

 PHILIPPINE RATING SERVICES CORPORATION	ISSUE RATING REPORT
	SMC TOLLWAYS CORPORATION

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PROPOSED BOND ISSUANCE:

Amount	Tenors	Assigned Rating and Outlook
P30.0 billion, with an Oversubscription Option of up to P5.0 billion	Series A – 5.25 years Series B – 7 years Series C – 10 years	PRS Aaa Stable Outlook
Total Proposed Issuance — P35.0 billion		

Use of Proceeds: (a) Refinancing of existing debt obligations of up to P29.7 billion; (b) Additional investments of up to P6.45 billion in South Metro Manila Skyway - Stages 1 and 2 and South Metro Manila Skyway - Stage 3; and (c) Payment of related transaction costs, fees and expenses

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

An **Outlook** is an indication as to the possible direction of any rating change within a one-year period and serves as a further refinement to the assigned credit rating for the guidance of investors, regulators and the general public. A **Stable Outlook** is assigned when a rating is likely to be maintained or to remain unchanged in the next 12 months.

RATING RATIONALE

- Part of the established San Miguel Group, under its infrastructure arm – San Miguel Holdings Corp. (SMHC)

SMC Tollways Corporation (SMC Tollways), formerly Atlantic Aurum Investments Philippines Corporation, is 100% owned by Atlantic Aurum Investments, B.V. (AAIBV), a holding company incorporated in the Netherlands. AAIBV is 95% owned by SMHC, a wholly-owned subsidiary of San Miguel Corporation that serves as the holding company for its infrastructure businesses.

San Miguel Corporation is one of the country's largest and most diversified conglomerates. Established in 1890, the company currently has business interests in various sectors, ranging from food and beverage, packaging, fuel and oil to energy, infrastructure, cement, property development, car distributorship and banking services. The leadership and management of SMC Tollways is largely in line with the San Miguel

Group. The Chairman of the Board, President and Chief Executive Officer (CEO) of SMC Tollways is Mr. Ramon S. Ang, who is also Chairman and CEO of San Miguel Corporation.

Moreover, there is strong synergy within the Group in terms of resources. In 2021, the operating subsidiaries of SMC Tollways entered into Shared Services Agreements with SMHC. The current arrangement gives SMHC significant influence in and control of SMC Tollways.

2. Positive demand for the services of the Company

For full-year 2020, the total annual average daily traffic (AADT) for all vehicle classes using the Skyway Stage 1 (SS1) and Skyway Stage 2 (SS2) posted a noticeable decline primarily caused by the pandemic outbreak. The AADT went down by 34.8% in 2020, from 257,052 vehicles in 2019 to 167,687 vehicles in 2020. As restrictions were eased and pandemic-related conditions improved, the AADT recovered by 19.0%, 23.5%, and 10.6% in 2021, 2022, and 2023, respectively. As of end-2023, the total AADT in SS1 and SS2 surpassed 2019 AADT by 6%.

For Skyway Stage 3 (SS3), the total AADT recorded continued growth since its public opening in July 2021, posting an average growth of 41% for more than two years of its operation. In the first half of 2024 (1H2024), overall AADT for the whole Skyway System grew by 2.8% since end-2023.

In addition, there is a solid thrust from the national government to improve the infrastructure landscape in the country. On April 30, 2024, President Ferdinand R. Marcos Jr. signed Executive Order (EO) No. 59 to expedite the implementation of the country's infrastructure flagship projects (IFPs). The signed EO supports the goals of the Philippine Development Plan from 2023 to 2028 by expanding and upgrading the country's infrastructure sector as part of the government's efforts towards social and economic transformation. As of June 2024, the updated list of approved IFPs comprised of 186 projects valued at P9.6 trillion. Bulk of the approved projects (135 projects, as of June 2024) were for physical connectivity such as roads, bridges, seaports, airports, and mass transport.

3. Sustained improvement in profitability

Supported by the recovery and growth in AADT, consolidated revenues of SMC Tollways and its subsidiaries rose by 62% in 2022, from P10.5 billion in 2021 to P17.0 billion. Such further grew by 19% to P20.3 billion in 2023. Net income likewise registered substantial growth, as continued improvement in revenues was complemented with well-managed costs and expenses. Bottom line ballooned from P1.6 billion in 2021 to P5.6 billion in 2022, and further to P8.4 billion in 2023.

An increasing trend in net profit margin was also observed, with such climbing from 16% in 2021 to 33% in 2022 and 41% in 2023. Returns exhibited the same trend, as return on average equity (ROAE) jumped to 21% in 2023 and return on average assets (ROAA) increased to 8%. Moreover, debt service coverage ratio (DSCR) was adequate throughout the three-year period, ranging from 1.0x to 1.3x.

Growth in both earnings and margins was also sustained in 1H2024. Net income amounted to P4.8 billion, up by 21% from P4.0 billion in 1H2023. Gross margin inched up from 71% in 1H2023 to 72% in 1H2024, and net profit margin went up from 40% to 46%. Going forward, the Company anticipates steady profitability supporting solid cash generation and healthy liquidity.

4. Easing leverage levels

The Company's debt-to-equity ratio consistently improved over the recent years, as debt levels were trimmed down and growth in equity was sustained. Interest-bearing debt was reduced from P67.5 billion

as of end-2021 to P55.6 billion as of end-2023, and further to P50.9 billion as of end-June 2024. Total equity, on the other hand, increased from P30.3 billion as of end-2021 to P42.9 billion as of end-2023 and P47.5 billion as of end-June 2024. Equity expansion was driven by the continued plowback of earnings.

As a result of the foregoing, interest-bearing debt-to-equity ratio improved from 2.2x as of end-2021 to 1.3x as of end-2023, and further to 1.1x as of end-June 2024. Leverage levels are seen to continue to improve over the long-term, backed by a shrinking loan balance and growing equity.

BUSINESS RISK

Company Profile

SMC Tollways was established on June 7, 2013 to deal with real and personal property, including but not limited to those engaged in the logistics, tollways, infrastructure, and similar businesses. The Securities and Exchange Commission (SEC) approved the change in the corporate name to its present name on April 5, 2021.

The Company holds the investments of its parent company, SMHC, in the Skyway System.

The Concession

The Metro Manila Skyway, or simply the Skyway System, is an elevated expressway that crosses major highways in Metro Manila and passes through Quezon City, Makati City, Pasay City and Parañaque City. The expressway goes over existing roads to make a more convenient link between the South Luzon Expressway (SLEX, to the south) and the North Luzon Expressway (NLEX, to the north) from Alabang, Muntinlupa to Balintawak, Quezon City.

SMC Tollways, through its subsidiaries, operates the Skyway Stage 1, Skyway Stage 2, Skyway Stage 3 and the Skyway Extension.

