land for water retention. The Company is also coordinating with local government units (LGUs) on the revival of trash traps along the NLEX service area. Moreover, NLEX Corp. plans to engage a hydraulic expert for the development of a long-term waterway masterplan for Metro Manila and Region III.

NLEX Corporation likewise identified several key enhancements that are scheduled for completion within the next twelve months. Heavy maintenance and pavement repairs are set to be completed by Q4 2024, aiming to uphold roadway quality and boost customer satisfaction. Various bridge repairs, planned for completion between Q3 and Q4 2024, will focus on extending bridge lifespans, enhancing safety, and fortifying bridge foundations. The Company was also able to significantly improve its average response time for road crashes from 10.9 minutes in 2023 to 9.8 minutes in 6M2024.

From Q3 2024 to Q1 2025, the Company targets to complete several toll system upgrades. The foregoing includes the implementation of the Automatic License Plate Recognition (ALPR) system at the Bocaue Barrier and Tarlac Toll Plaza to ease congestion and reduce toll leakage. As of July 2024, only 72 out of 298 (24%) toll plazas implement the ALPR system. A Solar Photovoltaic Power System will also be installed on car park roofs at the NLEX Balintawak compound and Sta. Rita Operations District Building to promote energy conservation and reduce carbon emissions. Additionally, the Company will replace 38 intercoms and will upgrade its lane CPU, plaza computer system server, and video enforcement system to improve operational performance. Lastly, NLEX Corp. aims to install Neology Antennas and integrate the ALPR system into its toll collection system to enhance Radio Frequency Identification (RFID) detection capabilities. As of June 2024, RFID accounted for 82% of the Company's toll revenues, while cash payments comprised 18%. As per management, TRB's 100% cashless mandate is in dry-run mode, with full implementation expected by December 31, 2024. In preparation of such, NLEX Corp. continues to intensify RFID sticker installations among non-RFID users and educating motorists on proper RFID account maintenance, while enhancing its systems for reliability and timely updates. According to management, full RFID adoption depends on strong government policy, which TRB is believed to have in place.

Figure 3 below shows the electronic toll collection (ETC) penetration rate from January 2023 to June 2024.



Major Projects in 2024⁸

The Company's infrastructure development and improvement efforts in 2024 are focused on expanding road capacity. According to Mr. Bautista, the Company has three major projects that aims to improve the travel experience for motorists in the NLEX, SCTEX, and NLEX Connector:

1. Completion of the Candaba 3rd Viaduct

Start Date of Construction: 02 Feb 2023; Target Date of Completion: Nov 2024; Construction Status 92%⁹

The Candaba 3rd Viaduct, currently under construction between the towns of Pulilan, Bulacan and Apalit, Pampanga, will span five km. This new viaduct will be expanded to three lanes in each direction, complete with inner and outer shoulders. Such is expected to improve both safety and traffic flow in the NLEX. The project aims to increase the speed limit of the passing motorists from 60 kph to 80 kph, ease congestion on the existing viaducts, and boost trade and commerce in Central Luzon.

2. NLEX Segment 8.2 1-A (Mindanao Avenue to Quirino Highway)

Target Date of Construction: Q4 2024; Target Date of Completion: Q4 2025; ROW Status 78%

Mr. Bautista stated that the new expressway section is expected to alleviate traffic congestion for commuters passing through Mindanao Avenue. This section will be integrated into the future NLEX expansion towards C5/C.P. Garcia near Katipunan Avenue. The planned expansion aims to create an interconnected tollway network that will improve accessibility across the various municipalities in Metro Manila.

3. NLEX expansion phase 3 - Expansion of NLEX San Fernando to SCTEX Spur in Mabalacat, Pampanga

Target Date of Construction: Q2 2025; Target Date of Completion: Q3 2026

Upon completion, the expressway section from San Fernando to SCTEX Spur in Pampanga will increase its capacity from the current 2x2 lanes to 3x3 lanes in each direction, improving travel efficiency. The project will also include roadway lighting from NLEX San Fernando to Sta. Ines, Mabalacat in Pampanga, enhancing road safety. Additionally, the Angeles Interchange will be expanded to manage the anticipated rise in vehicle traffic.

Competition

NLEX Corp. faces no direct competition, as there are no other toll road operators covering the central and northern parts of Luzon from Metro Manila, nor are there functional railways for commuter or freight transport. The only alternative is the non-toll MacArthur Highway, which is congested and results in longer travel times. While this route might be viable for cars, it is impractical for trucks and

⁸ <https://nlex.com.ph/2024/01/29/nlex-announces-three-major-projects-in-2024/#:~:text=When%20finished%2C%20expressway%20road%20capacity,a%20faster%2C%20more%20seamless%20travel.>

⁹ <https://www.manilatimes.net/2024/09/14/business/corporate-news/nlex-candaba-project-done-soon/1971413>

long-distance buses. The toll road segments opened by NLEX Corp. offer a more efficient alternative for freight vehicles, as they end near Manila Port, bypassing the congested city streets.

ECONOMY¹⁰

Gross Domestic Product

2023

In 2023, the Philippines demonstrated strong economic performance, recording a full-year Gross Domestic Product (GDP) growth rate of 5.6%. This performance was in line with the forecasts from international organizations and private analysts such as the International Monetary Fund (IMF), the ASEAN+3 Macroeconomic Research Office (AMRO), and the World Bank (WB). While the 2023 GDP growth fell short of the government's target, the Philippines still outperformed major economies in Asia, such as China (5.2%), Vietnam (5.0%), and Malaysia (3.8%).

