

 PHILIPPINE RATING SERVICES CORPORATION	CREDIT RATING REPORT
	SM PRIME HOLDINGS, INC.

DATE December 19, 2024
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Proposed Bond Issue

Issue size: ₱20.0 billion, with an oversubscription option of up to ₱5.0 billion
Second tranche from the Shelf Registration of up to ₱100.0 billion

Tenor: Up to 10 years

Use of Proceeds: Debt refinancing and capital expenditure (capex)

Assigned Rating: PRS Aaa, with Stable Outlook

Outstanding Bond Issuances

Series	Issue Amount (In Billion ₱)	Maturity	Rating and Outlook
E	2.03104	25-Nov-25	PRS Aaa / Stable
F	10.00000	26-Jul-26	
I	10.00000	1-Mar-25	
K	11.37254	25-Mar-25	
L	3.62746	25-Mar-27	
N	2.50000	5-Feb-26	
O	10.00000	15-Nov-28	
P	10.91801	22-Apr-27	
Q	13.02990	22-Apr-29	
R	6.05209	22-Apr-32	
S	16.03098	23-Nov-25	
T	6.23651	23-May-27	
U	11.03251	23-May-29	
V	6.25000	24-Jun-27	
W	6.25000	24-Jun-29	
X	12.50000	24-Jun-31	
Total	137.83104		

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

RATIONALE

The assigned issue ratings take into consideration SM Prime Holdings, Inc.'s (SMPH, the Company) sustained recovery in profitability; strong liquidity; sound capitalization; well-experienced shareholders and seasoned management; and solid brand equity.

SM Investments Corporation (SMIC), SMPH's largest shareholder with a 49.7% stake as of end-September 2024, is one of the Philippines' largest conglomerates. The Sy family, as owner and adviser of the SM Group, maintains strategic oversight, with Henry T. Sy, Jr. serving as SMPH's Chairman. Key operational roles, however, are entrusted to non-family professionals, such as Jeffrey C. Lim, who is President since 2016. Such arrangement allows the Company to effectively implement its long-term strategy in its day-to-day operations.

SMPH has built a solid franchise, keeping its position as a strong player in the Philippine property sector. Its expansive portfolio covers malls in the Philippines and China, residential developments, hotels, offices, convention centers, and leisure properties. SMPH's established presence is reinforced by its ongoing developments and strategic land banking across the country.

SMPH maintained its profitability in the first nine months of 2024 (9M2024), with net income growing by 12.3% to ₱34.6 billion, from ₱30.8 billion in 9M2023. This expansion was on the back of the steady increase in rent and real estate sales segments. SMPH's consolidated revenues in 9M2024 amounted to ₱99.8 billion, up by 7.7% from ₱92.6 billion in 9M2023. Moving forward, SMPH's bottom line is seen to steadily grow. This will be attributed to the revenues from same-store rent plus contributions of new malls, offices, hotels, and expansions, as well as sales of ready-for-occupancy (RFO) units and new launches of mid-rise and horizontal projects.

SMPH's cash generation also remained strong with cash from operating activities growing by 14.0% to ₱51.8 billion in 9M2024, compared with ₱45.4 billion in 9M2023. The Company's generated cash was primarily used for debt repayments and capex requirements. On a per business segment basis, SMPH's ₱60.1-billion capex in 9M2024 was broken down as follows: 40% for malls; 26% residential for developments; 13% for offices, hotels and convention centers; and 21% for coastal developments. Cash and cash equivalents stood at ₱39.4 billion as of end-September 2024, up by 23.7% from as of end-2023. The growth in operating cash flow is expected to be sustained, moving forward.

BUSINESS PROFILE

SMPH is one of the largest integrated property developers in Southeast Asia, with an expansive portfolio that includes malls, residences, offices, hotels, and convention centers. It is also one of the largest property developers, in terms of assets, in the Philippines. As of end-September 2024, SMPH had total assets of ₱998.8 billion.

As of end-September 2024, SMPH had 11 integrated property developments in Metro Manila and 11 in key provincial cities in the Philippines.

