

Highest Credit Rating Maintained for D&L's Outstanding Bonds

Philippine Rating Services Corporation (PhilRatings) maintained its Issue Credit Rating of **PRS Aaa**, with a **Stable Outlook**, for D&L Industries, Inc.'s (D&L) ₱2.0 billion outstanding Fixed Rate Bonds.

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

The rating and Outlook were assigned given the following key considerations: (1) D&L's strong market position in the industries that it is engaged in; (2) Diversification of products offered and markets served; (3) Innovation-driven specialty products that protect the Company from keen competition and ensure continued demand from customers; (4) Strong revenue generation, albeit with lower margins; and (5) Manageable debt levels despite increasing trend.

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

As a manufacturer that focuses on product customization and specialization since 1971, D&L established its market presence in four principal business segments: Food Ingredients, Oleochemicals and Other Specialty Chemicals, Specialty Plastics, and Consumer Products Original Design Manufacturer (ODM). D&L's businesses cover various industries and caters to customers from different market segments. Moreover, the Company is able to service not only specialized but also the more basic products, which broaden its presence in different consumer markets. The Company's revenue sources are likewise geographically diverse, with a substantial portion of revenues coming from its export business. In particular, export sales accounted for 34% of total sales in the first three months of 2025 (3M2025). Moving forward, D&L is aiming to increase export sales contribution to 50%.

The unique characteristics of D&L's products entail strong research and development (R&D) capabilities. Most of these products are customized according to the specific needs of customers. This ensures continued demand for the services of the Company and has helped in building long-standing client relationships that span many years. Additionally, significant capital expenditures (capex) are needed from new market entrants to compete in the same industry and to build facilities that are able to produce such specialized products. The aforementioned give D&L a level of protection against new and emerging market players.

In line with investing in production facilities, D&L completed its expansion plant in Batangas, which commenced commercial operations in July 2023. The Company reported that the new plant recorded positive earnings for full-year 2024, less than two years from the start of its operations and

earlier than expected based on the performance of previous production plants. D&L expects positive results as the operations of the Batangas plant continue to ramp up.

In 3M2025, higher sales volume led to a solid year-on-year (YoY) increase of 61.6% in D&L's total revenues. Net income for the quarter amounted to ₱681.1 million, higher by 10.2% YoY, supported by the growth in revenues but tempered by higher costs and expenses. Net profit margin slipped from 7.0% in 3M2024 to 4.8% in 3M2025, due to the rise in manufacturing costs and overhead expenses. Margins were affected by the rapid increase in commodity prices, particularly for coconut oil, which is one of the main raw materials of the Company. D&L expects margins to recover once commodity prices stabilize.

The Company's total debt further increased to ₱22.1 billion as of end-March 2025, higher by 4.8% from as of end-2024, due to additional borrowings for the period. Nonetheless, debt to equity (DE) ratio was unchanged at 1.0x as of end-March 2025, as equity similarly grew by 3.1% to ₱22.5 billion on account of the continued plowback of earnings. D&L's debt levels are expected to taper, as the Company moves past its peak capex requirements.