Despite challenges like elevated inflation and external pressures, the Philippine economy expanded by 5.6% in the Q4 2023, contributing to the full-year GDP growth rate.

All major economic sectors, namely: Agriculture, forestry, and fishing (AFF); Industry; and Services saw growth rates of 1.2%, 3.6%, and 7.2%, respectively. Key industries driving annual growth in 2023 included Wholesale and retail trade; repair of motor vehicles and motorcycles (5.5%); Financial and insurance activities (8.9%); and Construction (8.8%).

On the demand side, Household Final Consumption Expenditure (HFCE) increased by 5.3% YoY in Q4 2023. Gross capital formation and Imports of goods and services grew by 11.2% and 2.9%, respectively. However, Government Final Consumption Expenditure (GFCE) and Exports of goods and services experienced declines of 1.8% and 2.6%. For the entire year, HFCE expanded by 5.6%, GFCE by 0.4%, Gross capital formation by 5.4%, Exports by 1.3%, and Imports by 1.6%.

Strong domestic demand was evident in higher household consumption and investments, particularly in public infrastructure, highlighting the beneficial impact of the Build, Better, More Program and its significant multiplier effect on the economy.

2Q2024¹¹

In Q2 2024, the Philippine economy grew by 6.3%, up from the 5.8% in the previous quarter and is within the government's 6% to 7% target. On the supply side, the improvement was driven by a 16% improvement in construction, 5.8% growth in wholesale and retail trade, and 8.2% expansion in financial and insurance activities. On the demand side, HFCE grew by 4.6%, lower than the 5.5% recorded in the same period last year. State spending rose by 10.7% YoY, while gross capital formation increased by 11.5%.

According to NEDA Secretary Arsenio Balisacan, this recent development has brought the country's real GDP growth to 6.0% for the first half of the year, keeping the government on track to achieve its target growth rate for 2024. To reach the lower end of the target for the year, the country needs to achieve a 6.0% GDP growth in the second half of the year.

¹⁰ <https://psa.gov.ph/content/gdp-expands-56-percent-fourth-quarter-2023-brings-full-year-2023-gdp-growth-rate-56-percent>
<https://www.dof.gov.ph/phs-full-year-2023-gdp-growth-strongest-among-major-asian-economies/>
<https://psa.gov.ph/statistics/national-accounts/sector3/Gross%20Domestic%20Product>

¹¹ <https://business.inquirer.net/473588/philippine-economy-expands-6-3-in-q2-says-psa>
<https://www.pna.gov.ph/articles/1230738#:~:text=MANILA%20E2%80%93%20Philippine%20economic%20growth%20accelerated,in%20a%20briefing%20on%20Thursday.>

Outlook¹²

The Philippine economy, as per The World Bank's forecast, is expected to continue its growth trajectory, with GDP projected to rise to 5.8%, 5.9%, and 5.9% in 2024, 2025, and 2026 respectively. These growth forecasts will be driven by strong private consumption, increased investment activity, and improvements in global trade. Inflation is anticipated to return to within the Bangko Sentral ng Pilipinas (BSP)'s target range from 2024 to 2026, which is expected to prompt lower interest rates, fostering greater investment activity and stimulating domestic spending.

The Asian Development Bank projects the Philippines' growth at 6.0% for 2024 and 6.2% for 2025. Moderating inflation and expected monetary easing are likely to further support household consumption and investment going forward.

The IMF upgraded its 2024 GDP growth forecast for the Philippines to 6.0%, citing a stronger-than-expected rebound in investments and exports. This revision from the previous projection of 5.9% reflects optimism about the country's economic recovery. The Philippines aims to outpace its regional counterparts such as Indonesia, Thailand, and Malaysia, with a growth target higher than the ASEAN average of 4.8%. Looking ahead to 2025, the IMF forecasts continued growth for the Philippine economy at 6.1%, possibly maintaining its position as the fastest-growing economy in the region.

Inflation¹³

Inflation in the Philippines dropped to 1.9% in September 2024, falling below the government's target range of 2-4%. This decrease from 3.3% in August brought the year-to-date average inflation to 3.4%, significantly lower than the 6.1% recorded in September 2023. The slowdown was driven by smaller price increases in food and non-alcoholic beverages, transport, and housing-related costs. Key contributors to inflation were housing and utilities, food, and restaurant services.

Following this easing in inflation, the BSP cut interest rates by 25 basis points in October 2024, marking the second consecutive rate cut. This brought the reverse repurchase rate to 6%, down from 6.25% in the previous month. The central bank also revised its inflation forecast for 2024 to 3.1%, while adjusting projections for 2025 and 2026 due to rising global oil prices. Despite these risks, inflation is still expected to remain within the 2-4% target range. The BSP's ongoing rate cuts aim to bolster economic growth, which remains steady, with GDP growth averaging 6% in the first half of 2024.

Crude Oil Prices¹⁴

For the week ending August 2, 2024, the prices of Dubai crude, gasoline, diesel, and kerosene have all decreased. Dubai crude saw a drop of about \$1.80 per barrel, while gasoline, diesel, and kerosene prices declined by approximately \$1.00, \$1.20, and \$1.10 per barrel, respectively.