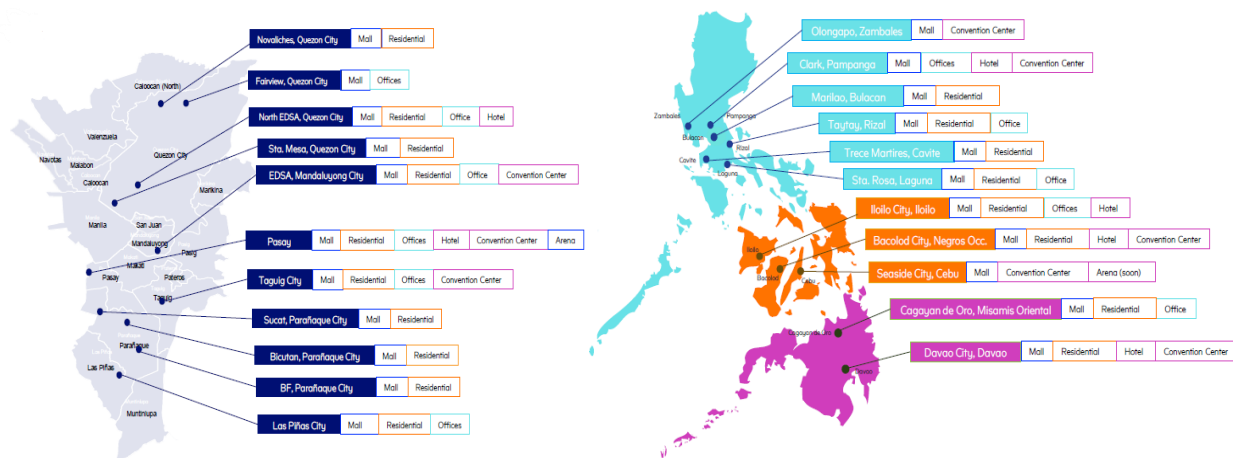


Illustration 1: SMPH Integrated Property Developments as of end-September 2024

Source: SMPH Investor Kit 9M2024

Incorporated in 1994, SMPH grew to be the largest retail shopping center developer and operator in the Philippines. Under the brand SM Supermalls, SMPH established itself as a dominant player in the malls business in the Philippines. The Company also expanded its mall operations into China with the opening of its first mall in the country, SM City Xiamen, in 2001. As of October 2024, SMPH had 87 malls in the Philippines and 8 shopping malls in China, with a cumulative total gross floor area (GFA) of 11.1 million square meters (sqm).

SMPH’s primary residential business is under its subsidiary SM Development Corp. (SMDC), and which is a leading developer of residential vertical and horizontal communities.

SMPH likewise owns leisure and resort developments. These include projects located in Tagaytay Highlands and Tagaytay Midlands in Laguna, Tagaytay City, and Batangas, as well as in Pico de Loro Cove within Hamilo Coast in Nasugbu, Batangas.

SM Hotels and Conventions Corporation (SMHCC) oversees the hospitality business of SMPH. SMHCC also operates convention centers and trade halls through SMX Convention Center (SMX).

The commercial business, on the other hand, is under the Commercial Properties Group (CPG). CPG oversees the leasing, operations, and management of the Group’s office buildings located in key cities of Metro Manila and strategic regions of the country.

Business Portfolio

Table 1: Income Statement Highlights								
In ₱ Millions	Revenue				Net Income (Loss)			
	9M2023	%	9M2024	%	9M2023	%	9M2024	%
Mall	52,614	57%	56,635	57%	19,362	63%	22,458	65%
Residential	30,258	33%	32,307	32%	7,701	25%	8,231	24%
Commercial and Coastal Development	5,026	5%	5,567	6%	2,894	9%	3,031	9%
Hotels and Convention Centers	4,932	5%	5,515	5%	956	3%	951	2%
Eliminations	-227	0%	-260	0%	-146	0%	-120	0%
Total	92,603	100%	99,764	100%	30,768	100%	34,551	100%

The Mall business remained the largest earnings contributor to SMPH, with contribution of 56.8% to consolidated revenues and 65.0% to net income in the first nine months of 2024 (9M2024). Mall revenues grew by 7.6%, from ₱52.6 billion in 9M2023 to ₱56.6 billion in 9M2024. This increase was a result of an 8.0% improvement in rental income and a 5.0% growth in cinema, event ticket sales, and other sources in the Philippines.

Similarly, the Residential business recorded higher revenues of ₱32.3 billion in 9M2024. SMPH's primary residential business reached ₱31.2 billion in revenues in 9M 2024, 9% higher than 9M 2023, due to higher take-up and construction progress for various projects.

The revenues from the Commercial and Coastal Development business, likewise, improved by 10.8% to ₱5.6 billion in 9M2024. Hotels and Convention Centers posted revenue growth of 11.8% to ₱5.5 billion in 9M2024.

Malls

SMPH continued to be the largest mall operator in the Philippines, under the SM Supermalls brand. As of October 2024, SMPH had 87 Philippine malls (85 in the same period last year) with a total GFA of 9.4 million sqm (9.2 million sqm in October 2023). Average mall contracts was 95.0% as of 9M2024, in terms of lease awarded. The Company's malls in the Philippines had an average daily pedestrian count of 3.7 million in 9M2024 (3.5 million in 9M2023).

In terms of geographic distribution, 3.9 million sqm or 42.0% of the Company's total mall GFA, comprised of 25 malls, was located in Metro Manila. The rest of Luzon (excluding Metro Manila) accounted for 38.0% or 3.6 million sqm of total GFA, represented by 47 malls. The Visayas region had seven malls with a total GFA of 1.1 million sqm (12.0% of the total GFA). Mindanao, likewise, had seven malls with a total GFA of 0.7 million sqm (8.0% of the total GFA).

There were two newly opened malls in 2024: SM City Caloocan (94,000 sqm GFA, opened in May) and SM City J Mall (101,000 sqm GFA, opened in October). As of December 10, 2024, the occupancy levels of the newly opened malls indicated strong market reception.

As of end-September 2024, the mall business had a landbank of 372.9 hectares (ha), which SMPH believes is sufficient to sustain five to seven years of development and sales.

SMPH's future mall expansion will be geared towards the provinces. Its focus will be on getting more mall coverage in Northern Luzon, Visayas, and other progressive cities in Mindanao. In line with this goal, the Company plans to open at least three new malls in 2025: SM City Laoag (113,000 GFA), SM City La Union (112,000 GFA), and SM City Zamboanga (91,000 GFA).

SMPH had eight malls in China with a total GFA of 1.7 million sqm as of end-September 2024 (1.6 million sqm GFA in the same period last year). Average daily pedestrian count was at 0.3 million in 9M2024.

In 2023, SMPH reported plans to form and list a real estate investment trust (REIT) company that would own 12-15% of the Company's shopping malls across the country. The plan, however, was deferred given then unfavorable market conditions. In its recent announcement, SMPH also said that it will not sell more than a 40% stake to the public, if its REIT plan pushes through.¹ In November 2024, however, SMPH disclosed that it would re-evaluate plans for a \$1-billion REIT offering in 2025, amid market conditions. According to management, Company remains committed in relation to its REIT offering, but such is contingent on favorable market conditions.