Table 1. The Skyway System¹

Name	Description	Concessionaire
Skyway Stage 1 "SS1"	The rehabilitation of the 13.43-kilometer (km) at-grade (or ground level) section of Magallanes to Alabang and the construction of a 9.02-km six-lane, 2x3 divided elevated expressway, from Buendia, Makati to Bicutan Paranaque City. Construction started in April 1995, and exits/interchanges were completed and gradually opened from 1999 to 2010.	SMC Skyway Corporation (SMC Skyway)
Skyway Stage 2 "SS2"	Continuation of Stage 1, and includes an elevated expressway of 6.88 km from Bicutan to Alabang over the existing alignment of the SLEX.	

¹ Sources: 2018 Audited Financial Statements of SMC Tollways Corporation

<https://www.sanmiguel.com.ph/page/infrastructure>

<https://trb.gov.ph/index.php/toll-road-projects/skyway>

<https://www.dpwh.gov.ph/dpwh/PPP/projs/sucats>

<https://www.dpwh.gov.ph/dpwh/PPP/projs/mme>

<https://www.pna.gov.ph/articles/1020809>

	Construction started in 2007, with portions opened from December 2010 to April 2011.	
Skyway Stage 3 Project "SS3"	Elevated expressway of roughly 17.93 km from Buendia, Makati City to NLEX Balintawak, Quezon City. Construction started in January 2015. The tollway had its soft opening in December 2020, and was formally opened on January 14, 2021.	SMC Skyway Stage 3 Corporation (SMC Skyway Stage 3)
Skyway Extension	An additional 4.1-km elevated expressway which connects the existing Skyway system to Susana Heights, Muntinlupa. This toll road also provided additional lanes to Skyway in Sucat. Construction of the project started in July 2019, and was formally inaugurated as the "South Luzon Expressway (SLEX) Elevated Extension" Project in February 2022.	SMC Skyway Corporation (SMC Skyway)

SMC Tollways continues to improve its toll road services through the enhancement of the Skyway System. The Company launched the extension and expansion projects of SS1 and SS2 that are set to be accomplished in the next three years (2024-2026).

The Skyway Extension Project spans from Sucat to Alabang and is targeted to provide an additional lane to the whole section of the southbound viaduct. The project aims to improve traffic queuing by merging with SLEX southbound. The Skyway Stage 1 Widening project spans the 11.56-km distance between Buendia and Sucat, that would add one lane through extension of deck slabs at northbound lanes. On the other hand, the Skyway Stage 2 Widening project is between Dr. A Santos Avenue Interchange and Skyway Main Toll Plaza that would add one northbound lane through the extension of deck slabs. These projects aim to improve storage for traffic queuing for both northbound and southbound exits and improve overall network capacity.

For SS3, the construction of additional On and Off ramps are in the pipeline to improve accessibility along the expressway. There are five ramps in the pipeline, as follows: (1) Maria Clara Off Ramp, (2) Shaw/Sevilla On & Off Ramp, (3) Quirino SB On & Off Ramp, (4) Pandacan Ramps, (5) Section 2A. In addition to these ramps, an elevated U-Turn & Edsa On Ramp to Skyway Stage 3 near Magallanes and Arnaiz will also be constructed.

SMC Tollways has three direct subsidiaries; (1) SMC Skyway Corporation or SMC Skyway, (2) Stage 3 Connector Tollways Holdings Corporation or S3HC, and (3) Toll Road Operation & Maintenance Venture Corporation or TROMV.

Table 2. Subsidiaries of SMC Tollways

Company	Type of Ownership	Equity Share*	Net Income (Loss) (In Php Millions)					Revenues (In Php Millions)				
			2019	2020	2021	2022	2023	2019	2020	2021	2022	2023
SMC Skyway Corporation (SMC Skyway)	Direct	87.8%	6,733	3,239	4,652	6,474	6,939	9,924	6,028	7,456	9,544	10,746
Stage 3 Tollways Connector Holdings Corporation (S3HC)	Direct	100%	18	(139)	(94)	4	10	-	-	-	-	-
SMC Skyway Stage 3 Corporation (SMC Skyway Stage 3)	Indirect	90%	(186)	(260)	(782)	1,482	3,596	-	-	1,878	6,281	8,265
Toll Road Operation & Maintenance Venture Corporation (TROMV)	Direct	53.4%	-	(0.4)	(0.3)	(0.06)	(0.06)	-	-	-	-	-
Skyway O&M Corporation (SOMCO)	Indirect	57.9%	(26)	5	10	6	4	914	963	1,145	1,190	1,255

*Based on the 2023 Consolidated Financial Statements

(1) SMC Skyway Corporation (SMC Skyway)

SMC Skyway, formerly Citra Metro Manila Tollways Corporation or CMMTC, is 87.8%-owned by SMC Tollways. The Philippine National Construction Corporation (PNCC) holds 8.1% of the company and 4.1% is held by other shareholders. SMC Skyway was incorporated in November 1995 to design, construct, and finance, toll road projects of the Republic of the Philippines (ROP), pursuant to a “build-transfer-operate” or other duly approved scheme. The projects included were the Metro Manila Skyway, and the proposed Metro Manila Expressway.

SMC Skyway holds the 30-year franchise period for the integrated SS1 and SS2 which commenced on April 25, 2011. The company was renamed to its current corporate name on February 22, 2021.

Skyway Stage 1 and Skyway Stage 2

On November 27, 1995, the joint venture between the PNCC and PT Citra Lamtoro Gung Persada (CLGP) was signed and approved to undertake the construction of the Metro Manila Skyway and Metro Manila Expressway. The joint venture included, among others, that CLGP, in cooperation with PNCC, committed itself to finance, design and construct the (1) Metro Manila Skyway in three stages consisting of the South Metro Manila Skyway (SMMS) as Stage 1 and Stage 2, and the North Metro Manila Skyway and Central Metro Manila Skyway, collectively referred to as Skyway Stage 3; and the (2) Metro Manila Expressway as Stage 4. On the same day, the supplemental toll operations agreement (STOA) for the SMMS was executed for the design and construction of the SS1 and SS2, by and among SMC Skyway, PNCC and the ROP. Under the STOA, the design and construction of the SMMS, and the financing thereof, shall be the primary obligation of SMC Skyway as investor. On the other hand, the operation and maintenance of the SMMS shall be the responsibility of PNCC, through its wholly-owned subsidiary, PNCC Skyway Corporation (PSC).

In July 2007, a memorandum of agreement (MOA) was signed for the seamless turnover of the operations and maintenance responsibilities for the SMMS from PSC to Skyway O&M Corporation (SOMCO).

The SS1 and SS2 shall be owned by the ROP, without prejudice to the rights and entitlement of SMC Skyway and SOMCO under the STOA. The toll revenues are shared or distributed among SMC Skyway, SOMCO and PNCC for the operations and maintenance of the two expressways.