The price adjustments were driven by concerns over Chinese demand growth and a lower-than-expected US crude stock draw. Ample Middle Eastern supply, particularly from Iraq, also contributed to the price drop, despite OPEC+¹⁵ production cuts. Additionally, geopolitical tensions in the Middle East, especially due to the killing of a Hamas leader by Israeli forces, added to market uncertainties.

¹² <https://www.philstar.com/business/2024/01/31/2329700/imf-hikes-philippines-2024-growth-target>
<https://www.worldbank.org/en/news/infographic/2024/06/04/infographic-philippines-economic-update-june-2024>
<https://www.adb.org/sites/default/files/publication/981121/asian-development-outlook-july-2024.pdf>
<https://www.philstar.com/business/2024/01/31/2329700/imf-hikes-philippines-2024-growth-target>

¹³ <https://psa.gov.ph/content/summary-inflation-report-consumer-price-index-2018100-september-2024>
<https://www.bworldonline.com/top-stories/2024/10/17/628412/bsp-cuts-rates-for-a-2nd-straight-meeting/>

¹⁴ <https://doe.gov.ph/oil-monitor>

¹⁵ The Organization of the Petroleum Exporting Countries Plus (OPEC+) is a loosely affiliated entity consisting of the 13 OPEC members and 10 of the world's major non-OPEC oil-exporting nations.

In the Asian market, gasoline demand remained weak despite expectations of increased imports, while the diesel market edged higher due to anticipated lower exports from China. On the other hand, the Russian government decided not to ban diesel exports, citing stable market conditions.

Domestically, Philippine oil prices decreased slightly on July 6, 2024, with gasoline down by ₱0.10 per liter, diesel by ₱0.20 per liter, and kerosene by ₱0.45 per liter. Year-to-date, gasoline and diesel have seen net increases of ₱9.50 and ₱6.65 per liter, respectively, while kerosene has experienced a net decrease of ₱0.75 per liter.

INDUSTRY¹⁶

Infrastructure Flagship Projects (IFPs) under the Build, Better, More Program

The Philippine government recently introduced Executive Order No. 59 (EO 59) aimed at expediting the permitting process for IFPs. Spearheaded by the NEDA and the Anti-Red Tape Authority (ARTA), EO 59 seeks to eliminate delays in the issuance of necessary permits, licenses, and clearances for IFPs. This initiative covers national government agencies, government-owned corporations, and local government units, ensuring timely project completion and bolstering the domestic investment climate.

NEDA Secretary Arsenio M. Balisacan highlighted that EO 59 marks a significant advancement in enhancing the ease of doing business and fortifying the country's economic foundation. Under the Build, Better, More Program, NEDA reported substantial progress in Philippine infrastructure development, including the completion of three projects since the previous SONA and the approval of six more projects. Currently, eight projects are under construction, reflecting positive strides toward national infrastructure enhancement and economic growth objectives.

As of June 2024, the updated NEDA Board-approved list of IFPs comprised 185 projects valued at ₱9.6 trillion. Among these, 72.4% focus on enhancing physical connectivity.

Automotive Sales¹⁷

Philippine vehicle sales surged by 22%, from 352,596 units sold in 2022 to 429,807 in 2023. Such exceeded the industry's target by 1.6%. Commercial vehicle sales grew by 20.2% to 320,543 units, driven by a 30.5% rise in Asian utility vehicles and an 18.3% increase in light commercial vehicles. Passenger car sales, on the other hand, rose by 27.2% to 109,264 units.

Chamber of Automotive Manufacturers of the Philippines, Inc. (CAMPI) attributed the strong sales growth in 2023 to sustained consumer demand, easier credit access, and improved supply conditions. CAMPI President Rommel Gutierrez expects record-breaking sales in 2024, citing a positive economic outlook and new car models.

Rizal Commercial Banking Corp.'s Chief Economist Michael L. Ricafort noted that favorable demographics, strong employment data, and automaker incentives boosted sales in 2023. He noted that the limited mass and public transport system prompted consumers to buy vehicles, particularly with the introduction of new hybrid and electric models.

In May 2024, Philippine automotive sales increased by 5.5% compared with the same period in the previous year, rising from 38,177 units to 40,271 units. Month-on-month, sales rose by 7.9% from

¹⁶ <https://neda.gov.ph/infrastructure-flagship-projects/>
<https://neda.gov.ph/joint-media-release-ph-govt-launches-eo-59-guidelines-to-cut-red-tape-in-key-infra-projects/>
https://pco.gov.ph/news_releases/infra-projects-of-build-better-more-crucial-to-economic-growth-neda/
¹⁷ <https://www.bworldonline.com/top-stories/2024/01/18/569627/vehicle-sales-surpass-target-in-2023/>
<https://www.bworldonline.com/top-stories/2024/06/12/601139/new-vehicle-sales-rise-by-5-5-in-may/>

April's 37,314 units. Mr. Gutierrez attributed the increase to improved supply, good consumer demand, and enhanced financial schemes. Commercial vehicle sales, accounting for 72.8% of total automotive sales, increased by 3.2% YoY to 29,304 units. Broken down, light commercial vehicle sales slipped by 3.8% YoY to 21,572 units, while sales of Asian utility vehicles (AUV) rose by 32.8% to 6,769 units. Sales of light-duty trucks and buses went up by 19.9% YoY to 531 units, whereas medium trucks increased by 7.3% to 369. Heavy-duty truck sales dropped by 22% to 63 in May. On the other hand, passenger car sales, which comprised the remaining 27.2% of total automotive sales, rose by 12% to 10,967 units. Overall, vehicle sales for the first five months of the year grew by 12.7% to 187,191 units.