Residences

Primary Homes

SMPH is one of the leading residential developers of high-rise buildings (HRBs), mid-rise buildings (MRBs), and single-detached house and lots through its wholly-owned subsidiary, SMDC. Since 2013, SMDC had launched 185,562 units of primary residences with an approximate value of ₱721 billion.

As of end-September 2024, SMDC had 67 residential projects nationwide (65 in the same period last year). Of the total, 47 residential projects were in Metro Manila. Majority of residential projects in Metro Manila are HRBs. These projects were primarily located in the cities of Quezon, Pasay, Parañaque, and Makati.

There were 20 residential projects in key provincial cities, as of end-9M2024: 17 were MRBs while 3 were house and lot (H&L) developments. These projects were located near SM malls and terminals, adding value to the projects in terms of accessibility and convenience.

Reservation sales of the residential business amounted to ₱46.9 billion in 9M2024. Unsold inventory as of the same period was 26,121 units, with an estimated value of ₱162.8 billion.

As of end-September 2024, the residential business had a landbank of 1,363.4 ha. Of the total, 341.6 ha was in Metro Manila and 1,021.7 ha was outside Metro Manila.

Leisure Homes

SMPH's leisure homes included two large-scale tourism projects — Tagaytay Highlands and Pico de Loro.

Tagaytay Highlands is an exclusive mountain resort, golf club and residential complex, covering some areas of Cavite, Laguna, and Batangas. The 40-ha Pico de Loro represents Phase 1 of the Hamilo Coast project, which is a premiere and sustainable leisure destination in Nasugbu, Batangas.

The Leisure Homes business unit had a landbank of 510.0 ha, as of end-September 2024.

Commercial and Coastal Development

CPG handles the development, leasing, operations, and management of office buildings (located in key cities of Metro Manila and strategic regions of the country.), as well as other landholdings. Office buildings

¹ <https://manilastandard.net/business/314518363/sm-prime-reviews-plans-on-1-b-reit-offering-in-2025.html>

managed by the CPG include the E-com Centers in the MOA Complex, which caters to technology-based industries and BPO companies, as well as the SM Cyber Buildings in Makati and other emerging locations.

SMPH had 22 office towers, with a combined GFA of almost 1.6 million sqm as of end-September 2024. Five of these, with a combined GFA of almost 0.7 million sqm, were located within the MOA Complex in Pasay City.

The Office business unit had an available landbank of 127.7 ha, as of end-9M2024.

Under its coastal development segment, SMPH is undertaking a 360-ha reclamation project called SM Smart City. This project is being undertaken by the Company in collaboration with the local government of Pasay, with full sand placement expected by 2025. SM Smart City is envisioned to be a mixed-use development, similar to the successful Mall of Asia (MOA) reclamation project.

Hotels and Convention Centers

SMHCC develops and operates the portfolio of SMPH in the hospitality business. As of end-September 2024, SMPH operated ten hotels with over 2,600 saleable rooms. These ten hotels were: Taal Vista Hotel in Tagaytay, Radisson Blu Hotel in Cebu, Pico Sands Hotel in Hamilo Coast, Park Inn by Radisson in Davao, Park Inn by Radisson in Clark, Conrad Manila in Pasay, Park Inn by Radisson in Iloilo, Park Inn by Radisson in North EDSA, Park Inn by Radisson in Bacolod, and Lanson Place MOA. The latter, a 390-kay hybrid hotel and residences, was officially launched in April 2024. Lanson Place MOA targets the MICE² market, given its location which is just 15-20 minutes away from the airport.

SMHCC was also operating six convention centers (SMX Convention Centers) and two trade halls, with almost 42,000 sqm of total leasable space, as of end-9M2024. These developments collectively formed the largest privately-run exhibition and conventions chain in the Philippines. The SMX Convention Centers were located in the MOA Complex, Taguig, Davao, Bacolod, Olongapo, and Clark, while the two trade halls were in SM Megamall and SM Seaside City Cebu.

Management and Strategy³

The largest stockholder of SMPH is SMIC, owning 49.7% of the Company's outstanding shares as of end-September 2024. SMIC is one of the largest conglomerates in the Philippines, with market-leading businesses in retail, banking and property. As of report-writing date, SMIC has outstanding PRS-rated bonds amounting to ₱15.0 billion, all of which are rated PRS Aaa with a Stable Outlook.

As owners and advisers of the SM Group, members of the Sy Family continue to exercise strategic control of SMPH. Henry T. Sy, Jr., son of the founder of the SM Group, Henry Sy, Sr., is the Chairman of the Board of SMPH. Key management positions, however, are held by seasoned non-family professionals and managers. At the helm of management is Jeffrey C. Lim, who is President since 2016. Mr. Lim previously occupied the positions of President, Chief Operating Officer and Director at SMDC.

SMPH is the property segment of the SM Group. The SM Group's retail arm is SM Retail Inc. (SM Retail). The latter operates leading department stores under the SM Store brand and several food retail formats which includes SM Supermarkets, SM Hypermarkets, Savemore, WalterMart, and Alfamart stores. SM Retail also operates specialty stores focused on do-it-yourself (DIY), furniture, appliances, and toys among

² Meetings, incentives, conferences and exhibitions

³ <https://www.wsj.com/market-data/quotes/PH/SMPH/company-people/executive-profile/121885>

<https://www.wsj.com/market-data/quotes/PH/SMPH/company-people/executive-profile/68773404>

<https://www.bsp.gov.ph/Statistics/Financial%20Statements/Commercial/assets.aspx>

<https://www.bworldonline.com/corporate/2024/11/14/634792/smic-president-optimistic-amid-easing-inflation/>

others. SMPH had 12,066 employees as of December 11, 2024. There is also no existing collective bargaining agreement between the Company and any of its employees based on its 2023 integrated report.