Skyway Extension Project

Included in the concession of SMC Skyway is the SLEX Elevated Extension Project. First proposed by San Miguel Corporation, the project is part of the three-year plan to expand toll roads in the south of Metro Manila in order to help decongest heavy traffic. The extension project connected the elevated section of the Skyway in Sucat to Susana Heights in SLEX, bypassing the Alabang viaduct and improving direct access to both the Alabang area and the Alabang-Zapote Road.

The project was originally set to finish by December 2020 but was delayed due to pandemic-related restrictions. The southbound alignment of the project was soft-launched in December 2021, and the complete inauguration of the project was done in February 2022.

(2) Stage 3 Connector Tollways Holdings Corporation (S3HC)

S3HC, wholly-owned subsidiary of SMC Tollways, was incorporated in 2014 as a holding company for investments in logistics, tollways, infrastructure, and similar businesses. S3HC is the parent company of SMC Skyway Stage 3, formerly Citra Central Expressway Corporation or CCEC. SMC Tollways holds 90% equity stake in SMC Skyway Stage 3 while the remaining 10% is owned by PNCC. SMC Skyway Stage 3 holds the 30-year concession rights to design, finance, and construct the SS3. The franchise period commenced on July 12, 2021 after the issuance of the Toll Operation Certificate or Permit. SMC Skyway Stage 3 was renamed to its present name on March 2, 2021.

Skyway Stage 3

The STOA for the SS3 was executed in July 2013, by and among the SMC Skyway Stage 3, ROP, acting by and through the Toll Regulatory Board (TRB), PNCC, and SMC Skyway 3 O&M Corp. Under the STOA, SMC Skyway Stage 3 was granted the obligation to design and construct the project, while CMMSC was granted the responsibility to operate and maintain the SS3.

The SS3 shall be owned by the ROP, without prejudice to the rights and entitlement of SMC Skyway Stage 3 and CMMSC under the STOA. The toll revenues will be shared or distributed between SMC Skyway Stage 3 and CMMSC for the operations and maintenance of the SS3.

According to the Department of Public Works and Highways (DPWH), there are a total of 28 ramps; 22 ramps completed, three ramps ongoing construction, and three ramps under planning.

(3) Toll Road Operation & Maintenance Venture Corporation (TROMV)

TROMV was incorporated in October 2007, and primarily engaged in toll road operation and maintenance activities in the Philippines. TROMV is the shareholder of the operating and maintenance company of SMC Skyway and SMC Skyway Stage 3 SMC Tollways acquired its 53.4% stake in TROMV in 2020 while the remaining 46.6% is held by SMHC.

The acquisition of TROMV resulted in the indirect ownership of 57.8% in SOMCO. Incorporated on December 13, 2007, SOMCO is engaged primarily in maintaining and operating toll roads and toll facilities, as well as any and all such extensions, linkages or stretches as may be authorized by the TRB or other appropriate government agency.

Operations

SMC Tollways generates revenues from toll collections as well as toll operations and maintenance fees. There are three revenue-generating subsidiaries at present; SMC Skyway for the operation of SS1 and SS2,

SMC Skyway Stage 3 for the operation of SS3, and SOMCO for the maintenance and operation of toll roads and facilities. It is noted that SS3 was toll free since the soft-opening in December 2020 and even after its inauguration on January 14, 2021. Toll revenues from SS3 were recognized beginning on July 12, 2021.

The toll prices for SS1 and SS2 were unchanged since 2019, and likewise for SS3 since its opening in 2021. SMC Tollways may apply for toll price adjustments two years after the receipt of the toll operation certificate. As of report-writing date, the Company has no outstanding petitions for toll adjustments for the Skyway System.

The recorded growth in toll collections since 2019 were driven by the gradual increase in traffic volume. Based on Table 3, bulk of the vehicles that utilized the Skyway System were categorized as Class 1 or light vehicles, accounting for an average of at least 84.7% of total vehicles.

Table 3. Annual Average Daily Traffic (AADT) of SS1, SS2 and SS3

	2019	2020	2021	2022	2023	1H2024	Average Share to Total
Skyway Stage 1 and Skyway Stage 2							
Class 1	215,951	139,109	167,137	210,502	233,789	236,337	84.8%
Class 2	28,916	17,729	19,292	22,239	24,935	25,710	9.7%
Class 3	12,185	10,849	13,037	13,599	13,659	14,436	5.5%
Total Vehicle volume	257,052	167,687	199,466	246,340	272,383	276,483	100%
Skyway Stage 3							
Class 1			78,474	118,010	147,406	153,397	96.3%
Class 2			5	2,943	7,328	9,234	3.7%
Class 3			-	1	2	5	0.0%
Total Vehicle volume			78,479	120,954	154,736	162,636	100%
Class 1 – 2 Axles and an overall height of up to 7.5 ft; Class 2 – 2 Axles and height of more than 7.5 ft including Class 1 Vehicles with trailers; Class 3 – Trucks with more than 3 Axles and height greater than 7.5 ft							

In 2020, the total AADT of for SS1 and SS2 recorded a 34.8% decline, primarily attributed to the government mandated mobility restrictions brought by the pandemic outbreak. The total AADT then recovered by 19% and 23.5% in 2021 and 2022, respectively, with the easing of pandemic-related restrictions. As of end-2023, the AADT of Class 1 and Class 3 vehicles in the SS1 and SS2 surpassed 2019 AADT by 8.3% and 12.1%, respectively, while that of Class 2 vehicles reached only 86.2%.

For the Class 2 vehicles, the following factors contributed to the slower post-pandemic growth; (1) In February 2020, the elevated portion of the expressway did not allow Class 2 vehicles in order to manage traffic flow during the extension and upgrade of the elevated expressway. The ban was lifted in April 2022²; and (2) In 2022, the Land Transportation Franchising and Regulatory Board (LTFRB) issued a rule that only allows provincial bus operators to use their private terminals in the Metro from 10pm to 5am, limiting the usage of such vehicles in toll roads.

For SS3, the AADT for all vehicle classes recorded an uptrend from 2021 to 2023, posting an average growth of 41%. As of 1H2024, overall AADT for the Skyway System grew by 2.8% since end-2023.

SMC Tollways forecast a healthy annual increase in the AADT for its tollways moving forward.

² <https://www.autoindustriya.com/truck-bus-news/buses-can-enter-skyway-starting-april-1.html>

The Company identified high-risk areas along its expressways where there were increased traffic incidents. The Company used this data to strategically station teams to quickly address accidents and road blockages. Moreover, the Company had its own tow trucks, fire trucks, and ambulances to respond to these types of events. Traffic management and maintenance engineering teams handle the monitoring of traffic through CCTV cameras along the expressways as well as road-side incidents, including possible issues with the toll collection systems.