Mr. Ricafort noted that the Philippines has seen some of the ASEAN region's most rapid growth in vehicle sales and production lately, fueled by economic recovery and robust consumer loans despite challenges posed by inflation and interest rates. In April, consumer loans surged by 25.3%, from ₱1.1 trillion a year earlier to ₱1.4 trillion. Motor vehicle loans, in particular, rose sharply by 29.3% from ₱589.5 billion a year earlier to ₱762.2 billion.

CAMPI has set a sales target of 468,300 units for the current year. As of end-May 2024, auto sales have reached 187,191 or 40% of CAMPI's target.

Phase 3 of ETC Interoperability Delayed to Early 2025 due to System Upgrades

The rollout of the Phase 3 of ETC Interoperability, which aims to integrate the toll collection operations of MPTC and SMC Infrastructure, has been delayed to early 2025. According to Atty. Alvin Carullo, Executive Director of TRB, MPTC requested a postponement of such to fine-tune and upgrade its account management system. The fourth proof-of-concept testing, is scheduled early next year.

The project was initiated in 2017 through a memorandum of agreement (MOA) between the DOTr, DPWH, Land Transportation Office, TRB, San Miguel Group, Metro Pacific Group, and the Ayala Group. It mandates toll road companies to enable interoperability and integrated toll collection systems. Mr. Carullo highlighted that the RFID/ETC system aims for a single account and sticker for all tollways, enhancing convenience without additional fees.

Currently, motorists traversing through tollways managed by MPTC utilize EasyTrip Services for toll payments, whereas those on expressways owned by SMC use Autosweep. MPTC operates the NLEX, NLEX Connector, CALAX, SCTEX, and CCLEX. On the other hand, SMC holds concessions for the SLEX, Skyway, Naia Expressway, Star Tollway, and Tarlac-Pangasinan-La Union Expressway.

Mr. Carullo emphasized that the project aims to improve traffic flow across expressways. The foregoing is critical given that significant daily traffic volumes are reported on major routes such as NLEX and SLEX.

Agricultural Truckers Toll Rebate¹⁸

Starting June 1, 2024, agricultural truckers accredited by the Department of Agriculture (DA) will qualify for toll rebates on NLEX, SLEX, MCX, SCTEX, and CAVITEX.

The Agri-Trucks Toll Rebate Program aims to benefit 200 to 300 trucks transporting farm products across both north and south Luzon. Rebates for trucks on SMC Tollways-operated roads range from ₱2 to ₱30 per passage, depending on vehicle class, while those on MPTC-operated expressways could receive ₱16 to ₱156, depending on distance and vehicle class.

This initiative, launched by the TRB, DOF, DOTr, and DA in collaboration with MPTC and SMC Tollways, aims to mitigate toll rate increases' impact on food inflation and stabilize prices.

¹⁸ <https://www.gmanetwork.com/news/money/economy/908731/agri-truckers-toll-rebate-comes-into-effect-on-saturday/story/>

According to DOF Assistant Secretary Eufrocino Bernabe Jr., the program safeguards public welfare by curbing toll-related food price inflation, thus minimizing broader economic impacts.

Initially set for three months, the rebate program will undergo review for possible extension based on inflation trends, as noted by Mr. Carullo of TRB.

To qualify, truckers must be DA-accredited and have active Autosweep and/or Easytrip RFID accounts.

CAVITEX Toll Free from July 1 to 30¹⁹

Mr. Raul L. Ignacio, president of Cavite Infrastructure Corporation (CIC), announced a 30-day toll holiday on all CAVITEX exits starting July 1, 2024. This decision supports the TRB's initiative aimed at alleviating the financial burden on motorists amidst rising fuel costs and inflation. CIC, in collaboration with the Philippine Reclamation Authority (PRA), endorsed President Ferdinand R. Marcos Jr.'s directive, which was announced during the inauguration of CAVITEX C5 Link Segment 2.

The toll-free period covers exits in Kawit, Paranaque, Merville (C5 Link segment), Taguig, and the newly opened Sucat Interchange Segment 2. This move, though expected to result in hundreds of millions of pesos in foregone toll revenues, is deemed necessary by transport experts to support financial obligations, ensure road safety, and maintain operational efficiency.

Mr. Ignacio expressed support for the TRB's careful consideration in making this decision, emphasizing its importance in providing seamless travel experiences on modern tollways. He highlighted the collaborative efforts between CIC, PRA, and TRB to ensure effective implementation and stakeholder satisfaction in this public-private partnership.

2024 State of the Nation Address²⁰

In President Ferdinand Marcos Jr.'s SONA last July 22, 2024, he reaffirmed his commitment to the Build, Better, More Program, emphasizing its robust progress and future plans. Significant achievements include the construction and upgrading of 12,000 km of roads and over 1,200 bridges nationwide, as well as major enhancements on the Maharlika Highway. Noteworthy expressways such as the C-LEX, NLEX-SLEX Connector, and Plaridel Bypass are slated for completion by the end of the year, while CALAX and the C5 South Link are expected to be operational next year.

Under its Inter-Island Linkage Bridge Program, the current administration expects two major bridges to be opened this year — the Panguil Bay Bridge and the Guicam Bridge.