Under SMIC's banking group are BDO Unibank, Inc. (BDO) and China Banking Corporation (China Bank), the country's largest and fifth largest banks by resources, respectively, as of end-June 2024. China Bank has an Issuer Credit Rating of PRS Aaa (corp.), with a Stable Outlook, from PhilRatings.

SMIC also has portfolio investments in other sectors such as leisure properties, office buildings, commercial chains, logistics, food manufacturing, geothermal steam production and mining.

In 9M2024, SMIC reported a net income of ₱60.9 billion, a 9.0% increase from ₱55.9 billion in the same period last year. Its consolidated revenues went up by 5.0% to ₱462.5 billion. SMIC President and Chief Executive Officer (CEO) Frederic C. DyBuncio highlighted the continued growth across the Company's businesses in the third quarter, particularly in banking. He also expressed optimism that the improving macroeconomic environment, supported by easing inflation, would benefit businesses and consumers moving forward.

Banking accounted for the largest share of SMIC's net income, at 50.0% in 9M2024. Property, retail, and portfolio investments had net income contributions of 27.0%, 15.0% and 8.0%, respectively.

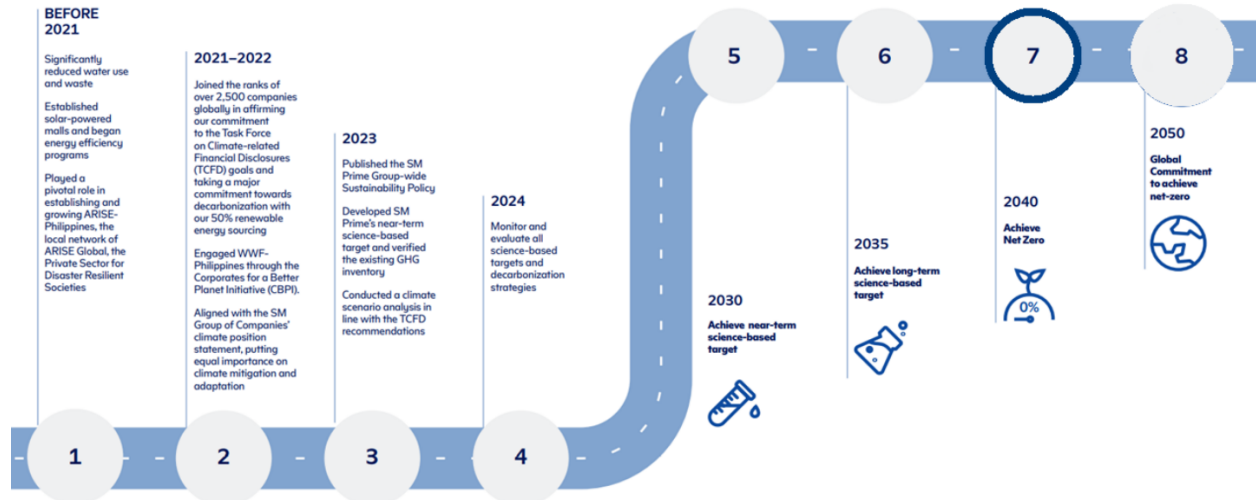
	Revenue		Net Income	
	9M2023	9M2024	9M2023	9M2024
Retail	66%	66%	18%	15%
Property	20%	20%	26%	27%
Banks	6%	7%	47%	50%
Portfolio	8%	7%	9%	8%

The SM Group takes an integrated approach in creating shared value for all its stakeholders and applying global Environmental, Social and Governance (ESG) best practices across its ecosystem of businesses. The Group aligns its sustainability programs with the 17 United Nations Sustainable Development Goals. Additionally, SMIC, the mother company of SM Prime, is a signatory of the UN Global Compact's Ten Principles, which SM Prime follows.

Established in 2020, SMPH's Sustainability Council oversees the Company's climate change programs. The Council is comprised of the following groups: Advisory Group (Head Office divisions that provide recommendations, based on their expertise, to the Steering Committee), Sustainability Secretariat (the department that coordinates with the members of the Advisory Group and business unit heads), and Technical Working Group (sustainability champions from the business units also that serve as the data collectors and analysts). Mr. Lim, SMPH's President, is the Steering Committee Chairman.

SMPH targets to achieve net-zero emissions by 2040, based on its net-zero ambition action plan (see below).

Net-Zero Ambition Action Plan



Source: SMPH Investor Kit 9M2024

In addition to its net-zero emissions target, SMPH also took bold steps toward achieving a waste-free future. On March 30, 2024, International Day of Zero Waste, the Company unveiled its vision for #SMWasteFreeFuture. The program initiatives aim to achieve two primary objectives: 1) Reduce overall waste generation by implementing effective waste segregation practices, and to 2) Enhance waste diversion rate by diverting a greater proportion of waste away from landfills through recycling, composting, and other sustainable methods. Through partnerships with key stakeholders, SMPH encourages various communities to minimize their impact on the environment and rethink the way they see waste

SMPH’s key strategies are focused in three areas: land banking, capex, and maintaining a conservative balance sheet. As of end-September 2024, SMPH had a landbank of about 2,374.0 ha. The Company’s landbank, spread across emerging progressive cities in the Philippines, is believed to be sufficient for five to seven years of development and sales. The largest allotment of the landbank was for primary residential projects, which cornered 57.0% of the total landbank.