Ownership and Management

SMC Tollways is a wholly-owned subsidiary of AAIBV, a holding company incorporated in the Netherlands. AAIBV is 95% owned by SMHC, a wholly-owned subsidiary of San Miguel Corporation, which serves as the holding company for its infrastructure businesses.

SMHC is doing business under the name and style of SMC Infrastructure. SMHC handles the construction, management, and operation of the country’s largest infrastructure network. SMHC’s portfolio includes: the Tarlac-Pangasinan-La Union Expressway (TPLEX), the Southern Tagalog Arterial Road (STAR), the South Luzon Expressway (SLEX), the Skyway System, the NAIA Expressway (NAIAx), the Boracay Airport, and the Bulacan Bulk Water Supply Project. Major ongoing projects include: the Metro Rail Transit Line 7 (MRT-7), various toll roads, the Manila International Airport (MIA), and the Ninoy Aquino International Airport (NAIA) rehabilitation.

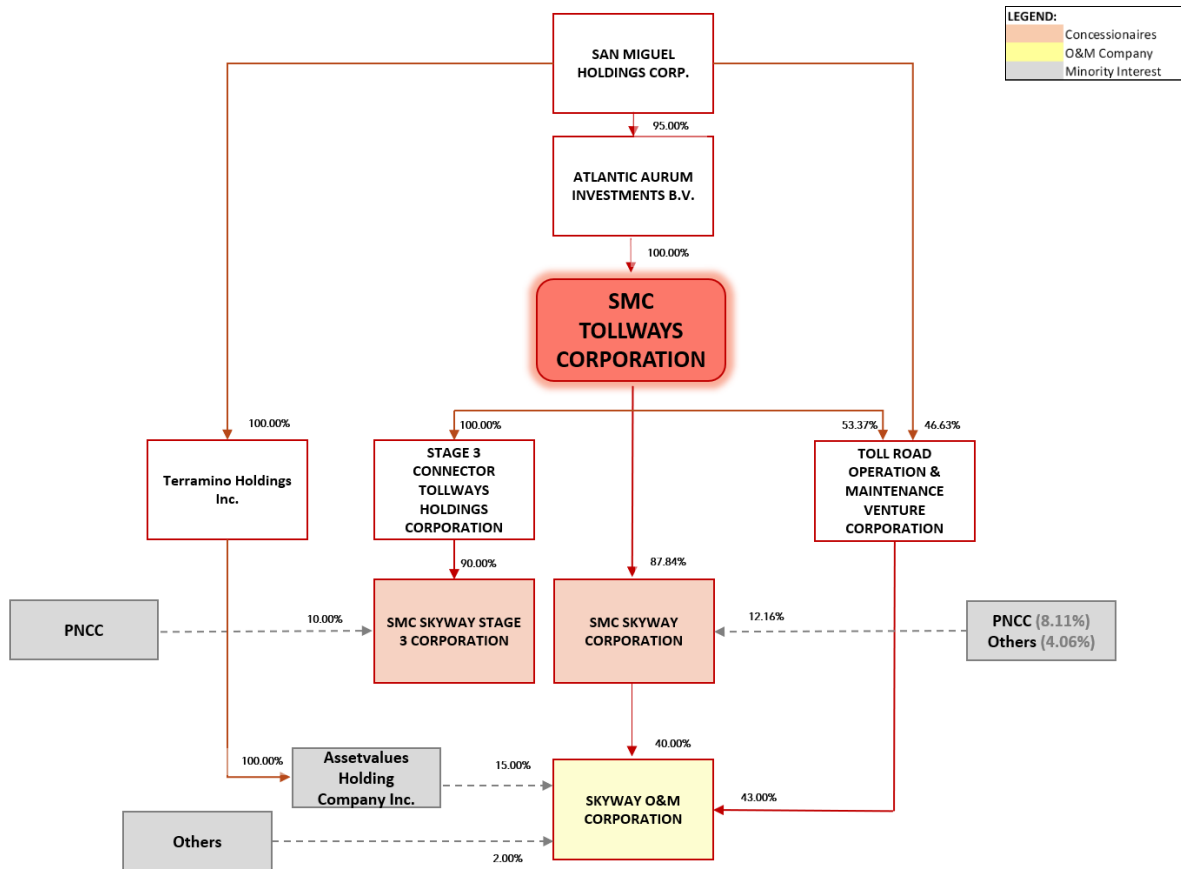


Illustration 1. Ownership Structure of SMC Tollways as of December 2023

San Miguel Corporation is one of the country's largest and most diversified conglomerates. Established in 1890, the company currently has business interests in various sectors, ranging from food and beverage, packaging, fuel and oil to energy, infrastructure, cement, property development, car distributorship and banking services. San Miguel Corporation has an outstanding rating of PRS Aaa, with a Stable Outlook, for its P142.9 billion outstanding bond issuances. Other companies under the San Miguel Group with outstanding ratings of PRS Aaa, with a Stable Outlook, for their debt issuances are: San Miguel Food and Beverage, Inc. (P15.0 billion outstanding bonds), San Miguel Global Power Holdings Corporation (P61.8 billion outstanding bonds), and Petron Corporation (P24.8 billion outstanding bonds). Also, under SMHC is SMC SLEX, Inc. (formerly South Luzon Tollway Corporation), which is also rated PRS Aaa, with a Stable Outlook, for its P2.5 billion outstanding bonds to date. Bank of Commerce, the banking affiliate of SMC, has an Issuer Credit Rating of PRS Aa plus (corp.), with a Stable Outlook.

The Chairman of the Board, and President and CEO of SMC Tollways is Ramon S. Ang, who is also Chairman and CEO of San Miguel Corporation. Mr. Ang holds key management positions in other publicly listed companies and has held various directorships in domestic and international subsidiaries of the San Miguel Group.

Raoul Eduardo C. Romulo is the Chief Finance Officer (CFO) of SMC Tollways. Mr. Romulo is concurrently the CFO and Treasury Head of SMHC and holds other key positions in other subsidiaries under SMHC.

In 2021, operating companies of SMC Tollways (i.e., SMC Skyway Corporation and SMC Skyway Stage 3 Corporation) entered into Shared Services Agreements with SMHC. These provide that the operating companies of SMC Tollways pay an annual fee for the shared services³ rendered by SMHC to these companies. The subsidiaries also have to pay for out-of-pocket expenses (e.g., transportation and accommodation expenses) incurred by SMHC in the performance of the shared services, as well as other costs and expenses incurred in rendering any service requested by the company but not covered by the Agreement.

SMC Tollways has no collective bargaining agreements in place. As of June 30, 2024, SMC Tollways and its subsidiaries have a total of 1,270 employees.