Railway projects are also progressing, with notable advancements in the Metro Manila Subway, MRT-7, and the North-South Commuter Railway. For LRT-1, additional trains were added and its Cavite Extension project, which will extend the train line's service from Baclaran to Sucat, is set to open this year. In the coming years, the government aims for LRT-1's service to further extend to Bacoor. Lastly, the PNR Bicol Line was reopened to the public in December 2023.

Between 2023 and 2024, three infrastructure projects worth ₱21.35 billion have been completed, 65 are ongoing, 30 have been approved for implementation, and several others are at various stages of preparation. The NEDA anticipates that at least 70 projects will be completed by 2028, including flood risk mitigation, the Samar Pacific Coastal Road, and disaster adaptation projects. From July 2022 to November 2023, the DPWH completed significant infrastructure projects, including 7,715 km of roads, 969 bridges, and numerous flood control and educational projects.

¹⁹ https://www.cavitex.ph/news_and_events/trb-gives-green-light-for-toll-free-trips-starting-july-01-2024/

²⁰ <https://newsinfo.inquirer.net/1963620/sona-2024-a-quick-look-at-main-issues>

<https://politiko.com.ph/2024/07/22/read-the-full-transcript-of-president-marcos-3rd-state-of-the-nation-address/daily-feed/>

<https://newsinfo.inquirer.net/1880010/pnr-reopens-naga-legazpi-rail-line-after-six-years>

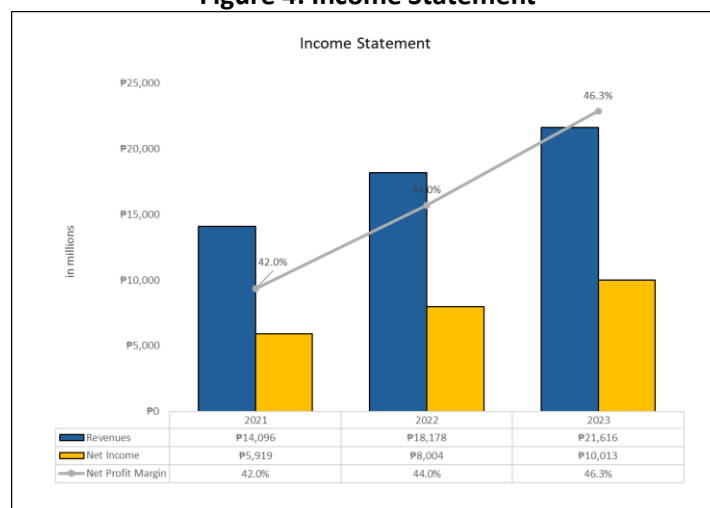
President Marcos Jr. emphasized the need for substantial infrastructure spending, projecting that it will account for 5% to 6% of the country's GDP. The Build, Better, More Program, an update of the Build, Build, Build initiative, has seen substantial allocations from the national budget. Progress includes ₱1.42 trillion in infrastructure disbursements in 2023 and a projected ₱1.47 trillion in 2024. EO 59 has been issued to streamline the processes for infrastructure project approvals. Future goals of the administration include continuing infrastructure improvements and advancing the Mega Bridge Program.

FINANCIAL PROFILE

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

Profitability

Figure 4: Income Statement



2023

The Company primarily earns revenue from toll fees on the NLEX, SCTEX, and NLEX Connector. In addition to such, NLEX Corp. also derives income from fees collected at toll service facilities along NLEX.

In 2023, toll revenues totaled ₱21.5 billion, marking a 19% increase from the previous year due to higher traffic volume and overdue toll rate adjustments. NLEX accounted for 81% of toll revenues, SCTEX for 18%, and NLEX Connector for the balance. It should be noted that NLEX Connector only began contributing to the Company's toll revenues on August 8, 2023. Non-toll revenues, which includes toll service and utility facilities, increased by 10.8% from ₱106 million in 2022 to ₱118 million in 2023.

The Company's cost of services rose by 12.9% to ₱7.5 billion in 2023, primarily due to higher concession and PNCC fees tied to toll revenues and increased amortization of concession assets from higher traffic and toll adjustments. Concession fees to BCDA and PNCC, amortization of service concession assets, and salaries plus benefits, constituted 68.8% of the Company's total cost of services.

General and administrative expenses increased by 22% to ₱1.2 billion in 2023, driven by increased spending on advertising, marketing, outside services, taxes, licenses, provisions, and management fees. Such, however, was partly offset by reduced professional fees and repairs.

Interest expense and other financing costs, net of interest income, totaled ₱967.6 million in 2023. This was 9% lower than the ₱1.1 billion in 2022. Interest expense on loans was flat at ₱1.1 billion due to refinancing. Such was partially offset by 129.7% higher interest income, from ₱60 million in 2022 to ₱137 million in 2023.

Overall, the Company's net income rose by 25.1%, from ₱8 billion in 2022 to ₱10.0 billion in 2023. The increase was primarily attributable to higher toll revenues and controlled costs. Net profit margin stood at 46.3% for the year ended 2023.

ROAA and return on average equity (ROAE) were higher at 12.1% and 37.1%, respectively, due to the double-digit growth in net income. The Company's debt service coverage ratio (DSCR) for 2023 was 2.75x, well above its loan covenant requirement of at least 1.15x. This suggests that the Company generates sufficient income to cover payments for its maturing debt obligations.

