PhilRatings PHILIPPINE RATING SERVICES CORPORATION *The Pioneer Domestic Credit Rating Agency*	**RATING NEWS** **December 20, 2024**

Cebu Landmasters' Proposed Sustainability-Linked Bonds Receive Very Strong Credit Rating

Philippine Rating Services Corporation (PhilRatings) has assigned an Issue Credit Rating of **PRS Aa plus**, with a **Stable Outlook**, to Cebu Landmasters, Inc.'s (CLI) proposed Sustainability-Linked Bonds of ₱3.0 billion, with an Oversubscription Option of up to ₱2.0 billion. This is the second tranche of the Company's three-year Shelf Registration program amounting to ₱15.0 billion.

In relation to the proposed bonds, CLI's Sustainability Performance Targets are to build 8,500 cumulative affordable homes by the first quarter of 2027 and 16,000 cumulative affordable homes by the first quarter of 2029. The proceeds of the proposed bond issuance will be used to refinance CLI's maturing obligations in 2025 and other general corporate purposes.

In addition, PhilRatings has also maintained its Issue Credit Rating of **PRS Aa plus**, with a **Stable Outlook**, for both the Company's outstanding bond issuances of ₱5.0 billion and outstanding Series A to C Corporate Notes of ₱5.0 billion.

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

The rating assigned to the proposed Sustainability-linked Bonds is mainly in relation to the Company's capacity to pay the rated bonds and is not an opinion on the attainability or capability to achieve the sustainability targets linked with the bonds.

PhilRatings identified the following key considerations in the assignment of the ratings and the corresponding Outlook: a) CLI's sound management and strategy, with a sustained competitive advantage in the Visayas and Mindanao (VisMin) markets as evidenced by its growth over the last few years; b) Its sustained earnings growth on account of the Company's real estate sales; c) Its adequate interest coverage ratios despite a more leveraged capital position; and d) Threats from a highly competitive market, with peers having access to significant capital and a substantial landbank.

PhilRatings' ratings are based on available information and projections at the time that the rating review was performed. PhilRatings shall continuously monitor developments relating to CLI and may change the ratings and Outlook at any time, should circumstances warrant a change.

CLI is reportedly the leading residential developer in the VisMin regions, with a market share of 22.8% in net take-up based on Colliers Philippines' 2023 Real Estate Market Study. The Company's portfolio includes residential condominium units, subdivision houses and lots, townhouses, hotels, office projects and retail spaces. As of September 30, 2024, CLI had a total of 124 projects in different stages of development across 17 key cities in the VisMin regions.

To support its growth ambitions, the Company continues to expand its landbank and venture into new markets. As of September 30, 2024, CLI held 87.6 hectares (ha) of land valued at ₱10.3 billion, including an expansion site in General Santos City. During the year, CLI developed 26.8 ha for key projects such as Casa Mira Butuan and Velmiro Heights. The Company is also negotiating property acquisitions in Luzon to support its initial projects in the region, with plans to secure 47.7 ha across Luzon and Visayas. Strategic acquisitions in Greater Cebu, Bacolod, Cagayan de Oro, Davao, and Naga City remain integral to CLI's strategy to deliver high-quality developments and sustain its leadership in the VisMin markets.

CLI sustained robust earnings growth driven by its real estate segment, with revenues posting a compound annual growth rate (CAGR) of 34.5%, rising from ₱2.4 billion in 2016 to ₱18.8 billion in 2023. Real estate sales, contributing over 98% of total revenues, on average, increased steadily due to significant construction progress and strong demand, reaching ₱18.5 billion in 2023. Net income also grew at a CAGR of 29.3%, rising from ₱780.3 million in 2016 to ₱4.6 billion in 2023.

In the first nine months of 2024 (9M2024), the Company's total revenues increased by 9% year-on-year to ₱14.1 billion, driven by higher lot sales and business expansion. Real estate revenues (including interest income from real estate sales), comprising around 98% of total revenues, grew by 9% to ₱13.8 billion, supported by robust lot sales and accelerated construction progress. Consequently, consolidated net profit rose by 3% to ₱2.9 billion.

CLI maintained a relatively leveraged capital structure, with an average debt to equity (DE) ratio of 1.9x over the past three years, as the Company continued to secure additional loans to support its working capital and investment needs. Despite such, CLI reported adequate interest coverage, with an average EBITDA interest coverage ratio of 13.5x from 2021 to 2023. Note that PhilRatings' calculation of certain ratios may be different from what the Company uses and publishes.

As of September 30, 2024, CLI's DE ratio improved to 1.5x, driven by an increase in the equity base due to its preferred share issuance. In April 2024, CLI raised a total of ₱4.28 billion through the issuance of its perpetual preferred shares. The proceeds from the issuance were allocated for capital expenditures related to its ongoing residential projects. EBITDA interest coverage ratio, on the other hand, stood at 4.0x in 9M2024, reflecting sufficient capacity to meet interest obligations despite its leveraged position.

CLI operates in a highly competitive market, facing strong competition from local and national players that are also expanding in the VisMin regions, particularly Cebu. These players may possess substantial capital and extensive landholdings in the area. Nevertheless, CLI's extensive familiarity in the VisMin markets attracts possible joint ventures (JVs) with landowners and offers for property acquisitions. CLI's track record of successful JVs underscores its ability to work effectively with its JV partners. Looking ahead, CLI intends to bolster its expansion efforts by securing strategic locations and forging new local partnerships to penetrate emerging markets.