Toll Collection System

SMC Tollways, together with other toll road operators under SMHC, uses the Autosweep Radio Frequency Identification (RFID) to aid in its electronic toll collection program. The Group officially introduced the collection system to its tollways in 2016.

As of report-writing date, the RFID payments comprised 90% of total toll revenues, while the balance of 10% were from cash payments. The share of RFID payments grew from roughly 80% of total toll revenues in the previous year. SMC Tollways is aiming to raise the proportion of cashless or RFID payments to 99% of total toll collections within 2024. According to management, the processing of RFID payments is more efficient in collecting toll payments from motorists. This is also in line with the Interoperability Project of the TRB to convert the expressways under the major toll operators to cashless toll payments. This will be discussed further in the Industry Section of the report.

³ Shared services include human resources, corporate affairs, legal, finance and treasury functions.

ECONOMY

Gross Domestic Product (GDP)⁴

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

All major economic sectors posted full-year increases, as follows: Agriculture, forestry, and fishing (1.2% YoY and 1.4% in the fourth quarter 2023 <4Q 2023>); Industry (3.6% YoY and 3.2% in 4Q 2023); and Services (7.2% YoY and 7.4% in 4Q 2023).

On the demand side, annual growth of Household spending was at 5.6% (5.3% in 4Q 2023) while Government spending rose by a minimal 0.4% (-1.8% in 4Q 2023) for the year. According to National Economic and Development Authority (NEDA) Secretary Arsenio Balisacan, the latter's slower expansion was intentional, in line with the government's aim to achieve fiscal consolidation. This meant prioritizing the reduction of fiscal deficit and government debt. Data from the Bureau of the Treasury showed an improved debt-to-GDP ratio of 60.2% in 2023, from 60.9% at the end of 2022.

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

The GDP growth in the first half of the year is on track to achieve the lower end of the government's target GDP growth at 6% to 7% for 2024. Such was adjusted downwards from its earlier projected growth of 6.5% to 7.5%. The main drivers for the downward adjustment were high inflation and an anticipated slowdown in the global economy.

Outlook⁵

The World Bank (WB) maintained its forecast of 5.8% GDP growth for the Philippines in 2024 in its Economic Update in June 2024. This was based on the expectation of easing inflation which will strengthen household purchasing power and domestic demand. In addition to such, the consistent public investment is seen to support growth in the medium term. Although, the WB sees the prolonged El Niño and possible La Niña phenomenon may cause a strain to food production and in turn result in higher inflation. This

⁴ Sources: <https://www.pna.gov.ph/articles/1230738>

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

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

⁵ Sources: <https://english.news.cn/asiapacific/20240604/2467de90afc74af88fd5bd774d163178/c.html>

<https://business.inquirer.net/468967/ph-gdp-growth-estimate-for-%CA%BC24-cut-but-still-2nd-fastest-in-asean>

<https://www.imf.org/en/News/Articles/2024/06/10/pr-24211-philippines-imf-staff-concludes-visit>

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

should be controlled through supply and demand management and the timely and adequate import of staple items, as added by WB Senior Economist Ralph Van Doorn.

The Asian Development Bank (ADB) echoed WB's view that household consumption and investment will support the country's growth in 2024. ADB likewise maintained its economic outlook for the Philippines at 6.0% for 2024 and 6.2% for 2025. Such was on the lower end of the government's target. ADB added that its forecasted growth will be on the back of moderate inflation and monetary easing in the second half of the year. The International Monetary Fund (IMF), likewise, sees a positive outlook for the Philippines as it maintained its economic outlook for the country at 6% in 2024 and 6.2% in 2025.

On the other hand, the ASEAN+3 Macroeconomic Research Office (AMRO) cut its growth forecast for the Philippines, to 6.1% from 6.3% in 2024 and 6.3% from 6.5% in 2025. This reduction was on account of a weak external environment that is expected to weigh on the economy, and will similarly affect many of the other neighboring countries. Nonetheless, the Philippines is seen to be the second-highest gainer in the region following Vietnam, and notably faster than the projected average regional growth of 4.8% for the year.

Inflation⁶

Inflation rate in July 2024 went up to 4.4% from 3.7% for the month of June. This was nonetheless lower than the 4.7% inflation in July 2023. The latest inflation figure brought the average inflation to 3.7%, which is on the higher-end of the government's target range of 2% to 4%. According to the Philippine Statistics Authority (PSA), the main drivers for the month's price increase was housing, water, electricity, gas and other fuels posting a growth of 2.3% from 0.1% in June. The heavily-weighted index of food and non-alcoholic beverages also contributed to the increase which grew by 6.4% in July from 6.1% in the previous month.

AMRO reduced its inflation forecast for the Philippines to 3.3% from 3.6% in 2024, but raised its projection to 3.1% from 2.9% in 2025. AMRO's chief economist Hoe Ee Khor stated that inflation is well anchored in the region which had shown robust growth. This will give the BSP more flexibility to cut down policy rates. On the other hand, the IMF believes that the monetary policy should remain "restrictive" to anchor inflation within the target range. While inflation in the country has become more moderate, the IMF still sees it to be on the upside. It estimated inflation to be at 3.4% in 2024.

In August 2024, the Monetary Board implemented a policy rate cut of 25 basis points to 6.25%. This was the first rate cut since November 2020. According to BSP Governor Eli Remolona Jr., the rate cut also considered the possible decision of the US Federal Reserve to cut its own rates in the coming month. He added that public demand remained firm despite the more restricted financial conditions in the earlier months, and unemployment rate also declined. Data from the National Economic Development Authority (NEDA) showed a lower unemployment rate at 3.1% for June 2024, versus 4.5% in June 2023. Mr. Remolona Jr. believed that alongside the easing price pressures, public investment and improved employment conditions are seen to bolster economic activity.

⁶ Sources: <https://www.bsp.gov.ph/SitePages/MediaAndResearch/MediaDisp.aspx?ItemId=7212>
<https://qa.philstar.com/headlines/2024/06/22/2364687/president-marcos-formalizes-rice-tariff-cut-through-eo-62>
<https://neda.gov.ph/ph-unemployment-drops-to-3-1-percent-in-june-govt-ramps-up-efforts-for-high-quality-job-generation-neda/>

For the second half of the year, the BSP anticipates easing pressure on prices following the mandated reduction on import tariffs, including rice tariffs which notably dropped to 15% from 35% until 2028. The BSP nonetheless remains vigilant to the lingering upward pressures to prices. While there was an uptick in the July inflation, the central bank believes that inflation will lean downwards in 2024 and 2025 with a slight upward tilt in 2026.

Industry⁷

On April 30, 2024, President Ferdinand R. Marcos Jr. signed EO No. 59 to expedite the implementation of the country's infrastructure flagship projects (IFPs). The signed EO supports the goals of the Philippine Development Plan from 2023 to 2028 by expanding and upgrading the country's infrastructure sector as part of the government's efforts towards social and economic transformation. The EO introduced critical changes to streamline the process of executing IFPs.