6M2024

In 6M2024, the Company's revenues totaled ₱12.4 billion, up by 19.5% from the same period in 2023 due to higher traffic and newly implemented toll rate adjustments. Average daily traffic on NLEX increased to 336,993 vehicles, higher by 4% from the same period last year, while SCTEX saw a 1% rise to 81,618 vehicles. NLEX Connector, which opened partially last August 8, 2023, posted an average daily vehicle entry of 18,095 for the first half of 2024.

Total cost of services rose by 19.1%, from ₱3.8 billion in 6M2023 to ₱4.5 billion in 6M2024. Costs included a BCDA fee of ₱1.2 billion, marking a 16.2% increase YoY, and a PNCC fee of ₱565 million, which rose by 8.7%. Provision for heavy maintenance significantly increased by 119.1%, from ₱162 million in 6M2023 to ₱355 million in 6M2024.

General and administrative expenses decreased by 4.9%, from ₱687 million in 6M2023 to ₱653 million in 6M2024 mainly due to the decrease in advertising and marketing expenses (49.7%) and salaries and employee benefits (7%).

Net financing costs for 6M2024 were ₱567 million, up by 16% from the previous year due to additional loans drawn.

Considering traffic recovery and higher toll rates during the period, as well as cost management measures, net income for 6M2024 increased by 23.9%, from ₱4.5 billion in 6M2023 to ₱5.6 billion. For the period, the net profit margin was at 45.2%.

Meanwhile, ROAA, as of end-June 2024, was slightly lower at 11.9%, while ROAE was at 31.1%. On the other hand, the DSCR decreased from 2.75x as of end-2023 to 1.93x in 6M2024.

Projected Period

NLEX Corp. expects a sustained profitability over the projected period, driven by increased vehicular traffic and additional toll rate adjustments. The anticipated full opening of the NLEX Connector Road and the Candaba 3rd Viaduct will further contribute to revenue.

While financing costs are projected to rise due to the recognition of borrowing costs associated with new projects, the Company aims to maintain stable net profit margins and positive returns on assets and equity. Overall, NLEX Corp. is well-positioned to capitalize on its infrastructure investments for continued profitability in the coming years.

Cash Flow and Liquidity

2023

Net cash flows from operating activities totaled ₱12.6 billion in 2023, a 36.5% increase from the previous year. The significant growth was primarily driven by higher toll revenues collected, partially offset by operating costs, concession fees, income tax payments, and trade payables settlement.

Net cash flows used in investing activities were primarily deployed to support ongoing projects such as the construction of the NLEX Connector Road and the Candaba 3rd Viaduct. Such translated to additions in service concession assets totaling ₱11.3 billion in 2023.

Net cash flows used in financing activities for the same period amounted to ₱3.3 billion, reflecting cash outflows for dividend payments totaling ₱6.2 billion, interest on loans and debt issuance costs of ₱1.0 billion, and principal repayments of ₱4.0 billion. These were partly offset by cash inflows from short-term and long-term loan availments amounting to ₱8.0 billion.

As of end-2023, cash and cash equivalents stood at ₱4.0 billion, showing a 25% decrease from 2022. This was attributable to the Company's strategic liquidity management aimed at reducing debt costs.

The current ratio declined from 0.73x as of end-2022 to 0.35x as of end-2023, reflecting the Company's liquidity management strategy focused on minimizing debt costs. It is worth noting that the Company's current ratio has been below 1.0x since 2016. Nonetheless, as of end-2023, the Company maintained access to ₱8.0 billion from a committed term loan facility and ₱14.4 billion from short-term credit lines to meet its working capital needs.

6M2024

In 6M2024, net cash flows from operating activities totaled ₱6.5 billion, up by 25.6% YoY due to increased toll revenues.

Net cash flows used in investing activities decreased by 10.2% from ₱5.1 billion in 6M2023 to ₱4.5 billion in 6M2024 as the NLEX-SLEX Connector Road Project neared its completion. The main investing activity for the period was the construction of the Candaba 3rd Viaduct.

Net cash flows used in financing activities significantly increased from ₱376 million in 6M2023 to ₱3.4 billion in 6M2024 primarily due to the spike in loan maturities amounting to ₱5.8 billion.

Consequently, cash and cash equivalents decreased from ₱4.0 billion as of end-2023 to ₱2.6 billion as of June 2024.

The current ratio slightly improved from 0.35x as of end-2023 to 0.39x as of end-June 2024. Notwithstanding its low current ratio, the Company maintained adequate liquidity sources, including daily operational cash flows and available short-term credit lines totaling ₱15.2 billion as of June 2024.

Projected Period

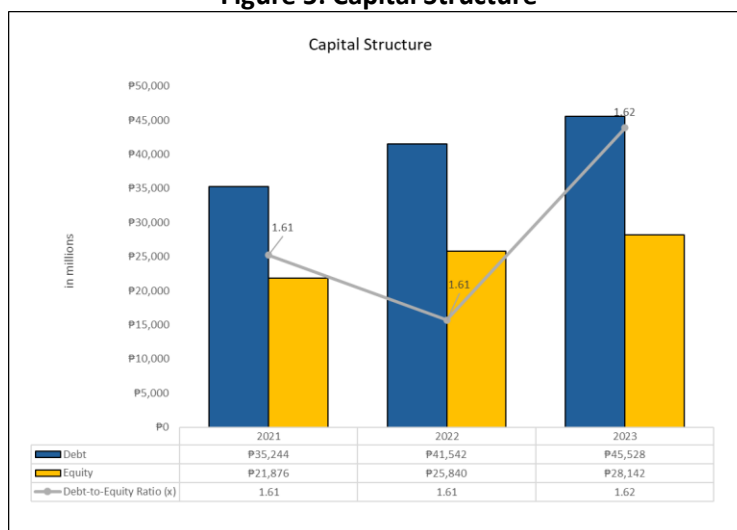
Going forward, NLEX Corp. will use a mix of internally-generated cash and new borrowings to fund toll operations and settle maturing debt.