For the first nine months of 2024, SMPH spent ₱60.0 billion in capex, allocated as follows: 40.0% for malls, 26.0% for residential developments, 13.0% for offices, hotels, and convention centers, and 21.0% for coastal developments. For the entirety of 2024, SMPH has allocated ₱100.0 billion for its capex program. For 2025, the Company expects its capex to range from ₱100.0 billion to ₱110.0 billion. Additionally, SMPH will continue to explore opportunistic acquisitions and investments.

ECONOMY

Gross Domestic Product⁴

The current Marcos administration has revised its economic growth targets for 2024 to 2028 in response to domestic and global uncertainties. The Development Budget Coordination Committee (DBCC) set the 2024 GDP growth target at 6.0-6.5%. For 2025, it had set a wider range of 6.0-8.0% GDP growth target, which will be maintained through 2028. The government remains optimistic about the GDP growth for 2024, citing factors like holiday spending, disaster recovery, low inflation, and a strong labor market. However, challenges such as weather disruptions and slower government infrastructure spending continue to create uncertainties.

On December 10, 2024, the World Bank (WB) similarly downgraded its 2024 growth outlook on the Philippines, with powerful typhoons emerging as a major threat to the economy and poverty reduction. In its latest Philippine Economic Update, the WB forecast GDP this year would grow by 5.9%. The forecast is lower than its previous forecast of 6% and is also below the government's target. The WB said the lower forecast was triggered by below the market consensus growth of 5.2% in the three months ending September 2024, which was the weakest reading in more than a year following the onslaught of storms that disrupted government spending and damaged crop output.⁵

In Q3 2024, the Philippine economy grew by 5.2%, lower than the 6.0% recorded in the same period last year. As a result, the year-to-date GDP growth stands at 5.8%, slightly below the government's 6.0% target. Despite the slowdown, the country remains one of the fastest-growing economies in the region, outperforming Indonesia, China, and Singapore. Growth was mainly driven by expansion of 6.3% in the Services Sector and 5.0% in the Industry Sector, although the Agriculture, Forestry, and Fishing Sector contracted by 2.8% due to adverse weather, El Niño effects, and a fishing ban.

On the demand side, Household Final Consumption Expenditure rose by 5.1%, supported by lower inflation. Growth in government consumption, however, slowed to 5.0% from 6.7%. Additionally, Gross Capital Formation grew by 13.1%. Imports of goods and services increased by 6.4% while exports declined by 1.0%. Despite these challenges, National Economic and Development Authority (NEDA) Secretary Arsenio Balisacan remains optimistic that the 6.0% growth target for 2024 can still be achieved, citing expectations of increased holiday spending, more stable commodity prices, and lower interest rates.

Inflation⁶

The Philippines' headline inflation rose from 1.9% in September 2024 to 2.3% in October, bringing the year-to-date average to 3.3%. This is an improvement from 4.9% in October 2023. The increase was mainly driven by food and non-alcoholic beverages inflation, which rose from 1.4% to 2.9%, partly offset by transport inflation, which saw a decline of 2.1% from 2.4% in September.

⁴ <https://www.pna.gov.ph/articles/1237302>

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

<https://www.manilatimes.net/2024/12/03/business/top-business/amro-lowers-2024-ph-growth-outlook/2014480>

<https://business.inquirer.net/493642/ph-targets-6-8-growth-till-2028>

⁵ [https://business.inquirer.net/495756/world-bank-trims-ph-growth-outlook#:~:text=The%20World%20Bank%20\(WB\)%20on,the%20economy%20and%20poverty%20reduction.](https://business.inquirer.net/495756/world-bank-trims-ph-growth-outlook#:~:text=The%20World%20Bank%20(WB)%20on,the%20economy%20and%20poverty%20reduction.)

⁶ <https://psa.gov.ph/content/summary-inflation-report-consumer-price-index-2018100-october-2024>

<https://www.gmanetwork.com/news/money/economy/925996/inflation-accelerates-to-2-3-october-2024/story/>

<https://www.bworldonline.com/top-stories/2024/10/17/628412/bsp-cuts-rates-for-a-2nd-straight-meeting/>

Other commodity groups showed slower inflation, including alcoholic beverages and tobacco (3.1% to 3.0%), clothing and footwear (2.9% to 2.7%), and housing, water, electricity, gas and other fuels (3.3% to 2.4%). Inflation of household items, recreation, and personal care also decreased.

The largest contributors to October's inflation were food and non-alcoholic beverages (46.9%), housing and utilities (22.0%), and restaurants and accommodation services (16.1%).

Despite the uptick in October, inflation remains within the government's target. NEDA Secretary Arsenio Balisacan emphasized the government's focus on maintaining price stability and addressing supply chain challenges caused by recent weather disturbances.

Meanwhile, the Bangko Sentral ng Pilipinas (BSP) cut interest rates by 25 basis points in October 2024, marking its second consecutive rate cut. This brought the reverse repurchase rate to 6.0%, down from 6.3% 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 2.0-4.0% target range.

INDUSTRY

Metro Manila Property Market

Residential⁷

The Metro Manila residential market in 3Q2024 was impacted by elevated mortgage rates and a significant backlog of unsold RFO units. Developers launched only 8,000 pre-selling units in the first nine months of the year, marking a 61.0% decline year-on-year. This cautious approach was driven by the 27,200 unsold RFO units, particularly in the lower to upper mid-income segments (property prices ranging from ₱3.6 million to ₱12.0 million), which accounted for 57.0% of the remaining inventory. High levels of unsold RFO units were concentrated in Pasig City, QC-South, Parañaque, Manila North, Makati Fringe, and QC-North.