One of the changes made was the simplified requirements for the NEDA Board-approved list of IFPs. This directs national government agencies (NGAs) and local government units (LGUs) to review their Citizen's Charters, aiming to eliminate redundant and cumbersome procedures. Moreover, NGAs and LGUs shall setup or designate within their offices a one-stop-shop for IFPs which will provide frontline services to applicants who are securing licenses, clearances, permits, certifications or authorizations for IFPs. The EO also promoted the use of electronic application submissions to concerned agencies and LGUs, including streamlined payment processes and issuance of receipts. Moreover, the EO mandated NGAs to automate and computerize their databases. This aims to promote data sharing among government entities, eliminating unnecessary document duplication.

The NEDA Board Committee on Infrastructure will serve as the "steering committee" that will provide policy directions for the effective implementation of the EO. As of June 2024, the updated NEDA Board-approved list of IFPs comprised of 186 projects valued at P9.6 trillion.⁸ Bulk of the approved projects (135 projects, as of June 2024) were for physical connectivity such as roads, bridges, seaports, airports, and mass transport.

Crude Oil Prices⁹

The price of crude oil, which is measured via the week-on-week price of Dubai crude, decreased in the first trading week of August by around \$4.1 per barrel.

Crude oil prices were weighed down by the fears of recession and pressures from steep selloffs in the global financial markets. Both the US Nasdaq and S&P 500 indices declined by 3.8% and 3.3% respectively, while Japan's Nikkei 225 index plunged by 12%.

The demand from China was slow with imports at 10.01 million barrels per day (b/d), the country's lowest since 9.83 million b/d in September 2022. Moreover, the US gasoline stocks went up by 1.34 million barrels which indicated weaker demand from the market.

The Asian market was stable, at most, with the resupply from the Arab Gulf and batch exports from China.

⁷ <https://www.officialgazette.gov.ph/2024/04/30/executive-order-no-59-s-2024/>
<https://neda.gov.ph/eo-59-to-boost-ph-infra-drive-neda/>

⁸ <https://neda.gov.ph/infrastructure-flagship-projects/>

⁹ <https://www.doe.gov.ph/oil-monitor>

Domestic oil prices also recorded decreases effective August 13, 2024. The prices of gasoline, diesel, and kerosene went down by P2.45, P1.90 and P2.40 per liter, respectively. Considering year-to-date price adjustments in 2024, prices posted net increases of P7.05 per liter for gasoline, P4.75 per liter for diesel, and net decrease of P3.15 per liter for kerosene.

Toll Collection Interoperability¹⁰

On September 15, 2017, the Company, together with the toll road companies operating 13 expressways in Luzon, the DOTr, TRB, DPWH and Land Transportation Office (LTO) signed the Memorandum of Agreement for Toll Collection Interoperability.

Under the agreement, the toll road operators will be making adjustments to their toll collection systems to enable interoperability and integrated toll collection. For motorists using electronic tags, this means seamless use of their electronic tag from one toll road operator to another as they traverse the different toll roads.

At present, there are two major operators of toll expressways in Luzon – Metro Pacific Tollways Corp. (MPTC) and SMC Infrastructure. These toll operators use two different electronic toll collection (ETC) systems, each using a distinct wallet and radio frequency technology (RFID). MPTC uses Easytrip RFID tags while SMC Infrastructure uses Autosweep RFID tags.

Table 4.1. Toll Road Collection Systems

Autosweep RFID <i>Used by the San Miguel Group</i>	Easytrip RFID <i>Used by the Metro Pacific Group</i>
Metro Manila Skyway (Skyway)	North Luzon Expressway (NLEX)
NAIA Expressway (NAIAx)	Subic-Clark-Tarlac Expressway (SCTEX)
South Luzon Expressway (SLEX)	Manila-Cavite Expressway (CAVITEX)
STAR Tollway (STAR)	C5 Southlink
Tarlac–Pangasinan–La Union Expressway (TPLEX)	Cavite-Laguna Expressway (CALAX)
Muntinlupa–Cavite Expressway (MCX)	

The Toll Interoperability Project has three phases, as seen in the next table. As of report-writing date, major toll operators are undergoing discussions regarding the system and adjustments to operations for the interoperability of Phase 3. At present, motorists may have one RFID sticker that can be read in both systems but are still required to maintain two separate wallets for Autosweep and Easytrip accounts.

¹⁰ Sources: <https://www.portcalls.com/seamless-expressway-travel-eyed-with-toll-collection-interoperability/>
<https://www.technobaboy.com/2022/12/16/youll-be-able-to-use-your-easytrip-rfid-in-autosweep-tollways-starting-jan-15/>
<https://www.topgear.com.ph/news/motoring-news/trb-contactless-tollway-dry-run-a2619-20230816>
<https://trb.gov.ph/index.php/47-press-release/66-2023-10-30-21-53-48>
<https://business.inquirer.net/450460/toll-road-rfid-interoperability-on-track-to-go-live-by-july>

Table 4.2. Toll Interoperability Project

	Description	Implementation Date
Phase 1	Enabled the Autosweep RFID to be used in Easytrip systems	March 2018
Phase 2	Enabled the Easytrip RFID to be used in Autosweep systems (Easytrip users with Neology RFID)	January 2023
Phase 3	Implementation of one sticker and one wallet for all expressways	Ongoing development

Starting September 1, 2023, the TRB implemented successive proof of concept (POC) testing or dry runs of the cashless toll collection system. Only selected toll plazas participate in dry runs, which are then increased in batches. Non-participating toll plazas shall continue to collect tolls through ETC (RFID) lanes and cash lanes.

Automotive Sales¹¹

In July 2024, data from the Chamber of Automotive Manufacturers of the Philippines, Inc. (CAMPI) and Truck Manufacturers Association (TMA) reported a month-on-month sales increase of 0.6% with a total of 39,331 units sold for the month. Year-to-date sales amounted to a total of 265,610 units for the seven-month period, higher by 10.9% than the recorded sales in the same period in 2023.

In terms of car type, sales of passenger cars grew by 17.3% to a total of 70,798 units, while commercial vehicles went up by 8.7% to 194,812 units. Commercial vehicles accounted for 73% of the total sales, while passenger vehicles took 27%.

According to CAMPI President Rommel Gutierrez, the full-year sales for the automotive industry could reach 500,000 units in 2024. The current sales target for the year was at 468,300 units for 2024, but the strong momentum in vehicle sales suggests that the industry could exceed the target. This could be the highest annual sales to date coming from the 429,807 units sold in 2023.