Net cash from operations is projected to remain positive in the near term. In terms of investing activities, the Company foresees significantly higher spending over the projected period, considering its projects in the pipeline. NLEX Corp. also expects to receive substantial cash inflow in the next two years from its new borrowings. Such will be utilized for principal repayments, interest payments, and dividend payouts.

Considering the above, the Company will remain well-positioned to navigate its financial commitments and support its ongoing growth initiatives.

Capital Structure

Figure 5: Capital Structure



2023

Total liabilities increased by 12% from ₱52.3 billion in 2022 to ₱58.6 billion in 2023.

Accounts payable rose by 8.5%, from ₱4.4 billion in 2022 to ₱4.8 billion, driven by the construction of the NLEX Connector Road Project and upgrades to fixed operating equipment at various toll plazas.

Total non-current liabilities declined by 3.6%, from ₱41.7 billion in 2022 to ₱40.3 billion in 2023, partly attributable to a higher deduction for current portion of long-term debt amounting to ₱6.9 billion. In December 2023, the Company secured a ₱10.0 billion, 10-year term loan from BPI to support its capital expenditures and refinance its maturing debt. The loan featured variable interest rates. An initial drawdown of ₱2.0 billion was made on December 28, 2023, at 6.57% annual interest.

Total equity increased by 8.9% from ₱25.8 billion in 2022 to ₱28.1 billion in 2023. By the end of 2023, retained earnings had increased by 16.4% from ₱14.1 billion as of end-2022 to ₱16.4 billion.

As a result of the foregoing, the Company's debt-to-equity ratio slightly rose from 1.61x in 2022 to 1.62x in 2023 due to the short-term and long-term loans availed during the last quarter of 2023. The debt to capitalization ratio likewise increased from 61.7% in 2022 to 61.8% in 2023.

6M2024

Total liabilities decreased by 2.7%, from ₱58.6 billion as of end-2023 to ₱57.0 billion as of 6M2024. This was mainly due to repayment of maturing loans, as well as payment to contractors and other current liabilities. Stockholders' equity, on the other hand, grew by 16.1%, from ₱28.1 billion as of end-2023 to ₱32.7 billion as of end-2024, attributable to the retained earnings during the period.

As of end-June 2024, the Company's debt-to-equity ratio improved to 1.42x. The debt-to-capitalization ratio likewise decreased from 61.8%, as of end-2023, to 58.7% as of end-June 2024.

Projected Period

The Company will continue to avail of new loans to enhance its liquidity and support its capital expenditures going forward. Proceeds of which can also help fund future expansion initiatives of the Company such as the NLEX Phase 3 Widening Project, which was announced in May 2024.

Nonetheless, the Company is committed to maintaining a sound capital structure while ensuring compliance with its financial covenants.