In terms of demand, pre-selling condominium sales reached 9,300 units by the end of 3Q2024, a 53.0% decline compared to the same period in 2023. Despite this slowdown, the upscale and luxury segments showed resilience, supported by steady demand from higher-income buyers. Meanwhile, the affordable and mid-income segments struggled to gain traction amid rising borrowing costs. The Philippine central bank's recent interest rate cuts may offer some relief, with analysts anticipating mortgage rates to improve by 2025, and which could help revive buyer interest.

On the supply side, the market recorded the completion of 830 units during the quarter. Notable projects included Alveo Land's Cerca Viento Tower 2 in Alabang and four towers of Megaworld's Bayshore Residential Resort in the Bay Area. For 2024, Colliers now forecasts a total of 9,860 completed units, down from the previous estimate of 11,290, due to delays in the turnover of SMDC's Sail Residences. These delays are expected to push new supply into 2025, further adding to inventory pressures.

The rental market showed limited growth, with lease rates increasing marginally by 0.2% during the quarter. Elevated vacancy, driven in part by Chinese employees vacating units in the Bay Area following government restrictions on POGO, continues to hamper rental recovery. Developers, however, remain aggressive in efforts to attract tenants and buyers, offering attractive payment terms, early move-in

⁷ Colliers Q3 2024 Metro Manila Residential Report

promos, and enhanced amenities. These initiatives are aimed at mitigating the impact of high vacancy rates, which stood at 17.4% in 3Q2024.

Colliers anticipates a slow recovery for both rents and capital values, with annual growth of 2.0% to 2.5% projected through 2026. While long-term outlook is expected to improve as infrastructure projects near completion, the near-term market remains constrained by significant inventory and cautious buyer sentiment.

Office⁸

The Metro Manila office market in 3Q2024 saw a negative net take-up for the first time since 2021, driven by space surrenders from POGOs and non-renewal of pre-pandemic leases. Colliers projects vacancy rates to rise to 20.5% by the end of 2024, with net take-up remaining flat year-on-year due to these factors.

Demand for office space remained relatively stable in 3Q2024. Traditional firms, including government agencies, banking institutions, and flexible workspaces, accounted for 53.0% of office deals in 9M2024. Notable transactions were recorded in Quezon City and Fort Bonifacio, with companies such as Telus, Accenture, and the London Stock Exchange Group occupying space in these areas. Demand continues to be concentrated in prime locations, while areas with higher exposure to the POGO sector, such as the Bay Area, experienced slower demand.

On the supply side, only 9,500 sqm of office space was completed in 3Q2024, a sharp decrease from previous years. Colliers expects new supply for the year to total 295,700 sqm, down 52.0% from 2023, due to construction delays and higher vacancy rates in certain submarkets. Makati, Fort Bonifacio, and Ortigas are expected to account for most of the new supply in the coming years.

Vacancy rates rose to 18.5% in 3Q2024, driven by POGO-related space surrenders and tenant rightsizing. Colliers expects vacancy to increase further by year-end, particularly in secondary markets like the Bay Area, Alabang, and the Makati Fringe, while primary central business districts (CBDs) such as Makati CBD, Ortigas CBD, and Fort Bonifacio are expected to recover faster due to relatively lower vacancy rates.

Rental rates in Metro Manila decreased by 0.6% quarter-on-quarter in 3Q2024. Colliers forecasts that rents will remain stable by the end of 2024. However, submarkets with significant POGO exposure, particularly the Bay Area, are likely to see further rent declines. In contrast, rents in prime CBDs are expected to experience slight increases due to declining vacancy rates and sustained demand from traditional tenants.

Retail⁹

In 3Q2024, the Metro Manila retail market saw sustained demand, particularly from food and beverage (F&B) retailers. These retailers continued to dominate mall space take-up, alongside the expansion of foreign retailers from sectors like home furnishings and personal accessories. This demand from both local and international brands drove growth in physical retail space absorption across Metro Manila.

In terms of supply, 86,900 sqm of new retail space was delivered in 3Q2024, including openings such as Opus Mall in Quezon City, SM City Caloocan, and the expansion of SM Bicutan in Parañaque. Moving forward, from 2024 to 2026, annual retail supply is expected to taper, with an estimated delivery of 159,600 sqm as developers increasingly focus on redeveloping existing malls. Notable malls undergoing

⁸ Colliers Q3 2024 Metro Manila Office Report

⁹ Colliers Q3 2024 Metro Manila Retail Report

redevelopment include SM Megamall, SM East Ortigas, Greenbelt, Glorietta, Trinoma, and Robinsons Forum, reflecting the push to meet changing consumer preferences.

Vacancy rates showed improvement in 3Q2024, declining from 15.5% in Q1 to 15.1%, driven by sustained retailer demand. However, vacancies are expected to rise slightly to 15.3% by the end of 2024 due to the new retail supply and some retailers adopting a wait-and-see approach to absorption. Despite this, the market remains resilient, with demand from both local and foreign brands continuing to support mall operators.

Rent remained stable, with no dramatic increases due to the substantial new supply. However, premium rents were noted in business hubs and malls with lower vacancy rates. These areas with high activity continue to attract strong demand from retailers.

Overall, the Metro Manila retail market is poised for continued growth, with mall operators focused on redeveloping existing spaces to meet the evolving demands of consumers and retailers.