FINANCIAL RISK

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

Profitability

2018–2022 Stand-alone

Analysts' Note: Only stand-alone financial statements were prepared and provided by the Company for 2018–2020.

Based on the stand-alone financial statements of SMC Tollways, the sole revenue source of the Company was the dividend income received from its direct subsidiary, SMC Skyway. Dividend income registered double-digit declines in 2019 and 2020 of 22% and 32%, respectively. It started to recover in 2021, posting an increase of 56% for that year and 17% for 2022. Dividend income was P4.6 billion in 2018 and amounted to P4.5 billion in 2022.

¹¹ Sources: <https://www.pna.gov.ph/articles/1230787>
<https://www.bworldonline.com/top-stories/2024/08/20/614958/car-sales-may-hit-record-500000-in-2024-campi/>

Operating expenses were mainly from professional fees, which pertain to audit fees. A much smaller chunk was for taxes and licenses and other expenses. Professional fees, and consequently operating expenses, averaged P1.5 million from 2018 to 2022.

Interest expense was the largest disbursement each year. Such grew from 22% of dividend income in 2018 to equivalent to half of dividend income during the period 2020–2022. Net interest expense displayed an increasing trend and peaked in 2022 at P2.3 billion, which is 50% of dividend income for that year.

Net income had a similar trend to dividend income, decreasing by 30% in 2019 and 52% in 2020. It fell from P3.6 billion in 2018 to P1.2 billion in 2020. Bottom line recovered in 2021, climbing by 39% to P1.7 billion. It continued to improve in 2022, amounting to P2.2 billion, up by 33% from the previous year.

Net profit margin, however, registered a downtrend on account of the rising interest expense. It dropped from 78% in 2018 to 50% in 2022. ROAE steadily declined from 14% in 2018 to 4% in 2020, before gradually improving to 7% in 2022. DSCR nevertheless remained ample, ranging from 1.0x to 2.6x during the five-year period.

Table 5. Income of Subsidiaries from Toll Operations

In Php Millions	2018	2019	2020	2021	2022
Revenues					
SMC Skyway	9,618	9,924	6,028	7,456	9,544
SMC Skyway Stage 3	-	-	-	1,878	6,281
Net income (loss)					
SMC Skyway	6,611	6,733	3,239	4,652	6,474
SMC Skyway Stage 3	(39)	(186)	(260)	(782)	1,482

**Based on audited financial statements of SMC Skyway and SMC Skyway Stage 3*

Looking at the performance of its subsidiaries, toll revenues recognized by SMC Skyway inched up by 3% to P9.9 billion in 2019. It subsequently dipped by 39% to P6.0 billion in 2020, amidst the peak of the COVID-19 pandemic. Toll revenues steadily recovered over the next two years, almost reaching pre-pandemic level as it amounted to P9.5 billion in 2022. Cost of services over the five-year period averaged at 15% of toll revenues.

In line with movements in toll revenues, net income of SMC Skyway increased by 2% in 2019 and then declined by 52% in 2020. Bottom line grew by 44% in 2021 and 39% in 2022, almost hitting pre-pandemic level similar to the top line. Net profit margin of SMC Skyway remained high at an average of 64% from 2018 to 2022. Such decreased in 2020, albeit still strong at 54%.

From 2018 to 2021, SMC Skyway Stage 3 recorded net losses since the SS3 was still under construction. In July 2021, commercial operations of SS3 officially commenced and toll collection started for the expressway. In roughly five months of 2021, SMC Skyway Stage 3 booked toll revenues of P1.9 billion. Toll collections continued for the whole year of 2022 and revenues totaled P6.3 billion. SMC Skyway Stage 3 finally recorded a net income in 2022 amounting to P1.5 billion.

2021–2023 Consolidated

Consolidated revenues of SMC Tollways and its subsidiaries posted a 62% hike in 2022, from P10.5 billion in 2021 to P17.0 billion. Such further grew by 19% to P20.3 billion in 2023. Over the past three years,

revenue from toll operations accounted for 96%–98% of total revenues, while the balance was from toll operation and maintenance fees. Top line expansion was supported by sustained growth in AADT for all vehicle classes.

Cost of services went up by 49% and 17% in 2022 and 2023, respectively, in line with revenue growth. Gross profit therefore jumped by 68% to P12.1 billion in 2022 and by 20% to P14.5 billion in 2023. Gross margin likewise improved, increasing from 68% in 2021 to 71% in 2023.

Operating expenses, on the other hand, declined by 30% to P954.9 million in 2022. The decline was mainly due to lower expenses for taxes and licenses (-61%) and repairs and maintenance (-84%). Operating profit thus doubled from P5.8 billion in 2021 to P11.1 billion in 2022, and operating margin jumped from 55% to 65%.

In 2023, operating expenses rose by 17% to P1.1 billion, primarily driven by the almost threefold increase in repairs and maintenance to P117.2 million. Operating profit amounted to P13.4 billion, up by 20% from the previous year. Operating margin continued to improve, as it inched up to 66%.

Buoyed by sustained improvement in revenues as well as the well-managed costs and expenses, net income registered substantial growth over the period. Bottom line ballooned from P1.6 billion in 2021 to P5.6 billion in 2022, and further to P8.4 billion in 2023. An increasing trend in net profit margin was similarly observed, as it climbed from 16% in 2021 to 33% in 2022 and 41% in 2023. Returns exhibited the same trend, with ROAE soaring to 21% in 2023 and return on average assets (ROAA) increasing to 8%. Moreover, DSCR was adequate throughout the three-year period, ranging from 1.0x to 1.3x.

1H2024 Consolidated

Top line growth continued in 1H2024 albeit it moderated to 7% YoY, as consolidated revenues amounted to P10.5 billion. Revenue from toll operations similarly went up by 7% YoY to P10.3 billion (98% of total revenues), while toll operation and maintenance fee was flat at P202.5 million (2% of total). Increase in cost of services was kept at 5% YoY, resulting in an 8% YoY improvement in gross profit to P7.6 billion. Gross margin additionally inched up from 71% in 1H2023 to 72% in 1H2024.

Even with operating expenses rising by 13% YoY to P564.4 million, operating profit posted an 8% YoY growth to P7.0 billion. Operating margin also increased slightly to 67%. Further helped out by the 23% YoY drop in other charges – net to P1.4 billion (mostly due to lower interest expense), net income jumped by 21% YoY, from P4.0 billion in 1H2023 to P4.8 billion in 1H2024. Net profit margin similarly improved from 40% to 46%. DSCR was relatively unchanged and remained ample.

Projections

SMC Tollways expects steady profitability in the future, on the back of sustained albeit relatively tempered growth in its top line. Revenues from SMC Skyway are seen to account for 54%–56% of total revenues, while revenues from SMC Skyway Stage 3 will contribute 42%–43%. Continued profitability will then support solid cash generation and healthy liquidity going forward.