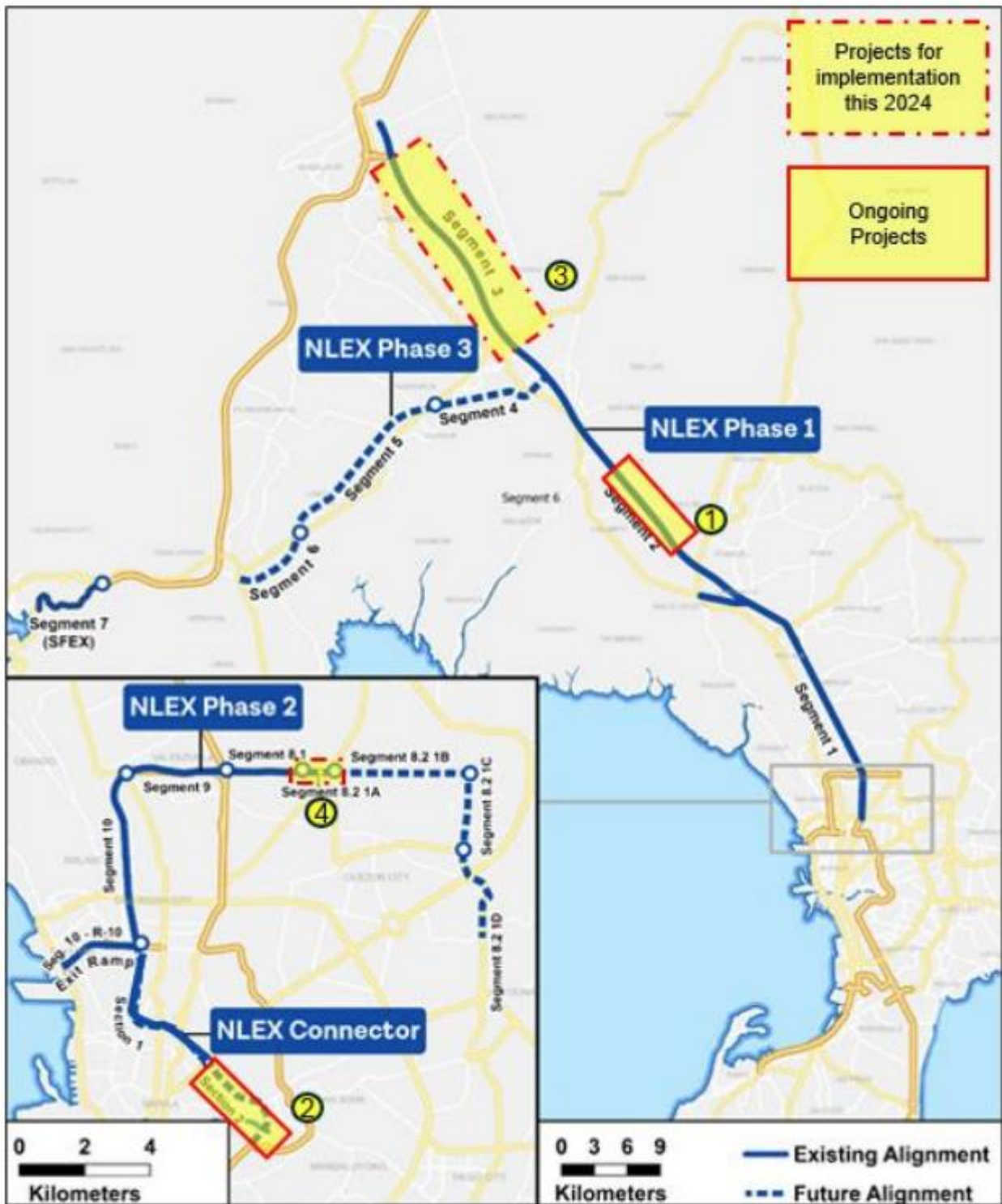
Financial Flexibility

NLEX Corp. is a dividend-paying company, hence, when there is a need to preserve cash, it can opt to adjust its dividend payments. Additionally, the Company maintains ample short-term credit lines to ensure liquidity amidst increased loan maturities.

It is also important to recognize that the Company is part of a larger conglomerate, which could provide them with greater access to financial resources for upcoming projects or in case of future needs.

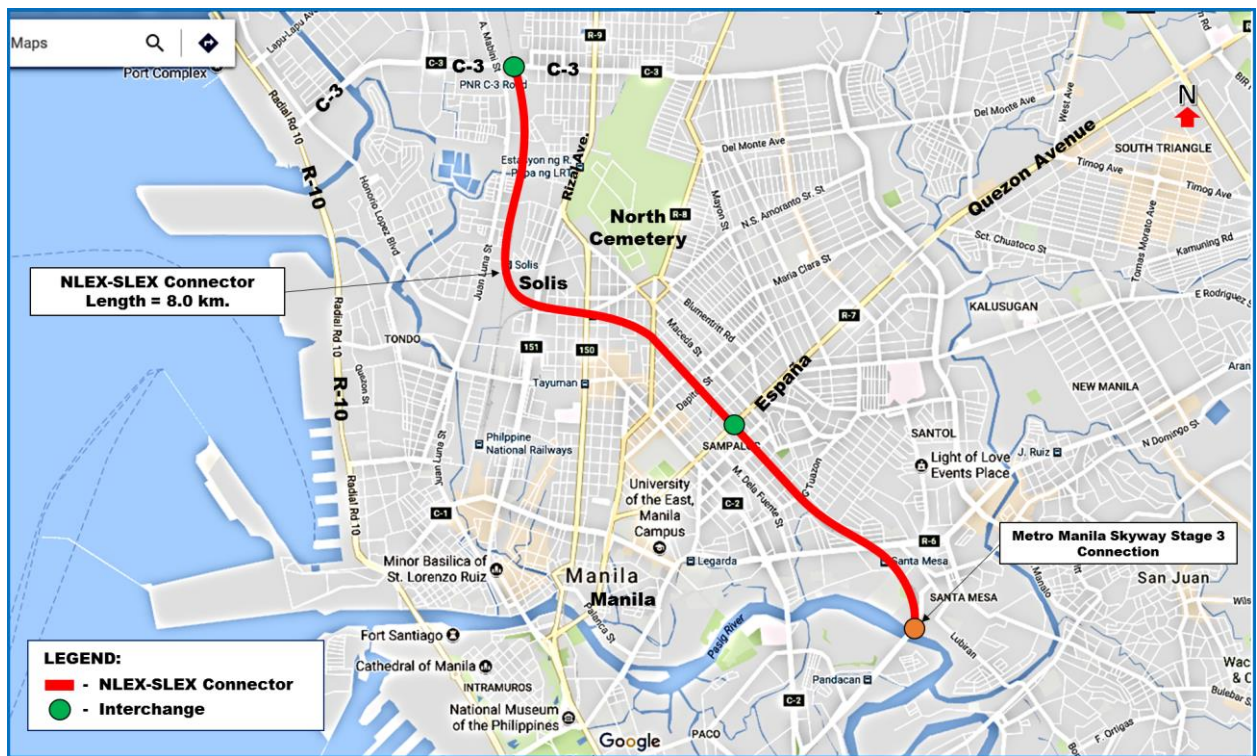
ANNEX A

Illustration 1: Latest Roadmap of NLEX and SCTEX showing existing, ongoing, and planned projects²¹



²¹ Reference material from NLEX Corporation

Illustration 2: NLEX–SLEX Connector Road Project²²



²² <https://www.dpwh.gov.ph/dpwh/PPP/projs/NLEX-SLEX>