

## **Highest Rating Assigned for SMC Tollways' Proposed Bond Issue**

Philippine Rating Services Corporation (PhilRatings) has assigned an Issue Credit Rating of **PRS Aaa**, with a **Stable Outlook** to SMC Tollways Corporation's (SMC Tollways) proposed bond issue of P30.0 billion, with an Oversubscription Option of up to P5.0 billion.

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 assigned rating is likely to be maintained or to remain unchanged in the next 12 months.

PhilRatings took into account the following major rating factors in assigning the rating and corresponding Outlook: (1) Part of the established San Miguel Group, under its infrastructure arm – San Miguel Holdings Corp.; (2) Positive demand for the services of SMC Tollways; (3) Sustained improvement in profitability; and (4) Easing leverage levels.

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

SMC Tollways, part of the SMC Infrastructure Group, holds the concession rights for the Skyway System consisting of the Skyway Stage 1, Skyway Stage 2, Skyway Stage 3 and the Skyway Extension. The leadership and management of SMC Tollways is largely in line with the San Miguel Group. Mr. Ramon S. Ang is Chairman of the Board, and President and Chief Executive Officer (CEO) of SMC Tollways, who is also Chairman and CEO of San Miguel Corporation. SMC Infrastructure also oversees other major expressways in Luzon, such as the South Luzon Expressway (SLEX), Southern Tagalog Arterial Road (STAR), Tarlac-Pangasinan-La Union Expressway (TPLEX), and the NAIA Expressway (NAIAx).

Since the outbreak of the pandemic in 2020, the annual average daily traffic (AADT) in the Skyway System progressively increased. As of end-2023, the total AADT in Skyway Stage 1 and Skyway Stage 2 already surpassed its 2019 AADT by 6%. On the other hand, the AADT of Skyway Stage 3 sustained an uptrend since its public opening in July 2021, and posted increases of 51.4% as of end-2022 and 27.9% as of end-2023. In the first half of 2024 (1H2024), overall AADT for the whole Skyway System grew by 2.8% since end-2023. Demand for the expressway is seen to be resilient with a healthy projected growth in overall AADT moving forward.

Supported by the recovery and growth in AADT, consolidated revenues of SMC Tollways and its subsidiaries rose by 62% to P17.0 billion in 2022 and 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 uptrend, and debt service coverage ratio (DSCR) was adequate throughout the three-year period.

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, SMC Tollways anticipates steady profitability supporting solid cash generation and healthy liquidity.

In relation to the Company's debt-to-equity ratio, such 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. 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.