On December 3, 2024, the Metropolitan Manila Development Authority (MMDA) issued an edict banning “mall-wide sales” in the National Capital Region (NCR) during the holiday season. The directive also prohibited individual stores from promoting sales. These new rules followed the MMDA’s imposition on November 18, 2024 of restricted opening times for malls during the holiday season, requiring them to open at 11:00 a.m. instead of 10:00 a.m. In addition, the MMDA also said malls would be required to observe restricted delivery times, from 11:00 p.m. to 5:00 a.m., except for perishable goods. There are 131 malls in the NCR, which includes 25 SM malls as of report writing date. According to the MMDA, the ban on mall-wide sales is part of its broader strategy to manage traffic flow during the Christmas season. The Philippine Retailers Association (PRA) has protested the MMDA ban on mall-wide holiday sales, stating that the MMDA did not fully appreciate the doubtful effect on the ban on Christmas season traffic and its impact on the economic gains of the Marcos administration. Despite the restrictions, SMPH’s mall segment expects strong foot traffic and increased tenant sales during the holiday season. Such scenario will be supported by year-end bonuses and Overseas Filipino remittances, which traditionally boost consumer spending during Christmas.

Hospitality¹⁰

The hospitality sector in the Philippines showed positive signs of recovery in 2024, with international tourist arrivals reaching 4.4 million as of September, marking a 9.9% year-on-year increase. As a result, hotel occupancy rates in Metro Manila improved, reaching 76.9% in 3Q2024. This growth was further supported by holiday-driven demand and stronger tourism numbers. Additionally, average room rates increased to ₱7,971 per night, reflecting a 2.2% quarter-on-quarter and 3.8% year-on-year growth. Room rates are projected to reach at least ₱8,000 by the end of the year.

Despite these positive developments, the Philippines is expected to fall short of the Department of Tourism’s target of 7.7 million foreign arrivals for 2024. Nonetheless, it is still on track to exceed the previous year’s total of 5.5 million. Notably, Japan has now surpassed China as the third-largest source market for the Philippines in 2024.

In line with the recovery in tourism, private sector developers are committing to significant new hotel projects nationwide. A total of 158 new accommodation projects, adding 40,084 rooms, are in the pipeline, with investments amounting to ₱250 billion. Key development areas include Luzon, particularly

¹⁰ Q3 Property Report 2024: Navigating Transition – Leechiu Property Consultants
<https://www.jll.com.ph/en/newsroom/metro-manila-real-estate-market-shows-mixed-performance-in-q3-2024-jll>

Clark (2,098 keys) and Metro Manila (over 8,000 keys). Additionally, resort destinations in the Visayas, including Boracay, Mactan Island, and Panglao Island, are expected to contribute a significant portion to the new room supply.

Impact of POGO Ban on the Philippine Property Market¹¹

The Philippine government's decision to end POGOs by the end of 2024 will have an impact on the property market, particularly in Metro Manila.

In the office sector, POGOs have vacated 274,000 sqm of space in 2024. This led to a 65% increase in office vacancies compared to last year. The majority of these exits were a result of the government's announcement in July of a complete POGO ban, with many leases being terminated and canceled. This trend is expected to continue, resulting in higher vacancy rates and downward pressure on rental rates in the office market.

In the residential market, an oversupply of units is likewise expected as a result of the ban. POGO workers, many of whom were expatriates, were significant consumers of luxury condominiums. Their departure could increase vacancy rates and reduce rental yields in the high-end residential segment moving forward.

Some developers, including SMPH and Filinvest REIT Corp., have reported minimal exposure to POGOs and anticipate limited disruption in relation to the ban. The reduction in POGO-related activities in the country may lead to efforts from developers to attract other industries to fill the gap in the property market.

Overall, the POGO ban is expected to affect both office and residential markets, with adjustments anticipated as developers shift focus to other sectors.

FINANCIAL PROFILE

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

Profitability

Interim September 2024

In 9M2024, SMPH's consolidated revenues recorded a 7.7% increase to ₱99.8 billion, from ₱92.6 billion in 9M2023. This increase was fueled by the steady growth in rent and real estate sales.

Rent income, which accounted for 57.4% of the consolidated revenues, grew by 8.7% from ₱52.6 billion in 9M2023 to ₱57.2 billion in 9M2024. Of the total rent income, 85% came from malls while the rest (15%) was from offices, and hotels and convention centers.

Similarly, sales from real estate grew by 6.7%, from ₱29.8 billion in 9M2023 to ₱31.8 billion in 9M2024. The growth was attributed to sales take-up and construction accomplishment of ongoing projects,

¹¹ <https://www.gmanetwork.com/news/topstories/nation/929606/pogo-office-space-leechiu-property-consultants/story/>
<https://agbrief.com/news/philippines/31/07/2024/pogo-ban-could-halve-rental-and-increase-condo-vacancy-rates-experts/>
<https://manilastandard.net/real-estate/314477395/ph-property-sector-to-survive-pogo-ban>
<https://www.bworldonline.com/top-stories/2024/08/12/613381/philippine-property-developers-unfazed-by-govt-ban-on-pogos/>

including Now Residences in Pampanga, Bloom Residences and Gold Towers Residential-Offices in Paranaque, Vail Residences in Cagayan de Oro, and Glade Residences in Iloilo.

The increase in total cost and expenses was modest at 8.4% in 9M2024. Operating expenses grew at a slower rate of 6.5%. The cost of real estate sold, however, grew at a faster rate at 13.9%. According to management, this was due to the change in revenue mix from HRB to MRB. Gross profit margin (GPM) on real estate, therefore, was lower at 57.1% in 9M2024, compared with the 59.8% GPM recorded in 9M2023. The OPM was relatively unchanged at 47.8% in 9M2024, from 48.1% in 9M2023.