Cash Flow and Liquidity

2018–2022 Stand-alone

Net cash from operations was negative from 2018 to 2020. Such turned positive in 2021 and 2022, at an average of P6.9 million. Cash from debt proceeds and the dividends received from SMC Skyway, classified

as cash from investing activities, were the main sources of funding for the Company. Cash was primarily used for repayments of long-term loans and corresponding interest. SMC Tollways also gave advances to its subsidiary, S3HC, in 2021. Ending cash and cash equivalents during the period 2018–2022 ranged from P26.7 million to P426.0 million. As of end-2022, cash balance stood at P88.1 million.

The Company's outstanding interest-bearing debt as of end-2018 was fully paid by end-2019. In December 2019, it then entered into a loan facility with local banks for a loanable amount of P41.2 billion to refinance existing debt obligations and for acquisition of investments for infrastructure projects. Drawdowns from this loan facility amounted to P17.3 billion in 2019, P11.0 billion in 2020 and P12.9 billion in 2021—which were the only debt availments of the Company over the period 2018–2022. The loan facility agreement requires SMC Tollways to maintain a bank account to hold dividends from SMC Skyway for the purpose of principal and interest repayments and a separate reserve account. This is presented in the financial statements as restricted cash. Restricted cash amounted to P527.9 million as of end-2022, primarily comprised of the amounts deposited in the reserve account.

Current ratio averaged 1.3x from 2018 to 2022. The ratio notably dropped to 0.7x in 2022, attributed to the increase in current liabilities due to the reclassification of long-term debt for the year.

SMC Tollways was in compliance with the agreed debt covenants as of end-2019. The Company, however, obtained the necessary waivers for non-compliance with the required net debt to EBITDA ratio for the quarters 4Q2020 to 4Q2022. The required net debt to EBITDA ratio was a maximum of 4.5x. The non-compliance was mainly due to the hike in net debt, coupled with the decrease in EBITDA in 2020. It should be noted nevertheless that the repayment capacity of the Company remained adequate, as it neither availed of the grace period under the Bayanihan Act nor requested for any loan restructuring. In 1Q2023, SMC Tollways already complied with the required net debt to EBITDA ratio.

2021–2023 Consolidated

Positive and increasing operating cash flows were recorded from 2021 to 2023, supported by sustained growth in consolidated earnings. Net cash from operations amounted to P6.8 billion in 2021, P12.5 billion in 2022 and P16.4 billion in 2023.

Net cash used in investing activities, on the other hand, dipped from P7.6 billion in 2021 to P2.0 billion in 2022 and P1.8 billion in 2023. This was largely driven by the steady decline in disbursements for additions to service concession rights, from P7.7 billion in 2021 to only P953.7 million in 2023.

In 2021, net cash from financing activities was P2.7 billion, augmenting funds for the year. Cash came from the Company's P12.9 billion drawdown from its loan facility, less payments for loans, interest, dividends and lease liabilities, as well as money put aside as restricted cash. Since SMC Tollways no longer availed of additional debt in the next two years, the Company posted P12.8 billion and P14.7 billion in net cash used in financing activities in 2022 and 2023, respectively.

Ending cash and cash equivalents over the three-year period ranged from P11.0 billion to P13.5 billion. Current ratio and acid test ratio were healthy throughout the period, averaging 1.6x and 0.8x, respectively—which were also their values as of end-2023.

1H2024 Consolidated

Operating cash in 1H2024 was up by 15% YoY to P8.9 billion, driven by higher pre-tax income during the period. Ending cash balance amounted to P11.2 billion (from P11.0 billion as of end-2023), however, given

increases in cash outlays for investing and financing activities. Net cash used in investing activities multiplied by 5.8x YoY to P896.5 million, primarily due to disbursements for service concession rights. Net cash used in financing activities, on the other hand, climbed by 28% YoY to P7.8 billion. Cash was mostly utilized for payments of long-term debt (+45% YoY to P4.8 billion) and interest (-13% YoY to P1.9 billion) as well as set aside as restricted cash (+123% YoY to P699.5 million).

Liquidity ratios were still satisfactory as of end-June 2024. Current ratio stood at 1.5x, and acid test ratio was at 0.7x.

Projections

Backed by steady profitability, operating cash flows are forecasted to remain positive. SMC Tollways banks on having enough internally generated funds to cover the payments of its planned bond issuances upon maturity. Current ratio will also be adequate throughout the projected period.

Capital Structure

2018–2022 Stand-alone

Total assets of SMC Tollways expanded at a CAGR of 16%, from P39.0 billion as of end-2018 to P71.4 billion as of end-2022. Investments in subsidiaries and receivables from a related party comprised at least 95% of assets.

Total debt significantly grew till 2021, posting a CAGR of 51%, from P11.2 billion as of end-2018 to P38.4 billion as of end-2021. Debt levels subsequently decreased by 6% to P36.1 billion as of end-2022.

On the other hand, total equity increased each year due to the growth in retained earnings, albeit at a more tempered CAGR of 6%. Equity went up from P27.5 billion as of end-2018 to P35.1 billion as of end-2022.

From 2018 to 2022, debt-to-equity ratio averaged 0.8x. It peaked at 1.2x as of end-2021, before improving to 1.0x as of end-2022.

2021–2023 Consolidated

Consolidated assets had marginally declined over the past two years, from P108.3 billion as of end-2021 to P104.9 billion as of end-2023. Service concession rights accounted for 77% of total assets and had likewise slightly decreased over the period.

Debt-to-equity ratio improved each year, as debt levels were trimmed down and growth in equity was sustained. Interest-bearing debt was reduced by 7%, from P67.5 billion as of end-2021 to P62.8 billion as of end-2022, and further by 11% to P55.6 billion as of end-2023. Total equity, on the other hand, increased by 17% to P35.3 billion as of end-2022 and by 21% to P42.9 billion as of end-2023. Equity expansion was driven by continued plowback of earnings. As a result of the foregoing, debt-to-equity ratio improved from 2.2x as of end-2021 to 1.8x as of end-2022, and further to 1.3x as of end-2023.

1H2024 Consolidated

As of end-June 2024, consolidated assets were relatively flat at P104.8 billion. Total equity, in contrast, expanded by 11% to P47.5 billion, on account of the 9% increase in retained earnings to P48.7 billion. Higher equity was coupled with lower debt levels (-8.5% to P50.9 billion), resulting in an improved debt-to-equity ratio of 1.1x.

Projections

The Company projects its leverage levels to remain healthy, supported by a sustained increase in earnings retained and reinvested in the Company.

Financial Flexibility

As of end-2023, SMC Tollways had used up its existing loan facility. PhilRatings nevertheless notes that this was granted on a clean basis.

ANNEX A

The Skyway System



Skyway Extension