In 9M2024, SMPH's income from "Others – net" recorded an increase of nearly three times, from ₱642 million in 9M2023 to ₱1.8 billion in 9M2024. This item consists of equity in net earnings from associates and joint ventures as well as foreign exchange gains and losses. This also boosted SMPH's net income in 9M2024.

SMPH ended 9M2024 with a net income of ₱34.6 billion, up by 12.3% from ₱30.8 billion in 9M2023. The annualized return on average assets (ROAA) and NPM increased to 4.7% and 34.6%, respectively, in 9M2024.

Projections (2024-2035)

Rent income and real estate sales are projected to maintain a steady growth trajectory, with rent income continuing to account for bulk of SMPH's revenue. The growth in rent income will be driven by the same-store rent plus contributions of new malls, offices, hotels, and mall expansions, while the sales of ready-for-occupancy (RFO) units, new launches of mid-rise and horizontal projects are expected to drive the uptrend in revenues from real estate sales.

SMPH's projected total costs and expenses is seen to increase in line with the total revenue growth. Nonetheless, margins are expected to remain strong, and steadily improve over the projected period. The Company is also targeting to maintain double-digit growth in bottom line.

Cashflow and Liquidity

Interim September 2024

Cash generation from operating activities remained strong, as it grew by 14.0% from ₱45.4 billion in 9M2023 to ₱51.8 billion in 9M2024. Generated cash remained largely used for capex and debt repayment. The total cash used in investing activities in 9M2024 amounted to ₱45.1 billion, 12.2% lower compared with 9M2023.

Cash and cash equivalents stood at ₱39.4 billion as of end-September 2024, up by 23.7% from ₱31.8 billion as of end-2023.

Current assets stood at ₱225.2 billion as of end-September 2024, posting a modest growth of 3.6% from end-2023. Current liabilities, on the other hand, grew at a faster rate of 15.3% on account of the ₱18.5-billion increase in loans payable. Current liabilities were at ₱198.8 billion as of end-September 2024. As a result, current ratio declined to 1.1x, from the 1.3x as of end-2023.

Projections (2024-2035)

Liquidity is expected to remain robust, with positive cash from operations over the projected period. The growth in operating cash flow is expected to be sustained, albeit such growth will be tempered moving forward. Cash outflows will primarily be in relation to investing activities, including the development of residential units, construction of investment properties and land banking activities.

Internally generated cash will be supplemented with external borrowings and will be used to partially refinance/settle financing obligations.

In March 2025, SMPH's ₱10.0-billion Series I and ₱11.4-billion Series K bonds will mature. These bonds will be refinanced with the proceeds from the proposed bond issuance. Moreover, SMPH's Series E and Series S bonds amounting to ₱18.1 billion will mature in November 2025. According to management, these bonds will be settled through external funding. Current ratio is also seen to remain healthy over the projected period.

Debt and Capital Management

Interim September 2024

The share of debt to total capital was relatively unchanged at 47.5%. SMPH's total debt increased to ₱385.7 billion, from ₱366.7 billion as of end-2023, attributed to foreign exchange translation and loan availments for coastal development. Total equity increased by 6.7% to ₱425.7 billion, on account of the continued accumulation of earnings. The DE ratio as of end-September was unchanged at 0.9x.

SMPH had foreign currency debt exposure to U.S. Dollar (USD) and China Yuan Renminbi (CNY). Such accounted for approximately 24.2% (21.1% USD and 3.1% CNY) of SMPH's total long-term debt as of end-September 2024. Moreover, ₱69.9 billion or 19.3% of SMPH's total long-term debt are maturing within one year. The Company hedges its foreign currency risk from debt issuances by utilizing derivative instruments such as cross currency swaps, principal only swaps, and foreign exchange forward swaps.

On December 10, 2024, the Company announced that its Board has approved a share buyback program valued between ₱5.0 billion and ₱10.0 billion. The final terms and implementation of the program will be determined by management. SMPH stated that the buyback was prompted by the Company's belief that its stock is currently undervalued, with the share price down by approximately 20% year-to-date. The Company added that such valuation does not reflect its strong current performance or growth plans for the coming year, hence the decision to proceed with the buyback. Management highlighted that the buyback reflects confidence in the Company's future while providing direct value to shareholders.¹²

Projection (2024-2035)

SMPH's leverage position will continue to remain sound despite the additional debt. Such is on account of the Company's continued accumulation of earnings. Moreover, the Company's DE ratio will remain healthy and show sustained improvement over the projected period.

Financial Flexibility

Historically, SMPH had been able to successfully tap the debt market in order to raise funds, banking on the continued strong interest of investors in the Company. In June 2024, SMPH raised a total of ₱25.0 billion (from a base offering of ₱20.0 billion) from its Series V, Series W, and Series X bond issuances. These bonds will mature in 2027, 2029, and 2031, respectively. Moreover, SMPH also have access to ample credit lines from local and international institutions which gives the Company additional flexibility in terms of funding sources.

SMPH may also consider raising additional funds through the equities market, given that it is one of the largest listed real estate developers on the Philippine Stock Exchange (PSE), based on capitalization. As of December 5, 2024, SMPH had a market capitalization of ₱756.6 billion.

¹² <https://www.bworldonline.com/corporate/2024/12/11/640704/sm-prime-board-approves-up-to-p10-b-share-buyback-plan/>